

DEPARTMENT OF ECONOMICS AND FINANCE
SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITY OF CANTERBURY
CHRISTCHURCH, NEW ZEALAND

**Further Tests of Ahn, Khandelwal, and Wei's (2011)
Model of Intermediated Trade**

**Jianhua Duan
Xuefeng Qian
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**Department of Economics and Finance
School of Business
University of Canterbury
Private Bag 4800, Christchurch
New Zealand**

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Jianhua Duan¹
Xuefeng Qian^{2†}
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W. Robert Reed¹

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Abstract: This study subjects Ahn, Khandelwal, and Wei's (2011) model of intermediary trade to a series of additional tests. Using data mostly sourced independently from AKW, we demonstrate that we are able to reproduce the evidence supporting their three main predictions for Chinese exports. However, further tests reveal that these results are not robust. When we repeat the analysis underlying their first prediction with more recently available data, we estimate coefficients that are wrong-signed and significant. When we re-analyze the evidence supporting their second and third predictions, we find that the full sample results mask significant heterogeneity across Chinese regions. In many cases, key coefficients are insignificant. In a few cases, they are wrong-signed and significant. Finally, we find that there are multiple versions of a key variables measuring the number of required import documents by country, and that results are not robust across versions.

Keywords: Intermediaries, Exports, Productivity, Heterogeneous firms, China

JEL Classifications: F1

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¹ Department of Economics and Finance, University of Canterbury, Christchurch, NEW ZEALAND

² School of Business Administration, Zhongnan University of Economics and Law, Wuhan, CHINA

†Corresponding author: Xuefeng Qian, email: xfqian@126.com.

I. INTRODUCTION

This paper provides further tests of Ahn, Khandelwal, and Wei (AKW), “The role of intermediaries in facilitating trade” (*Journal of International Economics*, 2011). AKW build on the seminal work of Melitz (2003) linking export behaviour to heterogeneous firm productivity. Whereas the exporting decision in Melitz (2003) consists of to-export or not-to-export, AKW build in a third option, exporting through intermediaries. Exporting firms can either directly export their product overseas, or they can sell to domestic intermediaries who rebrand and market their product to overseas consumers.

Intermediation is widely recognized as playing a prominent role in world trade markets. In the early 1980’s, 300 Japanese traders (non-manufacturing firms) accounted for 80% of Japan’s trade (Rossman, 1984). Spulber (1996) documents that in 1995, intermediaries accounted for about a quarter of the GDP for the U.S., and close to two million firms operated in the U.S. intermediation industry. In 2002, American intermediaries accounted for 44% and 56% of exporting and importing firms, and 11% and 24% of export and import value, respectively (Bernard, Jensen, Redding, & Schott, 2010). The economies of Hong Kong, Singapore, and Dubai have developed specialised expertise in entrepôt trade, which has greatly contributed to their economic development (Feenstra & Hanson, 2004). For these reasons and more, intermediation has received much empirical attention (Antràs & Costinot, 2011; Blum, Claro, & Horstmann, 2018; Qu, Raff, & Schmitt, 2014; Tang & Zhang, 2012).

The literature on intermediaries in international trade makes two important observations. First, a significant fraction of international trade is channelled through intermediaries. Second, there are systematic variations in the mode of exports not only across firms within an industry, but also across industries. Fundamental to the role of intermediaries is connecting buyers and sellers worldwide.

A variety of reasons has been suggested for why intermediaries exist. One reason is that

they mitigate uncertainty regarding demand and supply, or when buyer and seller characteristics are unobservable (Spulber, 1996). Another reason is that trade intermediaries perform quality assurance. Uncertainty about product quality creates the familiar problems of adverse selection and moral hazard. Trade intermediaries can alleviate this problem by screening the quality of the products and revealing it to the customers (Dasgupta & Mondria, 2018). Intermediaries can also facilitate export activity by providing a credit-constrained firm a channel through which capital market frictions are reduced, thus enhancing the gains from trade (Chan, 2018).

The role of intermediaries has also been criticised in the literature. Antras and Costinot (2011) present a model with search frictions where intermediaries provide market access to farmers. They show that depending on the kind of market integration being considered, intermediation can raise or lower the welfare of farmers in developing countries. Similarly, Sheveleva and Krishna (2017) show how a hold-up problem between farmers and intermediaries, arising from contractual incompleteness, leads to the nonexistence of markets for certain agricultural goods.

While much of the literature has focussed on intermediaries as facilitating international matches, AKW argue that intermediaries exist primarily to overcome trade costs. AKW is important because it provides both a theoretical foundation for the existence of trade intermediaries, and supporting empirical evidence. While other theoretical models of intermediation exist (cf. Akerman, 2018; Poncet and Xu, 2018; Blum, Claro, & Horstmann, 2018; and Chan, 2018), AKW was the first to be published in a major journal and is the most cited. At the time of this writing, it has been cited 117 times in Web of Science, and 511 times in Google Scholar.

Part of AKW's appeal is that it makes three straightforward predictions that are strongly supported in their empirical analysis. This study reproduces the empirical support for AKW's

model. However, when the data are re-analysed and updated, we find that empirical support for all three predictions is substantially diminished.

Our paper proceeds as follows. Section II briefly summarizes AKW's model of trade intermediation so that the reader can understand how the predictions derive from their model. Section III summarizes our data, some of which are provided by AKW and some of which are independently sourced. Section IV reports our attempt to reproduce the key results reported by AKW confirming their predictions. Section V presents additional test results from re-analyzing and extending AKW's data. Section VI concludes.

II. AKW's MODEL OF TRADE INTERMEDIATION AND THREE PREDICTIONS

The model. FIGURE 1 represents the main ideas underlying AKW's theory of intermediated trade. The vertical axis measures profits from exporting (π). The horizontal axis measures firm productivity ($\varphi^{\sigma-1}$). Note that $\pi = 0$ if the firm does not export, and coincides with the horizontal axis. The steep dotted line (A) identifies the profit-productivity nexus for the firm if it sells its output to an intermediary that then exports it overseas. The initial cost of contracting with the intermediary is f_i . The intermediary then repackages the firm's output and sells it in N overseas markets. The associated increase in profits resulting from an increase in productivity is given by the slope of A. The point at which A crosses the horizontal axis identifies the minimal productivity ($\varphi_i^{\sigma-1}$) at which the firm will switch from selling only in the domestic market to also exporting via an intermediary.

A firm can choose to directly export to a specific country j even while selling to other countries via an intermediary. This decision is represented by lines B and C. Line B represents the profit-productivity nexus for indirectly exporting to country j through an intermediary. Since the firm has already contracted with the intermediary, it does not need to pay any additional fixed cost for (indirect) exports to j . B is flatter than A because A captures profits from indirect exports to all countries, while B only captures profits from country j .

If, instead, the firm chooses to directly export to j , it must bear all the fixed costs of entering that market and finding buyers. This is represented by f_x^j . The reward to doing so is that it enjoys higher marginal profits. The intermediary must repackage and rebrand the product, which raises marginal costs, and hence, price, in the foreign market. This higher price decreases the quantity demanded, which results in lower profits for the firm. The firm that directly exports its product avoids these costs. This enables it to sell its product at a lower price overseas, which increases profits. As a result, the slope of line C is greater than the slope of line B. The productivity where the two lines intersect ($\varphi_x^{j\sigma-1}$) identifies the threshold where a firm transitions from indirectly selling its product to country j to directly selling to j .

