CompNet The Competitiveness Research Network

Virtual Conference on Sustainable development, firm performance and competitiveness policies in small open economies

22-24 June 2020 – Jointly organized by CompNet and National Bank of Slovakia

Conference Summary

Robert B. Koopman's opening speech presented the interrelations of the COVID-19 pandemic with pre-existing global policy tensions, and long-term growth. More than on the supply side, which, despite temporarily reduced labour participation, remains structurally largely unaffected, he drew attention to consumer habits under uncertainty and the resulting threat to long-term growth. Regarding international trade, pandemic-related border controls and spiking trade costs have hit during the ongoing trade war. Koopman, disregarding calls for de-globalization, expects a re-organization of global trade due to supply chain diversification, increasing automation, and more flexible production processes. He believes that specialization and comparative advantages continue to be the driving forces for firms finding new equilibria in balancing risk and efficiency gains.

After the keynote speech, the 1st section, chaired by Carlo Altomonte, focused on Global Value Chains and International Trade. Yilmaz Kilicaslan provided some evidence on how firms' positioning in value chains affect productivity in Turkish manufacturing. By distinguishing supplier and consumer positioning in both domestic and global value chains, the author found that mere participation is not necessarily associated with higher productivity levels. Indeed, only buyers exhibit a productivity premium on both chains. Benefits are higher in GVC, especially for SMEs-low-tech firms. The paper by Biswajit Banerjee performed a multivariate regression explaining determinants of several renowned measures of GCV participation through cross-country variance. Among others, large (small) economies display higher (lower) VAX ratios, as well as lower (higher) backward linkages, what gives them a high (low) GVC position index score. In terms of industry composition, high-tech products and services share in exports is positively associated with backward linkages, highlighting the crucial role of outsourcing. Thereafter, Antonio Rua's paper proposed a theoretical model exploring the link between exports and domestic sales and tested its prediction using Portuguese firm-level data. The model, allowing for interactions between foreign and domestic markets, predicts that a marginal costs increase implies a negative relationship between domestic demand and exports, and the empirical findings confirm this evidence. Tinatin Akhvlediani concluded the 1st session focusing on ICT infrastructure and usage effect on export margins. ICT increases the probability of exporting (extensive margin), whilst the impact on the intensive margin is not significant. Nonetheless, when considering spillovers arising from productivity the paper acknowledge small but significant effects on both margins.

The 2nd Session, chaired by Aurelija Proškutė, included contributions on Finance and Growth. The first was by Fulvia Fringuellotti who presented a paper on the effect that credit has on income inequality. Using a sample of accepted and rejected loans applications from small and micro firms, the paper exploits the exogenous variation in the credit score cutoff and finds, in contrast to the main micro-finance literature, that access to credit increases income by more than 10% in five years and reduces inequality. The paper by Rozalia Pal investigated whether High Growth Enterprises (HGE) face more financing constraint with respect to other comparable firms. The authors find that HGE face financial constraints more often than comparing firms. As a policy recommendation, the authors suggest that the development of equity markets (the most preferred way of financing by HGE) and policies to support and train qualified personnel (identified as another bottleneck for HGE) would be highly beneficial. The last contribution of the session, by Laszlo Tetenyi, focused on the interaction between trade openness and capital market integration. Using both a theoretical general equilibrium model and CompNet data, he finds that capital market integration magnifies both gains and losses from international trade. Specifically, opening capital markets leads to higher output and consumption but lower productivity, and increased misallocation and survival rate for zombie firms, due to a higher misallocation of capital. Despite this, the paper argues that the additional benefits of capital inflows outweigh the costs, as the consumption-equivalent welfare is higher.

During the second day, the topic of the 3rd Session was Environmental Policies and Sustainability. The session was chaired by Paloma Lopez-Garcia, the first paper was presented by Jan Fidrmuc. Using regional environmental protection as an instrument to account for endogeneity in fund reception, he showed that these funds have a significant impact on regional development although there is large heterogeneity between countries. He highlighted especially pronounced spillover effects on nearby regions and the role of the institutional framework. Next, Patricia Wruuck focused on the need for a new growth model in CESEE countries. She provided detailed insights into current challenges of innovative activity, digital technologies, climate change and human capital accumulation in the region and explained how the current Covid-19 crisis exacerbated many of them. Finally, Pierluigi Toma addressed the survival chances of small businesses in the Italian agri-food industry. He found that infrastructure has a strong impact on firm performance. Additionally, he showed that efficiency scores can be used to predict firm exits.

