

# 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](#)

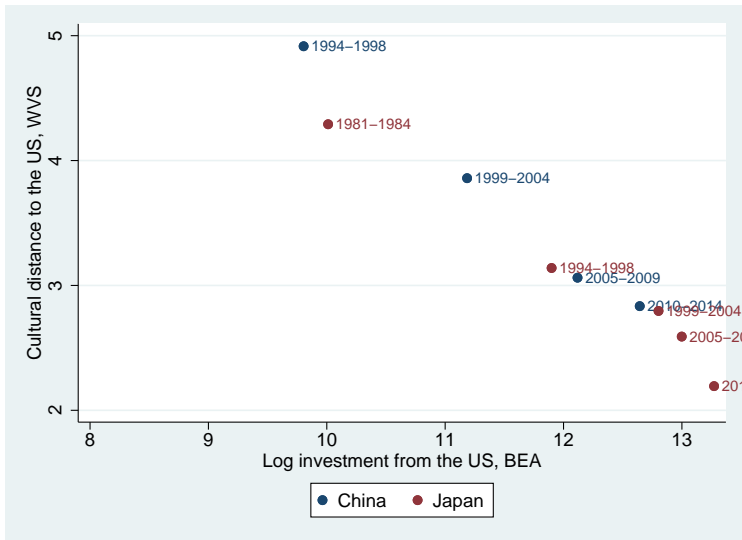
# Stylized facts about culture and trade

- ▶ 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  $\kappa$  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 vs Myanmar/ethnic group (clothing, media etc.)
  2. "Openness" to other cultures and ethnic groups  
Political and social views
  3. Pro-US / pro-China
  4. Pro-trade / intl cooperation

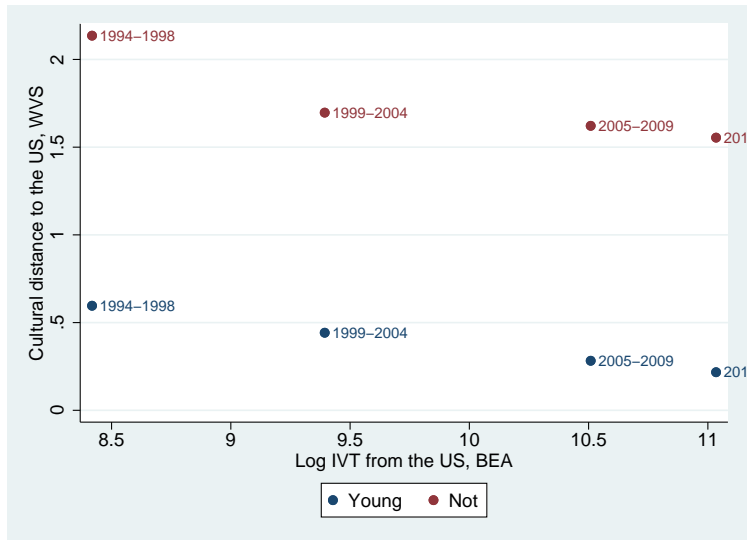
# Conclusion

- ▶ 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

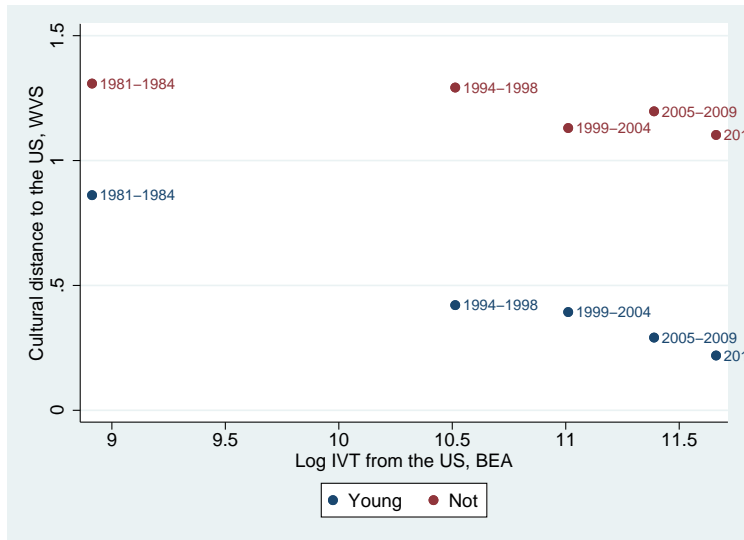


# Appendix

# 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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