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IRISH ENTERPRISE EXPORTING PATTERNS IN GOODS AND SERVICES

MARTINA LAWLESS, IULIA SIEDSCHLAG AND ZUZANNA STUDNICKA

EVIDENCE FOR POLICY

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

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*Martina Lawless, Iulia Siedschlag and Zuzanna Studnicka (ESRI)

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RESEARCH OBJECTIVES

For many decades, Ireland has been the quintessential small, open economy and the export sector is a major contributor to Irish economic performance. This Bulletin presents the key findings and policy implications drawn from two research reports on the exporting patterns of Irish-owned firms. The detailed reports deal separately with manufacturing exports and services exports. This is due to the differences in the data available. The manufacturing export research is based on customs records containing extremely disaggregated information on the products and destinations of exporters whereas the report on services exports relies on survey data and is more focused on trade participation and differences between exporters and non-exporters.

KEY FINDINGS

Exporting is highly concentrated. The first over-arching finding of the examination of both manufacturing and services exports is the extent to which the activity is concentrated in a relatively small percentage of firms. Most exporting firms are quite small but export values are driven by a small group of export "superstars".

Exporting is rarer in services than in goods. Around 1.5 per cent of Irish-owned services firms exported in 2012. When services sector firms do export, we find that a large proportion of them actually export mainly goods. This suggests that it is difficult for firms in services to begin exporting although this is also related to the inherently lower level of tradability of some services.

1 This Bulletin summarises the findings from the research published in Lawless, Martina, Iulia Siedschlag and Zuzanna Studnicka (2017) *Expanding and Diversifying the Manufactured Exports of Irish-owned Enterprise and Lawless,* Martina and Zuzanna Studnicka (2017) *Services Exports and Exporters of Services*. This research was funded under the joint Research Programme on "Enterprise Exporting, Innovation and Productivity" undertaken by the Economic and Social Research Institute, Enterprise Ireland and the Department of Jobs, Enterprise and Innovation.

*martina.lawless@esri.ie

Most exporters sell a small number of products to few markets. Nearly half of Irish manufacturing firms export fewer than five products. In terms of market destination coverage, Irish-owned firms (average 7.7 destinations in 2015) are less diversified than foreign-owned firms (average 17.7 destinations in 2015). The UK accounts for more than 40 percent of exports for Irish-owned firms.

Food exports are a large share for Irish-owned firms but are the least diversified. Food products make up a large share of exports by Irish-owned firms and these firms have a smaller product range and fewer markets than non-food exporters.

Export volumes are dominated by top performers. We find that 11 percent of highly globalised Irish-owned firms (exporting more than 20 products to over 20 destinations) account for 46 percent of total exports. Although the data is less detailed for services exporters, we also find that export sales are highly concentrated in a relatively small number of firms.

Exporting activity has a high risk of exit. Exporting is extremely dynamic. The first year of export activity for Irish small firms is particularly challenging with a high risk of immediate exit from the market. Subsequent exit risk is considerably lower.

Exporting firms continually adjust product and market mixes. We find considerable evidence of experimentation for exporting firms with high levels of entry and exit at the product and destination level. Fifteen per cent of products exported are new to the firm every year on average.

Export growth largely driven by product and market changes. While in the short and medium run export volumes may be largely explained by the sales of existing products to their current markets, in the long run, the drivers of export growth are expansion of market and product portfolios.

Exporters outperform non-exporters across many indicators. Irish-owned exporters have on average 26.5 per cent higher employment compared to Irish non-exporters and are have labour productivity that is around 8 per cent higher.

POLICY IMPLICATIONS

Specialisation amongst exporters can be a positive strategy if the specialisation is in areas of high current demand and future growth prospects. However, concentration in a relatively narrow range of products and/or markets also brings exposure to risk. Although the research provides evidence that the current concentration patterns of Irish-owned firms are well chosen, on-going monitoring of global trends and changes in comparative advantage for Irish-owned firms is crucial in ensuring that firms are well positioned to take advantage of opportunities in new markets or new products and also that risks are identified in a timely way so that they can be managed and mitigated.

The lower participation rate in services exporting suggests higher obstacles, some of which can be explained by the non-tradable nature of many sub-sectors within services. However, the large differences in export activity and intensity between Irish and foreign firms suggests that greater international engagement is possible.

The pattern of many firms exporting a small number of products to few destinations also shows that there are costs associated with each new product introduced and new market entered. This is important from a policy perspective because it demonstrates a need for on-going support for firms beyond their initial move into exporting. Expansion of the client base has been shown to play a large role in firm export growth for services firms and this could be incorporated into metrics for policy delivery. More specific to services than to goods, language is a potentially major impediment to international delivery suggesting a role for educational policy. Another way in which services exports may be facilitated is through the use of on-line sales. We find that services exporters sold around one-quarter of their turnover online, compared to six per cent of non-exporters.

The finding that export product and market churning contribute strongly to overall export growth reinforces the earlier policy message that on-going support for expansion into new product and market areas is critical even if the firms themselves do not change export status. Identifying barriers to exporting, particularly in terms of information about potential export markets, and facilitating firm engagement and expansion into new destinations could help in enabling firms to extend their export coverage and support the continuous cycle of product turnover that appears to be such a central component of export growth.

Whitaker Square,
Sir John Rogerson's Quay,
Dublin 2
Telephone **+353 1 863 2000**
Email **admin@esri.ie**
Web **www.esri.ie**
Twitter **@ESRIDublin**

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