Discussion of: "Firm-to-firm Access in Production Networks"

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Overview

- A new RCT which incentivizes firm-to-firm linkage formation through subsidized referrals
  - New links created
  - Significant positive impacts on firm performance
  - Limited business stealing effects
  - Very Cost-effective: large private and social returns

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  1. Higher expected satisfaction among treated firms
     - ⋆ Mechanism: Treated firms have updated beliefs through actual transactions
  2. Treated firms spend more time searching for new customers afterwards
  3. Marketing offer experiment: providing reliable information and free samples of products

Take a step back: Decomposing Undervaluation

- How firms form valuation/beliefs: $F(I)$
  - I: Information Set
    - How good is an average/specific firm in the market?
    - general quality q_j + pair specific match quality τ_{ij}
  - F: Assessment/Valuation Process
    - Given a firm's ability, can I benefit from a new linkage?
    - Example: lack of enforcement & relational contract (Macchiavello and Morjaria, 2015)

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  - Different policy implications
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- This paper: can we distinguish the two steps?
  - Expected satisfaction: either
  - Increase of searching efforts: either
  - Marketing offer experiment: providing reliable I

Take another step back: Belief Formation and Misbelief in General

- Belief Formation
  - Learn from own experiences (Rauch and Watson, 2003; Jensen and Miller, 2018)
  - Learn from successful peers/close peers (Conley and Udry, 2010; Beaman et al., 2021)
  - Learn from interventions (Bloom et al., 2013; Atkin et al., 2017)

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- Why Misbelief
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- This paper: treated firm update belief after the intervention
  - But why undervaluation in the first place?
  - Would like to learn what frictions prevent them from forming correct beliefs
  - More information on baseline links' characteristics can be very useful

Alternative Story: rational beliefs

- Firms have a rational belief about the average quality across firms
  - The benefit of being matched with a **random** firm in the market $<$ search costs
  - This paper: 2 screened suppliers + 1 unscreen supplier
    - Better than a random sample
  - Instead, the friction may be search friction
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- This paper: what results can attenuate this rational-belief story?
  - Belief over a randomly selected supplier
  - More details on the searching behaviors
  - Heterogeneity by firm centrality and locations

Broader Thoughts on Firm-to-Firm Networks

- Macro Perspectives
  - Global supply chain and production network (Antras and Davin, 2013; Bernard, et al., 2022)
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  - Evidence on the value of suppliers and sources of frictions (Alfaro-Ureña et al. 2022)
  - RCTs for direct treatment effects (Atkin et al., 2017; Startz, Bergquist and McIntosh, 2024; Houeix and Wiles, 2025)

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  - A new intervention creating firm-to-firm links in an industrial cluster
    - ⋆ Very practical and cost-effective
  - More evidence on the belief-based partnering friction
    - ⋆ How can we bring this to a model?

Policy Implications in General

- How can we incentivize more firm linkages? $\rightarrow$ depends on the sources of frictions
  1. Information: marketing offer; sample exchange; reliable platforms; trade fairs
  2. Experience-based learning: subsidy as the push
  3. Better searching and matching: using data to pick the right pairs

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- How about other industry clusters that are spatially more sparse
  - Shall we expect even lower beliefs or worse information exchange?

Minor Quibbles

- Business Stealing
  - Yes: between suppliers and clients (links)
  - But No: Across clients
  - How shall we understand these two results consistently?
- What are the sources of firm upgrading?
  - Information or Capital or other reasons?
- What are the equilibrium impacts?
  - Shall we expect the treatment to be larger in the long run after firm sorting and matching?
- What determine the structure of the supply chain?
  - Why not firms vertically integrate in this context?