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ASSESSING BARRIERS TO TRADE IN THE DISTRIBUTION AND TELECOM SECTORS IN EMERGING COUNTRIES

Lionel Fontagné & Cristina Mitaritonna

NON-TECHNICAL SUMMARY

This paper improves the way ad valorem equivalents (AVEs) for the regulation in service sectors can be computed on the basis of qualitative information. Three services sectors (i.e. fixed telecom, mobile telecom, distribution) are chosen and the method is applied on a group of emerging countries. Our source of information is the questionnaire responses provided by the Queen Mary University. We start with qualitative information on the restrictions applied by each country in each sector on the basis of which we applied a multivariate statistical approach, PCA, to transform this qualitative data into a synthetic trade restrictiveness index (STRI).

We extracted as much information as possible from the original data, based on a statistical criterion, weighting the different components based on their contribution to the whole variance. The next stage consists in regressing individual firms price cost margins on this STRI and control variables. In order to perform the regressions we need enough variance in the data, which requires a larger sample of countries by sector than our sample of 11 emerging economies. To this purpose we rely on data provided by Dihel and Sheperd (2007). A new and parsimonious econometric method is used which provides consistent and significant parameter estimates. It is shown that the STRI has a significant effect on the price-cost margins of the individual firms only when controlled for Regional trade Agreements and exception to the MFN clause in the considered sector.

The estimated parameters are finally used to compute AVEs, by applying them to the STRI computed from the treatment of the questionnaire responses. More than half our AVEs are larger than 50% and one AVE out of six is above 100%.

The value added of our work is threefold. We provide a series of new tariff equivalents, based on precise estimates; a coding structure to guide future qualitative studies; and propose technical improvements to the estimation of restrictiveness indices and their impact on price cost margins.