Disparate Distributions of Exporting vs. Import-competing Firms and their implications for trade policy openness

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Research question

» Under what circumstances do firms get their preferred trade policy configurations?
  > What are firms preferred trade policies?
Motivation

Are the tenets of NNTT globally generalizable?

![Bar chart showing comparison between exporting and non-exporting firms.](chart)
Motivation

» Special interest channel dominated by small, uncompetitive firms seeking protection

» Why do we get such variation in trade policy openness?
  > Or any openness at all?
Motivation

Exporting *is* less common than not worldwide, but not in every country.
Sources of trade policy pressure
- Voters
- Special interests
  + i.e. firms

Heterogeneous policy preferences across firms
- Import-competing firms want protection
- Exporting firms should want policy openness
  + Assumption of reciprocity
  + Easier to import intermediate inputs

Voice vs. collective action
- Very few exporters
- Very many exporters
Hypotheses

» **H1a:**

> As a larger share of a country’s firms engage in international exporting, its tariff rates should follow a U-shaped curve

» **H1b:**

> As a larger share of a country’s firms engage in international exporting, its non-tariff barriers to trade should follow a U-shaped curve

» **H1c:**

> As a larger share of a country’s firms engage in international exporting, its overall trade freedom score should follow an inverse U-shaped curve
## Expected effects

<table>
<thead>
<tr>
<th>H₁a</th>
<th>H₁b</th>
<th>H₁c</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff rate</td>
<td>NTB</td>
<td>Trade freedom</td>
</tr>
<tr>
<td>Percent of exporting firms</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Percent of exporting firms, squared</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>
Empirics

» Unit of analysis: country-year

» DV:  
  - trade policy outcome
  - 3 measures

» IV:  
  - Percent of firms exporting
  - Plus squared term

» Controls:
  - Regime type (Polity IV & BMR Democracy and Dictatorship)
  - GDP, logged
  - GDP per capita
  - Island
  - Square mileage

» Robustness checks:
  - Leave-one-out cross validation, year fixed effects, ordered logit (NTBs)
## Results

<table>
<thead>
<tr>
<th></th>
<th><strong>Model 1</strong></th>
<th><strong>Model 2</strong></th>
<th><strong>Model 3</strong></th>
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</thead>
<tbody>
<tr>
<td></td>
<td><em>DV: weighted average tariff rate</em></td>
<td><em>DV: Non-tariff barrier penalty</em></td>
<td><em>DV: Trade freedom index</em></td>
</tr>
<tr>
<td>Percent of exporting firms</td>
<td>-0.157(0.055)**</td>
<td>-0.248(0.063)**</td>
<td>0.288(0.2298)</td>
</tr>
<tr>
<td>Percent of exporting firms, squared</td>
<td>0.0025(0.001)**</td>
<td>0.0044(0.0012)**</td>
<td>-0.0069(0.0028)**</td>
</tr>
<tr>
<td>Polity</td>
<td>-0.053(0.042)</td>
<td>-0.034(0.025)</td>
<td>0.171(0.129)</td>
</tr>
<tr>
<td>GDP, logged</td>
<td>-0.289(0.19)</td>
<td>0.711(0.187)**</td>
<td>-0.453(0.535)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-.0002(0.00005)**</td>
<td>-0.0002(0.00005)**</td>
<td>0.0011(0.0003)**</td>
</tr>
<tr>
<td>Constant</td>
<td>15.579(4.412)**</td>
<td>-1.38(4.298)</td>
<td>76.765(12.868)**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th><strong>N</strong></th>
<th><strong>R²</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model 1</strong></td>
<td>206</td>
<td>.272</td>
</tr>
<tr>
<td><strong>Model 2</strong></td>
<td>138</td>
<td>.278</td>
</tr>
<tr>
<td><strong>Model 3</strong></td>
<td>158</td>
<td>0.259</td>
</tr>
</tbody>
</table>

Note: *p < 0.1; **p < 0.05; ***p < 0.01
Substantive effects
Substantive effects

[Diagram showing the relationship between the percent of exporting firms in a country sample and non-tariff barrier penalty, with 95% confidence interval and fitted values indicated.]
Substantive effects
Implications

» Future iterations:
  > Test causal mechanism through case studies/process tracing

» New puzzle:
  > What country-level political factors determine the threshold at which firms become competitive enough to export?

» Implications:
  > policies through which firms enter the market and grow become relevant to determining how much pressure a country faces for protection/liberalization