

## The performance of NZ exporters: Some firm-level evidence

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## Outline

- Motivation
- Theory
- NZ data & results
- Future work

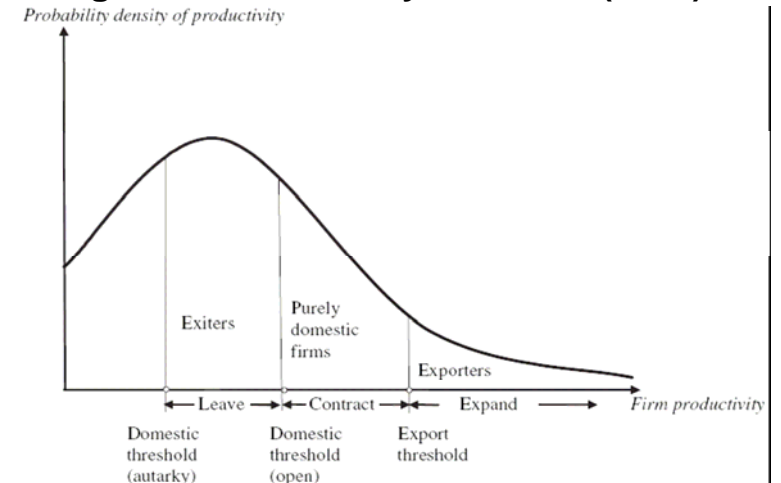
## Motivation

- **Concerns about NZ export performance:**
  - “Exports have grown little in volume or value over the last 30 years, and our performance is well behind that of similar OECD countries”
  - “Export Year 2007 is part of the Government’s wider Economic Transformation Agenda to forge an export-led, high wage economy”
- **“Exporting helps businesses:**
  - Expand their customer base, potentially boosting sales, productivity and profits
  - Achieve the scale needed to attract investment and reach their full potential
  - Pick up new skills and expertise, and stay ahead of market trends
  - Become internationally competitive, helping to protect their domestic business from imported competitors
  - Create a long-term plan for their future.”

[www.exportyear.govt.nz](http://www.exportyear.govt.nz)

## Theory

**Figure 2 - Greenaway & Kneller (2007)**



## Implications of model

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- Wide variety of firm performance (assumed)
- Self-selection into exporting
- Persistence in exporting
- Exporters achieve greater scale
- Resource reallocation towards exporters raises aggregate productivity
- Explains relationship between trade & growth
- Other effects on firms from exporting?
  - EG, higher productivity growth through learning-from-exporting – not assumed in model
  - Empirical literature strong on self-selection hypothesis, mixed (weak) evidence on learning

## Focus of export policy

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- Reduce threshold for entry into exporting
  - Cover sunk costs (eg, NZTE Market Development Grants, 541 recipients, \$36.3m)
  - Reduce trade barriers (eg, MFAT Policy Advice & Representation: International + Other Countries \$220.2m)
- Help firms raise productivity => self-select into exporting
  - Eg, NZTE Capability Building Grants (366 recipients, \$3.2m)
  - R&D tax credit (\$158m)
- Many economies do these things – which of them work?

## How NZ research helps

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- Ex-ante
  - How does the economy work?
  - Is there a problem that policy could solve?
- Ex-post
  - Did this policy work?
  - How could it be improved?
- This work in the nature of the former approach, but evaluations are underway!
- First, to be useful, researchers need data...

## The Longitudinal Business Database

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- Longitudinal Business Frame (LBF)
- GST/Business Activity Indicator (BAI)
- Financial accounts (IR10)
- Company tax returns (IR4)
- Linked Employer-Employee Dataset (LEED) aggregates
- Customs merchandise trade
- Government programme lists
- Sample surveys (AES, BOS, Innovation, R&D, BPS, BFS)

