Sell Deep? Sell Wide? Or Both? Perceived Quality and Product Scope of Chinese Exporters of Electrical Products *(in English)*

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Biography:

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Abstract:

There is a surging trade literature on multi-product exporters who account for a disproportionately large share of total exports. On the other hand, it is also well known that new exporters usually start small and many with a single product. In this paper, I bring the two bodies of literature, one on multi-product exporters and one on the post-entry dynamics, together to study how single-product exporters evolve into multi-product exporters, with special attention to the role of perceived quality in this process. I use the detailed price and quantity information on firms' exports between 2000 and 2006 from China's customs data to recover the latent quality as residuals from market- and product-specific demand functions for China's exports. A cross-sectional comparison reveals that relative to a single-product exporter, a multi-product exporter has quality premium in its core products, but quality discount in its peripheral products. However, overtime within a firm-destination-product cell, I find that the perceived quality is positively correlated with an exporter's product scope, which I argue is mainly driven by the adding of new product lines at exactly the time when the existing products get well accepted by the market. I further show the evidence that this coincidence of a surge in the perceived quality of existing products and expansion of product scope is very likely to be driven by the resolution of uncertainty on the demand side. A trade model of heterogeneous firms self-selecting into exporting markets with an once-and-for-all draw of firm- or firm- and product-specific productivity that abstracts away from the process of learning and gradual resolution of uncertainty on the demand side cannot generate these patterns. On the policy aspect, findings in this paper suggest that effective export-promoting policies should be targeted at the removal of informational barriers.

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