

# Exports and Reallocation towards International Firms

Ludovic Panon\*

August 26, 2019

## Abstract

Does globalization drive the manufacturing labor share down? To answer this question, this paper uses detailed French micro-data for the manufacturing sector. Two main facts guide the analysis. The first is that the fall in the labor share over 1994-2001 is driven by a reallocation towards firms with a low labor share, consistent with recent evidence for the US. The second fact is that more internationalized firms have a lower labor share. A monopolistic competition model shows that a market size increase in foreign markets will drive the labor share down through a reallocation effect towards more productive, low-labor share firms. This is due to the increase in market size abroad favoring large firms while smaller firms are hurt by the concomitant increase in competition. In order to identify the causal effect of export growth on firm growth causing this reallocation effect, I instrument changes in export sales by changes in demand conditions on foreign markets. Consistent with the theory, I find that an increase in exports is strongly associated with increases in value-added and that the effect is stronger for firms that are more internationalized. These findings offer evidence that globalization can generate non negligible reallocation effects towards more internationalized exporters, thereby contributing to driving down the manufacturing labor share.

---

\*Department of Economics, Sciences Po. ludovic.panon@sciencespo.fr