Three predictions. AKW use the preceding model to derive the following three predictions:

Prediction #1: “...we would expect a hockey stick relationship between productivity and direct exports – only high productivity firms directly export while low and intermediate productivity firms do not – and an inverted U-shape relationship with indirect exports” (page 78).

As seen in FIGURE 1, the model predicts that increases in productivity will have no effect on direct exports for low productivity firms. Increases in productivity for high productivity firms will generate linear increases in profits, giving a “hockey stick” relationship. In contrast, increases in productivity will first generate an increase in indirect exports as firms transition from no exports to exporting via an intermediary. However, further increases in productivity are predicted to decrease indirect exports as firms transition from exporting via an intermediary to directly exporting, giving an inverted U-shape relationship.

Prediction #2: “Exports by intermediaries should be more expensive than direct exporters” (page 79).

This prediction follows directly from the following assumption of the model: “Intermediaries purchase varieties from manufacturers at the same price as domestic consumers (there is no price discrimination) and incur an additional marginal cost of selling these varieties abroad. This

additional marginal cost captures re-labeling, packaging and other per-unit costs associated with taking the title of varieties from the manufacturers. The price of indirectly exported varieties is therefore higher than the price of directly exported varieties by this factor” (page 75).

Prediction #3: “... the share of exports through intermediaries is larger in countries with (i) smaller market size, (ii) higher variable trade costs, or (iii) higher fixed costs of exporting” (page 76).

This prediction also follows from FIGURE 1. Ceteris paribus, markets with smaller market size or higher variable trade costs cause the slopes of lines B and C to swing down. However, for any positive productivity level, line B will swing down by less than line C. The result is that the threshold from switching from indirect to direct exporting ($\varphi_x^{j\sigma-1}$) moves to the right, thus increasing the share of exports through intermediaries. Higher fixed costs associated with exporting shifts line C down, without affecting line B. This again causes $\varphi_x^{j\sigma-1}$ to move right, increasing the share of indirect exports.

III. DATA

Most of the data used to test AKW’s three predictions are drawn from two sources: China Customs Data and Enterprise Survey Data (Chinese firms only). The customs data record international trade information for individual Chinese firms over the 2000-2005 period. They contain detailed information for each firm-product-partner transaction, including information on product type, country destination, and the price and quantity of the transactions. The extensive coverage of the China Customs Data allows a relatively complete record of trade transactions at the country level. The China Customs Data also records information about the firm, including its name. AKW exploit a Chinese naming convention to identify intermediary firms. As they describe it,

“We identify the set of intermediary firms based on Chinese characters that have the English-equivalent meaning of “importer”, “exporter”, and/or “trading” in the firm’s name. A useful feature about firm names in China is that they are often very descriptive (a convention that might be traced to a time when the country was

under central planning and the planners favored descriptive company names). Many firms founded during the post-1980 reform era continue to adopt this naming convention” (pages 76f.).

While AKW’s approach allows them to distinguish intermediary firms from other firms in the China Customs Data (“direct firms”), it does not allow them to identify how much of direct firms’ output is sold to intermediaries. A key aspect of AKW’s model is the decision by firms to directly export their product overseas versus indirectly exporting through intermediaries. A core prediction of the model relates how firm productivity affects the share of total sales going to direct or indirect exports. To address this issue, AKW turn to the Enterprise Survey Data.

The Enterprise Survey Data are collected by the World Bank. It uses “standard survey instruments to collect firm-level data on the business environment from business owners and top managers”.¹ The survey covers a wide range of subject areas, and includes data from many countries. While responses are collected at the firm level, they are only available to researchers at the country-level. A major advantage of the Enterprise Survey Data is that it reports the proportions of an establishment’s sales exported (i) directly and (ii) through a distributor. The survey also records various measures of productivity. Survey data are available for the years 2002, 2003 and 2012, the last of which was unavailable to AKW at the time of their writing.

To test Prediction #3, AKW employ a number of different variables to capture market characteristics. Distance from trading partner, Most Favoured Nation (MFN) tariff, size of ethnic Chinese population in the destination country, and market size (measured by GDP) are hypothesized to proxy variable costs. Increases in the first two are assumed to raise variable costs, and increases in the latter two are assumed to lower costs. Importing procedures, measured as the number of documents required for importing, are assumed to be positively associated with fixed costs.

AKW graciously shared their programming code with us to assist us in our replication

¹ Taken from <https://www.enterprisesurveys.org/portal/login.aspx> (accessed on 9 January 2019).

project. They were unable to share their full dataset with us because the China Customs Data are proprietary. When we encountered difficulties or had questions, AKW assisted us by providing their list of intermediary firms, their data on importing procedures, and the MFN tariff data. The remainder of the data we collected ourselves. The Appendix reports the variables used in our reproduction of AKW, along with the respective data sources.

The fact that we had to independently collect much of the data ourselves inevitably meant that discrepancies would arise, not the least because some data are updated over time. Nevertheless, as we show below, our efforts to reconstruct their data resulted in us being able to closely reproduce AKW's reported estimates.

IV. REPRODUCTION OF AKW'S RESULTS

The main results from testing AKW's three predictions are reported in Tables 4-6 of their paper. Prediction #1 states that the relationship between productivity and direct exports should have a "hockey stick" shape, while that between productivity and indirect exports should show an inverted U-shape. TABLE 1 reports the reproduction of AKW's test of this prediction.

Panel A shows the results of separately regressing the share of total exports due to direct exports on three different measures of productivity: sales, employment and sales per worker ("labour productivity"). Columns (1.a), (2.a), and (3.a) copy the results from their paper. All of the linear terms are positive. None of the quadratic terms are significant. The linear productivity variable is significant at the 5 percent level in (3.a) and at the 10 percent level in (2.a). AKW interpret these results as being consistent with the "hockey stick" prediction from Prediction #1.

Using the Enterprise Survey Data that we downloaded from the World Bank online data site, we re-estimated AKW's specifications. Our reproduction results are reported in Columns (1.b), (2.b), and (3.b). In each case, we are able to exactly reproduce their results. The only discrepancy between our results and AKW's is seen in the R-squared and Observation values for the second and third specifications, which are reversed. We suspect this is due to a typographical

error in the published version of their manuscript.

To facilitate interpretation of the many results to follow, we highlight estimates that do not provide support for AKW's theory. In this case, two of the three linear coefficients, while having the predicted sign, are insignificant at the 5 percent level. We shade the respective cells in gray to indicate that they, being insignificant, do not provide support for AKW's predictions even though they have the right sign. Subsequent analysis will also make use of two other colour codes. A rose-shaded cell indicates that the respective coefficient is wrong-signed and insignificant at the 5-percent level. A red-shaded cell indicates that it is wrong-signed and significant. Coefficients that have the predicted sign and are significant are unshaded.

Panel B repeats the analysis, except that the dependent variable is now the share of total exports due to indirect exporting. An inverted U-shape implies that the linear productivity variable should have a positive coefficient, with the coefficient for the quadratic term being negative. AKW's results confirm this prediction for both the linear and quadratic terms, with all being statistically significant at the 5 percent level except the quadratic labour-productivity coefficient, which is significant at the 10 percent level. Once again, our reproduction of AKW's analysis produces identical results to theirs. Taken together, the results from TABLE 1 strongly confirm AKW's first prediction.

AKW's second prediction is that unit value, the average export price of a good, is greater for intermediary firms than for other exporting firms. To test this prediction, AKW use the China Customs Data from 2005 and regress log unit value on a dummy variable indicating that the given firm is an intermediary. The extensive coverage of the China Customs Data, and the fact that the data cover individual transactions, ensures that there are a great number of observations. TABLE 2 reports the results.

