

Sectoral specialisation and the downturn in France's foreign trade between 2014 and 2016

Hadrien Camatte
Guillaume Gaulier
Macroeconomic Analysis
and Forecasting Directorate

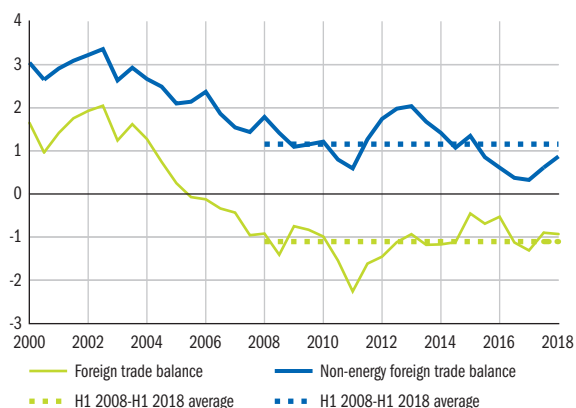
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France's foreign trade balance for non-energy goods and services deteriorated significantly between the beginning of 2014 and the end of 2016. Although on average the contribution from sectoral specialisation is more favourable in France than for its European partners, it also implies a dependence on a limited number of sectors, particularly aeronautics, agriculture and tourism. The supply difficulties experienced by France's stronghold export sectors explain a large part of the downturn in the French trade balance between 2014 and 2016, which since then has only partially recovered. This Rue de la Banque expands upon the analyses set out in the Eco Notepad blog post "Sectoral specialisation and the 2014-16 downturn in France's foreign trade".

After deteriorating significantly in the 2000s, France's foreign trade deficit remained more or less stable after 2008 at around -1.0% of nominal GDP¹ (see Chart 1). Although the trade balance in non-energy goods and services continued to show a surplus in the 2000s, it steadily worsened over the period, and following an upturn between 2011 and 2013, deteriorated further until first-half 2017.

C1 Total and non-energy foreign trade balance

(half-yearly data in value terms in percentage points of GDP)



Source: Insee, quarterly national accounts.

This Rue de la Banque expands upon the analyses set out in Camatte and Gaulier (2018).

A downturn in export performances

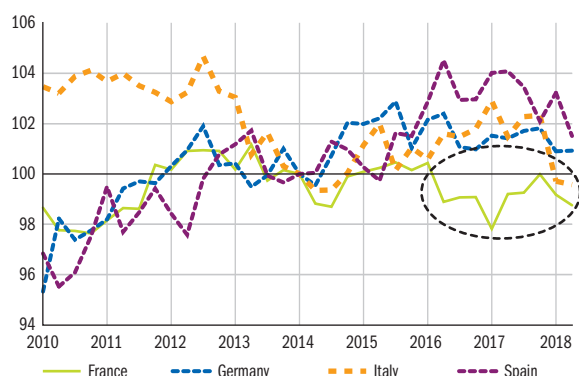
France's export performances are calculated on the basis of the ratio between its exports and foreign demand for those exports.² Between 2010 and 2014, France's export performances followed a similar trajectory to those of Germany and Spain, unlike Italy, which saw a downturn in performance. However, the soft patch observed in France between mid-2015 and the beginning of 2017 was avoided in Germany, Italy and Spain (see Chart 2). Furthermore, the rebound observed in France from mid-2017 to mid-2018 failed to fully offset these export performance losses.

¹ For further details, see the box "The national accounts now paint a less negative picture of France's external trade balance" in the [Macroeconomic projections](#) for September 2018.

² Foreign demand is based on the imports of France's trading partners weighted by their share in French trade in nominal value terms.

C2 Export performances (goods and services)

(in volume terms, 100=Q1 2014)



Source: Eurostat, Eurosystem global demand (in volume terms).

