

Markups and Export Behavior: Firm-Level Evidence from the French Food Processing Industry

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HIGHLIGHTS

- Investigates the relationship between firm markups and export behavior in the French food processing industry.
- Higher markups lead to increased export participation and greater export intensity.
- Exporting firms achieve higher markups compared to non-exporters.
- Policy implications suggest a need to balance trade policies with domestic competition regulations.

This study demonstrates that higher markups facilitate greater export participation and intensity, while exporting, in turn, increases firms' markups. These findings highlight the importance of supportive trade policies and balanced competition regulations to foster a thriving export-oriented sector.

The French food processing industry serves as a valuable case study, but further research is needed to explore these dynamics in other contexts and sectors.

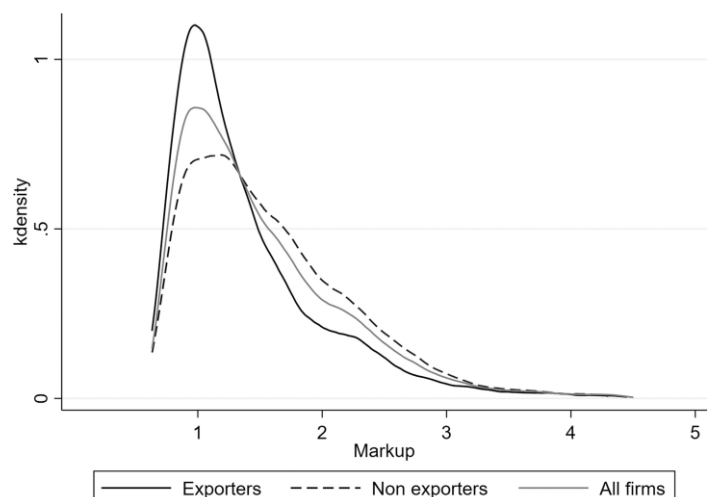
INTRODUCTION

This study explores the dynamic relationship between markups and export behavior within the French food processing industry.

It aims to provide insights into how markups influence firms' decisions to enter export markets and how sustained export activities affect firms' pricing power.

The study addresses gaps in empirical evidence by utilizing a comprehensive dataset covering 10,927 French food processing firms from 2011 to 2019.

Firms markup distributions



DATA AND METHODS

Data were sourced from a sample of firms in the French food processing sector. The study employs an Extended Regression Model to analyze the impact of export activities on markups and also employs a double hurdle control function approach to separately analyze the initial export decision and subsequent export intensity.

Firm-specific markups are estimated using an advanced methodology that accounts for imperfect competition in input markets and biases in output measurement. Exogenous characteristics, such as firm age and legal form, are used as instruments to address simultaneity between markups and export behavior.

MAIN RESULTS

- **Impact of Markups on Export Behavior:** Firms with higher markups are more likely to enter export markets and exhibit higher export intensity. This suggests that firms with better pricing power have a competitive edge in foreign markets.
- **Effect of Exporting on Markups:** Firms that enter and remain in export markets experience an increase in their markups. This indicates that exporting activities can enhance a firm's pricing power, possibly due to learning effects and economies of scale.
- **Comparison of Exporters and Non-exporters:** Exporting firms generally achieve higher markups than non-exporters, even after controlling for productivity differences. This highlights the positive correlation between export activities and market power.

POLICY RECOMMENDATIONS

1. **Promote Export Activities:** Policies that encourage firms to enter and remain in export markets can enhance their market power and competitiveness. This includes reducing trade barriers and providing export subsidies or incentives.
2. **Balance Trade and Competition Policies:** While promoting exports, it is crucial to maintain a balance with domestic competition policies to prevent excessive markups that could harm consumers.
3. **Support for Small and Medium Enterprises (SMEs):** SMEs, which may face higher entry barriers, should receive targeted support to help them enter export markets and achieve competitive markups.
4. **Invest in Quality Improvement:** Policies that incentivize firms to enhance product quality can lead to higher markups and better export performance. This includes investing in technology and innovation.