



USITC RD International Trade Seminar

Tuesday, June 3, 2008

11:30 a.m. - 1:00 p.m.

“Quality Competition, Pricing-To-Market and Non-Tariff Measures”

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Abstract

This paper seeks to present a unified framework for several factors that have been independently studied as determinants of unit values in international trade: product differentiation by quality (which suggests that unit values should be positively correlated with exporters' per capita income), pricing-to-market (which suggests they should be positively correlated with importers' per capita income), and non-tariff measures (which suggests that remaining residuals may contain evidence of trade barriers). On a large sample of bilateral unit values for 2005, we find that about 60 percent of all HS-6 products demonstrate both significant quality-ladder effects and pricing-to-market effects, with quality-ladder effects predominating in importance. We also rank importers by the remaining unexplained variation in import prices, and examine whether these variations are plausibly related to non-tariff measures.