

China's export registration in the automobile industry: Effects on manufacturer-intermediary match efficiency

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Abstract

In 2007, China implemented a policy requiring automobile producers to distribute through at most three trade intermediaries and list their intermediaries on a registry. Motivated by the registration requirements and granularity in the order sizes handled by most intermediaries, this paper develops a model to describe the matches between automakers and intermediaries. The model shows market division arises endogenously due to the regulation. It creates inefficiencies in matching and double marginalization. The model predictions coincide with a number of stylized facts: a strong decline in the number of auto intermediaries, assortative matching, export price increases for intermediaries, and substantial churning in the sets of intermediaries registered by the automakers. Welfare analysis in terms of total profit shows that this regulation benefits automakers, especially those relatively less efficient ones while intermediaries are made worse off.