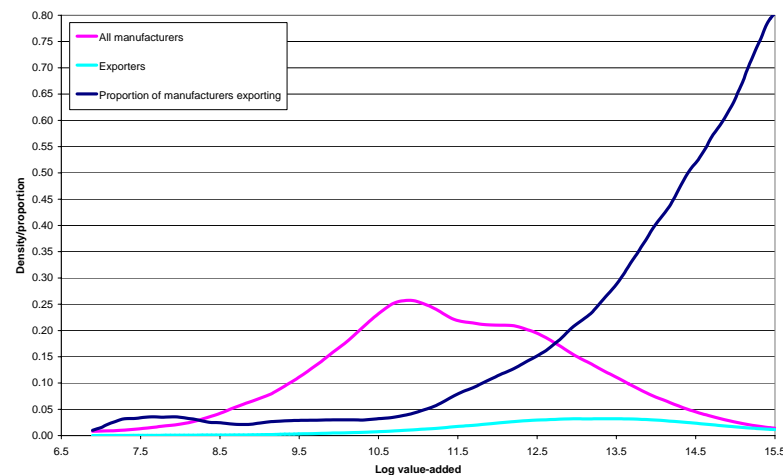
## Benefits of the LBD

- **Coverage**
  - Includes roughly all “economically significant” firms in NZ (~700K private-for-profit firms)
- **Panel dimension**
  - 7yrs (2000-6), ~450K active firms in any year, ~50K entrants/exits
- **More performance metrics**
  - Exporting by good-destination; profitability; productivity
- **Huge potential for firm-level research**
- **Some industry restrictions in work presented today**

## Papers this presentation draws on

- Fabling & Grimes (2007a) “Do exporters cut the hedge? Who hedges, when & why”, NZAE’07
- Fabling & Grimes (2007b) “Over the hedge or under it? Exporters’ Optimal and Selective Hedging Choices”, NZESG presentation/paper in prep.
- Fabling et al. (2007) “Some rise by sin, & some by virtue fall: Firm dynamics, market structure & performance”, NZAE’07
- Fabling & Sanderson (2007) “Peter Piper picked a peck of pickled peppers & packed them off to Portugal: Firm-level patterns in merchandise trade”, NZAE’07
- Greenaway & Kneller (2007) “Firm heterogeneity, exporting and foreign direct investment”, Econ J, v117, pp134-161
- International Study Group on Exports & Productivity (2007) “Exports & productivity: Comparable evidence for 14 countries”, in prep.

## Manufacturing value-added (2005)



## Where does expansion come from?

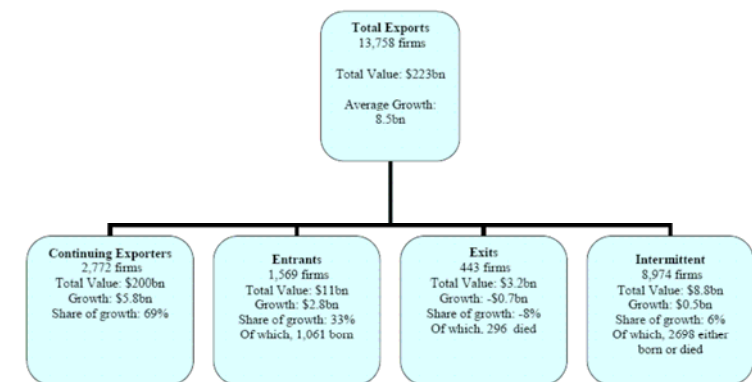
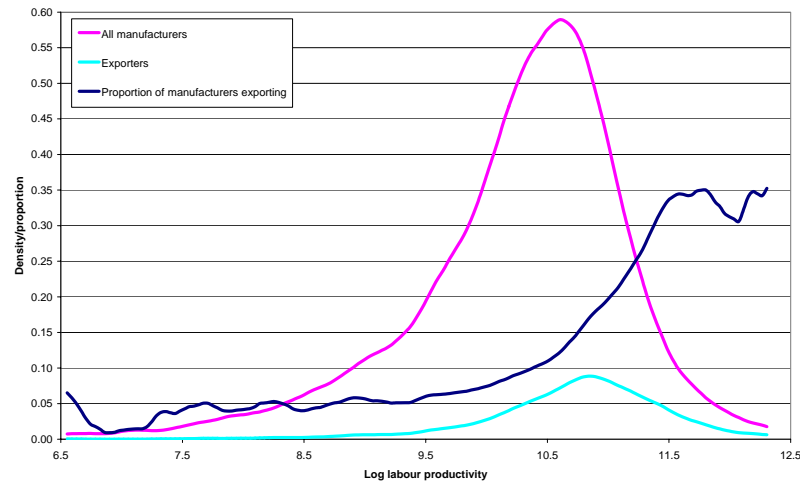


Table 21: Export Growth Decomposition for Continuing Firms (AFF, MANU, WST)

