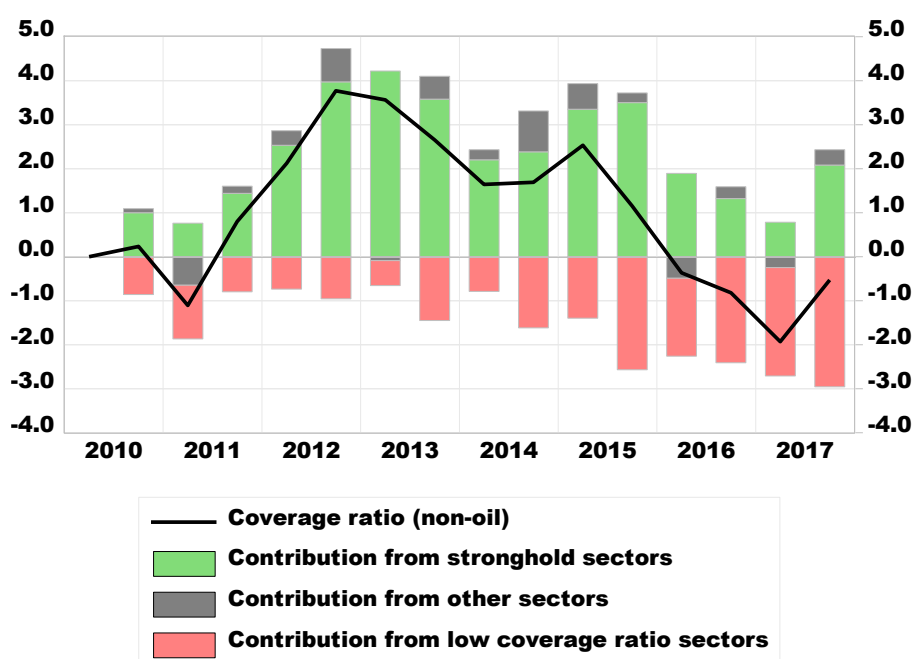


Sectoral specialisation and the 2014-16 downturn in France's foreign trade

By Hadrien Camatte and [Guillaume Gaulier](#)

The contribution of foreign trade to French growth was strongly negative between 2014 and 2016. Although, on average, the contribution from sectoral specialisation is more positive in France than for its European partners, it also implies a dependence on a limited number of sectors. The difficulties experienced by France's stronghold export sectors explain a large part of the downturn in the French trade balance between 2014 and 2016.

Chart 1 – Cumulative contributions to growth in the foreign trade coverage ratio for non-energy goods (in %)



Sources: Customs authorities and authors' calculations.

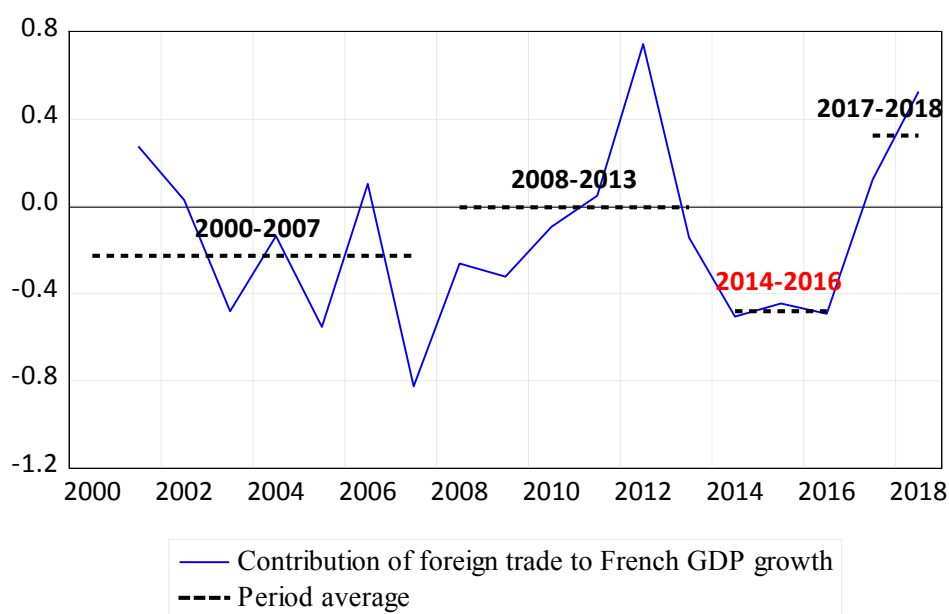
Note: Foreign trade coverage ratio (value of exports/value of imports) as a percentage deviation from first-half 2010; contribution from stronghold export sectors (including aeronautics), weak export sectors (including electronic equipment) and other sectors. By definition, the contribution from weak export sectors tends to be negative as they generate more imports than exports.

