Disparate Distributions of Exporting vs. Import-competing Firms

and their implications for trade policy openness

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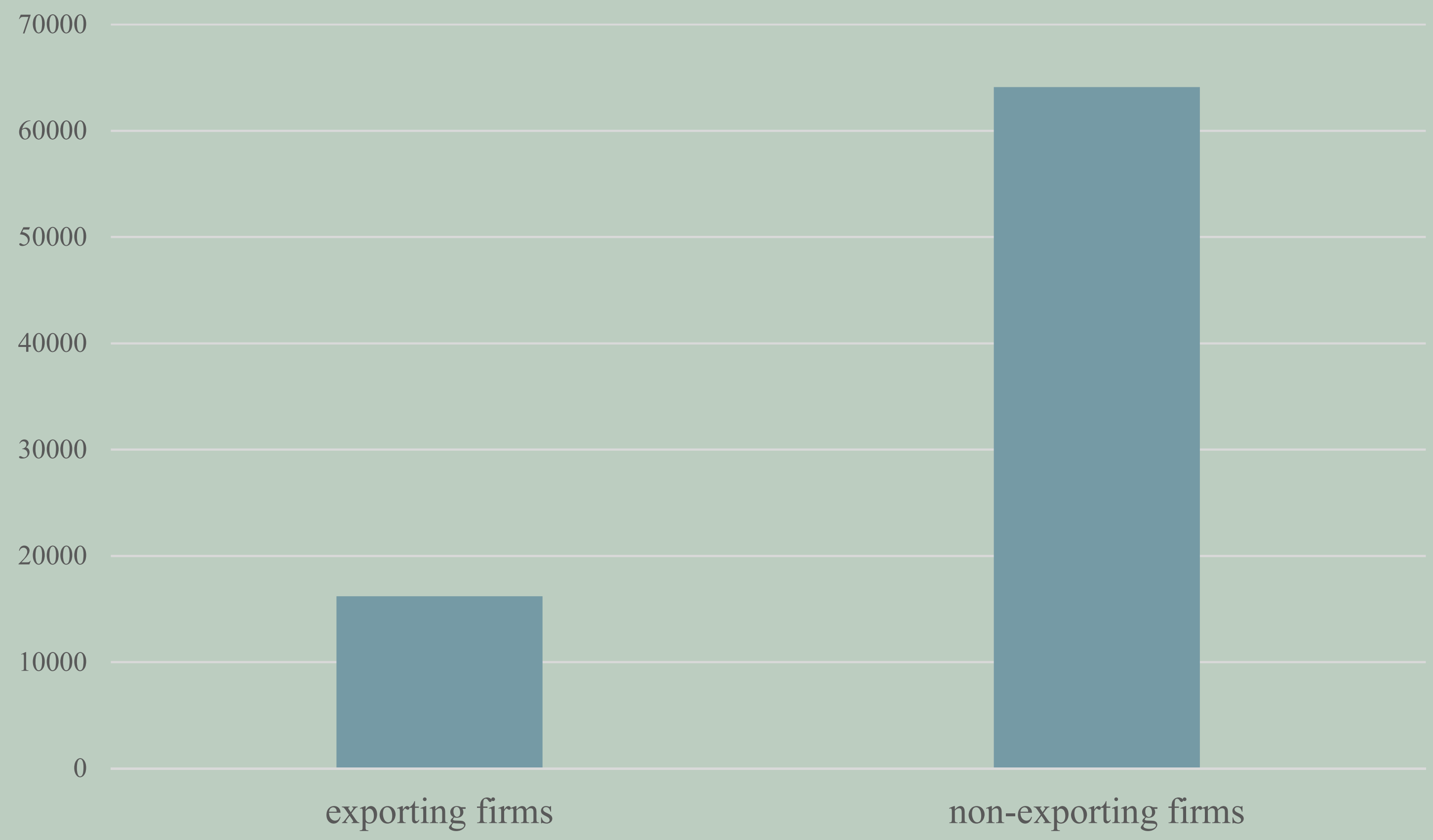
Research question

» 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?