New Relationships	
Firm sends a new product to a new destination	3,349
Firm sends a new product to a destination they already exported to at the start of the period	10,856
Firm sends something from their initial product range to a destination they previously didn't export to	534
Firm sends a product from their initial product range to a country they had previously exported other products to.	2,165

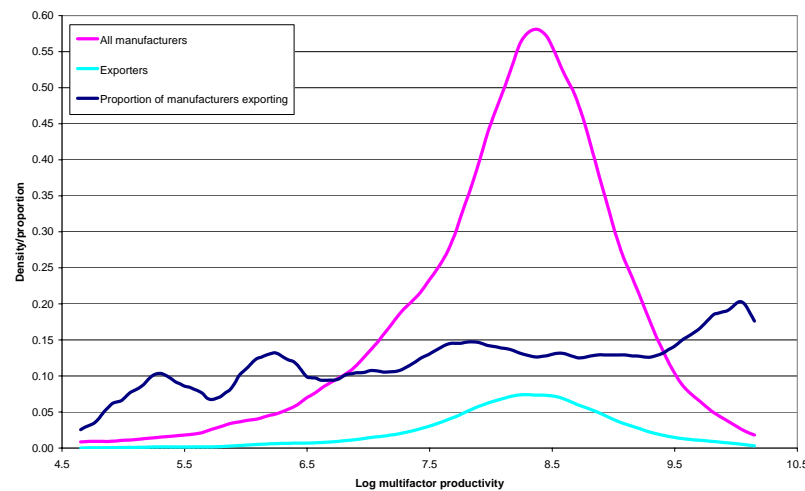
## Manufacturing labour productivity (2005)



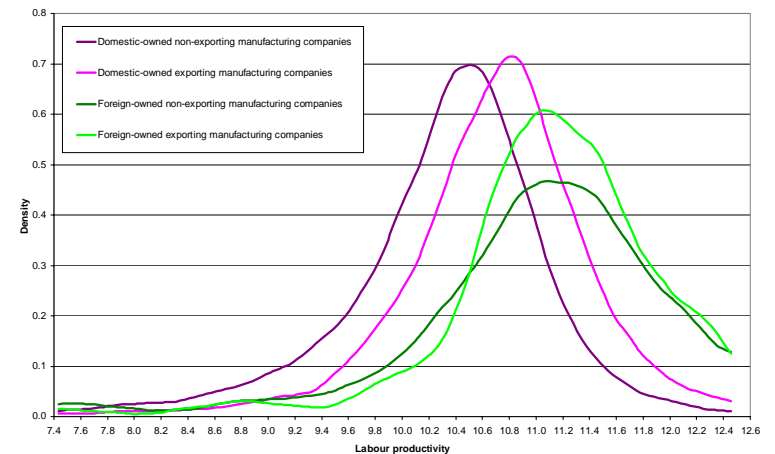
## Cross-country comparison

- **Proportion exporting (20+ employment)**
  - 14 country average 64%; NZ 56/65%
- **Sales per employee level differences (controlling for firm effects, industry, size, average wage)**
  - 14 country average 7%; NZ 1.4/2.8%
- **Longitudinal results point towards self-selection**
- **Hard to identify effect of entry on growth, though often a small number of observations**
- **Level difference less with proper measure of value-added & control for capital inputs**
  - 7 country average 3.4%; NZ ?%

