

Discussion of:
Adoption of Foreign Products and Information Externalities
Across Domestic Networks
by Argente, Méndez, and Van Patten

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Main Idea: Role of Individual Consumers in Trade

- Product quality varies and is harder to observe in foreign countries
- Migrants networks reduce an incomplete information friction (unobserved quality)
- Individual consumers are “drivers of international trade” via information networks

US Migrant Networks as Sources of Information Flows

- Recent papers on information flows from Mexican municipios' US migrant networks
 - Less emigration from municipios connected to US cities with large Great Recession shocks (Caballero, Cadena, and Kovak, 2023)
 - Increased social distancing in municipios connected to US cities with more distancing (Tian, Caballero, Kovak, 2022)
- Here the migrants reduce an incomplete information friction in trade
 - Use of networks as identification
 - Connection between immigration and international trade

Comment 1: How important is trade by individuals?

- For US, vast majority of trade is mediated by large firms that import from many countries
- How important are imports by individuals in the aggregate?
 - How does this type of trade even occur?

How US firms find foreign buyers

The screenshot shows the homepage for the 'Find Buyers and Partners' section of the International Trade Administration website. The page features a blue header with the title 'Find Buyers and Partners' and a sub-header 'Your next customer may be in another country. Use our resources to make the search for foreign buyers and partners more efficient and successful.' Below this is a navigation menu with various options like 'Export Solutions', 'Research Center', and 'Regulations & Agreements'. A central graphic shows a magnifying glass over a globe with people icons, symbolizing international search. To the right of the graphic are social media icons for Facebook, Twitter, LinkedIn, Email, and RSS. Below the graphic is a sidebar menu with options like 'Virtual Services', 'Learn How To Export', and 'Research Foreign Markets'. The main content area has a heading 'Let Us Help You Find Buyers' followed by a paragraph about international market opportunities. To the right of this text is a video player with a red train and a 'WATCH THE VIDEOS' button. At the bottom, there is a section titled 'How to Find Buyers and Partners'.

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Find Buyers and Partners

Your next customer may be in another country. Use our resources to make the search for foreign buyers and partners more efficient and successful.

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- Virtual Services
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- Research Foreign Markets
- Network & Learn at Events
- Find Buyers & Partners
- Explore eCommerce Resources ▼
- Obtain Financing
- Negotiate an Export Sale
- Navigate Shipping & Logistics

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Look to international markets for opportunities to grow your business. Ninety-five percent of the world's consumers are outside of the U.S. With our information and services, you have help in finding new buyers and partners.

Get started today with the 'How To Export' video series!

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How to Find Buyers and Partners

Source: <https://www.trade.gov/find-buyers-and-partners>

How US firms find foreign buyers

Direct Sales

In direct selling, the U.S. producer handles every aspect of the exporting process and deals directly with a potential buyer to fulfill the sale. It requires a significant commitment of management time and attention to achieve good results. However, this approach may also be the best way to achieve maximum profits and long-term growth.

If you choose to franchise a business model, the act of finding and supporting a master franchiser in a different country is direct exporting. If you get a contract from a U.S. or other national government agency, you are exporting directly to another country and potentially developing contacts that can lead to more sales independent of the government contract that got you to the new market in the first place.

eCommerce

If you have a website that processes credit cards, you can also export directly. The use of web, social media, and cross-border eCommerce to find international buyers will only continue to grow. The two main kinds of cross-border eCommerce are business-to-business and business-to-consumer. A good way to sell internationally is through popular social media networks, advertising, and virtual stores. Many American business owners are now using a successful mix of these sales channels.

Source: <https://www.trade.gov/sales-channels>

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Show me the data!

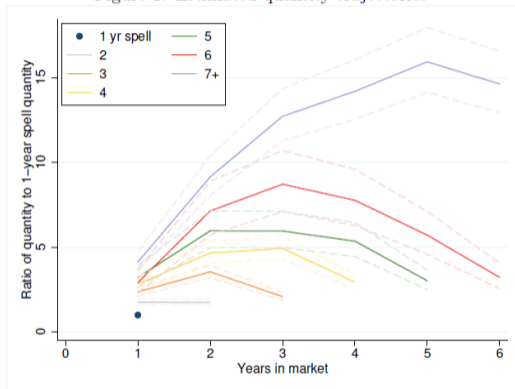
- How much trade is mediated by individuals?
- What types of goods do they import?
 - Subset of certain consumer goods?
 - Adoption of new technologies with embedded 'knowledge'?
 - Products with high scope for production differentiation (Khandelwal 2010)?
 - New HS10 products?
- Has the importance of these imports grown over time?

Comment 2: Why Don't Firms Import Initially?

- Firms' employees influence their extensive margin of imports (Olney and Pozzoli 2021)
 - Immigrants working in a firm increase likelihood of offshoring to their home country
 - Identification from the random assignment of immigrants
- Firms know the distribution of value (x) for each good and distribution of quality (θ)
 - Firms are literally one of the networks!
- Can you relate your story to evidence on firm-level search costs?

Irish Firms Increase Their Export Quantities Over Time

Figure 1: Estimated quantity trajectories



Notes: Figure shows evolution of quantities at the firm-product-market level with market tenure, allowing trajectories to differ by export spell duration. Trajectories are conditional on firm-product-year and market effects. 95% confidence intervals are plotted. Corresponding table is Table 9 in Appendix F. Source: CSO and authors' calculations.

