Excessive Entry and Exit in Export Markets

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Abstract

This paper studies the surprisingly high excessive entries and exits among Chinese firms in foreign markets. We first use transaction-level data for the universe of Chinese exporting firms to document several stylized facts that were previously overlooked in the trade literature. In our sample that covers the period of 2000-2006, 62% of exporters are new exporters on average across countries. Among these new exporters, 81% on average did not continue serving the same country the following year. These rates are even higher for new markets facing Chinese firms, particularly those in Africa. The average firms' exit rates and entry rates are strongly positively correlated across destination countries. Both entry and exit rates are negatively correlated with the GDP of destination countries, respectively, but positively correlated with the distance from them. We build a simple two-period model with imperfect information about foreign demand factors, in which firms have prior beliefs over their foreign demand and analyze how the mean and the variance of their prior distribution affect the firm's entry and exits. We then use our micro data to empirically examine several model predictions, and find supporting evidence that firms' excessive entries and exits are outcomes of self-discovery of own demand in unfamiliar markets.

Key Words: learning to export, knowledge spillover, uncertainty, export dynamics
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