

Excessive Entry and Exit in Export Markets*

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Abstract

Using transaction-level data for all Chinese firms exporting to over 180 countries over the 2000-2006 period, we find that 78% of exporters in a given year on average are new exporters. Among these new exporters, 62% on average stopped serving the same country in the following year. These rates are even higher if the destinations are markets unfamiliar to Chinese firms, like those in Africa. We build a simple two-period model with imperfect information, in which beliefs over their foreign demand are determined by learning from neighbors. In the model, a high variance of the prior distribution over foreign demand induces firms to enter new markets because the profit function is convex in perceived foreign demand due to the option of exiting, which insures against the risk of low demand realization. We then use our micro data to empirically examine several model predictions, and find supporting evidence that firms' high entries and exits are outcomes of their rational self-discovery of demand in an unfamiliar market.

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

JEL Classification Numbers: F1, F2, D8.

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