

Can Trade Change Tastes?

Development Colloquium

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Motivation I

- ▶ In most economic models, we take utility and tastes as given.
- ▶ We know little about how preferences form and evolve.
 - ▶ Long term: identity, culture [Atkin et al. 2019](#)
 - ▶ Medium term: habit formation [Charness and Gneezy 2009](#)
 - ▶ Short term: learning, salience [Reiss and White 2008](#)
- ▶ Important implications for:
 - ▶ Consumption choice and welfare [Atkin 2016](#)
 - ▶ Corrective policies [Costa and Gerard 2018](#)
 - ▶ Welfare gains from trade [Atkin 2013](#)

Motivation II

- ▶ Around the world, politicians worry about globalization as a source of culture homogenization [Appadurai 1990](#)
- ▶ US's "soft power" in the XXth century
- ▶ China's investment in "soft power" suggests culture still has a strategic importance
- ▶ But can it make people more open to other cultures? More favorable to international cooperation?

[Clingingsmith Khwaja and Kremer 2009](#)

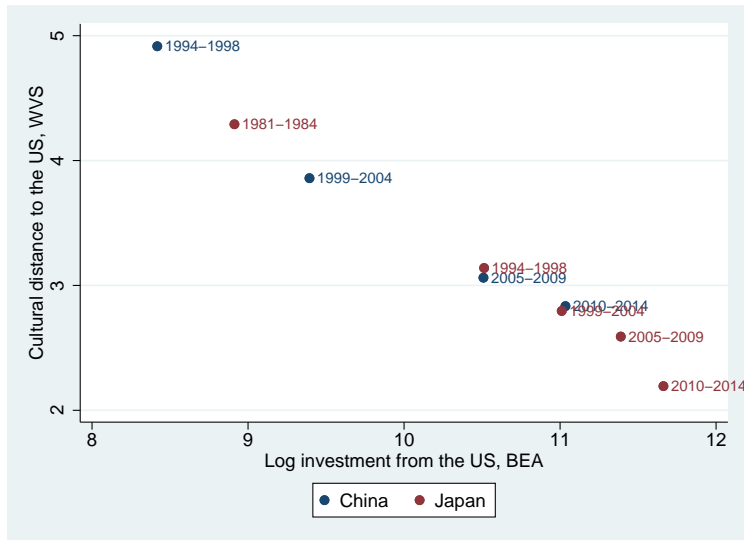
Stylized facts about culture and trade

- ▶ Culture: World Value Survey, 5 waves from 1981-2014
I use all questions that are asked repeatedly and separate two "generations", indexed by g

$$D_{cg} = \sum_i (y_{icg} - y_{USig})^2$$

- ▶ Trade: US investment abroad (BEA)

Cultural distance and US investment in China and Japan



Literature

Habit formation and learning

- ▶ Atkin 2013, 2016: generational habit formation
- ▶ Pollak 1970, Becker-Murphy 1988, 1993: individual learning and addiction
- ▶ Akerberg 2001, Crawford 2005 on experience goods and advertising

Identity

- ▶ Akerlof and Kranton 2000: identity in the utility function
- ▶ Bertrand and Kamenica 2018 on the relatively constant distance between group identities in the US
- ▶ Atkin et al. 2019: individuals can choose their identity

Culture

- ▶ Giuliano and Nunn 2018: traditions persist more when the environment changes less across generations

Setting

- ▶ Myanmar: lower middle-income country, isolated from international trade due to sanctions against the military government, which started democratic reforms in 2011.
- ▶ US govt started lifting sanctions in 2012, FDI and exporters have followed.
- ▶ Focus on Western fast-food: symbol of Western world controversial culture.
- ▶ Trade-off better hygiene / worse nutrition than domestic food
- ▶ Some countries make efforts to prevent it from entering their market, concern for young people

A few examples

Year	Name	Style	Origin	#
2013	MarryBrown	Malaysian-American	Malaysia	10
2014	The Pizza Company	Italian-American	Thailand	11
2015	KFC	American	US	34
2015	Pizza Hut	Italian-American	US	8

Currently at least 50 foreign franchises are present in Myanmar.

Pilot - Restaurants

Interviewed 10 restaurant managers at quasi-random in a neighborhood.

→ Only 3 consider that the growing arrival of Western fast-food franchises is “a threat”

- ▶ “Customers have their own different preferences and tastes.”
- ▶ “Most local still prefer local foods for daily meal purchase”
- ▶ “Mostly young people go there to hang out once in a while”

Pilot - Consumers

Interviewed 46 individuals in shopping centers

▶ Summary

		Local est.			Foreign est.		
	n	mean	sd	n	mean	sd	Diff
Travel time (min)	30	27.27	43.52	14	20.57	15.21	-6.695
No. people	28	5.36	10.28	14	2.00	2.25	-3.357
Price paid (USD)	27	2.98	2.43	12	4.15	2.47	1.166
Wi-Fi (y/n)	27	0.11	0.32	13	0.23	0.44	0.120
Restroom (y/n)	28	0.75	0.44	14	0.71	0.47	-0.036
Hygiene (1–4)	28	2.79	0.83	14	2.93	0.73	0.143
Food (1–4)	28	2.82	0.61	14	3.14	0.53	0.321
Quality (1–4)	28	2.79	0.69	14	2.86	0.77	0.071

Multi-period consumer problem with endogenous taste

- ▶ Individuals live for two periods: "young" then "not young"
- ▶ Several sets of tastes: $g \in \{w, m, 0\}$ for "western" and "Myanmar" (initially everyone has neutral preferences)

$$U_{ig} = \sum_k \beta_{gk} \ln x_{ki}, \quad \sum_k \beta_{gk} = 1$$

- ▶ One may change their preferences, but at a cost
- ▶ Cost is lower for young individuals

