

Comments on

**“Payment Choice in International Trade: Theory and
Evidence from Cross–Country Firm Level Data”**

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Comments

- Relevance and contribution
- Specific comments on
 - Theory
 - Empirics

Relevance and contribution

- Better understanding on payment contracts in international trade
- No much empirical evidence on this issue
- Payment contracts can have important effects on trade flows

Relevance and contribution

- Extension of previous work for looking at the importance and interaction of financing costs, contracting enforcement, and products complexity
- Firm, industry and country information may help to identify better these effects, extending previous literature using mostly industry–country, firm–country level data.

Comments on Theory

- Simplified version of Schmidt–Eisenlohr (2009)
- Modeling contract decision: cash in advance & open account
- Trade model, Krugman (1980): prices, quantities, profits
- Not clear how both are linked
- Max profits and decision variables

Comments on Theory

- Static game one buyer/one seller
- Fine, but default costs are very limited
 - some fraction of current exports
- In a dynamic setting, exporters lose the NPV of future profits
- Why not a repeated game?, more realistic for exporting decisions

Comments on Theory

- Why the same across firms?
- High productivity firms have higher NPV of profits, default is more costly.

Comments on Theory

- Static game misses issues that previous – theoretical and empirical – literature show as relevant in exporting decisions
 - Exporting sunk cost
 - Different across industries
 - Firm heterogeneity

Comments on Empirics

- Weak link theory and data
- They want to explain payment choice in international trade
- But, dependent variable is S_{OA} / Total sales
- Impossible to distinguish between
 - $S_{OA,X}$ / Exports
 - $S_{OA,DS}$ / Domestic sales

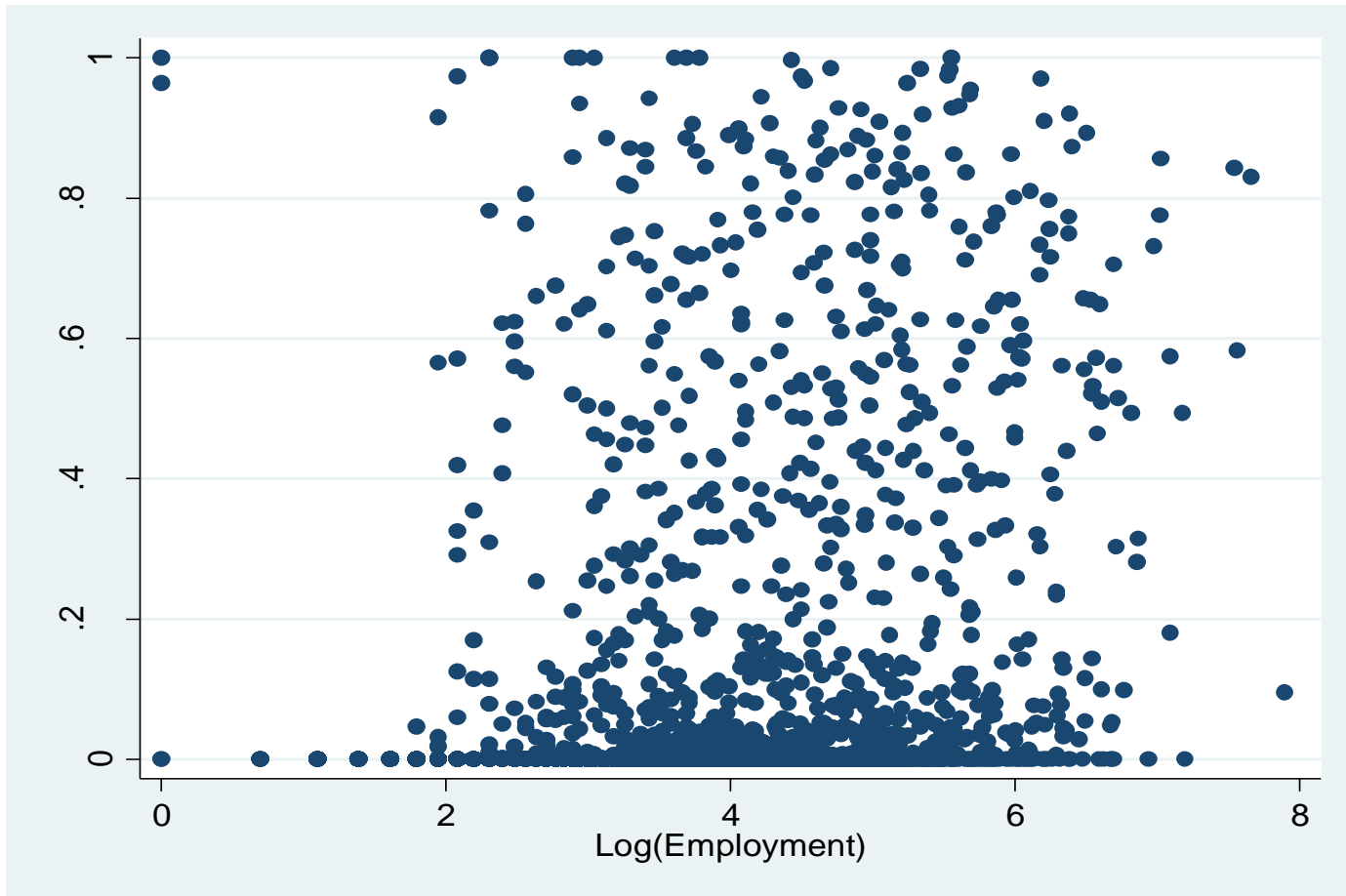
Comments on Empirics

- It does not provide evidence of importance of open account on export sales
 - Across countries, industries, and firm size
- Differences are approximated by including exports/sales and its interactions with financing costs and contract enforcement as covariates
- Indirect way
- Financing cost (contract enforcement) can have first order effects on sales

Comments on Empirics

- IV for export share: $\log(\text{Employment})$
- Validity and strength
- How strong is the correlation between export share and size?
 - Size increases probability of exporting
 - But, export share?

Comments on Empirics



Source: Annual Survey of Manufactures, Chile: 2000

Comments on Empirics

- Size should effect OA sales (payment choice) only through export share
- But, larger firms may have better credit access than smaller firms
- This affects surely payment choice
- Other IV?
 - Comparative advantage
 - Firm factor–intensity*industry factor intensity

Comments on Empirics

- Exploiting differences across firms may be interesting by itself
 - Large versus small firms
 - Older versus young
 - Domestic versus foreign (access to external credit markets)
- It may also help for causal identification