

# Trade and investment climate with heterogeneous firms\*

Lianming Zhu

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## Abstract

This paper investigates the impact of investment climate on exporting and firm performance. I introduce investment climate in a model of trade with heterogeneous firms, where a good (poor) investment climate has a positive (negative) effect on the probability of exporting and international trade. Using a cross-sectional firm-level data covering 54 developing countries from Enterprise Surveys by the World Bank, I find that a sound (poor) investment climate makes firms more (less) likely to export and increases (decreases) export values, as predicted by the model.

*Keywords:* Trade, Investment climate, Firm-level data

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\*Faculty of Economics, Yokohama National University, 79-3 Tokiwadai, Hodogaya-ku, Yokohama 240-8501, Japan; Email: lianmingzhu@hotmail.com. I am grateful to Eiichi Tomiura for invaluable guidance. All remaining errors are mine.