Guy Quaden: International trade – threats and opportunities in a globalised world

Introduction by Mr Guy Quaden, Governor of the National Bank of Belgium, at the International Conference 2010, Brussels, 14 October 2010.

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Ladies and Gentlemen,

On behalf of Governor Quaden and also on my behalf, as member of the Board of Directors in charge of the Research Department, I am pleased and I indeed feel it an honour to have the opportunity to welcome you to the sixth National Bank of Belgium Conference. As you will have seen in the programme, Governor Quaden was initially scheduled to open the Conference. Unfortunately, in view of unforeseen circumstances, he cannot be here with us this morning. He kindly asked me to offer his apologies in that respect. Instead, he will address you tomorrow at the closure of Conference, drawing the conclusions from the discussions, and will outline his views on a topic he thinks is of the utmost importance.

At present, I would like to bid you once more a hearty welcome to our Conference. Held once every two years since the year 2000, this regular event is one of the initiatives taken by the Bank to promote scientific research in fields that lie at the heart of the concerns of all those involved in economic life, and also to expand its own understanding of the functioning of the economy.

The theme that has been chosen for this sixth edition, namely international trade and capital flows, is of particular importance for our institution, just as it is for other observers of the Belgian economy. Indeed, our country owes a good part of its prosperity to its particularly high level of openness to trade. One consequence of being so open to the rest of the world is of course the fact that our economy's growth depends heavily on world demand and on the capacity of our domestic firms to tap new opportunities on foreign markets.

The close relationship linking economic growth to firms' performance on external markets obviously does not only concern Belgium. Against a backdrop of the increased globalisation that has rapidly taken hold over the last twenty years, it is a topic followed very closely by economic stakeholders in all the industrialised nations. That can be mainly explained by the rise in power of emerging countries, notably the central and eastern European states, India, Brazil and, above all, China. Having benefited from both a strong trade liberalisation and large foreign investment inflows, while taking advantage of low production costs and raising their level of technological know-how, these economies now seem like fearsome competitors for European and North American companies. These firms must therefore take up many challenges in order to safeguard their competitive edge, both on their domestic markets and their foreign outlets. At the same time, the emerging countries are large in size and exhibit strong economic growth, too. Therefore, they also offer many opportunities for firms that are able to seize them.

All these developments linked to the increasing globalisation of the economy obviously raise a good many questions. These include the determinants of trade flows, strategies enabling companies to gain a foothold in external markets, or the employment consequences of importing goods from low-cost countries.

These issues have been extensively discussed in both the theoretical and empirical economic literature. Since the mid-nineties, a growing segment of this literature has been paying particular attention to the microeconomic determinants of international trade and foreign investment. Researchers have made intensive use of firm-level databases specific to different countries that have gradually become available for them.

This microeconomic approach has brought an important contribution to our understanding of the causes and consequences of the globalisation, mainly because firm-level data make it possible to point up things that do not show up in aggregate statistics.

If only one example had to be given, it would of course be the fact that trade is concentrated among a few firms, which are in a better position than the others to bear the high costs associated with entering foreign markets. Indeed, within each industry, firms of different sizes, with different performances, and with different behaviour in terms of innovation and international involvement, operate alongside each other. It is important to take this heterogeneity into consideration to understand the dynamics of foreign trade.

This heterogeneity also has very important implications for economic policy, in the sense that it helps to identify two levers that are likely to be activated as a means of boosting firms' international involvement. The first consists of encouraging their expansion – and especially that of SMEs – so as to give them the best preparation to go international, including policies designed to foster their research and development efforts. The second lever concerns measures aimed at cutting the costs of entering foreign markets, for instance by helping firms to find potential new customers there or by removing administrative and regulatory barriers.

Another undeniable advantage of the microeconomic approach is that it helps bring out the scale of reallocation of production factors from the weakest-performing firms towards those whose business is more flourishing. Among other things, this enables economists to gain a better understanding of the impact of globalisation on the labour market. Issues related to this subject are naturally of paramount interest for policy-makers. Although resource reallocation has always been a key determinant of economic growth, it also involves costs that need to be taken into account. These costs are mainly related to updating workers' skills and to innovation efforts that firms have to undertake to adapt to changes in comparative advantages.

By organising this conference, the National Bank of Belgium is hoping to contribute to the enrichment of this growing area of economics. To this end, we have invited several top economists to present the findings of part of their research work here today. Four of them, who will be keynote speakers, have already made a very significant contribution to the literature on international trade over the last fifteen years. It is a great privilege for us to welcome here today Andrew Bernard, Jonathan Eaton, Marc Melitz and Gianmarco Ottaviano, who will give their perspective on the various questions dealt with during this conference, and I would like to thank them warmly for accepting our invitation.

These two days will also be largely devoted to the presentation of eight original contributions by research teams from different Belgian universities and the National Bank. The papers to be presented are the outcome of research work started about a year and a half ago, under the supervision of the Research Department, with the help of the Statistics Department and the Microeconomic Analysis Service. All these projects use microeconomic data on Belgian firms that we have made available for the different research teams. Moreover, these teams have been meeting regularly to discuss the progress made with their work. These exchanges of views also give the Bank a way of encouraging the sharing of knowledge and scientific research. I hope that they have been beneficial for the participants and enabled them to optimise the quality of their work.

Four of the contributions look in particular at the strategies put into place by internationally active firms. In so doing, they tackle some very relevant questions on the factors that enable firms to maintain their international competitiveness. For instance, do firms that go into many different markets at once perform differently from those that only start exporting to a very small number of destinations? What determines the supply of products that are sold on these markets? What conditions make it more efficient for a firm to resort to foreign direct investment rather than supplying markets through exports? How can firms keep their place on the export markets in the face of competition from the emerging economies? These are just some of the questions that will be dealt with in four of the presentations featured at this conference.

Two other contributions should help to further deepen our understanding of the interaction between firms' characteristics and the costs of entering foreign markets. One of them looks more specifically at the influence of technological change on trade in services. The other one deals with spillover effects, that is, the influence exporters are likely to have on the productivity of other firms, as well as on their propensity to export in their turn.

And two last contributions focus on the impact of globalisation on the labour market. The first of these endeavours to study its influence on demand for labour. The second one addresses the question whether the costs related to employment adjustments vary significantly between local firms and multinational enterprises.

In my opinion, the issues that will be debated today and tomorrow, during the four sessions of the conference, are extremely interesting, not just for academic circles but also for those involved either closely or indirectly in economic policy decision-making processes. And I strongly urge members of the audience to join in with the discussants, who will be commenting on each paper, and voice their own remarks and ideas.

May I take this early opportunity to thank the keynote speakers, the university researchers and those from the Bank who have contributed to this conference, as well as the discussants for stimulating the exchange of ideas over the next two days.

All that's left for me to do is to hand the floor to Peter Praet, who will be chairing the first session of this 2010 Conference, and to wish you all two very pleasant and instructive days.

Thank you for your attention.