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Firm Productivity and Indirect Exports: Evidence from India

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Abstract: Trade models with heterogeneous firms typically presume that firms send their products directly to customers in other countries; however, a lot of firms use intermediaries to complete this work on their behalf. More recently, theoretical trade models that consider the intermediary's roles have suggested that the share of indirect exports in total exports follows a non-linear pattern: zero for less productive firms, hundred percent for the least productive exporters, then declining among medium-productive firms, and eventually zero again for highly productive firms. This study investigates this hypothesis using firm-level data from Indian manufacturing firms from 2014. The findings from fractional outcome regressions imply a non-linear relationship between the share of indirect exports and firm productivity. We also find that the share of indirect exports of foreign-owned firms is higher than that of domestically-owned firms and firms that encounter barriers to financing are more likely to export indirectly than those that do not.

Keywords: India, Heterogeneous Firms, Intermediaries, Firm Productivity

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