

The Role of Intermediaries in Facilitating Trade*

PRELIMINARY DRAFT

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First Draft: September 2009

This Draft: September 2009

Abstract

Using a database that records the census of firm-level trade by Chinese firms, we provide systematic evidence that intermediaries play an important role in facilitating trade across borders. Intermediaries account for at least 20% of China's imports and exports in 2005. This implies that a large number of firms are able to engage in international trade without directly exporting or importing products. We modify a heterogeneous firm trade model to allow firms to endogenously select their mode of export—either directly or indirectly through an intermediary. The model predicts that intermediaries play a relatively more important role in markets that are more difficult to penetrate. We provide empirical confirmation for this prediction as well as generate new facts regarding the activity of intermediaries.

Keywords: China, Intermediaries, Heterogeneous Firms, Middlemen, Fixed Costs

JEL classification: F1

*We thank James Rauch and Peter Schott for helpful comments and suggestions. We thank the Social Enterprise Program and the Chazen Institute at Columbia Business School for financial support. All errors are our own.

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