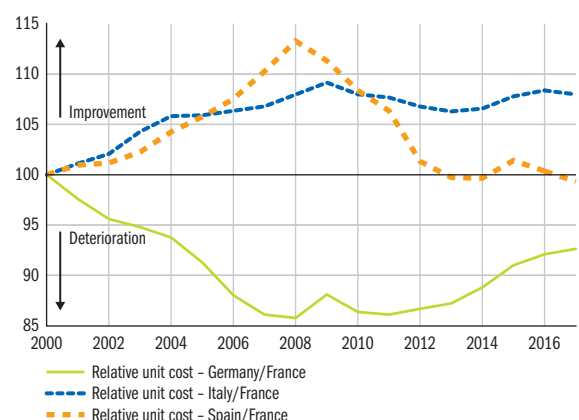
An upturn in cost-competitiveness compared with Germany and Italy

Between 2000 and 2008, France experienced a steep decline in cost competitiveness compared with Germany, at a time when export performances were deteriorating significantly. Since 2008, the interruption in the reduction in unit labour costs in Germany relative to France has contributed to stemming the decline in French export performances.

The recent improvement in unit labour costs relative to Germany and Italy, particularly in 2014 and 2015

C3 Relative unit labour cost in France

(in volume terms, 100=2000)



Sources: Eurostat and Insee.
Scope: Economy as a whole (including CICE).

(see Chart 3), which was largely due to the introduction of the Tax Credit for Competitiveness and Employment (CICE), so far does not appear to have resulted in export performance gains. France's cost competitiveness relative to Spain saw a sharp improvement between 2000 and 2008 when Spanish domestic demand pushed up costs and prices. However, the crisis and the adjustment to the Spanish economy resulted in relative unit costs returning to their 2000 level in 2014 and stabilising at that level thereafter.

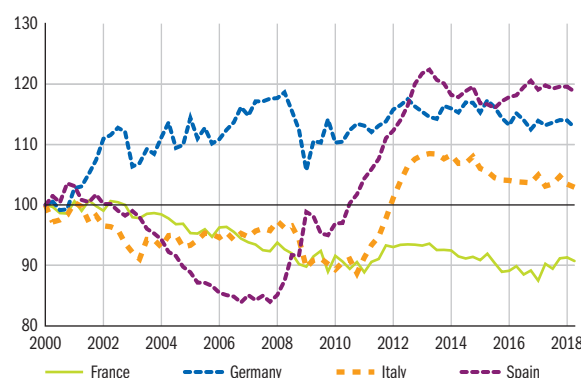
A deterioration in the coverage ratio

The coverage ratio (exports as a percentage of imports) can be used to compare countries on the basis of their balance of foreign trade in goods and services, irrespective of the original level of their trade balance. Since 2011, it has remained generally stable in France in terms of volume for goods and services at over 90%. Following a substantial deterioration between 2000 and 2008, it has again worsened since 2014. Its trajectory compared with Germany, and Spain in particular, has been relatively less favourable (see Chart 4). Nevertheless, there has been an upturn in the coverage ratio since mid-2017 thanks to a rebound in exports.

In the remainder of our analysis, we look at trade in non-energy goods and trade in services separately.

C4 Coverage ratio (goods and services)

(in volume terms, 100=Q1 2000)



Sources: Eurostat and authors' calculations.
Note: The coverage ratio corresponds to the ratio between exports and imports.

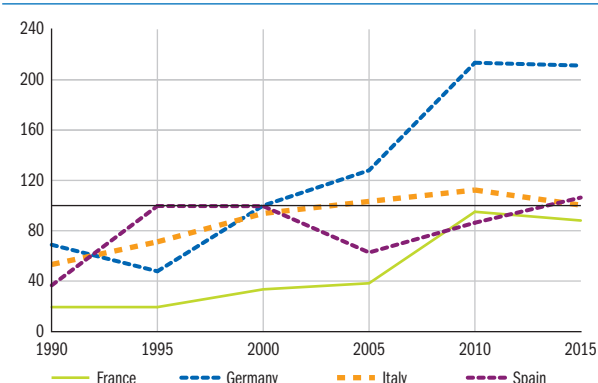
Non-energy goods: the French economy is as specialised as its main European competitors except Germany

A small, concentrated number of industries and companies dominate French exports and are also among France's main importers. In international value chains, export success (and success on the domestic market) can depend on the diversity and quality of imported inputs (Blaum, Lelarge and Peters, 2017). Consequently, the near continuous rise in the import penetration rate observed in France since 2000 is not necessarily symptomatic of problems of supply (Gaulier and Ouvrard, 2017). It reflects, in part, high import content in the value of exports (around 30% of foreign value added in French exports – Cezar, 2016).

