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AUTHORS

Han, Jun

Liu, Runjuan

Marchand, Beyza Ural

Zhang, Junsen

MARKET STRUCTURE, IMPERFECT TARIFF PASS-THROUGH, AND HOUSEHOLD WELFARE IN URBAN CHINA

ABSTRACT

This paper investigates the tariff pass-through mechanism and the distributional effects of trade liberalization in urban China. We study how market structure, specifically the size of the private sector, affects tariff pass-through, and how this mechanism influenced the extent to which households benefited from the trade liberalization. Our results suggest that a higher share of private sector in Chinese cities is associated with higher levels of tariff pass through rates. This effect works both through the distribution sector, and through the production of final goods. By incorporating the changes in consumer prices of tradable and non-tradable goods, we next investigate the impact of WTO accession on household welfare through changes in the cost of consumption. The results show that WTO accession of China was associated with welfare gains to almost every household across the per capita expenditure spectrum, and that the distributional effect is strongly pro-poor. The average welfare gain of WTO accession on Chinese households is estimated to be 7.3%. The distributional effect through higher levels of privatization was also pro-poor, indicating that privatization enhanced the pro-poor impact of trade liberalization. (c) 2016 Elsevier B.V. All rights reserved.

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