"Geographical Co-location and Trade Association Effects on Firm´s Export Performance: Evidence from South American Emerging Economies"

Purpose

The purpose of this article is to investigate the effects of geographical co-location and the company´s level of engagement with a trade association on the firm´s export performance. The authors argue that both co-location and the level of engagement with a trade association influence the export performance of the firm by affecting its resource acquisition process positively and negatively through a set of distinct externalities.

Design/Methodology/Approach

Our study examines the following hypotheses: 1) The stronger the firm´s level of engagement with a trade association, the higher the firm´s international intensity (measured as total exports divided by total sales). 2) The stronger the firm´s level of engagement with a trade association, the higher the firm´s export propensity (firm´s probability of being an exporter). 3) The higher the levels of geographical co-location, the lower the firm´s international intensity. 4) The higher the levels of geographical co-location, the lower the firm´s export propensity.

We analyze the data from the 8th Survey of Innovation from the National Institute of Statistics from Chile and the National Innovation Survey in the Manufacturing Sector from the National Institute of Statistics and Information from Peru separately. Our econometric models include the level of engagement with a trade association as well as geographical co-location as independent variables, and international intensity and export propensity as dependent variables. A vector of control variables is also included in the models. Coefficients were obtained by the estimation of a General Linear Model with a logit transformation.

Findings

Our results show that there is an overall positive effect of trade association engagement on international intensity in Chile and Peru. Higher levels of engagement result in greater levels of international intensity. Nevertheless the relationship is curvilinear at lower levels of engagement. Geographical co-location has a negative effect on international intensity. In addition, geographical co-location shows a negative effect on export propensity while the level of engagement with a trade association presents a positive effect on export propensity in the case of Chile and a negative effect in the case of Peru.

Practical Implications

Our study contributes to policy makers in emerging economies, as it shows how increasing efforts in the support of the development of institutional networks, such as trade associations, would help boost the international intensity of firms in emerging markets. It also provides insight to business managers in emerging economies, suggesting that engaging strongly with a trade association when there is a purpose of expanding in foreign markets is a desirable strategy. It also calls for attention on the issue of geographical co-location as the effect of positive externalities generated by co-location could be engulfed by negative competition effects in the context of emerging economies.

Originality/Value

Our study is the first empirical research that measures the effect of the level of engagement with a trade association on export performance while accounting for the effect of geographical co-location. Our results confirm the most recent arguments in the international business literature that suggest that institutional networks deeply impact the export performance of firms.