The 4th session, titled Firm Performance and Competitiveness and chaired by Gianmarco I.P. Ottaviano, started with the presentation by Ruhollah Eskandari. Using sectoral CompNet data, he showed that tax-based fiscal consolidation is harmful for firm level employment and investment but has a cleansing effect on labor productivity. Further analysis focuses on the effects of firm size and access to financing as additional factors. Thereafter, Pawel Langer presented an OLG model predicting the large heterogeneity in worker age groups' lifetime income losses and gains from trade liberalization. Agents are import-exposed US manufacturing workers who, following openness, incur future output losses, which in turn lower the wage bargaining outside option value. Older workers implicitly value their outside option less than younger ones and are less sensitive to these changes. Finally, Vladimir Peciar presented results from applying the Hsieh/Klenow (2009) framework to Slovakia in order to understand factors behind stagnating TFP growth and income convergence with respect too EU countries during the last decade. The authors highlight the role of FDI inflows and Slovak's firms GVC participation in productivity increase and fast convergence since the 90s, to the detriment of domestic firm development. Among other effects, more productive foreign firms benefit from a more efficient resource allocation.

The third day began with a session on Micro Indicators for policy analysis chaired by Giorgio Barba Navaretti. The first contribution by Juan Carluccio showed that consumer goods imports from low-wage countries slowed French inflation and detailed this effect for different countries and channels. Price indices calculated from product- and country level microdata allow the authors to isolate and quantify the effects of market shares, prices, and competition. Thereafter, Pawel Bukowski investigated falling labor income shares with their new panel of profits and compensation in British companies. The authors confirm a long-term decline in rent-sharing elasticity due to eroding bargaining power of workers, indicating that labor market institutions and unions lose effectiveness. The third paper of the session was by Guy Leonel Siwe. He presented his analysis of increasing markups in the United States. With firm-level data, he calculated the joint distribution of markups and sales. The largest firms exhibit only average markups, and concentration does not by itself cause markups to rise. To explain these results, he models firm entry and customer acquisition costs, such as advertising, which captures these dynamics well. Finally, Brian Fabo, provided estimates of FDI-led skill building in Slovakia, calculated from job vacancies and the complexity of the advertised positions. In most sectors, domestic firms try to fill more complex roles than foreign ones, and the latter offer primarily positions with limited contributions to skill transfer and -development. This suggests that public funds to attract FDI does not support workforce qualification goals.

The conference was concluded with a policy panel on the COVID crisis and its impact on productivity. Martin Suster chaired this lively debate between Beata Javorcik (EBRD), Debora Revoltella (EIB), Joao Amador (Banco de Portugal) and Robert Koopman (WTO). A special emphasis was put on policy responses that need to be implemented to accommodate short-term liquidity needs as well as long-term investment incentives, especially regarding green technologies and innovation. The panelists highlighted firms' increased perception of future uncertainty, meaning they will have to weigh efficiency against the risk of supply chain disruptions, which could reshape global trade in the long term. But researchers and policy makers alike also have to be aware of sectoral differences, given that the service and industrial sectors face very distinct challenges. Additionally, heterogeneity within sectors regarding size was addressed, as, on one hand, small firms are hit harder by liquidity constraints; this could permanently hamper innovation if startups have to exit due to the crisis. Many multinational firms, on the other hand, face problems due to travel restrictions and trade impediments, while those in the communication service sector are clearly profiting. Therefore, balancing policies are required and must alleviate the urgent woes of businesses without impairing competition and creative destruction in the long run. It was stated that this necessitates better data that captures heterogeneity and higher frequencies, expanded direct disclosure from firms, and a stronger focus on concepts such as worker mobility, actual hours worked and payments are evidently important during and after the crisis. Regarding workers, gender and age differences need to be taken into account as well.

While the crisis is one of the greatest challenges of the recent decades, governments also have the chance to enact reforms and to transform the economy in a sustainable manner.