AKW test three specifications. The first controls for product category and ownership type (1.a). The second adds controls for firm size (2.a), and the third adds controls for destination

country. For all three specifications, their estimated coefficients are positive and significant at the 1 percent level, consistent with their prediction. Our reproduction results are reported in Columns (1.b) to (3.b), respectively. For reasons that are unclear, our China Customs Data produce a substantially larger number of observations than AKW's. Nevertheless, in every case our estimated coefficient for the intermediary firm dummy is positive and significant at the 1 percent level, and relatively close to AKW's estimated values. These results strongly confirm AKW's second prediction.

AKW refer to their last prediction (Prediction #3) as “the central prediction of the model: intermediary shares will be systematically correlated with destination market characteristics” (page 79). AKW focus on five destination market characteristics: distance, market size (as measured by GDP), size of the ethnic Chinese population, number of “required documents for imports”, and MFN tariff on Chinese HS6 products. As discussed above, the expected signs of these coefficients are positive, negative, negative, positive, and positive.

TABLE 3 reports the results. AKW estimate four specifications. The first specification includes distance and GDP. The next specification adds size of Chinese population in the destination country. The third adds number of required documents, and the last adds tariffs. Their results are shown in Columns (1.a) to (4.a). The dependent variable is share of total country HS6 exports due to intermediary exports. Aggregating to the country-HS6 product level explains the reduction in observations from TABLE 2 to TABLE 3.

All of the coefficients have the expected signs. Of the 14 estimated coefficients, only the coefficients for Chinese population are not significant at the 5-percent level (see gray-shaded cells). Our reproduction estimates, which are based on our independently sourced China Customs Data, though we use AKW's required documents and tariff data, provide, if anything, even stronger support for AKW's third prediction. All of the 14 estimated coefficients have the expected signs, and only one – the coefficient for the tariff variable – is not significant at the 5

percent level.

In conclusion, using data that are largely independently sourced, we confirm the main results that AKW report in support of the three predictions derived from their model. In the next section, we re-analyze and extend their data to subject it to further testing.

V. FURTHER TESTS OF AKW'S PREDICTIONS

Prediction #1. AKW's primary test of Prediction #1 relies on Enterprise Survey Data from the years 2002 and 2003. However, after AKW published their paper in 2011, the World Bank released another round of Enterprise Survey Data in 2012. Our first set of additional tests consists of repeating AKW's analysis with these new data. The results are presented in TABLE 4.

Panel A reports the results when the dependent variable is the share of total exports that are direct exports. To facilitate interpretation, the second column indicates the sign prediction from AKW's theory. AKW predict a "hockey shape" relationship between productivity and direct exports. While they indicated that this implied a linear relationship, we also think a positive quadratic productivity coefficient is consistent with their theory. Thus we list the corresponding expected sign as "Ind" for indeterminate. Of the three linear productivity coefficients, two are positive and significant at the 5 percent level (Log Sales and Log Employment) and one is positive but insignificant (Log Labour Productivity). We gray-shade the latter cell to indicate that it does not provide supporting evidence for AKW's first prediction, though the respective coefficient does have the expected sign.

Panel B repeats the analysis using indirect exports as the dependent variable. The prediction of an inverted U-shape relationship between productivity and indirect exports generates six sign predictions: a positive sign for the linear term and a negative sign for the quadratic term, for each of the three measures of productivity. Two of the six have the predicted sign (the linear and quadratic terms for Log Employment). Two of the six have the wrong signs but are insignificant and thus are shaded rose (the linear and quadratic terms for Log Sales), and

two of the six have wrong signs and are significant at the 5 percent level (the linear and quadratic terms for Log Labour Productivity).

In summary, there are a total of nine coefficients that allow us to test AKW's Prediction #1 using the 2012 Enterprise Survey Data. Four of the nine are statistically significant and provide confirmation for their theory. Two of the nine are statistically significant and provide evidence against their theory. The remaining three are statistically insignificant.

Prediction #2. TABLE 5 provides both a re-analysis and extension of AKW's test of Prediction #2, reported in TABLE 2 above. The theory predicts that intermediaries will sell their product at a higher price than firms that directly sell their product overseas. AKW use the 2005 China Customs Data to test that prediction. They use three specifications that cumulatively add more control variables. First, they include fixed effects to control for product and ownership type (Column 1.a in TABLE 2). Then they add in controls for firm size (Column 2.a in TABLE 2). Finally, they add in controls for destination country (Column 3.a in TABLE 2). We work with the final specification that includes the most controls.

Our first approach consists of breaking up the full sample of China Customs Data observations into three, mutually exclusive, geographical regions: East, Central, and West. The original sample in our reproduction of AKW's results (cf. Column 3.b in TABLE 2), had over 5 million observations. The three subsamples have 4,815,809; 224,526; and 166,825 observations, respectively. Given the large number of observations in each of the subsamples, loss of statistical power from dividing the full sample is not a concern.² As there is nothing in AKW's theory that suggests their prediction about higher unit prices depends on geographical location within China, breaking up the full sample into three subsamples has the advantage of providing three tests of

² Of the 4,815,809 observations in the "East" subsample, 43.6% involve transactions by intermediaries. Of the 224,526 observations in the "Central" subsample, 54.0% involve transactions by intermediaries. Of the 166,825 observations in the "West" subsample, 53.3% involve transactions by intermediaries.

their prediction rather than one.

The first three rows of TABLE 5 report the results. The results from firms located in China's eastern provinces provide support for AKW's second prediction, but the results from the central and western provinces do not. Both of the latter intermediary dummy coefficients are negative and significant at the 1 percent level. To indicate that these results provide evidence against AKW's theory, we color-code the associated cells in the table with red.

Our second set of tests consist of extending the analysis of AKW's model to earlier versions of the China Customs Data. As noted by AKW, while they had access to China Customs Data for the years 2000 to 2005, they chose to focus on the 2005 due to governmental restrictions on trading:

“Another issue that could potentially complicate our analysis is that the Chinese government issued trading licenses for certain products prior to China's entry into the WTO. The WTO mandated that China liberalize the scope and availability of licenses so that within three years after accession, all enterprises would have the right to trade products without licenses. China's WTO accession document indicates that in the first year of accession, only wholly Chinese-invested firms with registered capital exceeding RMB 5 million could obtain direct trading rights. In the second year after accession, the minimum capital requirement for direct trading was RMB 3 million, and this fell to RMB 1 million by 2004. However, data from the World Bank's Enterprise Survey for China that covers 2002 and 2003 indicate that firms below this cutoff reported direct exports. This could be because export licenses were only required for a limited set of products and/or because these cutoffs were not stringently applied, at least for exports. By 2005, any firm that wished to directly trade with foreign partners was free to do so. So while we are confident that the licenses will not affect the interpretation of our results, the main analysis uses data for 2005 when the licenses had been removed” (page 77).

As they note themselves, they see no reason why these restrictions should invalidate the use of the pre-2005 data for testing their predictions. Accordingly, we use these earlier years of customs data to test Prediction #2. This provides five more tests of AKW's model. The last five rows of TABLE 5 report the results.

There are five coefficients corresponding to the intermediary dummy variable for the year 2000 to 2004 regressions. Two provide support for AKW's prediction, being positive and

significant (2001 and 2002). Of the remaining three, one is wrong-signed and insignificant (2004), and two are wrong-signed and significant at the 1 percent level (2000 and 2003).