Furthermore, there is a positive relationship between the scale of gains from trade and specialisation intensity, evaluated based on an indicator of the dispersion of measures of comparative advantage (see Chart 5). Specialisation in France,³ which was less pronounced than that of its main partners at the beginning of the 2000s, has since increased significantly, approaching the intensity of Italy and Spain. However, it remains far less specialised than Germany, whose stronghold sectors, particularly the automobile industry, have strengthened further.

C5 Specialisation intensity (non-energy goods)

(100=Germany in 2000)



Sources: CEPII and authors' calculations.

Note: Goods excluding oil, gas, coal, non-monetary gold. Specialisation intensity is measured based on variances of comparative advantage indicators.

A favourable contribution overall from France's sectoral specialisation since 2000

Using a breakdown of the annual growth rate of market shares from 2000 to 2016 based on a shift-share analysis,⁴ we can see that the contribution from sectoral specialisation in the four main euro area countries is most favourable in France, reflecting an orientation towards sectors for which global demand is robust (see Chart 3 in Camatte and Gaulier, 2018). However, this favourable specialisation provides no guarantee that market shares will be retained, as (i) businesses within these sectors may fail to capture the demand directed towards them, and (ii) foreign trade dynamics depend heavily on the evolution of a limited number of industries.

A major impact from France's sectors of specialisation on foreign trade performances

The sectors of specialisation account for a large part of the downturn in the coverage ratio since 2014: in Chart 6, sectors are broken down on the basis of their average coverage ratio between 2000 and 2017 with cumulative contributions since first-half 2010. France's stronghold sectors (with an average coverage ratio in excess of 110%) mainly include aeronautics, automotive parts, pharmaceutical products, luxury goods and cosmetics, and to a lesser extent agrifood products. Its weak export sectors (with an average coverage ratio of less than 90%), include IT and electronic equipment and consumer goods such as clothing. The automobile industry and machinery and mechanical equipment belong to the intermediate category sectors.

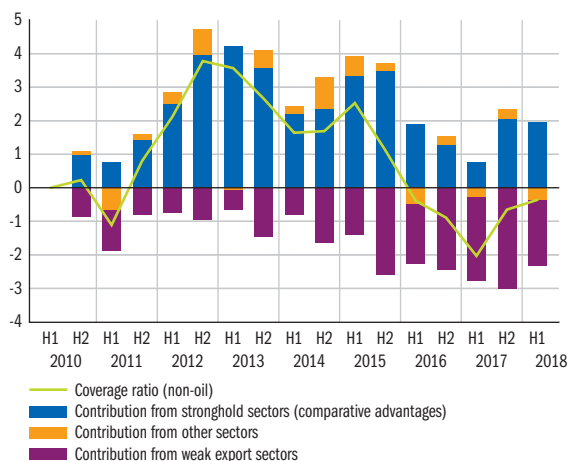
The stronghold sectors (contributions in blue in the chart) have played a key role in the decline in the non-energy goods coverage ratio since 2014,

³ Specialisation intensity is assessed based on the dispersion of measures of comparative advantage calculated by CEPII. A measure of comparative advantage (or disadvantage) is available for each country and for 65 product categories, calculated in terms of structural contributions to the trade balance. The degree or intensity of specialisation is thus measured based on the variances in these comparative advantages.

⁴ Breakdown of export growth based on a variance analysis of disaggregated data (bilateral flows between 228 countries for over 1,000 product categories, CEPII BACI data). See Gaulier, Santoni, Taglioni and Zignago (2013).

C6 Cumulative contributions to growth in the foreign trade coverage ratio for non-energy goods

(ratio in %, contribution in percentage points)



Sources: Customs authorities and authors' calculations.

Note: Foreign trade coverage ratio (value of exports/value of imports) as a percentage deviation from first-half 2010. Contributions from: (i) stronghold specialisation sectors (including aeronautics); (ii) weak export sectors (including electronics); and (iii) other sectors (including automobile manufacture).

accounting for 60% of the deterioration in the coverage ratio between second-half 2013 and first-half 2017. By contrast, the weak export sectors, whose contribution tends to be negative by nature (purple in the chart), account for only 22% on average of the deterioration over the period.

