

Trade Liberalization, Heterogeneous Firms, and Lobbying Power: Evidence from Vietnam's Accession to the WTO

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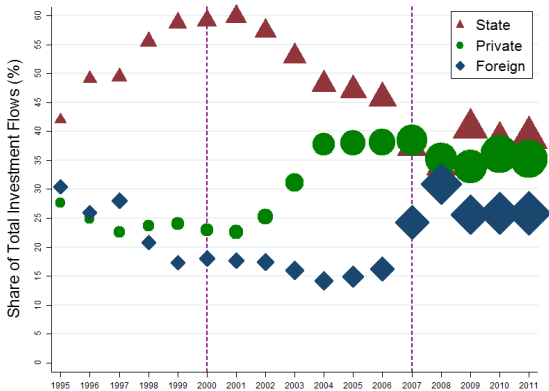
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Research Question

- ▶ How do interest groups affect Vietnam's trade liberalization?
- ▶ We focus on:
 - ▶ WTO accession (2007)
 - ▶ firm-level data
 - ▶ private firms vs. SOEs

Puzzle



Relevance

- ▶ Using the New New Trade Theory (NNTT) to explore the role of lobbying and reciprocity
- ▶ Unpacking the black-box of an authoritarian regime in trade policy
- ▶ Role of IGOs in promoting economic reform

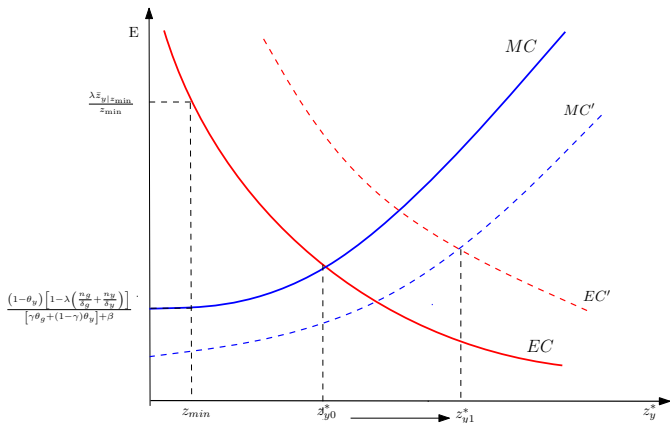
Model Set-Up

- ▶ 2 sectors: private and public
 1. private sector: high competition and high productivity
 2. public sector: restricted entry and low productivity

Stationary Equilibrium: Private Sector

- ▶ Trade reduces the markup and increases the productivity threshold
- ▶ Small, non-productive private firms exit
- ▶ Large, productive private firms increase market share

Private Sector



Stationary Equilibrium: Public Sector

- ▶ Productivity of SOEs too low to export
- ▶ Increases in efficiency cut two ways:
 1. consumers reallocate expenditure from public to private goods (*substitution effect*)
 2. consumers increase demand for all goods, which leads to easier survival for public firms (*wealth effect*)

Demand Side of Lobbying

- ▶ Private firms:
 - ▶ benefit from the WTO accession and MFN
 - ▶ willing to bear the cost of multilateral liberalization
 - ▶ tariffs ↓
- ▶ SOEs:
 - ▶ no interest in reciprocal trade liberalization
 - ▶ unwilling to make any concessions to enter the WTO
 - ▶ tariffs ↑

Supply Side of Lobbying

- ▶ Large firms have more lobbying power than small ones
- ▶ Hypothesis:

Firm Size	Private Firm	SOE
Small	↑	↑
Large	↓	↑

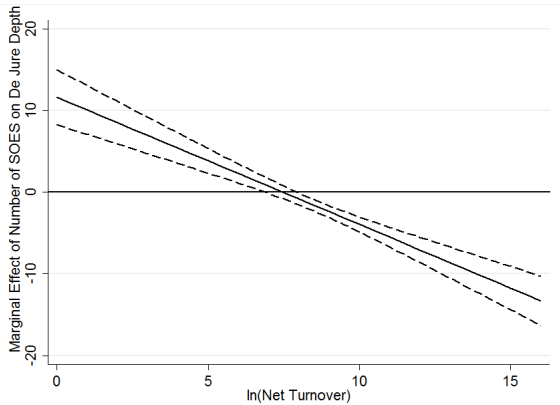
Table: Tariff preferences and lobbying power.

