

Reply to the Referee 2 Report

I am very pleased that referee 2 found this paper interesting and with novel results. I am also very thankful for all the valuable comments. I will try to thoroughly and in a comprehensive way revise the paper in line with all the comments and suggestions. The responses to the comments raised by the referee are outlined below.

Reply to comment 1 and 2; Following the reviewers' comment, I include firm size and TFP as explanatory variables when estimating equation (8). Also, in *Table 4*, I incorporate the estimations of having the two global sourcing dummies as dependent variable, respectively.

Table 4 Firms probability to engage in global sourcing

Variables	Global sourcing		Sourcing	Sourcing
	Model (1)	Model (2)	high-wage	low-wage
Firm size	-0.281 (7.23) ^a	-0.276 (7.08) ^a	-0.116 (3.22) ^a	-0.090 (2.86) ^a
Sales	0.988 (36.76) ^a	0.956 (31.84) ^a	0.779 (28.11) ^a	0.101 (3.95) ^a
Skill intensity	0.961 (10.42) ^a	0.980 (10.59) ^a	0.947 (10.81) ^a	-0.218 (2.72) ^a
Capital stock	-0.007 (0.53)	-0.011 (0.90)	-0.001 (0.02)	0.030 (2.97) ^a
Growth relative to industry	0.201 (15.09) ^a	0.202 (15.12) ^a	0.159 (13.19) ^a	0.071 (7.09) ^a
Average skilled wage	0.126 (5.61) ^a	0.124 (5.49) ^a	0.156 (7.28) ^a	-0.049 (2.48) ^b
Average unskilled wage	-0.029 (1.55)	-0.037 (1.94) ^c	-0.014 (0.79)	0.087 (5.47) ^a
TFP		0.049 (2.32) ^b	0.059 (2.76) ^a	0.032 (1.38)
Industry dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes
Pseudo R ²	0.330	0.330	0.282	0.046
LR chi2	10,781	10,787	9,819	1,549
Observations	30,919	30,919	30,919	30,919

Notes: The dependent variable in the first two columns is $Global_sourcing_{it}$ that equals to one if firm i is engaged in global sourcing (according to the narrow definition). In column (iii) the dependent variable is $Sourcing_high_wage_{it}$ that equals to one for firms that mainly (more than 50 percent of the total import value) source inputs from high-wage countries and in column (iv) the dependent variable is $Sourcing_low_wage_{it}$ that equals to one for firms that mainly source inputs from low-wage countries. Z-statistics are within parentheses. All the explanatory variables are lagged one year. TFP is estimated by using Levinsohn and Petrin (2003) methodology and skill intensity is the share of employees with post-secondary education at the firm level. Industries are defined at the two-digit level (21 industries). **a**, **b** and **c** indicate significance at 1, 5 and 10 percent levels, respectively.

Reply to comment 3, 4 and 5; I agree with the referee that including interaction terms between size and global sourcing in one equation is more parameter efficient than estimating three different models. Moreover, in estimating only one equation we would easier interpret whether there are differences in export survival between the different type of firms given their size and global sourcing engagement. However, since small, medium and large firms are very different from each other in many dimensions (as shown in *Table 3*), it is uncertain whether we can draw correct conclusions about possible differences in the effect of global sourcing destination and export survival between these firms, even if we include many control variables to minimize these differences. Moreover, by using the different interaction terms in one equation, I would not be able to separately construct the IV and matched sample for these different types of firms. As it is now, (I acknowledge that this is not well defined in the current version of the paper) the results in column (1)-(3) in *Table 6* are based on using the predicted values from estimating equation (8) on a sample of small firms, medium size firms and large firms, respectively, and the results in column (4)-(5) of the same table are based on a matched sample of these different type of firms, respectively. This practice would be difficult to obtain having all the firms in one equation. Still, if global sourcing is treated as exogenous, as in *Table 5*, we can estimate equation (7) by different interaction terms as suggested by the referee, and, with some caution, draw conclusion if there are differences between the firms in terms of the effect of global sourcing on export survival. The result is shown in column (4) of *Table 5*. Moreover, as suggested by the referee I also include number of export markets as a control variable in all the columns. Also, to check whether small changes in the threshold that defines the dummy variable of different global sourcing destination, I change this threshold from 50 to 40 percent of the firms total import value that comes from high-wage countries. The result, shown in the last column of *Table 5*, seems to be robust to this small change.

Table 5 Global sourcing, size and export survival. Complementary log-log model;
Global sourcing as exogenous

Variables	(1)	(2)	(3)	(4)	(5)
Firm size					
_large	0.687 (2.39) ^b	0.684 (2.40) ^b	0.684 (2.39) ^b	0.826 (0.47)	1.023 (0.42)
_medium	0.556 (2.27) ^b	0.533 (2.40) ^b	0.522 (2.46) ^b	1.160 (0.29)	1.123 (0.23)
Global sourcing					
_high-wage		0.733 (4.49) ^a			
_low-wage			0.645 (5.81) ^a	1.891 (8.71) ^a	1.857 (8.40) ^a
Interaction global sourcing and Firm size					
Small Firm \times high-wage				0.711 (23.10) ^a	0.716 (23.05) ^a
Small Firm \times low-wage				0.806 (4.49) ^a	0.32 (4.91) ^a
Medium Firm \times No_sourcing				0.630 (5.27) ^a	0.629 (5.22) ^a
Medium Firm \times high-wage				0.423 (6.34)	0.427 (6.23)
Medium Firm \times low-wage				0.647 (1.94) ^c	0.502 (1.74) ^c
Large Firm \times No_sourcing				0.834 (1.16)	0.852 (1.15)
Large Firm \times high-wage				0.651 (5.28) ^a	0.662 (5.44) ^a
Large Firm \times low-wage				1.068 (0.51)	0.967 (0.18)
Industry control					
Empl.Growth	1.435 (0.54)	1.391 (0.47)	1.397 (0.47)	0.831 (0.22)	0.821 (0.23)
Other firms ceasing export	2.075 (3.63) ^a	2.090 (3.66) ^a	2.112 (3.72) ^a	1.838 (3.02) ^a	1.836 (3.01) ^a
Firm controls					
TFP	0.949 (2.22) ^b	0.951 (2.01) ^b	0.953 (1.92) ^c	0.972 (1.00)	0.973 (0.97)
Capital intensity	1.116 (3.56) ^a	1.129 (3.89) ^a	1.135 (4.05) ^a	1.129 (3.94) ^a	1.129 (3.90) ^a
Skill empl.	0.806 (1.54)	0.829(1.34)	0.838(1.26)	0.802 (1.54)	0.804 (1.53)
Number of export_market	0.710 (12.40) ^a	0.755 (8.93) ^a	0.776 (7.57) ^a	1.152 (4.10) ^a	1.147 (399) ^a
Observations	22,502	22,502	22,502	22,502	22,502
Wald Chi Square	462 ^a	497 ^a	529 ^a	992 ^a	997 ^a

Notes: Estimations are stratified by industry and year. Industries are defined at the two-digit level (21 industries). Z-statistics in parentheses. **a, b, c** indicate significance at the 1, 5, and 10 percent levels, respectively. In column (5), the threshold defining the dummy variable for different global sourcing destination is changed from 50 to 40 (60) percent of the firms total import value that comes from high-wage (low-wage) countries.

Reply to the additional comment; when revising the paper, I will reconsider how to proceed with section 2 and, as suggested by the referee, I should include references from information spillovers literature.

Reply to minor comments and typos; I am very embarrassed with all these misspellings and grammatical errors in which of course, I will correct in the revised version.