## Manufacturing multifactor prod. (2005)

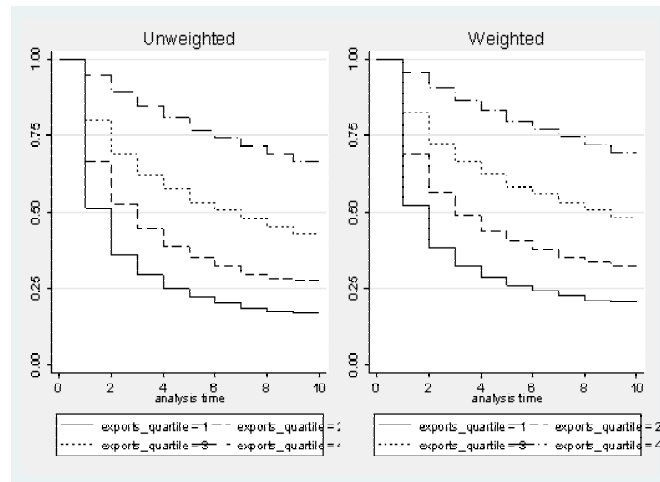


## Manufacturer LP by export & FDI status

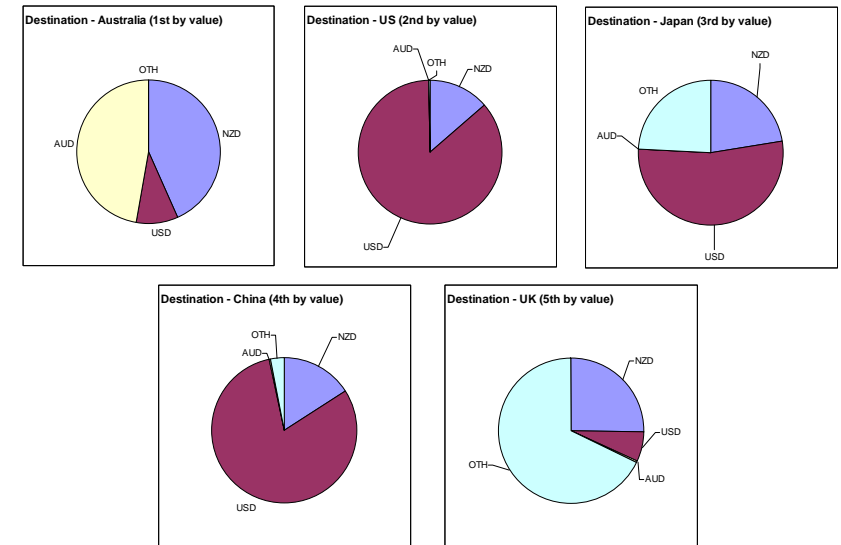


## It's a tough world out there

### Survival function for firm export spells



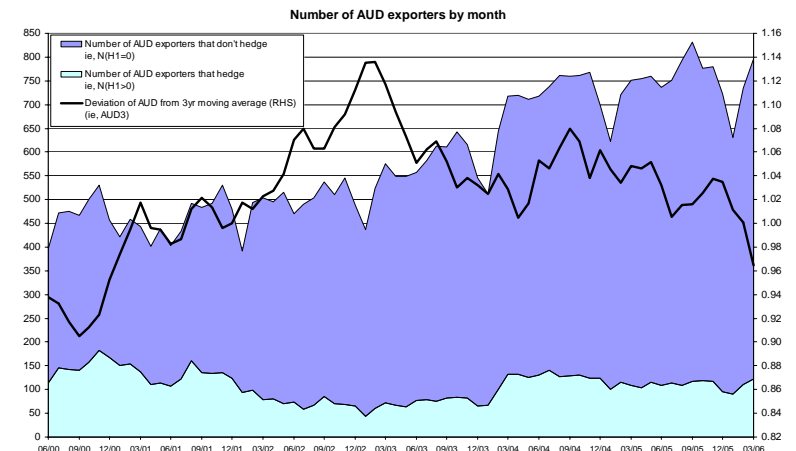
## Currency risk a cause of attrition?



## Theory

- **Optimal hedging (imperfect markets)**
  - Eg, financial distress costs, underinvestment costs, scale, managerial risk aversion/governance, convex tax schedules
- **Selective hedging**
  - Sensible if exporter has information comparative advantage
- **Estimation**
  - Exporters to Australia
  - Monthly Jun 2000-Mar 2006
  - Test both theories simultaneously
  - Two stage selection model – only observe hedging behaviour for firms with foreign currency exports

## Share of AUD exporters hedging



## Preliminary results

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- **Hedging experience, diversification, scale**
  - + Firm hedged previously, 1/(time since last hedge)
  - - NZD exports/sales, (non-AUD fx exports)/sales
  - + No. of markets exported to
  - + No. of countries imported from
  - + Member of multi-enterprise group
- **Financial distress; under-investment risk:**
  - - Quick ratio
  - + Interest expenses/EBIT
  - + Intangible assets/total assets
- **Ownership (- Foreign-owned or SOE)**
- **Exchange rate (expected negative effect)**

## Future work - international

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- **LBD has huge potential. Planned work...**
  - **Determinants of export entry & exit at both the firm and the relationship level**
  - **Impacts on firm performance**
  - **Extension to other forms of international engagement (eg, foreign ownership)**
    - Identification of service exporters
    - BOS'07 – currently in the field (April 08)
  - **Trade & local labour market characteristics**
  - **Evaluation (first study next week)**
  - **Other differences in export business practices (BOS)**