Model and Case Selection

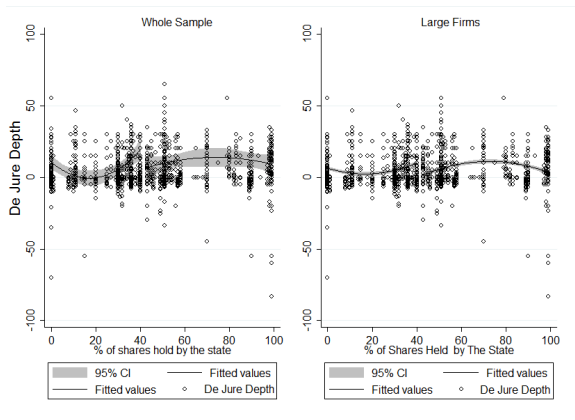
$$(MFNpre_i - Boundpost_i) = \beta_0 + \beta_1 FirmSize_i + \beta_2 NumberSOE_i + \beta_3 Size_i \times NumberSOE_i + \beta_4 X_i + \eta_j + \epsilon_i$$

- ▶ 3300 products
- ▶ 5 sectors: agriculture, manufacturing, mining, electricity, and others
- ▶ OLS and Instrumental Variables

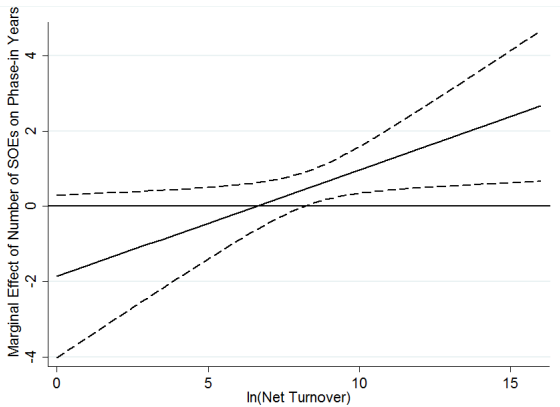
Main Results



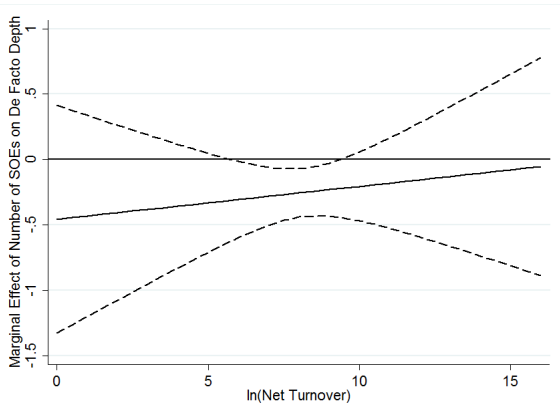
Main Results



Tariff Transition



De Facto Liberalization



Conclusion

- ▶ NNTT and interest groups in an authoritarian regime
- ▶ There is little evidence of unilateral reductions
- ▶ Are results on de facto liberalization Vietnam-specific?
- ▶ IGOs can help, but countries should also help themselves

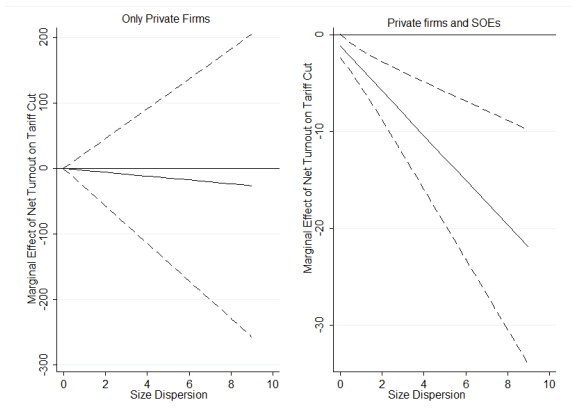
Conclusion



Identification

- ▶ Instruments:
 - ▶ Firm Size → AD measures faced by China
 - ▶ Firm Size → tariff reduction (US-Vietnam BTA)
 - ▶ Number of SOEs → number of SOEs in 2000
 - ▶ IT → number of bombs dropped on province during war (multiplied by industrial concentration)

Collective Action Problem



Free Riding SOEs

