Trading Away Wide Brands for Cheap Brands
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PSU, May 2010
This Paper

Theory Part

- **Economies of Scale + Investment decision to lower costs**
  - trade liberalization promotes process innovation (scale effect)

- **Multi-product Firms + Intra-firm cannibalization**
  - trade liberalization deters product innovation (competition effect)
  - different effects across heterogeneous firms

Empirical Part

- Test the predictions of the model using firm-level data and tariffs changes for Thailand (2003-2006)
Two Main Points

- Re-assessing the paper’s contribution
- Connecting the model with the data
I think the contribution of this paper lies on the *theory* part
- linear demand system + multi-product firms
  ⇒ cannibalization effects
- process innovation

Thus, I think the paper should emphasize that part
The process innovation function $c(\omega)$
- first, general solution, instead of jumping to a functional form; then, build more intuition through a particular example
- for the heterogenous firms case, why changing to a dichotomic-variable?
- corner solutions
- condition missing on $c(\omega)$? I think $c'(\omega) < 0$ and $c(0) = c$ is not enough,
  \[ FOC : -c'(\omega)q = r_\omega \]
  - no cannibalization effects when $\uparrow \omega$?
Homogenous vs. Heterogenous Firms Model

- the empirical part is based on the predictions of the heterogenous firms model
- this case is qualitatively different from the homogenous firms case
- ... so, this is not just an “extension”
- more explanation of the mechanism - e.g. it is not clear why non-exporters do not change their process innovation after trade liberalization
The introduction should stress more the contribution

- highlight the **main** point the paper makes ... now, many cases -e.g. heterogenous vs. homogenous firms; bilateral vs. unilateral tariff reductions
- assumptions should be better motivated -e.g. the evidence on intra-firm cannibalization should be highlighted up-front as it is the basis of the theory part
- differentiate the paper further from the existing literature, particularly Bernard, Redding, and Schott (2006) and Nocke and Yeaple (2005)
Other Comments

- This is not a dynamic model; so, what is an old product? a new product?

- Implications for firm and aggregate productivity? Welfare?
  - there is no distinction among products in the model, thus the productivity effects will come from process innovation (and selection)
Taking the Model to the Data

- **Model:** one firm = many products, one brand
- **Data:** one firm = many products at 4-d ISIC

<table>
<thead>
<tr>
<th>ISIC</th>
<th>Description</th>
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<tbody>
<tr>
<td>3211</td>
<td>Spinning, weaving and finishing textiles</td>
</tr>
<tr>
<td>3212</td>
<td>Manufacture of made-up textile goods exc. wearing apparel</td>
</tr>
<tr>
<td>3213</td>
<td>Knitting mills</td>
</tr>
<tr>
<td>3220</td>
<td>Manufacture of wearing apparel, except footwear</td>
</tr>
</tbody>
</table>

- e.g. a firm can produce t-shirts and vacuum cleaners
  - it is difficult to claim that if the firm drops vacuum cleaners after trade liberalization, this is due to the cannibalization mechanism
  - integrate the empirical evidence on Thai intra-firm cannibalization into the trade liberalization experiment
  - not clear why plants opening and closing should be considered as changes in product range
  - more statistics about number of products per firm

- Interpreting the results: competing mechanisms?
Model = process innovation occurs by product

Data = investment on new M&E done by the firm and “major change in production of main product”

- process innovation for all products within a firm?
- distinction between main and secondary products?
- it is difficult to interpret investment in new M&E as cost-reduction technologies
Model = no distinction among products

Data = many distinctions among products

- (main) products at ISIC 4-d industry, by firm
- tariffs are at a finer or same aggregation level?
  - how are tariffs aggregated in the data? across products, within firms?
Conclusion

- The contribution of this paper lies on the theory part...But,
  - need to further emphasize this
  - need more general results, and more motivation of assumptions

- The empirical results are difficult to interpret as evidence of the mechanism of the model