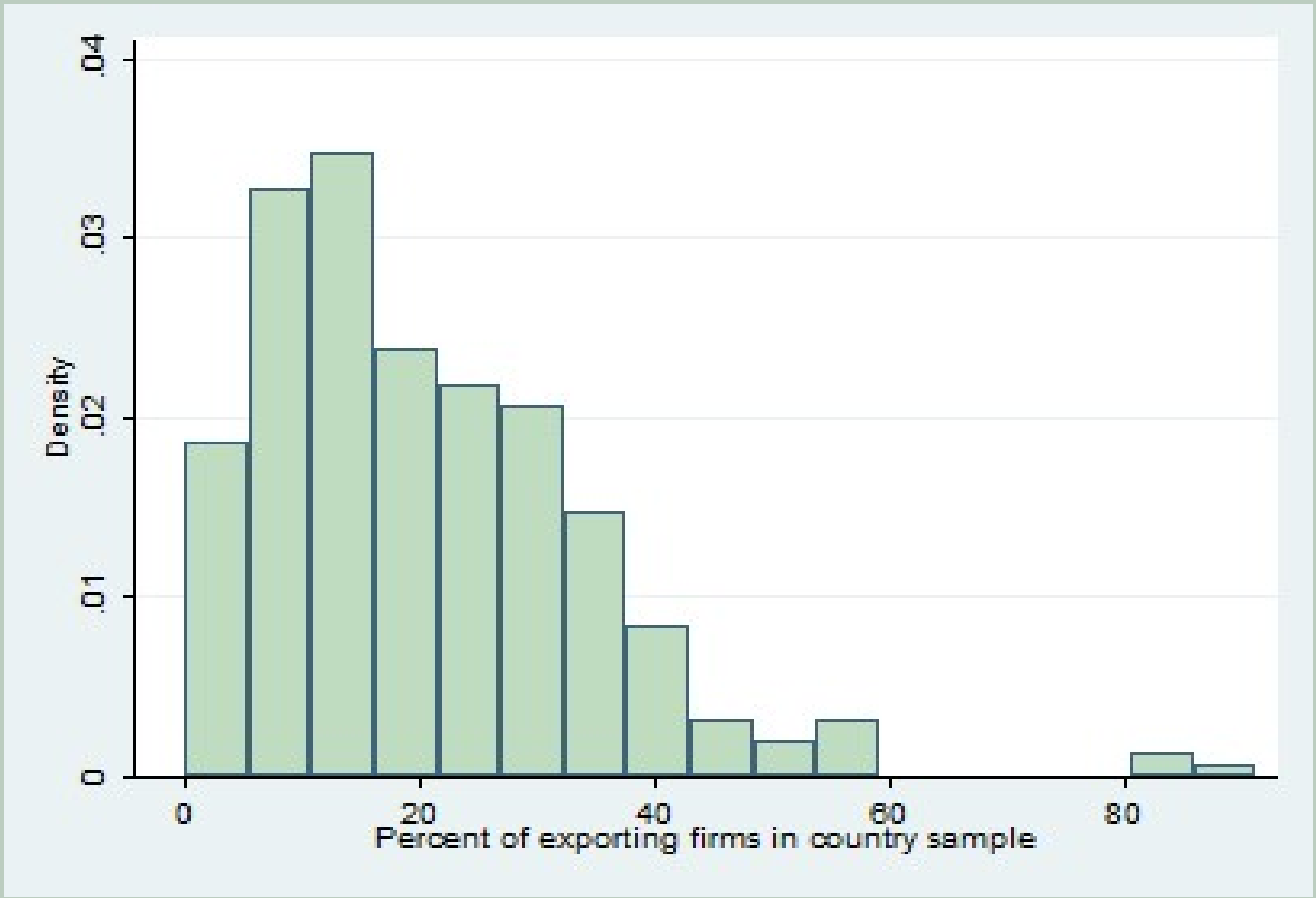


Motivation

- 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.