Weak global demand and a stronghold sector soft patch in 2015 and 2016

Global demand, particularly outside the euro area, was very weak in 2015 and 2016 and hampered European exports. Furthermore, several industries within France's stronghold sectors experienced exceptional supply difficulties in 2016. The agrifood sector was hit by poor harvests for example, and in aeronautics, the flagship sector of French specialisation, global demand slowed and Airbus was affected by problems in its supply chain. In addition, the performances of other sectors that normally make a positive contribution to France's foreign trade were disappointing. For example, part of France's nuclear production capacity was unavailable, restricting energy sector exports, while in the service sectors, tourism suffered as a result of the terrorist attacks in Paris and Nice (see box).

How has the French tourist sector performed?

The surplus posted under the "Travel" component of the balance of payments has declined since peaking in 2013 (a record year in terms of revenues), driven by both a steep rise in imports in 2014 and first-half 2017, and a reduction in exports between second-half 2013 and second-half 2016. The upturn observed in 2017 (a EUR 17 billion surplus) following the dip in 2016 (a EUR 13 billion surplus), however, was not enough to see levels return to the 2013 surplus of EUR 21 billion.

France's share of international tourist arrivals (green curve in the chart) is on a downward trend due mainly to an unfavourable geographical specialisation.¹ Aside from this effect, France's performance in terms of numbers of arrivals (blue curve in the chart) was largely stable between 2008 and 2014.

International tourist arrivals – France's share and performance

(100=2000)



Sources: Insee, regional tourism committees, the Directorate General for Enterprise (DGE) and the International Labour Organization (ILO).

Note: The performance indicator is the ratio between the numbers of arrivals in France and tourist demand directed towards France.

The weak foreign demand for French tourist services was not entirely responsible for the drop in market share in 2015 and 2016 (the most recent years for which data are available). Performance² partly deteriorated as a result of the terrorist attacks in Paris in 2014 and 2015 and in Nice in 2016.

- 1 International tourism demand is driven by Asia which has relatively little weight in terms of tourist arrivals in France.
- 2 This indicator is calculated on the basis of tourist numbers and does not take into consideration tourist spending, which is another important aspect of tourist sector performance.

Changes in the structure of France's comparative advantages

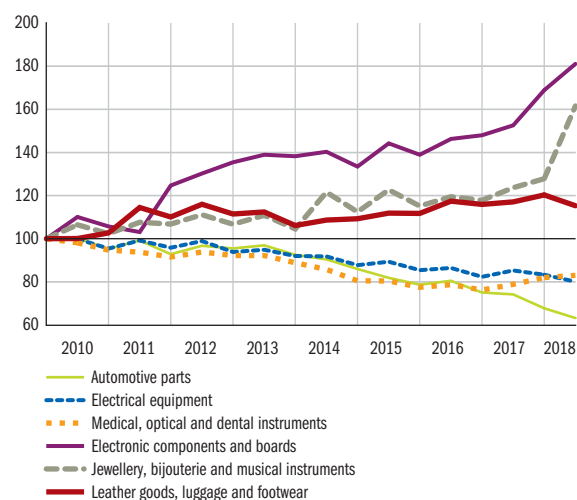
Sectoral coverage ratio data indicate that the structure of France's comparative advantages is evolving and following a long-term pattern of change. The coverage ratios of certain sectors that enjoy a comparative advantage (automotive parts,⁵ electrical equipment and medical instruments) have declined sharply since 2010 (see Chart 7); whereas other sectors such as electronic components and some luxury goods segments (jewellery, leather goods, etc.) are expanding rapidly.

Conclusion

Sectoral specialisation implies a dissociation between domestic supply and domestic demand. This explains why exports and imports can diverge over the short term without being a cause for concern. Over the medium term however, sectors that enjoy a comparative advantage must maintain sufficiently high surpluses or the supply side will have to be transformed to push new stronghold sectors to the fore and allow French economic growth to remain compatible with its foreign trade balance. The difficulties experienced by several of France's stronghold export sectors explain a large part of the downturn in the trade balance in non-energy

C7 Coverage ratio

(in value terms, 100=Q12010)



Source: Customs authorities.

Note: The coverage ratio corresponds to the ratio between exports and imports.

goods and services between 2014 and 2016, which since then has only partially recovered.

⁵ See also "Érosion de l'excédent commercial des équipements automobiles", Études et éclairages, Direction générale des Douanes et des Droits indirects, July 2016 (French only).

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