A downturn in the French trade balance between 2014 and 2016

The foreign trade balance made a strong negative contribution to growth (see Chart 2) between 2014 and 2016 with negative contributions of 0.5 pp, 0.4 pp and 0.5 pp in 2014, 2015 and 2016, respectively, as a result of import dynamism (see [Gaulier and Ouvrard, 2017](#)) and generally disappointing export performances.

Is this negative contribution related to the weakness of the export markets in the countries or sectors with which French businesses trade? Or does it reflect the inability of French production capacity to respond to an increase in foreign or domestic demand?

Chart 2 – Contribution of foreign trade to French GDP growth



Source: Insee.

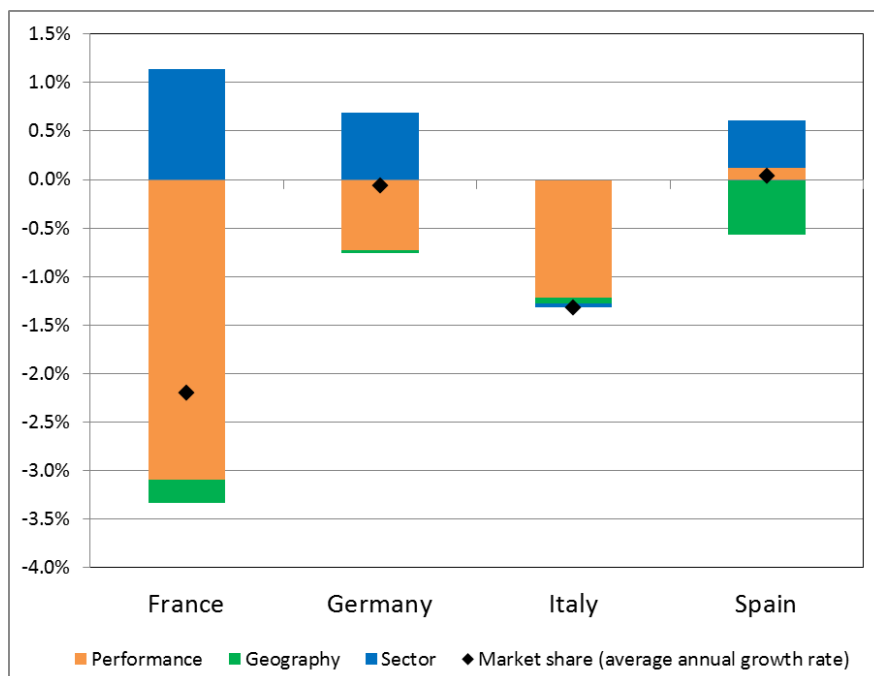
Note: Solid line in percentage points of GDP; dotted line shows averages for the sub-periods. [Banque de France macroeconomic projections – June 2018](#) for 2018.

