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Tariff Scares: Trade policy uncertainty and foreign market entry by Chinese firms

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Abstract

We estimate how a rise in uncertainty about future tariff rates impacts firm decisions to enter into and exit from export markets. Using Chinese customs transactions between 2000-2009, we exploit time-variation in product-level trade policy and find that Chinese firms are less likely to enter new foreign markets and more likely to exit from established foreign markets when their products are subject to increased trade policy uncertainty. Our analysis is based on the phenomenon of “tariff echoing” – after a tariff hike in one country, another country is likely to raise its tariff on the same product. Overall, we find that if there had been no trade policy uncertainty created by the use of contingent tariffs, Chinese entry into foreign markets would have been roughly 2 percent higher per year. We use our model to counterfactually estimate how much entry by Chinese firms over 2001-2009 was due to future trade policy certainty provided by membership in the WTO.

JEL classification: F12, F13, F14

Keywords

Trade policy uncertainty, trade agreements, China shock, Chinese exporters, antidumping, information spillovers

1 Introduction

The establishment of the World Trade Organization (WTO) in 1995 introduced greater certainty about future trade policy around the world because WTO members committed to

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