Theory

- 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

	H1a	H1b	H1c
	Tariff rate	NTB	Trade freedom
Percent of exporting firms	-	-	+
Percent of exporting firms, squared	+	+	-

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

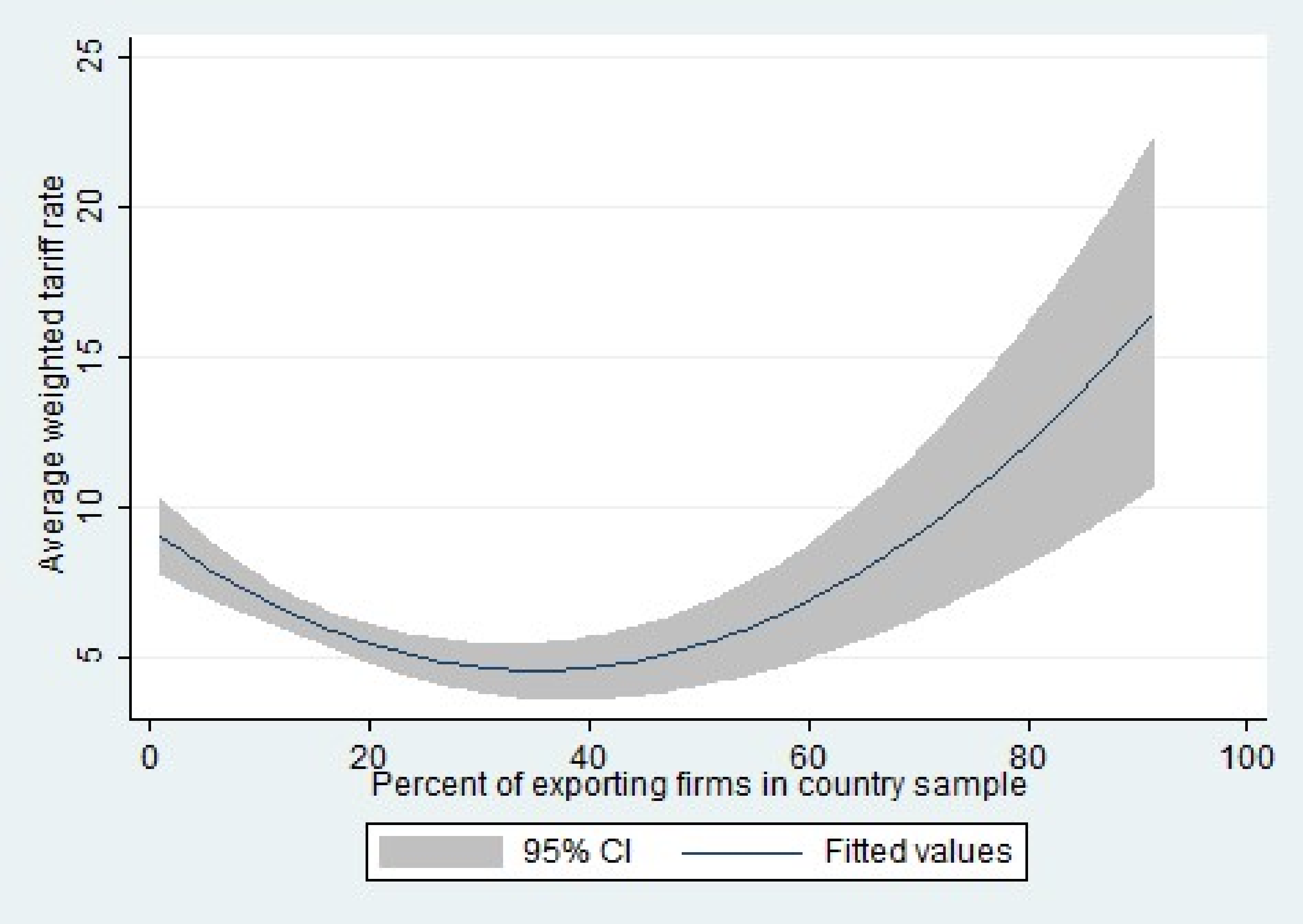
» Robustness checks:
  - Leave-one-out cross validation, year fixed effects, ordered logit (NTBs)