In summary, TABLE 5 provides eight “additional” tests of AKW’s second prediction. “Additional” is in quotations because the three 2005 subsamples are not independent of the full 2005 sample reported in TABLE 2. Nevertheless, only three of the eight regressions produce results that confirm AKW’s model. Four of the eight produce results that contradict AKW’s model. The remaining test is inconclusive, since the associated coefficient is statistically insignificant.

Prediction #3. The third and most important of AKW’s predictions is that the share of trade carried by intermediaries is systematically related to country characteristics. As evidence in favour of their model, AKW report that the share of trade accounted by intermediaries is positively related to distance, tariffs, and number of required import documents; and negatively related to GDP and the size of the Chinese population in the destination country.

The first set of additional tests for Prediction #3 repeats AKW’s analysis of TABLE 3, this time dividing the full sample into East, Central, and West subsamples. The results are reported in Panel A of TABLE 6. Our benchmark specification is AKW’s full model with Log Distance, Log GDP, Log Chinese Population, # of Importing Procs, MFN Tariff, and HS6 fixed effects all included in the same regression (cf. Column 4.a in TABLE 3). The estimated coefficients for the country characteristics are reported row-wise, with the variable predictions listed at the top of the columns.

For each of the five country characteristic variables, AKW’s prediction is tested by three estimates, one for each subsample. For distance and GDP, AKW’s prediction is successful in three out of three tests. In contrast, AKW’s prediction is successful in only one out of three tests for the other country characteristics. This is a result we will encounter frequently in the tests ahead: strong support for AKW’s Prediction #3 for distance and GDP, but weak support for

Chinese population, number of importing procedures, and tariffs.

Our next set of tests focuses on different versions of the number of required imported procedures variable. AKW report that they sourced these data from the World Bank's Doing Business Report 2006, and that the variable measures “the number of procedures required for importing a container” (page 80). Our own research identified two versions of the Doing Business Report 2006, a printed book version and an online version. These were both different from each other, and different from AKW’s data.

TABLE 7 reports summary statistics for the three versions of the number of required import documents variable. While the three versions are similar, the summary statistics reveal significant differences. This is most apparent in the pairwise comparisons reported in the last two columns. A comparison of the AKW and Book data reveal that 61.6% of the corresponding values in the two data sets are different from each other. 72.2% of the values in the AKW and Online data sets are different, and 85.5% of the values in the Book and Online versions are different. Accordingly, we investigate whether these differences affect the tests of AKW’s model.

Panel B of TABLE 6 reports the results of substituting the book and online versions of the number of required import documents for AKW’s version in the full sample. Focusing first on the number of procedures variable, the estimated coefficient for the printed book version is correctly signed, but insignificant. The corresponding estimate for the online version is virtually identical to the estimate using AKW’s data (see Column 4.b in TABLE 3). The tests for the other country characteristics are qualitatively unaffected by using alternative versions of the required documents variables, with all estimates confirming AKW’s model.

Panel C repeats the preceding analysis, except that it divides the full sample into regional subsamples. This produces a total of six tests for each variable. As we have consistently seen previously, the estimates for distance and GDP continue to support AKW’s model. In contrast, the estimates for Chinese population, number of procedures, and tariffs is substantially weaker,

with only two out of six, one out of six, and four out of six of the estimates providing evidence in favour of AKW's predictions, respectively.

The last panel exploits the fact that we have Chinese Customs Data for the years 2000 to 2004. Unfortunately, we do not have corresponding annual data for Chinese population, number of required import documents, or MFN tariffs. The variable measuring Chinese population is obtained from the Ohio University Shao Centre. This variable is collected in different regions in different time periods, and because we do not have time series data for this variable, we are forced to assume the population data are equally applicable for all years in the 2000-2005 period.

We are confronted with similar data problems for the other two variables. The number of required import documents is only available in the 2006 edition of Doing Business Reports, which reports information as it was in January 2005. Likewise, we only have MFN tariff data at the country, HS6 level for 2005. With respect to the latter, we note that China's admission to the WTO in 2001 would not have had an impact on Chinese tariffs. China had already gained access to MFN tariffs in 1980. Admission to the WTO guaranteed permanent MFN status, but it did not by itself affect the tariffs paid by Chinese exporters during our sample period. In any case, in testing AKW's theory for Prediction #3, we are forced to assume that the import procedures data and MFN tariff data that we have for 2005 are applicable for the earlier years as well.

With these caveats in mind, Panel D reports the results of estimating the benchmark specification for the years 2000-2004, using the three different measures of number of import documents (AKW, Book, and Online). The result is a total of 15 tests of each variable. Once again, the coefficients for distance and GDP have the predicted sign and are significant in every regression.

With respect to the Chinese population coefficient, the results continue to be favorable to AKW's model when using their measure of required documents. The respective coefficient is correctly signed in four of the five regressions (2000-2003). When alternative versions of the

required documents are substituted for AKW's version, this falls to two out of five (2000 and 2003 for both the Book and Online versions). For the required documents coefficient, both AKW's and the Online data provide strong support for AKW's model for the years 2000-2004, producing correctly-signed, significant coefficients in four out of five and five out of five cases. In contrast, when the data for number of required import documents come from the printed book version, none of the five estimates provides supporting evidence because all are statistically insignificant. Lastly, the results for the tariff variable are easy to summarize: None of the 15 estimates provide support for AKW's model. In fact, two of the 15 estimates are wrong-signed and significant at the 5-percent level (2002/AKW and 2002/Online).

The last two rows of the table summarize the results from the additional tests of AKW's Prediction #3. The record with respect to distance and GDP is perfect. In every case, the estimated coefficients line up with AKW's predictions and are statistically significant. The record with respect to the other three country characteristics is generally not supportive: In half or less of the tests, the estimated coefficients do not support AKW's prediction. However, it can be reasonably argued that one should not place too much weight on the 2000-2004 results for these variables, because these assume that the 2005 values are also applicable for earlier years. Accordingly, we recalculate the success rates, removing the results from Panel D. Rather than 13/26, 12/26, and 7/26 of the estimates supporting the predictions for Chinese population, number of required documents, and tariffs; the numbers are 5/11, 3/11, and 7/11. In other words, even without the test results from Panel D, the overall results are generally unsupportive of AKW's third prediction.

Summary. TABLE 8 pulls together all the test results for AKW's three predictions, both (i) reproduction and (ii) re-analysis and extension. Our reproduction of AKW confirms AKW's conclusion that the empirical analysis provides strong support for their model. 6/9 test results support Prediction #1, 3/3 test results support Prediction #2, and 13/14 test results support

Prediction #3. However, when we re-analyze and extend the analysis, dividing the data by geographical regions, using different versions for number of required import documents, and extending the data to additional years, the evidence becomes much weaker.

With respect to Prediction #1, less than half of the predictions are supported by the data (4/9). Likewise for Prediction #2: only three out of eight predictions are supported. AKW identify Prediction #3 as their “central prediction”. Here the results are somewhat better, with 84 out of 130 predictions supporting the theory (37 out of 55 if one excludes the test results from Panel D of TABLE 6). However, these latter results mask an important difference within the five country characteristics examined by AKW. While the test results for distance and GDP strongly support AKW’s theory, those for the remaining three country characteristics do not. For Chinese population, number of import procedures, and tariffs, the results generally do not support their predictions.

VI. CONCLUSION

Ahn, Khandelwal, and Wei’s (2011) model of intermediate trade has been influential in the literature because it provides both a theoretical framework for explaining the existence of trade intermediaries, and an accompanying empirical confirmation of the model’s predictions. This study undertakes a two-pronged approach to re-examining their empirical analysis. First, we reproduce the main results from their empirical analysis, applying the same empirical procedures to (mostly) independently sourced data. Our reproduction results strongly confirm AKW’s conclusions.

