

Abstract

We show using detailed firm-level Chinese data that, among small exporters, firms selling to a more diversified set of countries have more volatile exports, while the opposite holds among large exporters. This result, which stands in marked contrast to standard portfolio theory for small exporters, is robust to a wide array of specifications and controls. Our theoretical explanation for these observations rests on the presence of fixed costs of exports per destination and short-run demand shocks. In this setup, the volatility of a firm's exports depends not only on the diversification of its destination portfolio but also on whether it exports permanently to all markets. Among small exporters, a more diversified pool of destinations makes the firm more likely to export occasionally to some markets, thereby raising volatility. These results cast doubts on the commonly held belief that standard measures of diversification must be associated with lower volatility.