The Value of Trademarks: Micro Evidence from Chinese Exports to Africa

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Abstract

This paper studies trademarks in developing countries. I introduce a trademark as a technology to mitigate information frictions in a general equilibrium setting with firm heterogeneity. In my model, highly productive firms are more likely to use a trademark since the revenue increase outweighs the trademark cost only for these firms. This leads to reallocation away from less productive firms. I test my predictions using Chinese exports to Africa in the tire industry. I exploit a sudden change in the member countries ratifying an international trademark agreement. My empirical findings support my predictions. At the extensive margin, a Chinese exporter decreases the probability of exporting to the ratifying countries. On the intensive margin, a large exporter earns more by using a trademark while a small exporter does not use a trademark and its market size shrinks. A back-of-the-envelope calculation suggests welfare increases by 0.014% in Africa through the use of trademarks in the ratifying countries' tire industries.

Keywords: Trademarks, Information Frictions, Chinese Exports, Africa, Tire Industry

JEL Classification: F14, F53, O14, O19, O34

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