

Technical Requirements, Institutions and Product Quality: Evidence from Chinese Exports

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Abstract: We examine the impact of foreign technical requirements (TR), in a quality-augmented heterogeneous firm model. Theoretically, TR imposes opposite impacts on the product quality of exporting firms, via consumer utility and production cost, and the improvement of institutional quality in the importing countries may regulate the negative impact, by enhancing the effect on consumer utility and reducing the effect on production costs. We then test the model using Chinese data, and confirm our predictions. We also find that firm productivity, product differentiation, market size and market distance exert heterogeneous effects. Interestingly, TR of low-income countries significantly improves Chinese export quality, while that of high-income importing countries does the opposite.

Keywords: Technical barriers to trade; product quality; consumer valuation; institutions; developing countries

JEL Classification: F13, O17

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