On average, the contribution from France's sectoral specialisation has been favourable since 2000

While market shares (exports/global trade) remained stable in Germany and Spain, and fell back only slightly in Italy, they contracted sharply in France by an average of more than 2% per year (see Chart 3). An increase in market shares can be due to: (i) a favourable geographical or (ii) sectoral specialisation; and/or (iii) average market share gains within these markets (as a market is defined in terms of a country and a product). Contributions from geographical specialisation (see Chart 3) are slightly negative due to the relatively weak demand on the European markets that make up the four countries' main export outlets. For France, the most favourable contribution comes from

sectoral specialisation, which reflects an orientation towards sectors for which global demand is robust. The downward trend in France's market shares is the result of lower export growth on a market-by-market basis, or the "performance effect" (orange bars).

Chart 3 – Breakdown of the annual growth rate of market shares from 2000 to 2016



Sources: CEPII's BACI database and authors' calculations. [Shift-Share Decomposition](#) based on a variance analysis of disaggregated data (bilateral USD flows between 228 countries for over 1,000 product categories).

Note: Green represents geographical specialisation; blue represents sectoral specialisation; orange represents the performance effect; and black diamonds denote growth in market shares.

Thus, France's specialisation is favourable in the sense that on average it benefits from relatively robust demand for its stronghold export sectors. However, this favourable specialisation does not ensure that France keeps its market share, as (i) businesses within these sectors may fail to capture the demand directed towards them (orange bars), and (ii) foreign trade dynamics depend heavily on the performance of a limited number of industries.

The stronghold sectors account for the downturn in the foreign trade balance since 2014

In Chart 1, the sectors are broken down on the basis of their average foreign trade coverage ratio (value of exports/value of imports) in order to analyse their cumulative contributions to growth in the French coverage ratio for all non-energy goods since first-half 2010. France's stronghold sectors, defined as sectors whose average coverage ratio exceeds 110%, mainly include aeronautics, automobile equipment, pharmaceutical products, 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 form part of the intermediate category sectors.

The stronghold sectors (represented by green bars in Chart 1) have played a key role in the decline in the non-energy goods coverage ratio over the recent period, accounting for 65% of the deterioration in the coverage ratio between 2014 and 2016. By contrast, the weak export sectors (represented by pink bars in Chart 1) account for only 29% of the decline. This tends to temper the view that the recent difficulties can be attributed to an inability of production capacity to meet demand.

2015 and 2016: weak global demand and difficult years for the stronghold sectors

Global demand, particularly outside the euro area, was extremely weak in 2015 and 2016 and hampered French – and more generally, European – exports. Furthermore, there was a sharp plunge in the French export sector in 2016, with several industries among France's stronghold sectors experiencing exceptional difficulties. The agrifood sector was hit by poor harvests due to adverse weather conditions. In aeronautics, the flagship sector of French specialisation, global demand slowed and Airbus experienced problems in its supply chain. In addition, the performances of other sectors that normally make a positive contribution to France's foreign trade (excluding trade in manufactured goods) were disappointing. For example, part of France's nuclear production capacity was unavailable, restricting energy sector exports, while tourism suffered as a result of the terror attacks in Paris and Nice.

In the medium term, will the recovery after the 2015-16 plunge be temporary or lasting?

Foreign trade made a slightly positive contribution again in 2017 (a positive 0.1 pp contribution) and will continue to do so in 2018 with a positive 0.4 pp contribution according to Banque de France projections (see the [macroeconomic projection for June 2018](#)), on the back of an upturn in global demand and the start of a turnaround for France's stronghold export sectors. Nevertheless, part of the previous under-performance recorded by these stronghold sectors could persist if it proves to be more structural: agricultural trade has still not returned to 2015 levels and its market share continues to trend downwards; aeronautic exports remain disappointing in view of the order books; and trends in [exports of automobile equipment](#) continue to be unfavourable.

In the longer term, France's foreign trade recovery will depend on the ability of the French economy to reinforce or reinvent its comparative advantages.