ERSA Research Brief

June 2018

The Growth Dynamics of New Export Entrants in Kenya: a Survival Analysis

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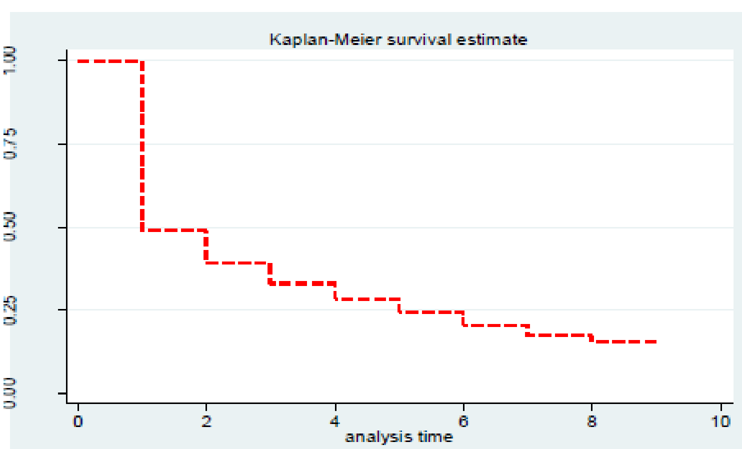
Promotion of exports remain a core objective of trade policy in many countries. Information on how long or how short the duration of a trade relationship is for an average exporter may be important from a policy point of view. Policy makers from almost all countries aim to encourage exports and entry of new exporters, because exports are a major driver of economic growth and jobs. This is usually accompanied by fiscal incentives geared toward promotion of exports and raising the number of new exporters as a performance metric. However, knowledge on how many of these new exporters will be able to survive in international markets remains extremely scarce for countries in the Sub-Saharan Africa, and certainly for Kenya. This is surprising given that the length of survival can be considered one of the most comprehensive measures of exporter performance. This paper seeks to add to a growing literature examining this issue for SSA countries.

This is done by exploring the growth in exports of new exporters after entry into international markets and examining the factors associated with the probability of survival in international markets. The findings show that for new exporters, once the trade relationship manages to survive through the initial year of entry, it grows and expands overtime contributing substantially to the nation's exports. However, survival beyond the first year is only for a few firms. Out of the cohort of export entrants in 2005, approximately 52% exit in the first year. Figure 1 show the Kaplan-Meier survival estimates for the duration of trade for the population of exporters that started to export in 2005.

Figure 1: The duration of export relations for the new exporters



Notes: The y-axis is in probability scale. The x-axis contains the duration of trade. The graph is a series of declining steps showing decling hazard rate (or increasing survival) as export spell grow older

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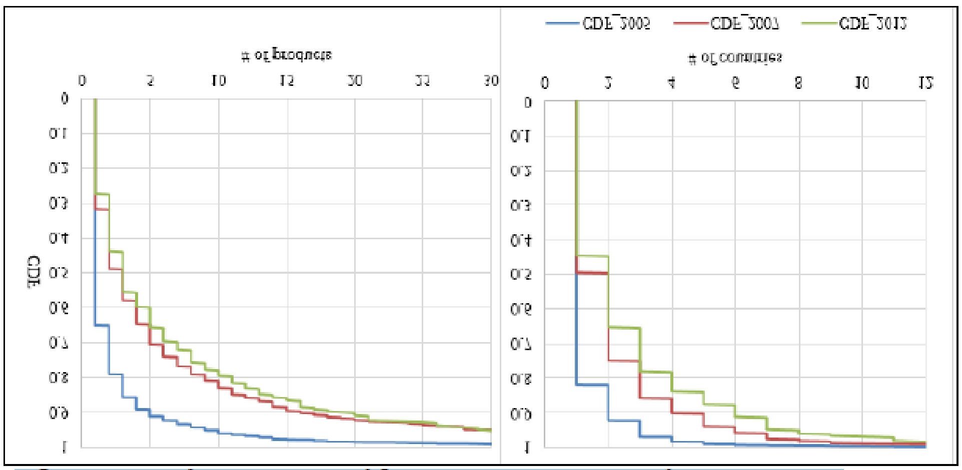
From the graph, approximately 52% of new export's trade relations end within the first year of entry, while approximately 75% end within the first five years of entry. This is a very steep rate of failure (exit) compared to other jurisdictions. For example Besedes and Prusa, 2006a finds for the US firms a failure rate in the first year of entry of 33%. Overall, the hazard rate fall as export and exporter stays longer in exports, underscoring the need to ensure sustainability of entry and survival in export markets.

We also find that new entrants into exporting start small in terms of products and the number of countries per exporter. However, once they survive, they diversify their export portfolio in terms of the number of products and the number of countries served. Figure 1, captures this fact using cumulative density functions (CDFs). It can be noted that there is a rightward shift in the number of products exported and in the number of destination countries served per surviving exporters over time.

Figure 2: CDFs for the number of products and destinations, for 2005 Cohort



Notes: Computed from Customs data

This provides evidence to support the fact that maintaining an export relationship is associated with increase in firm's exports along the extensive margins.

On the factors associated with the probability of survival, we find that a 10% increase in the initial value of export transaction is associated with a reduction in the probability of failure by 0.4 percentage points, the difference in the probability of failure is lower by 5.0 percentage points for exporters who export differentiated products relative to those who export homogeneous products. A 10% increase in the number of products (number of countries served) by an exporter is associated with a reduction in the probability of failure by 0.5 (2.5) percentage points. Thus a one more destination for a firms' product represents a substantial move and has a greater impact on survival compared to adding a product. A firm needs to add to its portfolio at least 5 (=2.5/0.5) products to match the benefits of adding one new destination. Our results remain robust to a number of consistency tests.

The findings from this paper suggests that initiatives to foster survival of firms in international markets are as important as those targeting to increase new entry. Thus policy should also have as its objective, the entry and sustainability of exporters in international markets because, firms, that survive in international markets, grow and contribute substantially to exports.