

TRADE RESEARCH* NEWSLETTER

Winter/Spring 2016

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Tunisia,” was featured in the [Guardian](#) article titled “Exports in Palestine: held back by red tape”. This paper evaluates the effects of the FAMEX export promotion program in Tunisia and shows that the program significantly enhanced export levels and diversification but did not durably improve performance.

IN THE NEWS

DECTI Lead Economist **Caglar Ozden** gave the keynote speech at Oxford University, for the 10 Year Anniversary of the International Migration Institute conference on January 13, 2016. The title of his speech was “[Where on Earth is everybody? Deciphering the Big Picture from micro Data](#)”.

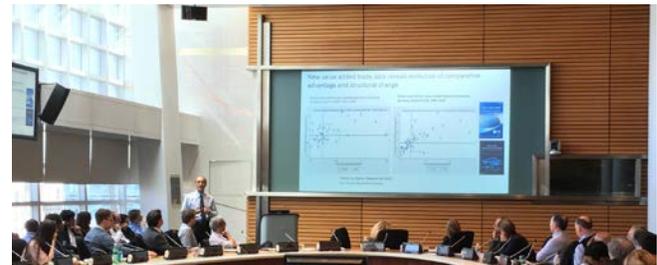
Aaditya Mattoo was invited to speak on “Regulatory Reform and Cooperation in Services” to the 2nd APEC Structural Reform Ministerial Meeting on Structural Reform in Cebu, Philippines, on September 7, 2015. The invitation was based on [a paper prepared for the E15 Expert group on services](#).

The World Bank working paper “[All in the Family: State Capture in Tunisia](#)” by **Bob Rijkers**, Caroline Freund, and Antonio Nucifora was cited in [the Economist](#), [Die Zeit](#), [Le Point](#) and [Neue Zurcher Zeitung](#). The authors show that the Ben Ali family captured 21 percent of all profits in Tunisia in 2010 while only accounting for three percent of output and less than one percent of all wage jobs.

The recent paper, Olivier Cadot, **Ana M. Fernandes**, Julien Gourdon and **Aaditya Mattoo** (2015), “Are the benefits of export support durable? Evidence from

SPECIAL FEATURES

Unleashing the Next Engine of Growth: A Services Trade Agenda beyond Doha and the TPP



Digitization and aging, as well as liberalization and other reforms, are transforming international services markets. But there is evidence of divergent globalization, with relatively few developing countries taking advantage of new opportunities despite evidence of large potential gains. The strength of regulatory institutions is emerging as critical not just to implementing successful reform at home but also to overcoming regulatory barriers to exports. However, international negotiations—from Doha to the Trans-Pacific Partnership (TPP)—have not done much to reap these gains because they have tried mechanically to mimic the goods-negotiating model of reciprocal liberalization. More could be achieved

* The [Trade and International Integration Research Program](#) is supported in part by the Multi-Donor Trust Fund for Trade and Development and the Strategic Research Program.

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through greater emphasis on, and World Bank support for, international regulatory cooperation and infrastructural coordination.

In the most recent *Policy Research Talk*, that took place on March 7, 2016, the speakers discussed the increasing role of services trade in economic growth and development. After the opening remarks by Asli Demirgüç-Kunt (Director of Research), Aaditya Mattoo (Research Manager) described how efforts to improve data, in particular through the World Bank's [Services Trade Restrictions Database](#), have been spurring research and policy dialogue. Anabel González (Senior Director, Trade and Competitiveness Global Practice, Trade & Competitiveness) emphasized the importance of analytical work on services trade and collaboration between DECRG and T&C. Details of this event can be found in [the Policy Research Talk series' website](#).

The Exporter Dynamics Database 2.0

The Trade & International Integration Unit of the World Bank's Development Research Group (DECTI) has released the second version of the Exporter Dynamics Database (EDD) on October 20th, 2015. This version includes an update of indicators for most existing countries and an expansion to cover new countries. The EDD now covers 70 countries with indicators on exporter size, growth, product and destination diversification, entry rates, exit rates, and more. It provides researchers and policymakers with a comprehensive database to help answer questions on the dynamics of exports, taking into account a firm-level dimension. The EDD can be viewed and downloaded at:

<http://www.worldbank.org/en/research/brief/exporter-dynamics-database>

The EDD team (Ana Margarida Fernandes, Denisse Pierola and Aldo Pazzini) presented this second version of the EDD followed by a panel of guest speakers who discussed their use of the EDD. Aaditya Mattoo (Research Manager, DECTI) gave opening remarks. The guest speakers were Caroline Freund (Peterson Institute for International Economics), Jose Daniel Reyes (Trade & Competitiveness GP) and Thomas Farole (Jobs Cross-Cutting Solutions Area).

