

Learning from Offshored Production: Evidence from Exporters' Performance

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Abstract

Recent studies in international trade report that new exporters often start selling small amounts and cease exporting in the first year. These findings reflect the substantial amount of uncertainty facing new exporters. Export processing (EP) firms, which produce for foreign clients who offshore assembly processes, convey information about foreign demand. In this paper we find evidence of positive information spillovers from offshoring activities that enhance export performance of new non-EP (regular) exporters. Using transaction-level data for the universe of exporters in China, we find that the prevalence of EP activities in the same city increases regular exporters' initial sales on entry and survival beyond the first year of exporting. Information spillovers are found only for firms exporting in the same industry or to the same destination country, and are weaker in markets for which knowledge about foreign demand is more difficult to acquire. We empirically verify that these results are independent of potential spillovers through the credit-constraint or the imported-material channels, supporting the "learning to export" hypothesis.

Key Words: Offshoring, processing trade, export dynamics, multi-product exporters, knowledge spillovers

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