Trade Agreements and Trade Performance

Discussant’s Comments

Bob Rijkers

Trade and International Integration Unit

Development Economics Research Group, the World Bank
Trade Agreements and Trade Performance

• Three Very Nice Papers – with clear policy relevance

• Common theme: enabling (more) efficient production by engendering trade
  • Paper 1: expanding the set of feasible contracts catalyzes trade and impacts its modality
  • Paper 2: trade liberalization (with third parties) can reduce mismatch
  • Paper 3: credit supply improves export performance - with heterogeneous impacts across different types of firms
Deep Trade Agreements and Vertical FDI: The Devil is in the Details

• **Goal:** examine how deep trade agreements affect the international organization of production

• **Method**
  • Theoretical analysis neatly extending the Antras-Helpman (2008) model of contractual frictions and global sourcing
  • Empirical analysis of impact of preferential trade agreements on vertical FDI

• **Data:** WTO data on PTA and firm-level data from Bureau van Dijk

• **Main findings:** depth of trade agreement correlated with vertical FDI – driven by provisions improving contractability of inputs (as opposed to headquarter services)
Testing the theory

• Which provision matter most?
  • PCA indicators are hard to interpret
  • Discretization of $\mu_h$ ad hoc (e.g. why not use the proportion of provisions of each type?)
  • Possible alternative: Bayesian Model Averaging (see e.g. Kraay and Tawara, 2013)

• Additional testable implications (?
  • Bigger impacts of PTA provisions in countries where rule of law is stronger
    \(\rightarrow\) exploit heterogeneity in contract enforcement across countries
  • How does the impact of $\mu_h$ and $\mu_L$ vary with $\eta$ (intensity of headquarter services)
    • Exploit variation in headquarter intensity across sectors
Additional Minor Comments

• Additional explanatory variables (data permitting)
  • Non-tariff Barriers
  • FDI Restrictions
  • Taxation (incl subsidies)

• Why focus on intensive margin of FDI only?
  • Results presented in footnote 25 merit more attention!

• Measurement of vertical FDI
  • How to deal with missing data?
  • Attenuation bias?

• IV; is exclusion restriction plausible?
Assortative Matching of Exporters and Importers

- **Goal:** document and explain matching patterns between importers and exporters

- **Model:** Becker style assortative matching (Elegant!)

- **Empirical test:** exploit impact of end of multifibre agreement and associated entry of Chinese firms on matching between Mexican exporters and US importers.

- **(Nice!) Data:** matched importer-exporter data

- **Key findings:**
  - Matching is approximately one-to-one
  - End of MFA agreement induced US importers to switch to suppliers with greater pre-shock imports and Mexican exporters to switch to those making fewer pre-shock exports
Assortative Matching of Exporters and Importers

- **Assortative Matching Model**: Elegant and creative!
  - But what about (i) uncertainty (ii) transaction costs (iii) match-specific learning?
  - Predictions of the “love of variety” model are a strawman

- **What about random matching with time-varying competition?**
  - Idea: pool of matches smaller when competition is tougher
  - End of MFA increases competition => higher exit – especially of small firms
    - U.S. firms that lose partner need to find a new one; new partners are more likely to be high capability
    - Resonates with evidence about 2008-2011 period being associated with upgrading
The Effect of Credit on the Export Performance of Colombian Exporters

• **Goal:** estimating the credit elasticity of exports

• **Method:** IV approach controlling for selection bias & reverse causation
  - IV for credit: total loan disbursements of banks that have a relationship with the exporting firm as an instrument.
  - IV for selection: superintendent’s term in office

• **(Nice!) Data:** matched bank-exporter data

• **Key findings:** the credit elasticity of exports is positive – but varies with size
Tackling Selection Bias

• **Other selection issues:**
  - Selection into- (and out of) exporting?
  - Formation (and dissolution) of credit relationships?

• **Clarification:** how can a superintendent’s term serve as an instrument when year dummies are included?

• **Alternative options to gauge sample selection bias**
  - Assess sensitivity of findings to arbitrarily imposed (size) thresholds.
  - Exploit change in sample coverage induced by decree 4350 to test sample selection
    - leads to inclusion of additional firms;
    - Can compare how similar firms selected by superindents are to this sub-population
Interpretation and Extensions

• Motivation and interpretation of IV

• (Potential?) Alternative IV
  • Exploit the information on the currency composition of the firm’s debt: is it possible to instrument debt using weighted exchange rates?

• Heterogeneity
  • Do term structure and type of finance matter?
  • Is the credit elasticity of external finance higher amongst those firms that are less likely to obtain trade credit?