

Distribution Costs, Product Quality, and Cross-Country Income Differences

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Abstract

We document that the efficiency of international distribution systems varies across countries and show that, in a model of distribution and trade, an efficient distribution system creates comparative advantage in high quality products. Using the model's structure and international shipment-level data, we estimate the efficiency of distribution systems for a sample of 74 countries, and find that the country at the 90th percentile of the distribution is almost three times more efficient than the one at the 10th percentile.

A calibrated version of the model that incorporates these efficiency estimates reveals that cross-country differences in the efficiency of export distribution systems explain almost forty percent of the observed cross-country differences in income. It also shows that policies that improve the efficiency of distribution systems can lead to significant welfare gains, mainly due to induced quality upgrading.

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