Model predictions

Take a good κ that is more valued by people with a certain identity “w” than others with identity “m” s.t. $\beta_{w\kappa} > \beta_{m\kappa}$ (e.g. burgers.) If p_k decreases

1. It becomes more interesting to have the w taste, so more people will switch.
2. The switchers' demand for all other goods such that $\beta_{wk} > \beta_{mk}$ will increase
e.g. jeans, Marvel movies etc. and political views.
3. Young people switch more than others
4. In the following period, there are more “w” taste-people

Baseline survey

- ▶ Frame: urban consumers, recruited at transit hubs and shopping centers.
- ▶ Outcomes:
 - ▶ Demographics: ethnicity, geographical origin, religion, gender, age, education, residence, income, occupation, location of job
 - ▶ Food: food and restaurant consumption
 - ▶ Other consumption choices, including clothing
 - ▶ Media and entertainment
 - ▶ Social attitudes

Randomizing exposure to culture

- ▶ Stratify on age
Check that tastes vary faster for young people
- ▶ Stratify on previous exposure, treat with information vs subsidy vs 2x times subsidy
Check that it's not just learning
- ▶ Randomize into treatment and control groups

	Food exp	Food good	Culture exp
US info	KFC	Peanut butter	V of America
US subsidy (x2)	KFC	Peanut butter	V of America
CN info	Chinese meal	Moon cake	China global
CN subsidy (x2)	Chinese meal	Moon cake	China global
Control	-	-	-

Outcomes

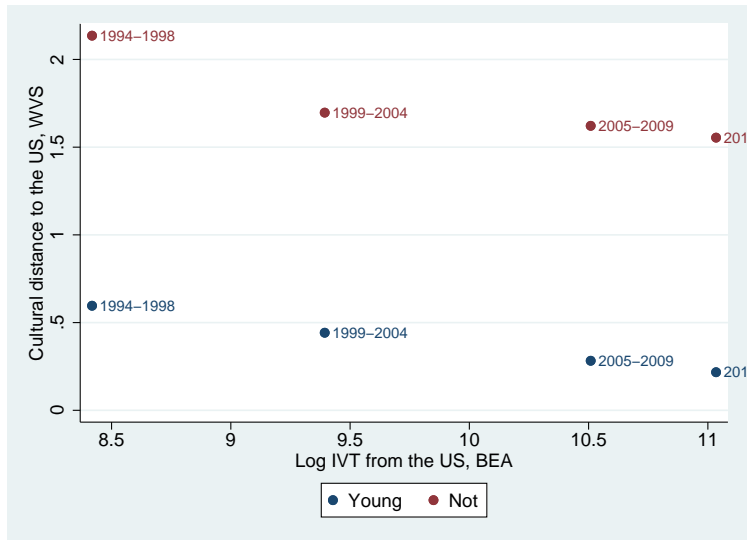
- ▶ Immediate takeup
- ▶ Subsequent consumption (ST/LT) of the same good (habit formation)
- ▶ Subsequent consumption (ST/LT) of “complement goods” (changing preferences)
Measurement: self-reported
+ offer a second voucher with options {US, CN, .}.
- ▶ Subsequent identification with:
 1. US/China culture (clothing, media etc.)
 2. pro-US/pro-China (political views)
 3. “openness” pro-trade / intl cooperation

Conclusion

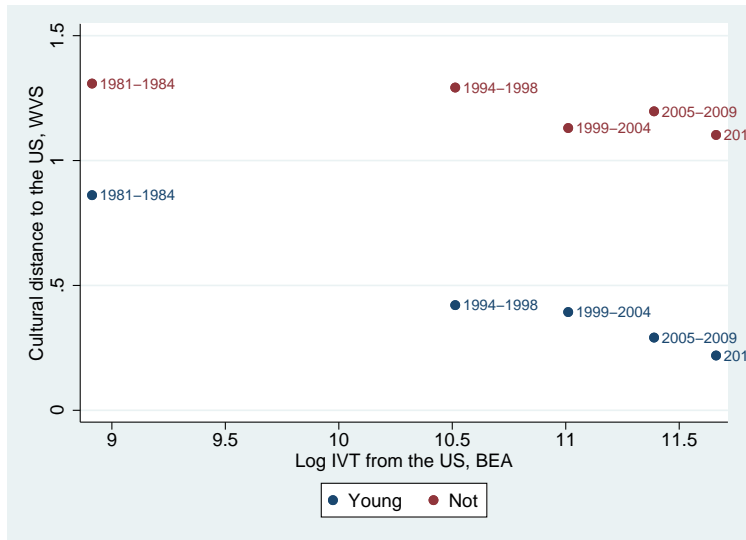
- ▶ We know that preferences change over time
- ▶ How fast can they change, how persistent are they?
- ▶ Implications to understand potential misallocations and improve policy design

Appendix

Cultural distance and US investment in China, by age



Cultural distance and US investment in Japan, by age



Summary statistics

	mean	sd	p50	count
Age	26.37	10.9	23.0	46
Male	0.52	0.5	1.0	46
Completed High School	0.85	0.4	1.0	46
Owens a smartphone	1.00	0.0	1.0	46
Has a FB account	0.89	0.3	1.0	46
Working	0.74	0.4	1.0	46
Commute time (minutes)	32.30	27.7	30.0	33
Salary USD	294.35	536.8	162.5	27
Has been to a foreign restaurant	0.83	0.4	1.0	46
Has been abroad	0.41	0.5	0.0	46

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