Twin Peaks*

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Abstract

In this paper we document a great degree of heterogeneity in the distribution of export intensity across developing countries. Contrary to received wisdom from studies focusing on a single country which suggests that the majority of exporters sell most of their output domestically, with only a few firms exporting almost all their output, we show that this type of distribution is far less robust than initially thought. Using firm-level data drawn from the World Bank Enterprise Surveys we show that the export intensity distribution is markedly bi-modal with a large number of both low and high-intensity exporters coexisting — what we call 'Twin Peaks'. We show that the share of exporters in the tails of the export intensity distribution are strongly associated with a country's own size and its external market potential, but only for countries that do not offer subsidies conditioned on export share requirements (ESR). We derive a parsimonious and closed-form solution for the distribution of export intensity in a model of trade with firm-destination specific demand shocks that are distributed Fréchet with the same shape parameter across markets. We show that the model's structural parameters are easily estimated and can account for approximately 88% of cross-country variation in the distribution of export intensity for developing countries without ESR. Embedding our model into a small economy version of a standard general equilibrium model of trade with firm heterogeneity we show that both export and import cost reductions shift the distribution of export intensity from low to high-intensity exporters, although from a quantitative standpoint a unilateral import tariff liberalization produces a stronger effect.

Keywords: Exports; Export Intensity Distribution; Heavy Tails

JEL classification: F12, F13, O47.

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