

FARM TO FIRM: CLUSTERING AND RETURNS TO SCALE IN AGRICULTURAL EXPORTING

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Abstract

Movement away from low productivity subsistence agriculture and towards high value, export oriented, agricultural chains is often thought of as a key driver of structural change. However, across a number of countries, patterns of land usage are the opposite of what Ricardian specialization would suggest: crops in which a country has a higher comparative advantage in exports are produced with a smaller fraction of total arable land. I argue that this relationship is driven by crop-specific farm to firm linkages, which generate regions of high specialization in exporting and specific crop cultivation, but leave many regions without these linkages unable to specialize. Empirically, I show that farms located closer to firms exporting a given crop are more likely to cultivate it. Using farm and firm microdata, I estimate the fixed costs of production for such intermediaries as well as input costs of production for exporting farms, which are partially driven by the costs of compliance with TBT and SPS barriers. I then develop a model which can accommodate these patterns of clustering, and can explain aggregate patterns of land use. Finally, using counterfactual analysis, I examine which policies can best facilitate the goal of high value agricultural export promotion.

Keywords: agricultural value chains, structural change, crop exporting

JEL Classification: Q17, F10, O19

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