Table 1: VAT export tax and firm's quality upgrading, characteristics of the destination countries, products, and cities

| | Dependent variable: Product quality (city/product/trade regime/year) | | | | | |
|---|---|---|---|---|---|---|
| | LDC | DC | Homogeneous | Heterogeneous | Small | Large |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Ln VAT rebate$_{k,t-1}$ × Regime$^R$ | −0.288 | 0.299*** | −0.096 | 0.286*** | 0.249** | 0.313** |
| | (0.235) | (0.094) | (0.401) | (0.099) | (0.104) | (0.143) |
| Ln VAT import tax,$_{k,t-1}$ × Regime$^R$ | −0.185 | −0.125*** | 0.013 | −0.126** | 0.063 | −0.153*** |
| | (0.113) | (0.048) | (0.138) | (0.050) | (0.099) | (0.051) |
| lag foreign export share$^R_{ck,t-1}$ | 0.044* | 0.038*** | 0.085*** | 0.037*** | 0.046*** | 0.032** |
| | (0.023) | (0.009) | (0.026) | (0.009) | (0.012) | (0.013) |
| lag SOE export share$^R_{ck,t-1}$ | 0.096*** | 0.126*** | 0.147*** | 0.124*** | 0.132*** | 0.099*** |
| | (0.025) | (0.009) | (0.031) | (0.009) | (0.009) | (0.014) |
| City-product-regime | Yes | Yes | Yes | Yes | Yes | Yes |
| Product-year | Yes | Yes | Yes | Yes | Yes | Yes |
| Destination-year | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 510,918 | 5,233,713 | 257,394 | 5,487,237 | 2,916,682 | 2,827,949 |
| $R^2$ | 0.504 | 0.271 | 0.310 | 0.268 | 0.307 | 0.243 |

This table estimates eq(3). LDC and DC are defined according to the World Bank country classification. Homogeneous and heterogeneous goods are defined according to the official list of goods's classification, Rauch (1999). Small and large are computed based on the total quantity exported by city-HS4. When oto total export by city-HS4 above the city average, then the pair city-industry is considered as large. Note that 'Eligible' refers to the regime entitle to VAT refund, our treatment group. Our control group is processing trade with supplied input, 'Non-Eligible' to VAT refund. Sectors are defined following the Chinese 4-digit GB/T industry classification and regroup several products. Heteroskedasticity-robust standard errors clustered at the product level appear inparentheses. * Significance at the 10%, ** Significance at the 5%, *** Significance at the 1%.