



Buyer–seller relationships in international trade: Do your neighbors matter? ☆



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ABSTRACT

Using confidential U.S. customs data on trade transactions between U.S. importers and Bangladeshi exporters between 2003 and 2009, and information on the geographic location of Bangladeshi exporters, we show that the presence of neighboring exporters that previously transacted with a U.S. importer is associated with a greater likelihood of matching with the same U.S. importer for the first time. This suggests a role for neighbors in generating importer–exporter matches. Our research design permits us to isolate potential gains from neighborhood exporter presence that are partner-specific, from overall gains previously documented in the literature.

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1. Introduction

International trade involves forming and sustaining relationships between buyers and sellers across borders. A burgeoning literature, facilitated by access to micro data, explores buyer–seller matches in

trade, and highlights the costs associated with locating a trade partner, maintaining a trade relationship (Benguria, 2015; Eaton et al., 2014; Bernard, Moxnes and Ulltveit-Moe, 2014a), and switching trade partners (Monarch, 2014). While this literature underscores the prominence of relationship-specific costs in cross-border buyer–seller matching, relatively little is known about the nature of these costs and their determinants. In this study, we propose that the presence of exporters selling to a particular foreign buyer in the neighborhood of a firm can lower the costs of matching, increasing the likelihood of a match between the firm and the same buyer.

We argue that neighbors can help in numerous ways. First, neighboring exporters can lower the costs of locating a trade partner. Such search costs are a pervasive feature of all cross-border trade transactions, and can be considerable. In addition, neighbors can provide a buyer with access to information on a seller's strengths, reliability and reputation, and a seller with access to information on a buyer's clientele and customization requirements, thus lowering costs of matching. This can be particularly important when one or both trading partners are located in a developing country, where information flows are imperfect and reliable information on key activities relating to generating and sustaining a match can be costly to obtain.

In this paper, we focus on the role of neighboring exporters in a Bangladeshi city that have previously transacted with a particular U.S. importer in facilitating a first-time match between a potential

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individual Bangladeshi seller and that U.S. importer.¹ We relate the presence of exporters neighboring exporter x and selling to an importer m on first-match status, that is the first time exporter x matches with importer m . We use confidential transaction level data on U.S. imports in textile and apparel products, henceforth referred to as textile products, from Bangladeshi exporters between 2003 and 2009, sourced from the U.S. Census Bureau. Exporters in our sample are Bangladeshi textile manufacturing firms, while more than half of U.S. importers are wholesalers and the rest comprise mainly of manufacturing and retail firms.

We estimate a linear probability model of the first match between each Bangladeshi exporter and each U.S. importer. A match occurs when the importer and exporter transact for the first time in our sample period. Thus, for each importer–exporter pair that matched in some year in our sample period, our first-match status variable switches from a ‘zero’ in the years prior to the first match, to a ‘one’ in the year the match first occurred. All subsequent years that a pair trades in following the first match are excluded from the analysis sample. The match status variable remains ‘zero’ for all years in our sample for importer–exporter pairs that never matched. We then relate the likelihood of a first match between an importer–exporter pair to a measure of exporter presence (or the size of the exporter network) to that same importer in the neighborhood of the exporter. The level of detail in the data allows us to identify the effect of neighbors using variation over time in the number of neighboring exporters, after accounting for time-invariant unobserved shocks specific to the importer–exporter pair and for time-varying shocks to the importer and exporter individually.

Results from our preferred specification indicate that a 1% increase in the number of exporters that previously matched with a particular U.S. importer in the neighborhood of a firm is associated with a 0.15% increase in the likelihood of the firm matching with the same importer for the first time. Our results are robust to instrumental variables and propensity score matching estimation strategies, alternative measures of the neighbor variable, a stricter definition of first-time matches, and various cuts of the data. Although we are unable to observe learning and cost-sharing directly in the data, we provide evidence consistent with these gains being the channel via which neighbor effects operate.