We then undertake a series of re-analyses and extensions, sometimes re-working the reproduction data, other times turning to alternative data sources or extending the time frames of their analysis. When we do that, we find that empirical support for the AKW model of intermediated trade is greatly diminished. For example, when we divide the data according to the three major geographical regions of China, we confirm the predicted results for greater unit

values for firms in the eastern provinces in China, but we obtain the opposite results for firms in the central and western provinces of China.

Another example arises when we extend AKW's use of Enterprise Survey Data to new data from 2012. When we apply AKW's empirical methodology to these data, we estimate a U-shaped relationship between productivity and labour productivity, rather than the inverted U-shaped relationship predicted by their theory.

In summary, while our additional tests produce some successes for the AKW model, a holistic assessment leads to the conclusion that the data do not provide statistical evidence to support their theory. That being said, the results reported here should not be interpreted as solely negative. They point to possible avenues for future research. The conflicting unit value results for intermediary firms by region suggest a role for locational factors not identified by AKW's model. Further, a robust result in our analysis is that distance is positively correlated with the use of intermediaries for export, and GDP (size of market) is negatively correlated. This highlights the need for a theoretical explanation for why these two country characteristics in particular should be associated with intermediated trade. We hope that this research stimulates efforts in this direction.

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TABLE 1
Reproduction of AKW's Results: Prediction #1

A. Direct Export Share

| Variables | AKW (1.a) | Reproduction (1.b) | AKW (2.a) | Reproduction (2.b) | AKW (3.a) | Reproduction (3.b) |
|--|--------------------|-----------------------|-------------------|-----------------------|--------------------|-----------------------|
| {Log Sales} | 0.015 (0.013) | 0.015 (0.013) | ---- | ---- | ---- | ---- |
| {Log Sales} ² | 0.0010 (0.0007) | 0.0010 (0.0007) | ---- | ---- | ---- | ---- |
| {Log Employment} | ---- | ---- | 0.041* (0.024) | 0.041* (0.024) | ---- | ---- |
| {Log Employment} ² | ---- | ---- | 0.001 (0.002) | 0.001 (0.002) | ---- | ---- |
| {Log Labour Productivity} | ---- | ---- | ---- | ---- | 0.024** (0.010) | 0.024** (0.010) |
| {Log Labour Productivity} ² | ---- | ---- | ---- | ---- | 0.001 (0.001) | 0.001 (0.001) |
| Industry FEs | Yes | Yes | Yes | Yes | Yes | Yes |
| R-squared | 0.12 | 0.12 | 0.08 | 0.11 | 0.11 | 0.08 |
| Observations | 2469 | 2469 | 2340 | 2364 | 2364 | 2340 |

B. Indirect Export Share

| Variables | AKW (1.a) | Reproduction (1.b) | AKW (2.a) | Reproduction (2.b) | AKW (3.a) | Reproduction (3.b) |
|--|----------------------|-----------------------|---------------------|-----------------------|--------------------|-----------------------|
| {Log Sales} | 0.034*** (0.009) | 0.034*** (0.009) | ---- | ---- | ---- | ---- |
| {Log Sales} ² | -0.002*** (0.000) | -0.002*** (0.000) | ---- | ---- | ---- | ---- |
| {Log Employment} | ---- | ---- | 0.039** (0.016) | 0.039** (0.016) | ---- | ---- |
| {Log Employment} ² | ---- | ---- | -0.003** (0.001) | -0.003** (0.001) | ---- | ---- |
| {Log Labour Productivity} | ---- | ---- | ---- | ---- | 0.016** (0.007) | 0.016** (0.007) |
| {Log Labour Productivity} ² | ---- | ---- | ---- | ---- | -0.001* (0.001) | -0.001* (0.001) |
| Industry FEs | Yes | Yes | Yes | Yes | Yes | Yes |
| R-squared | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Observations | 2570 | 2570 | 2437 | 2461 | 2461 | 2437 |

NOTES: Columns (1.a), (2.a), and (3.a) report the results from AKW's Table 4. The results from independently reproducing their results are reported in Columns (1.b), (2.b), and (3.b), respectively. Data are taken from the 2002 and 2003 releases of the World Bank's Enterprise Survey Data. The dependent variable is direct exports (Panel A) / indirect exports (Panel B) as a share of total sales. Regressions are estimated using OLS. In addition to the respective productivity variables, all specifications include industry fixed effects. Standard errors are reported in parentheses below coefficient estimates. *, **, and *** indicate statistical significance at the 10-, 5-, and 1-percent level, respectively. The grey-shaded cells indicate that the respective estimates have the predicted sign, but are not statistically significant at the 5-percent level.

TABLE 2
Reproduction of AKW's Results: Prediction #2

| Variables | AKW (1.a) | Reproduction (1.b) | AKW (2.a) | Reproduction (2.b) | AKW (3.a) | Reproduction (3.b) |
|-----------------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|
| {Intermediary}r | 0.067*** (0.005) | 0.064*** (0.005) | 0.051*** (0.004) | 0.045*** (0.004) | 0.023*** (0.004) | 0.017*** (0.004) |
| Quartic firm size controls | No | No | Yes | Yes | Yes | Yes |
| Fixed effects | po | po | po | po | cpo | cpo |
| R-squared | 0.79 | 0.79 | 0.79 | 0.79 | 0.85 | 0.85 |
| Observations | 4,594,598 | 5,193,328 | 4,594,598 | 5,193,328 | 4,594,598 | 5,193,328 |

NOTES: Columns (1.a), (2.a), and (3.a) report the results from Columns (1) – (3) of AKW's Table 5. The results from independently reproducing their results are reported in Columns (1.b), (2.b), and (3.b), respectively. The dependent variable is the log unit value from individual transactions. Regressions are estimated using OLS with cluster robust standard errors grouped by product (HS8). “p”, “o”, and “c” refer to paired/triplet fixed effects based on product, ownership, and country. *, **, and *** indicate statistical significance at the 10-, 5-, and 1-percent level, respectively.

TABLE 3
Reproduction of AKW's Results: Prediction #3

| Variables | AKW (1.a) | Reproduction (1.b) | AKW (2.a) | Reproduction (2.b) | AKW (3.a) | Reproduction (3.b) | AKW (4.a) | Reproduction (4.b) |
|---|----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|
| {Log Distance}_c | 0.032*** (0.008) | 0.027*** (0.009) | 0.026*** (0.007) | 0.029*** (0.007) | 0.025*** (0.007) | 0.031*** (0.007) | 0.025*** (0.007) | 0.030*** (0.009) |
| {Log GDP}_c | -0.022*** (0.002) | -0.021*** (0.002) | -0.021*** (0.002) | -0.019*** (0.002) | -0.019*** (0.003) | -0.019*** (0.003) | -0.019*** (0.003) | -0.017*** (0.003) |
| {Log Chinese Population}_c | ---- | ---- | -0.002* (0.001) | -0.003** (0.001) | -0.004* (0.001) | -0.003*** (0.001) | -0.004* (0.001) | -0.004*** (0.001) |
| {# of Importing Procs}_c | ---- | ---- | ---- | ---- | 0.003** (0.001) | 0.004*** (0.001) | 0.003** (0.001) | 0.004*** (0.001) |
| {MFN Tariff}_{hc} | ---- | ---- | ---- | ---- | ---- | ---- | 0.059** (0.022) | 0.034* (0.020) |
| HS6 FEs | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| R-squared | 0.15 | 0.15 | 0.16 | 0.16 | 0.17 | 0.17 | 0.18 | 0.17 |
| Observations | 267,201 | 263,878 | 221,373 | 227,304 | 207,594 | 212,901 | 185,975 | 188,120 |

NOTES: Columns (1.a), (2.a), (3.a), and (4.a) report the results from Columns (1) – (4) of AKW's Table 6. The results from independently reproducing their results are reported in Columns (1.b), (2.b), (3.b), and (4.b), respectively. The dependent variable in each regression is the share of intermediary exports of total country HS6 exports. Regressions are estimated using OLS with cluster robust standard errors grouped by country. *, **, and *** indicate statistical significance at the 10-, 5-, and 1-percent level, respectively. The grey-shaded cells indicate that the respective estimates have the predicted sign, but are not statistically significant at the 5-percent level.

