

Review of

Carmen Díaz-Mora, David Córcoles, and Rosario Gandoy (2015). Exit from Exporting: Does Being a Two-way Trader Matter?. Economics Discussion Papers, No 2015-15, Kiel Institute for the World Economy.

<http://www.economics-ejournal.org/economics/discussionpapers/2015-15>

This paper uses firm-level data from the manufacturing sector of Spain to investigate the impact of importing intermediate inputs on the probability of exiting export markets for the period 2006-2010. The authors use a probit model with random effects to estimate the effect of several firm characteristics on the probability of stopping to export from one year to the following. The results show that being an importer of intermediate inputs does not reduce the probability of exiting export markets but it does seem to reduce it for the case of small firms (firms that employ between 10 and 49 workers).

Even though this seems to be the first paper to study the effect of being an importer of intermediate inputs on the probability of exiting export markets, the contribution of the paper appears to be quite minor. There is already a large amount of evidence showing that firms that import intermediate inputs are large, highly productive, and more likely to export, so it is not surprising that firms importing intermediate inputs would be less likely to exit international markets. In addition to the existing evidence, the paper does not say anything about the policy implications of this particular research question. For example, if importers of intermediate inputs are less likely to exit international markets, does that mean that the government should help firms to start importing intermediate inputs? Why or why not?

The results show that being an importer only matters for export survival if the firm is small. A small firm is defined using the thresholds of employment mentioned above. This is quite arbitrary and may have influenced the results. It would be better to use a continuous measure of size (for example, employment, or sales) and interact it with the import dummy. One could also include a square of the size variable to see if there is a non-monotonic effect.

The authors use a probit model with random effects, but the assumption that the unobserved effects are random is very unlikely to hold in this case. It would be helpful to have the results using alternative estimation methods, including the ones that may allow controlling for unobserved firm heterogeneity using fixed effects (for example, a linear probability model with firm fixed effects).

The percentage of exporters and importers and two-way traders is very high in the data (at least compared to the numbers for other countries). This suggests that the data used in the paper are not representative (large and medium firms are over-represented in the data set). This should be discussed.

According to the Melitz model, firms face a probability of death that would take them not only out of the export market but also out of the domestic market. Does the analysis consider firms that exit the data set as well? How is a firm that exported at time $t-1$ but then disappeared at time t treated? Does this count as an export exit?

Please explain how the exit rates in Figure 1 are calculated.

When calculating the premium for two-way traders, it would be better to interact this dummy with the measure of size so that the estimated coefficients can be compared (instead of having to estimate regressions for each group of firms).

Do the results hold if a longer period for exit is considered? For example, from $t-3$ to t ? Or from $t-5$ to t ?

The authors should calculate the overall effect of importing inputs when firms are small. Saying that the interaction term is negative is not enough.

It is possible that effect of importing intermediate inputs is actually reflecting the impact of foreign technology acquisition. There is some evidence suggesting that owners of technologies sell (or license) their technologies to firms in other countries as a package, i.e., including the intermediate inputs needed to use the technology. If this is the case, one cannot be sure that it is the import status what matters. If there is information on foreign technology acquisition (for example, royalties and fees paid on foreign technology licenses) it should be included as an additional control variable.