DOES IMPORTING MORE INPUTS RAISE EXPORTS?

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NON-TECHNICAL SUMMARY

The globalization process is characterized by a significant increase in world imports of intermediate goods. In this work, we investigate how imported inputs affect firm’s export performance. This question does not lack of political relevance. A positive impact of an increased use of imported inputs on export scope would mitigate the negative effect of outsourcing on employment and play in favor of targeted import/export policies.

Robust empirical works using micro-level data recently confirmed a positive relationship between imported inputs and firm productivity. Since foreign inputs improve firms’ productivity, they should also be an important asset for exporting activities. The main contribution of this work to the existing literature is to bridge the gap between two distinct lines: the first one focuses on the determinants of firms’ export patterns ignoring the use of imported inputs in production, the second one investigates the impact of importing inputs on firms productivity but does not look at export scope. In this work, we develop a framework in which firms boost their efficiency gains by sourcing their intermediate goods from abroad and thereby are able to bear the cost of entering and surviving in export markets. In this case, expected export revenues and the number of exported varieties per firm are explained by firm productivity which is determined by the firm level of imported inputs.

In our empirical exercise, we use a unique firms’ level database of imports at the product (HS6) level provided by French customs for the 1995-2005 period where varieties of inputs are defined as a product country pair. We also aim at distinguishing the different channels through which an increase in imported inputs affects firm productivity and exports. The first mechanism is the variety/complementarity channel. By accessing to new imported varieties of intermediate good, firms expand the set of inputs used in production and therefore reach a better complementarity. Resulting gains in productivity allow entering more export markets. The second mechanism is related to transfer of technology embodied in imported inputs. We test for these different mechanisms by distinguishing the origin of imports (developing vs. developed countries).
Our results highlight that imported inputs have positive effects on both firm productivity and firms’ export performance. First, we find strong empirical evidence of the positive effect of an increased use of foreign intermediate goods on firms’ productivity. We find support for both the complementarity and technology arguments for imports. While doubling the number of varieties of foreign inputs increases TFP by 4%, importing inputs from developed countries increases firms’ TFP from 20% to 60% more than importing inputs from less developed economies. We posit that these more productive firms are also likely to export more products as they are able to bear the export fixed costs and survive on competitive export markets. We do find empirical support for this conjecture. Firms using more imported inputs and/or a more diversified set of these inputs sell a larger number of varieties on export markets. This effect is larger for inputs imported from developed countries that have a more advanced technological content. The observed 1995-2005 average increase in imported inputs from the most developed countries raises the number of exported varieties by 12% whereas the impact of increased imports from developing countries on export scope is economically and statistically insignificant.

*J.E.L. Classification:* F10 and F12

*Keyword:* Firm heterogeneity, imported inputs, TFP, export scope, varieties, firm-level data.