Does Input Trade Liberalization Boost Downstream Firms Exports?
Evidence from the French Agrofood Sector

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Introduction

Tariff cuts on intermediate inputs while final products remain protected is largely debated among policy makers. Much attention has been given to the impact of input trade liberalization on the domestic upstream industries, but relatively little to the impact on the downstream sector. Indeed, whether standard and new trade theories do not reach a consensus on the impact of input tariffs on the downstream sector, those theories predict that downstream industries would expand with falling input prices, inducing a reallocation of the final demand among input prices, inducing a reallocation of the final demand among upstream firms, and to test its predictions with firm level data.

Data

Data concerning tariffs at European borders from TARIC database (nomenclature) by value and quantity for each exporting firm. Each employees, investment, and some accounting data. 10 million €; a wide range of variables including the main activity of the upstream firms, and to test its predictions with firm level data.

Theoretical model

Based on Melitz 2003, we introduce an intermediate good in a model with heterogeneous firms.

Main hypotheses:

We consider an economy with n = 1 countries hosting M downstream firms producing a differentiated product under monopolistic competition. The mass of firms is exogenously determined. The productivity threshold above which a firm can export increases with heterogeneous firms.

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Empirical part:

Testing the impact of agricultural input tariffs on export level and probability of export of French agrofood (output) firms.

1. Export level: ∂E/∂t = β0 + β1 dt + β2 dz + β3 dz + β4 dz + β5 dz + β6 dt + β7 dz + β8 Hz + β9 Hz + β10 Hz

2. Probability to export: P(Export) = β0 + β1 dt + β2 dz + β3 dz + β4 dz + β5 dz + β6 dt + β7 dz + β8 Hz + β9 Hz + β10 Hz

Expectations to validate the model:

- First stage
  - direct effect of input tariffs on export level should be negative β1 < 0
  - More productive firms should lose more from input tariffs β2 > 0

- Second stage: consistency between equation 1 and 2.
  - dt > 0 then we expect high export fixed cost, and F = t + s > C
  - dt < 0 then we expect low export fixed cost, and F = t + s < C

Validation of the model: Classical results

- More productive firms are more inclined to export
- More productive firms export more

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References


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