



STEG-PEDL Virtual Course on 'Private Enterprises, Productivity and Economic Growth'

Session 6: Friday 13 March 2026

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Q: Sorry this might be a bit off topic, but what is so special about manufacturing that, despite the higher share of employment in retail, governments focus on this sector?

A: Good question. Partly this is a data issue - productivity is easier to measure in manufacturing. But there is an increasing amount of work on service-led growth. See Penny's opening lecture in this series for more on this.

Q: I'm guessing that the unexplained high trade cost can be accounted for in corruption?

A: That could play some role in how transport costs increase with distance. But there might be other explanations as well and they don't have data to test that in their context.

Q: Is there any structural difference between intermediaries who trade inputs for firms and traders who sell to consumers? It seems like they arise from different types of problems in the market. What do you think?

A: Good question. Let's ask Meredith for her thoughts at the end.

Q: Is there data from China and whether these intermediary networks are also important, and whether they have evolved as China has grown and become more industrial?

A: I have seen a lot of research using the China Enterprise surveys (manufacturing). There is work on road networks and fast rail, and also work on internet trading (Ben

Faber et al.; Cai and Szeidl). But I don't know about work of the sort Meredith is talking about.

Q: Are there information problems? Are relationships important? Or access to technology?

A: All of these of these (information and technology) for sure -- but possibly many other frictions, too! Meredith's paper coming out (or out?) in *Econometrica* examines this in detail for Nigerian traders.

Follow-up Q: Middlemen are typically local to their communities. Is the value they bring the fact that they foster relationships between producers and distributors?

A: Middlemen might be local to their communities in certain markets -- especially in some agricultural markets -- but not necessarily. There are also many examples of middlemen who are less embedded in communities.

Follow-up Q: Oh this is the paper she's talking about now?

A: No, this is a follow-on from her earlier paper. You can think of it as the earlier paper basically stopping in Lagos, while the paper she is talking about now goes from Lagos to the rest of the country.

Q: Inventory costs may be high for smaller retailers - especially if demand is uncertain. Do you agree?

A: I agree. And Meredith's ECMA paper has something to say about this.

Q: Is the supply chain length correlated with GDP gap?

A1: I think Meredith's work (and others) suggests that there is a lot of variation in the length of the supply chains for different goods, even within the same economy. For instance, you could think about some wealthy countries where new digital platforms allow consumers to purchase directly from producers, bypassing lots of links in the chain. But it must depend on the nature of the good that is being traded, the mechanisms for contract enforcement, etc.

A2: Good question! Mechanically, it is likely to be in this paper, because longer chains are associated with smaller markets. But an interesting question is how this varies across countries with income levels.

Q: What's the difference between external and internal scale economies?

A: An internal scale economy would be something that exists within a single firm. An external scale economy would be something that matters for an entire sector or industry (or a location); i.e., for a collection of firms.

Q: From a productivity perspective, could shorter supply chains reduce aggregate productivity? If linkages with large firms become more limited, large firms may effectively act as gatekeepers, selecting only a small number of upstream suppliers. In the context of wholesale–retailer relationships, this could significantly restrict market access for upstream firms in earlier production stages.

A: This seems plausible if the shortness is related to concentration (it's not immediately clear that it would be), but let's ask Meredith at the end if there is time.

Q: The question is - if the retailer can buy the good from the wholesaler, why would the consumer not go to the wholesaler as well, rather than go to the retailer directly?

A: There could be several reasons: Convenience (the wholesaler is not there all the time, the retailer is). Or minimum purchase quantity, for example.

Q: Does the decrease in transport costs (due to the construction of local ports) increase local FDI in the wholesale and retail sectors? Is this intuition related to what Professor Meredith is saying?

A: You would expect FDI in wholesale and retail to be related to market access and port construction, but it might be difficult to tease out a causal relationship.

Q: Thank you for this very interesting presentation. I think that different factors shaped the current structure of these networks and intermediaries across countries: political economy, economic geographies (direct and indirect transport cost, population), type(s) of product, logistics barrier and cost to international trade, etc. In Nigeria, the role played by each of these factors will differ across different products. Do you agree?

A: For sure both the factors you mention and just the geography of the country will affect the structure. All the more reason to trace these networks out in other countries!

Q: Does VAT data contain information on the wholesaler and retailer of a product? Can one track the product from the producer to the consumer?

A1: Well, in some abstract way, you see trade between a single seller and a single buyer, and then you see who the buyer sells to. So you can trace the network downstream. But you can't trace a specific traded item (since the original buyers will typically sell to many firms downstream).

A2: To some extent. You can't exactly track a single item through the supply chain, but you can see transactions involving intermediate goods. So you can't follow (for example) a bag of wheat from the farm to the consumer's loaf of bread. But you can see that the supermarket buys the bread from a bakery and sells to a consumer. And the bakery buys flour from a miller (and fuel for the ovens from a different supplier). And the miller in turn buys wheat from a farm co-op. So you can trace input-output relationships between firms. BUT... as Meredith is pointing out, this is only true if all the participants in that network are formal.

Q: (Sorry for asking many questions) What is an example of time specific interlinkage?

A: Questions are good! A time-specific interlinkage might be a one-time transaction that isn't based on a recurring trading relationship.

Follow-up Q: But then why does that create a problem for firms such that they need to rely on middlemen? I thought Meredith was referring to problems such as information frictions.

A: I think I missed that part of what Meredith was talking about while answering other questions! But one possible answer is that these networks will depend to some degree on trust, and trust depends on repeated relationships. So if you and I trade only once, trust is challenging. But if I trade often with someone else (as a middleman) and he trades often with you (selling you both my goods and other people's goods), then he is able to sustain trust with each of us.

Q: Would you assume that for LMICs that are connected by international linkages but also produce a lot for the domestic economy, the intermediary networks for foreign and domestic products would look different or be shared?

A: I think the paper Meredith talked about with middlemen in Nigeria says that the intermediaries are different, but the intermediaries that import will interact with those who trade domestically. But there surely are cases where the same intermediary imports and has a domestic distribution system.

Q: Are contract enforcement issues generally subsumed into search and friction costs? If not, is it not considered important in these contexts? All this seems very much consistent

with difficulty of contract enforcement making networks longer in lower income economies and general stickiness of these relationships.

A: Search frictions and trust frictions are distinct, but also related in the real world, so challenging to parse out. I'd again refer to you to Meredith's Econometrica paper that addresses this directly.

And to add to this response, contract enforcement issues also show up in other places, too, besides firm linkages... e.g., in financial frictions, in consumer choices, etc.

Q: If you have any questions please list them here, and Meredith will do her best to answer them.

Q1: Do you have any thoughts on whether, if one does not include intermediaries in standard TFP estimation, we would overestimate or underestimate TFP? How does this differ across countries?

Q2: Is there any study how China has handled this? Connecting producer to customer without middlemen?

Q3: My husband just started a new position at a bank in NYC where their group provides syndicated financing for intermediaries who buy and hold inventory for downstream buyers until they are ready to take that inventory. It's across different sectors.

Q4: You mentioned that when there are less intermediaries, the middlemen-firms are typically larger and they charge wider margins, which pass through to customers. However, customers may pay cheaper prices for goods because there are less intermediaries. In net terms, would less middlemen benefit the customers in terms of prices?

Q5: Why lesser number of intermediaries prompts these firms to charge wider margins? Could it be because there are less competition?

Q6: Wouldn't the monetizing agent be the intermediary? In which case there would still be a price gap?