

## **Report to “Exit from exporting: Does being a two-way trader matter?”**

This paper looks empirically at the impact of simultaneously importing and exporting on the probability of exit from exporting. The findings indicate that – after controlling for firm characteristics – there is not an additional effect of two-way trading on exit. However, it is also found that two-way trading reduces the probability of exit from exporting in smaller firms and foreign firms.

I do see a limited contribution from this paper and I think it has several shortcomings. I detail my comments below.

1. This is obviously an empirical paper, but it should have a minimal theoretical foundation. I do not see good reasons why we should find that simultaneously importing and exporting would reduce the probability of exit from exporting. This hypothesis needs to be explained better and founded or based in some theoretical model.
2. The same consideration applies for the introduction of interaction terms for small and foreign firms. Which theoretical model implies that smaller and foreign firms may take advantage of two-way trading?.
3. Regarding the econometric methodology, it is not clear that a random effect probit model is the right one in this context. See, for example, Bernard and Jensen (2004) on this regard and the discussion relative to unobserved heterogeneity in dynamic models<sup>1</sup>.

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<sup>1</sup> Bernard, A. B., and J. B. Jensen (2004). “Why Some Firms Export,” *Review of Economics and Statistics*, Vol. 86, No. 2, pp. 561-569.

4. The empirical specification has some problems. First, I think that a dummy for exporting and importing should be included separately. Then, the effect of simultaneously exporting and importing can be isolated. Second, interactions terms may be capturing the impact of other firm characteristics. For example, small (and foreign) firms are also less productive. Do both interactions survive to the inclusion of an interaction term with labour productivity?.
5. Finally, the paper should try to use some more sophisticated technique for dealing with endogeneity issues about exports and productivity (see, for example, De Loecker, 2007)<sup>2</sup>.

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<sup>2</sup> De Loecker, J. (2007): "Do Exports Generate Higher Productivity? Evidence from Slovenia," *Journal of International Economics* 73(1): 69-98.