Joachim Wagner – Answer to Referee Report 1 for DP 2018-36

The referee makes ten major suggestions (reproduced *in italics* below). My answers are included **in red** here:

1. The author states that confidentiality prevents him from exploring trade patterns at the product level (6-digit product code) and reverts to broad economic categories as the second best option for data disaggregation. The author should clearly state which is the actual product code aggregation level at which reporting is allowed. Namely, I find it hard to believe that reporting is only allowed at the BEC level. The size of the German economy and the number of firms would dictate that at least two-digit HS code would be an option.

I agree and I will include results at the HS2 level in the revised version of the paper.

2. The use of BEC disaggregation by the author does not yield any concrete results in terms of interpretation of coefficients. Do they differ? Why?

In the revised version of the paper the BEC disaggregation will be dropped and the HS2 disaggregation (see point 1) will be used.

3. The only two regressors used are distance to export market and size of the export market. Why is information on EU's bilateral trade agreements not implemented? See for instance EU-EFTA, EU-CEFTA, EUROMED or EU-Turkey, etc.

I agree that this is an important point and I will take care of it in the revised version of the paper.

4. Why are cultural, linguistic and historical ties that Germany may have with non-EU countries not accounted for?

Cultural and historical ties with non-EU countries will be controlled for in the revised version by including a dummy-variable for colonial ties (although Germany lost all its few colonies some 100 years ago after World War I).

The only linguistic ties that Germany has with non-EU countries is with Switzerland (were a relevant share of people speaks German) and, therefore, this is ignored.

- Croatia only joined the EU mid- 2013. How is it treated?
 Croatia is treated as a non-member state.
- 6. It is not really surprising that coefficients are significant given the sample size and the fact that only two regressors are used in a linear-probability model. The author should do more to back up the use of LPM given other more widely used options.

I will not follow this suggestion in the revised version for two reasons. First, the LPM allows the inclusion of a very large number of fixed effects at the firm level. Second, there is a sound econometric reason to use the LPM here – this issue is mentioned in the paper with a reference to the standard textbook by Jeffrey Wooldridge (2010).

7. I assume the author does not have information on the mode of transport used for exporting flows. In spite of that, most of German long distance trade is likely to involve shipping goods by sea. Controls for land-locked countries should be included.

The referee is correct in assuming that I have no information on the mode of transport. I take the point, and the revised version will include a control variable for land-locked countries.

8. Usually, transaction-level datasets also include data on unit values of goods shipped. These, in turn, could be used to assess whether goods are high value or low value. This would also factor in the longevity of exporting relationships. At the very least the author should differentiate between trade in goods measured in kilos and those measured in units as a very rough guide on the product price.

I thank the referee for suggesting to care for the unit value of exported goods, and I will include this variable in the revised version of the paper.

9. Bernard et al (2018, RES) make note of the prevalence of carry-along-trade in Belgium and Damijan et al (2013, RWE) find pass-on-trade to be significantly present in Slovenia. The author should therefore check for possible "synergies" or complementarities between exports and imports. Does a steady flow of imports from an export destination market improve the probability of steady exports? Logistics would dictate that it does.

I thought about this point and I came to the conclusion that I cannot see how to apply the suggestion in a revised version of my paper. In my paper, stability of exports is measured at the firm-product-country of destination level. How should stability of imports that is related to stability of exports at this level be measured? At the country level (looking whether there is a steady flow of imports from the country to Germany)? At the firm-country level (looking whether a certain firm imports any goods from the country in each year)? Frankly, I have no idea.

10. Furthermore, one could infer about the existence of production chains from looking at data on intermediate goods and final products trade with specific destination markets. Trade relations within production networks have been found to be more stable.

I thought about this point and I came to the conclusion that I cannot see how to apply the suggestion in a revised version of the paper. It is possible to distinguish trade in intermediate goods and trade in final goods (as I did when I looked at the BEC level in the first version of the paper – see point 2 above) but I cannot see how I can distinguish between exports that are part of a production chain and exports that are not when I look at data at the firm-product-destination level.