Information & Trade

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- Ph.D. 2008 University of Minnesota
  - Dissertation: *State Export Behavior and Policy*
  - Advisors: Sam Kortum and Tom Holmes

- Primary research interest in regional development through exportation
  - Informational barriers to trade, costs to begin to export
  - Export promotion policy

- Specific research projects
  - Account for pattern of state exports
  - Location of state overseas offices & governor missions
  - Account for the clustering of exporters by destination of shipments
Basic Trade Theory

- **Comparative advantage**
  - Ricardo: technology differences
  - Heckscher–Ohlin: resource differences

- **Economies of scale**
  Paul Krugman nobel prize

- **Predictions**
  - Comparative advantage: different countries trade different things
  - Economies of scale: similar countries trade different things

- **Data:** Similar countries trade similar goods back-and-forth
  Ex: U.S.–Canada; U.K.–Germany
Fix & A New Challenge

- Accounted for by atheoretic “gravity equation”
- Use of Computable General Equilibrium models
- Role of tariffs?
  Hinders trade between similar countries on similar goods
- 1990: What will happen with NAFTA?
  Trade of goods already being traded will increase
- 2010: What did happen with NAFTA?
  Trade of goods already traded roughly constant
  Trade of previously untraded goods increases a lot
- Cannot be accounted for by “gravity” or CGE
Improvements to Theory

- Firm-level models
  - Do countries trade with each other?
  - What is a country?

- Features
  - Monopolistic competition: Economies of scale
  - Heterogenous: Firms differ by productivity
  - Fixed and variable costs to export

- Variable costs
  - Transportation, tariffs, what else?
  - Affects quantity of already exported goods: intensive margin

- Fixed costs
  - Cost to enter market: examples?
  - Affects the number of firms that export: extensive margin
Data
- Only 15% of firms export anywhere, less to any specific country
- This is much less than we expect based on the known costs of exporting (≈ $1 million)

What is causing the missing trade? Missing exporters?

Unobserved informational barriers to trade?
- What are informational barriers to trade?
- Are informational barriers fixed or variable costs?

Why is this important to understand?
Lead to efficiency & welfare improving policy
Export Promotion

- Private
  - Exporters cluster by destination (not industry) because of knowledge spillovers
  - Firms form trade associations (often industry and not destination)

- Public
  - Overseas offices
  - Governor trade missions
  - What are these policies doing? Subsidizing the informational barriers (fixed or variable) because of public goods problem?
Summary

- Recent innovations in theoretical & empirical trade
- Many problems still to be solved
  - What is the size & nature of informational barriers to trade?
  - How can policy be designed that respects informational barriers?
  - National export initiative?