

“The role of experimentation with different export markets and products in explaining the growth heterogeneity of new firms”

Jaan Masso, Priit Vahter
University of Tartu, Estonia
jaan.mass@mtk.ut.ee
priit.vahter@mtk.ut.ee

Prepared with the support of project RRC XI+41, CERGE-EI/Global Development Network
Regional Research Competition

Non-technical Summary

Actual Paper Title: Exporting and productivity: the effects of multi-market and multi-product export entry

Most of the empirical studies on the micro-level effects of exporting on productivity (learning-by exporting effects) pay little attention to the potentially heterogeneous effects of the different modes of export market entry. While the literature has well documented selection into exporting based on productivity, the literature has found little evidence that exporting itself affects productivity of firms. This suggests that researchers should look more at the effects of different types of export activities or the different mechanisms of the learning-by-exporting process.

The authors of this study investigate how productivity of firms is affected by export entry simultaneously into several markets or export entry with several export products, and compare these to the entry into fewer markets or the entry with fewer products. Previous empirical literature, theoretical arguments (such as Albornoz *et al.* 2010) and also the data used in this paper show that most firms start exporting sequentially (starting with only a smaller number of products and markets or, in the main case, a single product and a single market); only later do they expand into other markets. However, a significant proportion of firms export multiple products to several markets in their first year of exporting. Simultaneous entry into several markets (or products) may have a greater effect on a firm's productivity compared with entry into a single foreign market (product). This is because there is more scope for learning and the transfer of knowledge when several foreign partners are involved. This paper is based on detailed product-, market- and firm-level data on foreign trade of Estonia's manufacturing industry from 1995 to 2003. The advantage of Estonia's dataset compared with datasets from other countries—for example, those on US and Mexico in Bernard *et al.* (2010) or Iacovone and Javorcik (2010)—is that it covers the full population of exporters. The empirical approach relied mainly on the application of propensity score matching (PSM): as the firms starting exporting are different from the average non-exporting firms (e.g. usually exporters are larger and more productive), one

needs to construct the appropriate control groups from the population of non-exporters based on observable characteristics (e.g. firm size, age, industry etc).

The results reveal that the early stage entry into several export markets or with several products leads to higher growth in productivity after the entry, compared with entry into only one foreign market or with only one product. The authors would argue that these stronger effects may be the result of more learning-by-exporting in the case of multi-market and multi-product entry, compared with the more gradual approach of entry and expansion into export markets.

These findings underline how important it is for managers to consider strategies for wider entry into export markets, as these are associated (on average) with significantly stronger growth in a firm's productivity, compared with the approach of concentrating on one core market and one core product. Also, public programmes that are targeted at promoting the internationalisation of firms should consider the number of markets and the number of products as important evaluation and performance criteria for the firm.

Keywords: exporting, export strategy, multi-product exporters, learning-by-exporting