TABLE 4
Robustness Check of AKW's Results: Prediction #1

A. Direct Export Share

| Variables | Expected Sign | 2012 (1) | 2012 (2) | 2012 (3) |
|--|---------------|--------------------|--------------------|-------------------|
| {Log Sales} | Pos | 0.092** (0.038) | ---- | ---- |
| {Log Sales} ² | Ind | -0.002* (0.001) | ---- | ---- |
| {Log Employment} | Pos | ---- | 0.050** (0.020) | ---- |
| {Log Employment} ² | Ind | ---- | -0.002 (0.002) | ---- |
| {Log Labour Productivity} | Pos | ---- | ---- | 0.050 (0.068) |
| {Log Labour Productivity} ² | Ind | ---- | ---- | -0.002 (0.003) |
| Industry FEs | ---- | Yes | Yes | Yes |
| R-squared | ---- | 0.06 | 0.07 | 0.03 |
| Observations | ---- | 1691 | 1690 | 1690 |

B. Indirect Export Share

| Variables | Expected Sign | 2012 (1) | 2012 (2) | 2012 (3) |
|--|---------------|-------------------|----------------------|---------------------|
| {Log Sales} | Pos | -0.010 (0.028) | ---- | ---- |
| {Log Sales} ² | Neg | 0.000 (0.001) | ---- | ---- |
| {Log Employment} | Pos | ---- | 0.041*** (0.014) | ---- |
| {Log Employment} ² | Neg | ---- | -0.004*** (0.001) | ---- |
| {Log Labour Productivity} | Pos | ---- | ---- | -0.112** (0.048) |
| {Log Labour Productivity} ² | Neg | ---- | ---- | 0.004** (0.002) |
| Industry FEs | ---- | Yes | Yes | Yes |
| R-squared | ---- | 0.04 | 0.05 | 0.05 |
| Observations | ---- | 1691 | 1690 | 1690 |

NOTES: Columns (1), (2), and (3) re-estimate the regressions from TABLE 1 using data from the 2012 release of the World Bank’s Enterprise Survey Data. The dependent variable is direct exports (Panel A) / indirect exports (Panel B) as a share of total sales. Regressions are estimated using OLS. In addition to the respective productivity variables, all specifications include industry fixed effects. Standard errors are reported in parentheses below coefficient estimates. “Pos”, “Neg”, and “Ind” refer to positive, negative, and indeterminate. *, **, and *** indicate statistical significance at the 10-, 5-, and 1-percent level, respectively. The grey-shaded cells indicate that the respective estimates have the predicted sign, but are not statistically significant at the 5-percent level. The rose-shaded cells indicate that the respective estimates have the wrong sign, but are not statistically significant at the 5-percent level. The red-shaded cells indicate that the respective estimates have the wrong sign and are statistically significant at the 5-percent level.

TABLE 5
Robustness Check of AKW's Results: Prediction #2

| Sample | {Intermediary} _t (Expect = Pos) | Observations |
|---------------------|---|--------------|
| 2005/East | 0.022*** (0.004) | 4,815,809 |
| 2005/Central | -0.058*** (0.013) | 224,526 |
| 2005/West | -0.057*** (0.013) | 166,825 |
| 2000 | -0.003 (0.004) | 1,731,580 |
| 2001 | 0.026*** (0.004) | 2,019,600 |
| 2002 | 0.022*** (0.004) | 2,688,711 |
| 2003 | -0.023*** (0.003) | 3,358,635 |
| 2004 | -0.003 (0.003) | 4,166,559 |

NOTES: The first three rows of the table (“2005/East”, “2005/Central”, “2005/West”) re-estimate specification (3.a/3.b) from TABLE 2 using the same data, except that the full sample is divided into three subsamples. “East” includes Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Hainan. “Central” includes Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hunan, Hubei. “West” includes Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia, Guangxi. The bottom five rows (“2000”-“2004”) re-estimate specification (3.a/3.b) from TABLE 2 using earlier years of the China Customs Data. The dependent variable is the log unit value from individual transactions. Regressions are estimated using OLS with cluster robust standard errors grouped by product (HS8). In addition to the intermediary dummy variable, all regressions include triplet fixed effects for product, ownership, and country. “Pos” refers to positive. *, **, and *** indicate statistical significance at the 10-, 5-, and 1-percent level, respectively. The rose-shaded cells indicate that the respective estimates have the wrong sign, but are not statistically significant at the 5-percent level. The red-shaded cells indicate that the respective estimates have the wrong sign and are statistically significant at the 5-percent level.

TABLE 6
Robustness Check of AKW's Results: Prediction #3

| Sample | Distance (Expect = Pos) | GDP (Expect = Neg) | Chinese (Expect = Neg) | # Procedures (Expect = Pos) | Tariffs (Expect = Pos) | Observations | R-sq |
|--|------------------------------------|-------------------------------|-----------------------------------|--|-----------------------------------|---------------------|-------------|
| <i>A) 2005: Geographical subsamples</i> | | | | | | | |
| East | 0.035*** (0.007) | -0.016*** (0.002) | -0.004*** (0.001) | 0.005*** (0.001) | 0.027 (0.021) | 139,430 | 0.18 |
| Central | 0.037** (0.016) | -0.011** (0.005) | -0.001 (0.003) | 0.006 (0.004) | 0.066 (0.059) | 44,765 | 0.28 |
| West | 0.034*** (0.011) | -0.018*** (0.005) | 0.000 (0.003) | 0.001 (0.002) | 0.164** (0.073) | 33,835 | 0.32 |
| <i>B) 2005: Alternative data sources for number of required procedures</i> | | | | | | | |
| Book | 0.026*** (0.009) | -0.018*** (0.003) | -0.004*** (0.001) | 0.001 (0.001) | 0.060** (0.023) | 188,120 | 0.17 |
| Online | 0.029*** (0.009) | -0.016*** (0.002) | -0.004*** (0.001) | 0.004*** (0.001) | 0.048** (0.023) | 189,030 | 0.17 |
| <i>C) 2005: Alternative data sources for number of required procedures by geographical subsample</i> | | | | | | | |
| Book/East | 0.030*** (0.007) | -0.017*** (0.003) | -0.005*** (0.001) | 0.002 (0.001) | 0.057** (0.023) | 139,430 | 0.18 |
| Book/Central | 0.034** (0.015) | -0.011** (0.005) | -0.001 (0.002) | 0.003 (0.003) | 0.092 (0.069) | 44,765 | 0.28 |

