Fight or Flight: Factors Affecting Local Traders' Decisions to Remain in or Exit the Market

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Abstract

Intermediaries play an important and often underestimated role in agricultural value chains in developing and emerging economies. In general, a larger number of traders in the market is favourable for competition, as farmers have more choices on whom to sell their products to and can choose their most preferred trader. An assessment of the determinants of market performance in these regions therefore requires a solid understanding of the drivers of small-scale traders' decision-making processes. Especially the decisions on entering, remaining in, and leaving the market alter the fundamentals of the market structure. This study focuses on the factors that influence traders' decisions to remain in or exit the market. To determine the factors that affect the probability of a trader's decision to remain in the market, we employ a binary logistic regression approach, applied to a panel data set, based on three waves of a representative survey with small scale traders in the Jambi province, Indonesia. Numerous studies of similar behaviour among farmers have analysed which factors affect farmers' decisions to remain in or exit the market, which are the most relevant studies in the literature, since, to the best of our knowledge, trader- level studies of agricultural products have not been undertaken. Therefore, this study is intended to fill this gap and to further diversify the existing research on the topic. Results suggest that human capital (education and experience), physical capital (land area, operational vehicle ownership), trading practices (traded product, credit provision), market environment (number of competitors), and socioeconomic factors (trading revenue and trader status) all affect the decision of traders to remain in or leave the market.

Keywords: Binary logistic regression, exit, palm oil, rubber, trader

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