Results

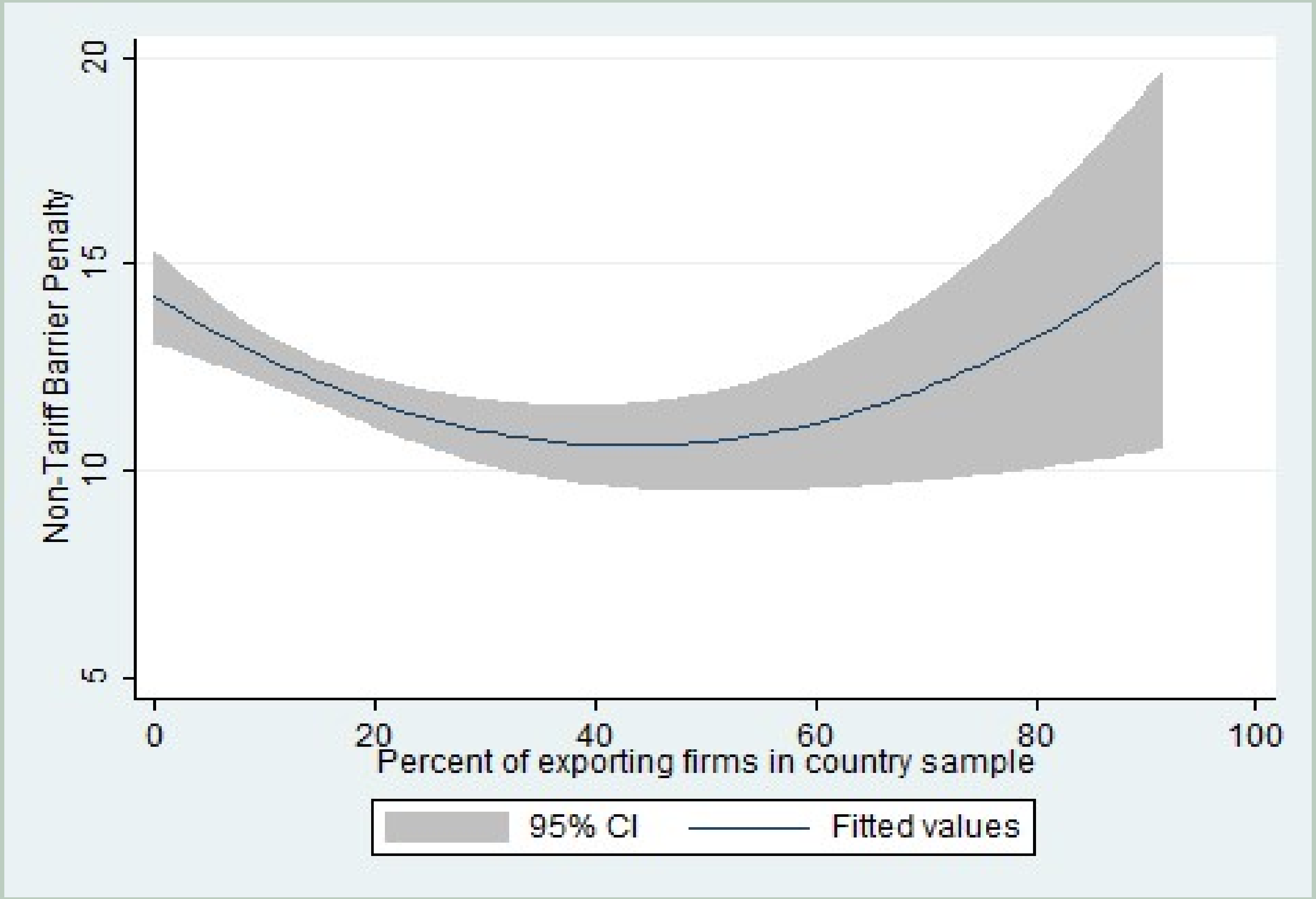
	Model 1 *DV: weighted average tariff rate*	Model 2 *DV: Non-tariff barrier penalty*	Model 3 *DV: Trade freedom index*
Percent of exporting firms	-0.157(0.055)***	-0.248(0.063)***	0.288(0.2298)
Percent of exporting firms, squared	0.0025(0.001)***	0.0044(0.0012)***	-0.0069(0.0028)**
Polity	-0.053(0.042)	-0.034(0.025)	0.171(0.129)
GDP, logged	-0.289(0.19)	0.711(0.187)***	-0.453(0.535)
GDP per capita	-.0002(0.00005)***	-0.0002(0.00005)***	0.0011(0.0003)***
Constant	15.579(4.412)***	-1.38(4.298)	76.765(12.868)***
N	206	138	158
R^2	.272	.278	0.259

