

Research paper co-authored by Prof. Larry Qiu wins T.K. Ann International Trade Award

Research Paper: “Trade liberalization and domestic vertical integration: Evidence from China”

‘This research paper co-authored by Prof Larry Qiu Dongxiao, Head and Chair Professor of the Department of Economics of Lingnan University and his former students, Prof Liu Qing of Renmin University of China and Assistant Prof Zhan Chaoqun of Lingnan (University) College at Sun Yat-sen University, has won the 21st T.K. Ann International Trade Award’s Excellent Paper Award.

A total of 11 books and 20 papers were selected for this year's Award. Prof Qiu's co-authored paper is one of the best four among the 20 awarded papers. The biennial Award has gained an outstanding reputation in the field of international economics and trade, and is regarded as China's most prominent academic award in its field.

The award-winning paper was just published by the Journal of International Economics, a leading internationally refereed journal in the field of international economics, in November 2019.

Abstract

In this study we examine the effects of trade liberalization on domestic backward vertical integration in which a domestic upstream firm (target) is acquired by a domestic downstream firm. We first build a relationship-specific investment model to guide and provide insights to our empirical work. Then we take China's accession to the WTO as a quasi-natural experiment for trade liberalization to test the theoretical predictions. Consistent with the model, we find that a decrease in tariffs on the target industry's outputs reduces vertical integrations, but a decrease in tariffs on the target industry's inputs increases vertical integrations. The findings are robust to various specifications of the empirical model and measurements of the variables. We further show that underinvestment problem is an important mechanism to understanding the effects of tariff reductions on firms' organizational choices.