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EXPORTS AND (MULTIPLE) BORDER-CROSSING IMPORTS: EVIDENCE FROM INDONESIA

Abstract:

Drawing on the experience of Indonesian firms, we seek to improve the understanding of the internationalization process in emerging market firms faced with a deterioration of their trade conditions. Using matching methods to deal with endogeneity, we empirically analyse inward-outward internationalization connections in two years (2009 and 2015) to test whether these connections change following a reversal of trade liberalization. We focus on importing and exporting activities and we validate the theoretical underpinnings of the claim that importing Indonesian firms export more. We contribute to the literature by introducing a newly-identified underlying mechanism behind the positive relationship between imports and exports: when trade barriers are low, firms that import intermediates sourced from “complex” value chains achieve significant increases in their exports. We do this by merging the firm-level data with the industry-level data (derived from World Input-Output Database) to construct additional firm-level variables that estimate the proportion of firms’ imported inputs that cross border once or more. To deal with selection bias, we match each importing firm with a control group of non-importing firms that, in terms of their labour productivity, foreign ownership, employment and other characteristics, are equally likely to import. We show that when an emerging country facilitates sourcing from foreign countries, firms in that country export more. However, this positive causal effect is channelled through “complex” importing (that is, when firms import intermediates that have crossed international borders several times). “Simple” importing (that is, when firms import intermediates that have crossed an international border only once—in this case, the Indonesian border) does not increase firms’ exports in periods of trade liberalization. Conversely, “simple” importing becomes more relevant for exports in periods of trade liberalization reversal. In such circumstances, emerging market firms’ participation in value chains becomes less global. Our results are robust to the choice of matching technique and specification. Relevant policy implications can be made: for example, in a world marked by growing scepticism surrounding globalization and openness to international trade and competition, policy makers should bear in mind that policies inhibiting importing activities have negative consequences for exports and hence, the outward internationalization of firms.

Keywords:

internationalization, emerging market firms, value chains, trade liberalization

JEL Classification: F14, F15, C31