| Sample | Distance (Expect = Pos) | GDP (Expect = Neg) | Chinese (Expect = Neg) | # Procedures (Expect = Pos) | Tariffs (Expect = Pos) | Observations | R-sq |
|--|----------------------------|-----------------------|---------------------------|--------------------------------|---------------------------|--------------|------|
| Book/West | 0.032*** (0.011) | -0.020*** (0.005) | 0.000 (0.003) | -0.003 (0.002) | 0.195** (0.079) | 33,835 | 0.32 |
| Online/East | 0.034*** (0.008) | -0.014*** (0.002) | -0.004*** (0.001) | 0.004*** (0.001) | 0.048** (0.024) | 140,297 | 0.18 |
| Online/Central | 0.034** (0.015) | -0.012** (0.005) | -0.001 (0.003) | 0.002 (0.003) | 0.106* (0.061) | 44,839 | 0.28 |
| Online/West | 0.033*** (0.010) | -0.017*** (0.005) | 0.000 (0.003) | 0.001 (0.002) | 0.168** (0.070) | 33,862 | 0.32 |
| <i>D) 2000-2004: Different required procedures variables</i> | | | | | | | |
| 2004/AKW | 0.039*** (0.009) | -0.023*** (0.004) | -0.002 (0.002) | 0.002* (0.001) | -0.007 (0.007) | 106,033 | 0.23 |
| 2003/AKW | 0.047*** (0.006) | -0.021*** (0.004) | -0.006*** (0.002) | 0.005*** (0.001) | 0.008 (0.009) | 99,608 | 0.24 |
| 2002/AKW | 0.046*** (0.008) | -0.020*** (0.004) | -0.004** (0.002) | 0.005*** (0.002) | -0.006*** (0.002) | 96,785 | 0.24 |
| 2001/AKW | 0.046*** (0.007) | -0.017*** (0.003) | -0.005*** (0.002) | 0.006*** (0.002) | -0.008 (0.009) | 91,491 | 0.24 |
| 2000/AKW | 0.042*** (0.008) | -0.022*** (0.004) | -0.008*** (0.002) | 0.006*** (0.001) | -0.004 (0.012) | 82,396 | 0.26 |

| Sample | Distance (Expect = Pos) | GDP (Expect = Neg) | Chinese (Expect = Neg) | # Procedures (Expect = Pos) | Tariffs (Expect = Pos) | Observations | R-sq |
|--------------------|------------------------------------|-------------------------------|-----------------------------------|--|-----------------------------------|---------------------|-------------|
| 2004/Book | 0.037*** (0.009) | -0.025*** (0.004) | -0.002 (0.002) | -0.000 (0.001) | -0.004 (0.007) | 106,033 | 0.23 |
| 2003/Book | 0.045*** (0.007) | -0.022*** (0.004) | -0.005** (0.002) | 0.002* (0.001) | 0.014 (0.010) | 99,608 | 0.24 |
| 2002/Book | 0.043*** (0.009) | -0.023*** (0.004) | -0.004 (0.002) | 0.002 (0.001) | -0.004* (0.002) | 96,785 | 0.23 |
| 2001/Book | 0.043*** (0.008) | -0.020*** (0.004) | -0.004* (0.002) | 0.001 (0.002) | 0.009 (0.014) | 91,491 | 0.24 |
| 2000/Book | 0.040*** (0.008) | -0.024*** (0.005) | -0.008*** (0.002) | 0.003* (0.001) | 0.006 (0.013) | 82,396 | 0.26 |
| 2004/Online | 0.040*** (0.009) | -0.022*** (0.003) | -0.002 (0.002) | 0.003** (0.001) | -0.005 (0.007) | 107,110 | 0.23 |
| 2003/Online | 0.047*** (0.008) | -0.020*** (0.004) | -0.005** (0.002) | 0.004** (0.002) | 0.018 (0.011) | 99,677 | 0.24 |
| 2002/Online | 0.045*** (0.010) | -0.020*** (0.004) | -0.003 (0.002) | 0.005*** (0.002) | -0.005** (0.002) | 96,907 | 0.23 |
| 2001/Online | 0.045*** (0.008) | -0.017*** (0.004) | -0.004* (0.002) | 0.005*** (0.002) | 0.010 (0.014) | 92,197 | 0.24 |
| 2000/Online | 0.041*** (0.009) | -0.022*** (0.004) | -0.007*** (0.002) | 0.005*** (0.001) | 0.009 (0.012) | 82,443 | 0.26 |

| Sample | Distance (Expect = Pos) | GDP (Expect = Neg) | Chinese (Expect = Neg) | # Procedures (Expect = Pos) | Tariffs (Expect = Pos) | Observations | R-sq |
|--|----------------------------|-----------------------|---------------------------|--------------------------------|---------------------------|--------------|------|
| Correct&Significant/Total (All) | 26/26 | 26/26 | 13/26 | 12/26 | 7/26 | ---- | ---- |
| Correct&Significant/Total (Excluding Panel D) | 11/11 | 11/11 | 5/11 | 3/11 | 7/11 | ---- | ---- |

NOTES: The three rows of Panel A in the table (“East”, “Central”, “West”) re-estimate specification (4.a/4.b) from TABLE 3 using the same data, except that the full sample is divided into three subsamples. The two rows of Panel B (“Book”, “Online”) re-estimate specification (4.a/4.b) from TABLE 3 using the same data except AKW’s data for number of required import documents (“# of Procedures”) is replaced with the printed book and online versions, respectively, of the same variable from Doing Business Report 2006. The six rows of Panel C in the table take the full samples for the “Book” and “Online” regressions of Panel B, divide each into three subsamples based on the three regions of China, and re-estimate specification (4.a/4.b) from TABLE 3. The fifteen rows of Panel D re-estimate specification (4.a/4.b) from TABLE 3 using earlier years (2000-2004) of the China Customs Data. It does this for each of the three versions of the “# of Procedures” variable (“AKW”, “Book”, “Online”). Note that the same values that were used for the variables “Chinese”, “# of Procedures”, and “Tariffs” in the 2005 regressions are also used for the earlier years because data for 2000-2004 for these variables are unavailable. The dependent variable in each regression is the share of intermediary exports of total country HS6 exports. Regressions are estimated using OLS with cluster robust standard errors grouped by country. All regressions also include fixed effects for product type (HS6). “Pos” and “Neg” refer to positive and negative. *, **, and *** indicate statistical significance at the 10-, 5-, and 1-percent level, respectively. The grey-shaded cells indicate that the respective estimates have the predicted sign, but are not statistically significant at the 5-percent level. The rose-shaded cells indicate that the respective estimates have the wrong sign, but are not statistically significant at the 5-percent level. The red-shaded cells indicate that the respective estimates have the wrong sign and are statistically significant at the 5-percent level.