We believe that our study makes several contributions. First, it exploits the richness of disaggregated two-sided trade transactions data, including information on the spatial location of exporters, to identify a determinant of buyer–seller matches across international borders. In doing so, we argue that neighbors can lower the costs of matching discussed and underscored in previous studies. Second, it adds to the rich literature that examines the determinants of exporter status (Bernard and Jensen, 2004) and the export spillover literature that highlights the role of neighboring exporters in improving the likelihood of firms exporting to foreign destinations (Koenig, 2009; Koenig et al., 2010). The studies seeking evidence for export spillovers find that greater presence of exporters close to a firm selling to a specific foreign destination can increase the likelihood that the firm exports to the same destination as well as improve survival in that destination (Fernandes and Tang, 2012, 2014; Cadot et al., 2013).

The idea is that the presence of exporters nearby exporting to the same destination can lower fixed costs of exporting to a particular country if, in the presence of imperfect information, neighboring exporters facilitate knowledge transfer and cost-sharing. Knowledge transfer and cost-sharing may include destination-specific dimensions, like sharing information on business norms and culture, setting up foreign exchange accounts or service centers abroad, retaining customs agents, and sharing monetary and transaction costs related to these activities.

Moreover, learning and cost-sharing may pertain to aspects specific to trade partners (importing and exporting firms). Neighbors might lower search costs and costs of identifying a trade partner by making a buyer or seller more ‘visible’ to the partner. In addition, sellers may learn of any needs of the buyer that require customization, such as the buyer’s product specifications, custom packaging requirements, and its clienteles’ tastes and preferences. On the importer end, buyers may learn about a seller’s strengths, capacity and reputation when they are located in close proximity to existing suppliers. They might find it easier to verify product quality by organizing visits to the factory, or learn about the likelihood that goods will be supplied on time and as per requirements, when the potential exporter is geographically close, and part of the same business network as the exporter they already transact with.

In our analysis, since we examine the role of neighboring exporters in increasing the likelihood of matching with a particular importer, conditional on the exporter already exporting to the destination country (the U.S.), and the importer already importing from the source country (Bangladesh), we are able to isolate gains that are specific to the trade partner. To the best of our knowledge, there is no existing study that isolates the role of neighbors selling to a particular buyer in a given destination on the probability of matching with the same buyer. By ascertaining if information gains specific to a trade partner at the firm level, and not just at the country level, are significant, we take a step further in the direction of isolating the nature of export spillovers and the channels through which they operate.

In the framework we employ in this study, we note that either the importer or the exporter (either directly or through a buying house) might initiate the buyer–seller match.² In our empirical analysis, we only observe the match, and not who initiated it or how it was initiated. However, we argue that the presence of neighboring exporters matter in both instances, where the importer or the exporter initiates the match.

Finally, our paper also relates to the work on networks and international trade, which highlights the important role that immigrant networks (Rauch, 1996, 1999, 2001; Aleksynska and Peri, 2014), social and business networks (Combes et al., 2005) and exporter networks (Chaney, 2014) play in generating trade.³ Our measure of neighboring exporters can be seen to represent a particular type of trading network – firms that are in the same geographic location that sold to the same buyer in the previous period.

We also provide evidence on the nature of gains from neighbors, which we call neighbor effects. We find that neighbor effects are stronger when the exporter is large relative to when the exporter is small. This suggests that larger exporters potentially have the capacity to translate gains from neighbors into actual matches. We also present evidence that effects are weaker in cities with more competitive environments, and tend to weaken as the number of neighbors increases, consistent with the idea that potential information gains dissipate with more neighbors.

The rest of the paper is organized as follows. Section 2 presents our conceptual framework, empirical model and identification strategy. Section 3 describes the data. Section 4 discusses the empirical findings and the final section concludes.

¹ We focus on first-time matches because the literature documents the dominance of costs involved in locating trade partners and establishing a relationship, relative to recurrent costs incurred to maintain a trade relationship (Eaton et al., 2014).

² Buying houses are intermediaries that facilitate matches in numerous ways, for instance, by helping with search or by providing quality certification to buyers. Buying houses could represent one potential channel through which observed neighbor effects operate. For instance, exporters might learn about one or more of these buying houses from their neighbors. Similarly, a firm located close to other exporters that matched in the earlier period with an importer via a buying house, might be more visible to the buying house. Our conceptual framework allows for the alternative interpretation that buying houses act on behalf of, or substitute for, U.S. importers.

³ These studies focus on aggregate trade patterns and do not empirically analyze trade relationships at the level of individual buyers and sellers.

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