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

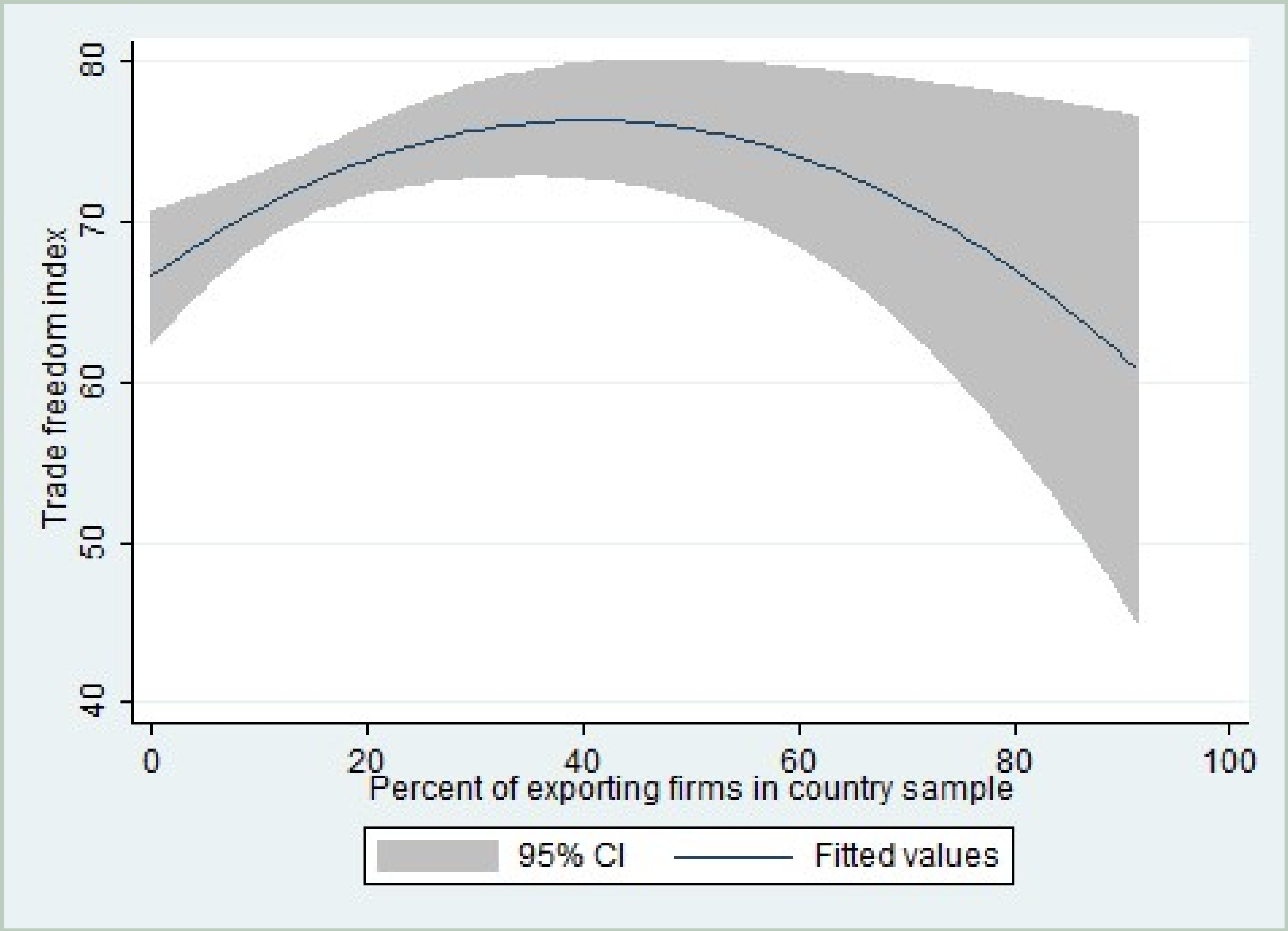
Substantive effects



Substantive effects



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