



SMART-LERECO SEMINAR

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“Protectionism Through Exporting: Subsidies with Export Share Requirements in China”

Abstract: Subsidies featuring export share requirements (ESR) have been a cornerstone of China's trade regime since the beginning of its economic transition. Their consequences, however, remain unexplored. Using matched firm and customs transaction data for 2000-2006 we infer that half of manufacturing exporters in China benefit from this type of subsidy. We study the implications of subsidies with ESR in a two-country model of international trade with heterogeneous firms, which we calibrate to match key features of the data. We show that firms receiving the subsidy increase prices domestically while reducing the price they charge abroad; as a consequence, and unlike export subsidies without export requirements, subsidies with ESR promote aggregate exports while at the same time providing greater protection for domestic firms.

Keywords: Export Share Requirements; Export Subsidies; Trade Policy; Heterogeneous Firms; China