

How entrepreneurship drives export growth by reducing trade cost elasticity

Yi Dai^a, Tan Li^a and Wan Tang^b

^aSchool of International Business, Southwestern University of Finance and Economics, Chengdu, China; ^bSchool of Business Administration and Customs Affairs, Shanghai Customs University, Shanghai, China

Abstract: Trade costs are widely identified as a primary impediment to export expansion. This study explores the role of entrepreneurship—a pivotal cultural factor reflecting risk preference—in shaping export performance through the lens of subjective trade cost perception, an area that remains under-explored. We incorporate regional entrepreneurship into a heterogeneous firm trade model by endogenizing the shape parameter of the Pareto productivity distribution. Theoretically, we propose that entrepreneurship promotes exports via a risk-preference mechanism that lowers trade cost elasticity, specifically by dampening the sensitivity of the extensive margin to cost shocks. Using city-industry-destination panel data from China (2010–2015), our results demonstrate that in regions with higher entrepreneurship, a 1% increase in trade costs leads to a reduction in the trade cost elasticity of total exports and the extensive margin by an average of 0.004% and 0.010%. These findings remain robust when employing exogenous natural resource endowments as an instrumental variable. Heterogeneity analysis reveals that entrepreneurship plays a more pronounced role in stimulating exports for cities lacking geographical advantages in openness. Furthermore, favorable market institutions significantly strengthen this promotional effect. This research offers a novel perspective on driving export growth through the cultivation of entrepreneurial culture and provides policy implications for balancing regional export development.

Key Words: entrepreneurship; trade cost elasticity; extensive margin; export growth; risk preference

JEL codes: F12; F14; F23