The Public Defense
of the Doctoral Thesis in Economics
by
Cecília Hornok

on
INTERNATIONAL TRADE BARRIERS

will be held on

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in the

Monument Building, Senate room
Central European University
Nádor Street 9, Budapest
Thesis Committee:

László Mátyás (Chair)
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The doctoral thesis is available for inspection
at the CEU Economics Department
Abstract

Understanding potentially welfare-distorting barriers to international trade is a central issue in the trade research. Trade barriers are numerous and are not confined to direct trade policy instruments like tariffs or quotas. In fact, the majority of trade distortions are related to factors like transport infrastructure, institutions, legal framework, or culture. The recent literature has shifted towards discovering these latter, and much less understood, types of trade barriers. The first two chapters of this thesis provide direct contribution to the above line of research. Chapter 1 deals with the cost of time delays in international trade, while Chapter 2 is about trade costs associated with the administrative tasks of trading. In contrast, the contribution of Chapter 3 is methodological. It discusses some limitations of identifying the effects of trade barriers that are captured by dummies in gravity equations, the workhorse estimating model of trade.

Chapter 1 “Need for Speed: Is Faster Trade in the EU Trade-creating?” is an empirical contribution to the literature on the time cost of trade. The empirical evidence is based on the episode of the European Union's (EU) enlargement in 2004 and exploits the fact that trade within the EU is free of the time-consuming border controls and customs procedures. The estimation strategy is double difference-in-differences, where the estimates show how much more trade barriers fell for country pairs with 'new' members, relative to pairs of 'old' member countries, in time-sensitive, relative to not time-sensitive, industries. Unlike in typical gravity estimations, the dependent variable is a measure of bilateral trade costs, which ensures that unobserved trade barriers with third countries do not bias the results. A further contribution is the use of a novel indicator of the enlargement-induced decline in the trading time, which is the fall in the number of waiting hours at borders. The results suggest that time matters a lot in trade. The fall in trade costs due to EU enlargement was significantly larger for time-sensitive industries, and this differential effect was significantly stronger for country pairs with a larger fall in the border waiting time. As for trade creation, a one hour fall in the border waiting time between two countries is estimated to create 5% more bilateral trade.

Chapter 2 “Administrative Barriers and the Lumpiness of Trade”, a joint work with Miklós Koren, is a contribution to the literature that challenges the dominance of iceberg trade costs (trade costs proportional to the traded value) and to the literature that emphasizes the lumpiness of trade transactions. Most administrative trade costs (documentation, customs clearance and inspection) are not iceberg costs, but costs that occur after each shipment. Such 'per shipment' costs lead to more lumpiness in trade, since firms economize on these costs by sending fewer and larger shipments. The contribution of Chapter 2 is both theoretical and empirical. We build a 'circular city' discrete choice model, where consumers have preferences on the date of consumption and foreign suppliers decide when to send a
shipment, while inventories are ruled out. Per shipment costs reduce shipment frequency, increase the shipment size and the product price and lead to welfare losses. We provide empirical evidence for these effects on detailed export data from the US and Spain. We find that US and Spanish exporters send fewer and larger shipments to countries with higher administrative barriers. However, we find no robust evidence that such destinations would command higher prices.

Chapter 3 “Gravity or Dummies? The Limits of Identification in Gravity Estimations” deals with an econometric identification problem in gravity estimations. Since trade barriers (both bilateral and multilateral) are often unobserved, empirical researchers tend to control for them by including some set of fixed effects in the gravity estimating equation. The theory-consistent estimating equation contains exporter and importer fixed effects in cross section estimations and country pair fixed effects with a full set of exporter-time and importer-time dummies in panels. Chapter 3 argues that the identification of trade policy effects, also captured by dummies, is severely limited, when one uses the above gravity specification. In most cases heterogeneous policy effects, i.e. more than one policy dummies, cannot be identified separately, because the policy dummies and the country-time dummies are perfectly collinear. Although a single policy dummy can be identified, the estimate may not be meaningful, because country-time dummies absorb too much of the useful variation of the data. Standard estimation techniques often do not reveal these problems. The paper demonstrates these arguments on four typical research questions on the effect of a trade policy. Empirical exercises on estimating the trade effects of EU enlargement complement the analytical findings.
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