TABLE 7
Summary Statistics for Three Data Sources for
the Number of Required Import Documents Variable

| Source | Observations | Mean | Median | Min | Max | % Different: AKW | % Different: Book |
|---------------|---------------------|-------------|---------------|------------|------------|-----------------------------|------------------------------|
| AKW | 151 | 9.10 | 9 | 3 | 19 | ---- | ---- |
| Book | 171 | 8.08 | 7 | 2 | 21 | 61.6 | ---- |
| Online | 151 | 10.77 | 11 | 3 | 19 | 72.2 | 85.5 |

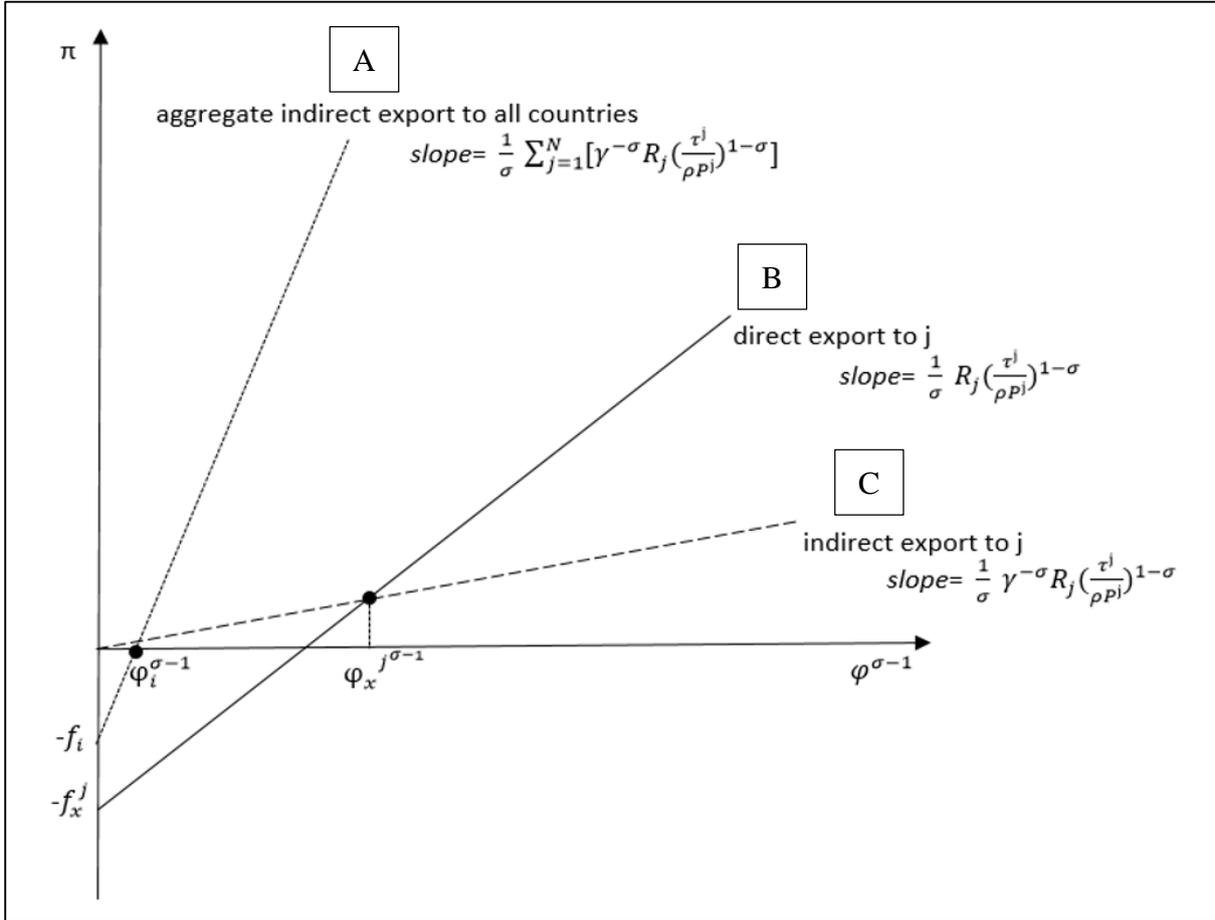
NOTES: This table compares the three versions of the variable “# of Procedures” available from AKW, the printed book version of the World Bank’s Doing Business Report 2006, and the online version of the World Bank’s Doing Business Report 2006. The last two columns compares the percent of total number of observations that are different from each pair of versions (AKW/Book, AKW/Online, Book/Online). Percentages are calculated from the total number of paired observations in which both versions report non-missing values.

TABLE 8
Summary of Results from Tests of AKW's Model

| Prediction | Reproduction | Re-analysis and Extension | |
|------------------------------|--------------|---------------------------|-------|
| Prediction #1 | 6/9 | 4/9 | |
| Prediction #2 | 3/3 | 3/8 | |
| Prediction #3 – Total | 13/14 | 84/130 | 37/55 |
| Prediction #3 – Distance | 4/4 | 26/26 | 11/11 |
| Prediction #3 – GDP | 4/4 | 26/26 | 11/11 |
| Prediction #3 – Chinese | 3/3 | 13/26 | 5/11 |
| Prediction #3 – # Procedures | 2/2 | 12/26 | 3/11 |
| Prediction #3 - Tariff | 0/1 | 7/26 | 7/11 |

NOTES: The values in the table report the number of tests that support the respective prediction over the total number of tests. The results in the “Reproduction” column collect the test results from TABLES 1 to 3. The results in the “Re-analysis and Extension” column collect the results from TABLES 4 to 6. A test was judged to support AKW’s predictions if it had the predicted sign and was statistically significant. A coefficient that had the predicted sign but was statistically insignificant was interpreted as not providing statistical support for AKW’s model. “Prediction #3 – Total” combines the results from predictions for the variables Distance, GDP, Chinese, # of Procedures, and Tariff. “Prediction #3 – Distance” to “Prediction #3 – Tariff” break out the results for testing the predictions of the individual variables.

FIGURE 1
AKW's Model of Intermediary Trade



NOTE: The vertical axis measures profits from exporting (π). The horizontal axis measures firm productivity ($\varphi^{\sigma-1}$). The horizontal axis represents the profits from exporting if the firm does not export ($=0$). Line A represents the profits to the firm if it sells its output to an intermediary that then repackages the output and sells it in N overseas markets. The point at which A crosses the horizontal axis identifies the minimal productivity ($\varphi_i^{\sigma-1}$) at which the firm will switch from selling only in the domestic market to also exporting via an intermediary. Line B represents the profit-productivity nexus for indirectly exporting to country j through an intermediary. Line C indicates the associated profits for directly exporting to j . The productivity where the two lines intersect ($\varphi_x^{j\sigma-1}$) identifies the threshold where a firm transitions from indirectly selling its product to country j to directly selling to j .

APPENDIX
Description of Variables and Data Sources
Used in the Reproduction Replication of AKW

| <i>Variable</i> | <i>Definition</i> | <i>Source</i> |
|---------------------------|--|---|
| Direct export share | Percentage of firm's sales exported directly | World Bank's Enterprise Survey Data |
| Indirect export share | Percentage of firm's sales exported indirectly (through a distributor) | World Bank's Enterprise Survey Data |
| Sales | Total sales 1 year ago | World Bank's Enterprise Survey Data |
| Employment | Average number of permanent workers plus temporary workers 1 year ago | World Bank's Enterprise Survey Data |
| Labour productivity | $\frac{sales}{employment}$ | World Bank's Enterprise Survey Data |
| Unit value | $\frac{value\ of\ sales}{quantity\ sold}$ | China Customs Data |
| Intermediary | = 1 if the firm is an intermediary and = 0 otherwise | China Customs Data |
| Firm size | Firm's total export value | China Customs Data |
| Intermediary export share | Share of intermediary exports of total country-HS6 exports | China Customs Data |
| Distance | Air distance in nautical miles between the trading country pairs | https://www.timeanddate.com/worldclock/distance.html |
| GDP | Gross domestic product | World Bank's World Development Indicators |

| <i>Variable</i> | <i>Definition</i> | <i>Source</i> |
|----------------------|---|---|
| Chinese population | Size of the ethnic Chinese population per country | Ohio University Shao Centre |
| Importing procedures | Number of documents required for import in China | World Bank's Doing Business Report (<i>supplied by AKW</i>) |
| MFN tariff | Most Favoured Nation duty rate treatment | World Bank WITS (<i>supplied by AKW</i>) |