Source: Fitzgerald, Haller, and Yedid-Levi (2023)

Most New Colombian Exporters to the United States Fail

Table 1: Average aggregates by cohort age

Cohort age	Exporters	Total Exports	Average Exports
1 year	1	1	1
2 years	0.29	1.11	3.77
3 years	0.18	0.93	5.03
4 years	0.14	0.67	4.66
5 years	0.12	0.63	5.18
6 years	0.10	0.51	4.99
7 years	0.08	0.50	5.72
8 years	0.08	0.45	5.91
9 years	0.07	0.39	5.58
10 years	0.06	0.40	6.58

Notes: Based on LFTTD customs records, U.S. imports of manufactured goods from Colombia, 1992-2009. Figures for cohorts aged 2-10 are relative to the corresponding figure for one-year-old cohorts.

Source: Eaton, Eslava, Jinkins, Krizan, and Tybout (2021)

- But exporters that remain in the US market grow a lot!
- Quantification suggests that search costs more important than learning and visibility

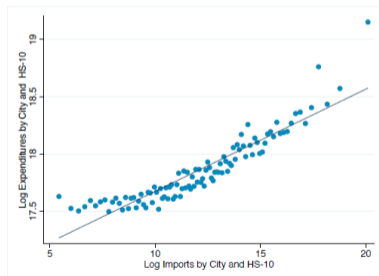
Can You Show that Firms Really Learn from Local Consumers?

- Focus only on HS10 products that have never been imported to CR before
- What share of goods and value are imported for the first time by individuals?
- Use an event study to show that firms' imports start after individual imports
 - More direct evidence on your mechanism
 - Alleviates concerns that certain products are growing and firms wait for a threshold

Comment 3: What are: a Product, a Variety, and Quality?

- Is this really about uncertain product quality or correlated changes in industry demand?
 - Increased consumption is correlated with increased imports of those goods by a city
 - Network effects in consumption? (E.g., Bailey et al. 2022)

Figure B.1: Expenditure Shares in the CEX vs. Custom Districts



Products in the CEX data

1 2	Housing	HOUSING G 1 EXPEND
1 3	Shelter	SHELTER G 1 EXPEND
1 4	Owned dwellings	OWNDWELL G 1 EXPEND
1 5	Mortgage interest and charges	OWNMORTG G 1 EXPEND
1 6	Mortgage interest	220311 I 1 EXPEND
1 6	Interest paid, home equity loan	220313 I 1 EXPEND
1 6	Interest paid, home equity line of credit	880110 I 1 EXPEND
1 5	Property taxes	220211 I 1 EXPEND
1 5	Maintenance, repairs, insurance, and other expenses	OWNEXPEN G 1 EXPEND
1 6	Homeowners insurance	220121 I 1 EXPEND
1 6	Ground rent	210901 I 1 EXPEND
1 6	Maintenance and repair services	OWNREPSV G 1 EXPEND
1 7	Painting and papering	230112 I 1 EXPEND
1 7	Plumbing and water heating	230113 I 1 EXPEND
1 7	Heat, a/c, and electrical work	230114 I 1 EXPEND
1 7	Roofing and gutters	230115 I 1 EXPEND
1 7	Other repair and maintenance services	230151 I 1 EXPEND
1 7	Repair of built-in appliances	230142 I 1 EXPEND
1 7	Flooring installation, repair, and replacement	320625 I 1 EXPEND
1 6	Maintenance and repair commodities	OWNREPSG G 1 EXPEND
1 7	Paints, wallpaper, and supplies	240112 I 1 EXPEND
1 7	Tools and equipment for painting and wallpapering	240122 I 1 EXPEND
1 7	Plumbing supplies and equipment	240312 I 1 EXPEND
1 7	Electrical supplies, heating, and cooling	240322 I 1 EXPEND

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Comment 4: What Drives Variation in the Instrument?

- Authors estimate variation in consumption across US cities

$$\ln E_{spt} = \alpha + \lambda_{sp} + \mu_{st} + \phi_{pt} + \varepsilon_{spt}$$

- E_{spt} is expenditure in city s on product p in quarter t
 - $\tilde{\varepsilon}_{spt}$ denotes the residuals
- Use city-level residuals to construct a shift share based on consular regions

$$\ln \tilde{E}_{cpt} = \sum_{s \in c} \left(\frac{CR_{st}}{CR_{ct}} \right) \ln \tilde{\varepsilon}_{spt}$$

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- Note that the instrument is constructed using a **generated regressor**

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- 10 cities with Costa Rican consulates: Atlanta, Chicago, Houston, LA, Miami, NYC, Wash DC, Minneapolis, PR, Tuscon

Estimate Probability that an Individual Imports a Product

$$\text{Import}_{npt}^{US \text{ exposure}} = \alpha + \beta \underbrace{\ln \tilde{E}_{cp,t-1}}_{\substack{\text{Relatives' exposure abroad} \\ \text{to product } p \text{ in } t-1}} + \gamma_{np} + \gamma_{nt} + \gamma_{pt} + \varepsilon_{npt},$$


Varies at the HS-10 level Varies at the CEX level

- Identification comes from Product-by-Consulate-by-Quarter variation
 - Consider aggregating the HS10 data to the CEX product level
 - At a minimum cluster by the CEX product categories
- The vast majority of observations are zero
 - There are 298 million observations but only 103k potential importers
 - Consider dropping observations for which the fixed effects perfectly predict the outcome
 - At a minimum drop products that are never imported by individuals (and report coefficients)

Big Picture

- Lots of exciting and detailed data!
- Well-written first draft
- Intriguing role for consumers and migrant networks in trade
- Interesting implications on the current and growing role of technology in trade