Exporting/Importing and firm performance: Evidence from India

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Abstract

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1 Introduction

There is a large literature stating that, on average exporting firms are more productive than their non-exporting counterparts. This can be explained by the self-selection of highly productive into exporting and the productivity gains by exporting (learning-by-exporting). Since after entering the export market, the quality of goods demanded is really high, this automatically means that only higher productive firms will choose to enter the market. Moreover, there is a high costs associated with participating in the export markets, firms have to make expectations about demand in the export market and expose themseleves to risk.

Participation in the import market can also lead to productivity benefits. Since, there are additional costs involved to importing goods/equipment as well, firms will only take part if it improves their productivity or helps in establishing relationships and find information about demand in the foreign market.

This relationship will help us in clarifying whether trade promotion policies will help in firms becoming more productive. This is done by performing a counterfactual experiment, where we decrease the costs of importing and exporting by 10 % and see the change in productivity of firms.

We test this theory on the dataset of Indian manufacturing firms and see the relationship between productivity and exporting/importing.

2 Literature Reviwe

3 Data and descriptive statistics

We use firm level data from Centre for Monitoring Indian Economy (CMIE) and restrict ourselves to manufacturing firms since it provides us with the largest dataset. We have data till 1992 to 2017.

We use **aw2011**

4 Model

4.1 Dynamic Model

$$S_{it} = (\omega_{it}, K_{it}, e_{it-1}, m_{it-1})$$

$$V_{it}(s_{it}) = \int (\pi^D_{it} + max_{e_{it}}\{(\pi^D_{it} + e_{it-1}\gamma^F_{it} - (1-e_{it})\gamma^S_{it}) + V^E_{it}(s_{it}), V^D_{it}(s_{it})\})dG^{\gamma} \quad (1)$$

$$V_{it}^{E}(s_{it}) = \int (max_{m_{it}}\{\beta E_t V_{it+1}(s_{it+1}|e_{it}=1, m_{it}=1) - m_{it-1}\gamma_{it}^{mf}, \beta E_t V_{it+1}(s_{it+1}|e_{it=1}=1, m_{it}=0)\} dG^{\gamma} \tag{2}$$

$$V_{it}^{D}(s_{it}) = \int (max_{m_{it}}\{\beta E_t V_{it+1}(s_{it+1}|e_{it}=0, m_{it}=1) - m_{it-1}\gamma_{it}^{mf}, \beta E_t V_{it+1}(s_{it+1}|e_{it}=0, m_{it}=0)\} dG^{\gamma} \tag{3}$$

4.2 Productivity measurement

4.3 Defining export starter

4.4 Superior exporter performance

5 Research Design

6 Results

6.1 Do more productive firms self-select to become exporters?

6.2 Do firms learn to export?

6.3 Do firms learn by exporting?

6.4 Do export starters grow significantly after export market entry?

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