

Country Reputation and International Trade: A Structural Gravity Approach

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Chile's "Frutas de Chile" promotional campaign is designed to *"improve Chile's reputation and bolster the Chilean fruit industry in the USA, Europe, and Asia."*

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The Serbian Investment and Export Promotion Agency strives *“to raise Serbia’s profile in the minds of international business decision-makers.”*

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- Turkey's Export Promotion Center has been very active.
- Efforts include: Establishing business relations between foreign importers and Turkish exporters; Organizing national and international trade fairs; Organizing Turkish Export Products Exhibitions abroad.



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- Turkey's Investment Promotion Center has been very active as well.
- The 2007-2008 campaign includes 2687 TV-Spots, 45 News Papers, 45 Magazines in Asia, Europe, USA, Gulf Countries, Middle East.



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Contributions

- Employ the latest theoretical and econometric developments from the trade literature to quantify the effects of country reputation on international trade both at the aggregate and at the sectoral level.**
- Introduce the structural gravity model of international trade to the fields of management and marketing.**

Main Findings

- Country reputation is an important determinant of trade.
 - We estimate positive and economically and statistically significant effects of reputation on international trade.
 - All else equal, on average, a unit improvement in reputation translates into 2% increase in trade.
 - All else equal, a unit improvement in reputation is equivalent to 4% tariff-equivalent trade liberalization.
 - All else equal, a unit improvement in reputation is equivalent to 2% hypothetical decrease in average exports distance.
- The effects of reputation are stronger for more heterogeneous products.
- The effects of reputation are equally strong across developed and developing nations.

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Remember Newton?

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Log-linearized specification → OLS

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Data: 2009/50 exporters/20 importers; Trade Flows (United Nations COMTRADE); Gravity variables (CEPII's Gravity Database); Reputation data (Anholt-GfK Nation Brands Index Database).

Main Estimation Results

	ALL	AGRIC	MINING	MNFRG
DIST	-1.032 (0.039)**	-1.112 (0.085)**	-1.819 (0.169)**	-1.027 (0.037)**
BRDR	0.289 (0.081)**	0.638 (0.159)**	0.551 (0.361)	0.264 (0.076)**
LANG	0.252 (0.092)**	-0.193 (0.188)	0.790 (0.409)+	0.262 (0.082)**
CLNY	0.011 (0.093)	-0.237 (0.252)	-0.554 (0.769)	0.032 (0.090)
RPTN	0.020 (0.006)**	0.018 (0.007)**	-0.014 (0.013)	0.019 (0.005)**
CONST	22.745 (0.906)**	13.604 (0.907)**	24.978 (1.773)**	22.944 (0.836)**
<i>N</i>	881	881	881	881
<i>R</i> ²	0.940	0.849	0.856	0.950

Sensitivity Experiments

Reputation Effects and Product Heterogeneity:

	FRNTR	PBLISH	CHMCLS	MNRLS
RPTN	0.042	0.015	0.029	0.022
	(0.008)**	(0.008)+	(0.005)**	(0.007)**

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Reputation Effects and Country Risk

	DEVELPD	POLITY	ECFREEDM	RULEOFLAW
LOWER	0.019	0.024	0.018	0.018
	(0.007)*	(0.007)**	(0.007)*	(0.007)*
UPPER	0.023	0.008	0.025	0.026
	(0.008)**	(0.008)	(0.008)**	(0.008)**
χ^2	.189	2.271	.385	.601
<i>p-value</i>	.664	.132	.535	.438

Quantitative Implications

Based on our aggregate sample estimates $\widehat{RPTN} = 0.020$ (std.err. 0.006), a unit improvement in a country's reputation is equivalent to:

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Turkey can double its exports by improving its reputation!

Conclusions & Extensions

- We quantify the effects of country reputation on international trade.
- We introduce the structural gravity model to the fields of management and marketing.
- Our theoretical framework is flexible and allows for numerous extensions and policy experiments.