The event was chaired by Jose-Guilherme Reis (Practice Manager, Trade & Competitiveness GP).

LATEST RESEARCH FINDINGS

[The Role of Imports for Exporter Performance in Peru](#)



Using highly disaggregated firm-level customs transaction data for imports and exports in Peru over the 2000–2012 period, **Denisse Pierola**, Ana Fernandes, and Thomas Farole explore the relationship between imports of intermediate inputs and firm export performance. The authors show that greater

use, variety, and quality of imported intermediate inputs is significantly correlated with higher exports, faster export growth, greater diversification of export markets, and higher quality exports (as measured by relative unit prices) at the firm level. This relationship is robust and persistent to controls for unobserved firm heterogeneity and year fixed effects. The use of imported inputs is also associated with higher productivity at the firm level. Considering the relationship between specific trade policy measures and the import performance of those exporters that are direct importers, the analysis shows that those exposed to higher tariffs and nontariff measures import less in total and exhibit lower import variety. The use of the advanced clearance procedure as the modality to clear customs for imports is favorable to the import performance of exporter-importers, in that the users of the modality import more and import a more diversified bundle of inputs than those that do not use it, even after controlling for firm size. [14]

[Global Supply Chains and Trade Policy](#)



How do global supply chain linkages modify countries' incentives to impose import protection? Are these linkages empirically important determinants of trade policy? To address these questions, Emily Blanchard, **Chad Bown** and Robert Johnson introduce supply chain linkages

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into a workhorse terms-of-trade model of trade policy with political economy. Theory predicts that discretionary final goods tariffs will be decreasing in the domestic content of foreign-produced final goods. Provided foreign political interests are not too strong, final goods tariffs will also be decreasing in the foreign content of domestically-produced final goods. The paper tests these predictions using newly assembled data on bilateral applied tariffs, temporary trade barriers, and value-added contents for 14 major economies over the 1995–2009 period. There is strong support for the empirical predictions of the model. The results imply that global supply chains matter for trade policy, both in principle and in practice. [6]

International Production Chains



International supply chains require the coordination of numerous activities across multiple countries and firms. Thibault Fally and **Russell Hillberry** develop a theoretical model of supply chains in which the measure of tasks completed within a firm is determined by parameters that define

transaction costs and the cost of coordinating more activities within the firm. The structural parameters that govern these costs explain variation in supply chain length as well as cross-country variation in gross-output-to-value-added ratios. The structural parameters are linked to comparative advantage along and across supply chains. The authors provide an analytical treatment of trade and welfare responses to trade cost change in a simple two-country model. To explore the models implications in a richer setting, the model is calibrated to match key observables in East Asia, and the calibrated model is used to evaluate implications of changes in model parameters for trade, welfare, the length of supply chains, and countries relative position within them. [8]

Dark Costs, Missing Data: Shedding Some Light on Services Trade



James Anderson, Ingo Borchert, **Aaditya Mattoo** and Yoto V. Yotov use a structural gravity model to estimate barriers to services trade across many sectors, countries, and time. Since the disaggregated output data needed to infer border barriers flexibly are often missing for services, this authors derive a

novel methodology for projecting output data. The empirical implementation sheds light on the role of institutions, geography, size, and digital infrastructure as determinants of border barriers. The authors find that border barriers have generally fallen over time, but there are differences across sectors and countries. Notably, border effects for the smallest economies have remained stable, giving rise to a divergent pattern across countries. [1]

Exporter Behavior, Country Size and Stage of Development: Evidence from the Exporter Dynamics Database



Ana Fernandes, Caroline Freund and Martha Denisse Pierola present new data on the micro structure of the export sector for 45 countries and studies how exporter behavior varies with country size and stage of

development. Larger countries and more developed countries have more exporters, larger exporters, and a greater share of exports controlled by the top 5 percent. The extensive margin (more firms) plays a greater role than the intensive margin (average size) in supporting exports of larger countries. In contrast, the intensive margin is relatively more important in explaining the exports of richer countries. Exporter entry and exit rates are higher and entrant survival is lower at an early stage of development. The paper discusses the results in light of trade theories with heterogeneous firms and the empirical literature on resource allocation, firm size, and development. An

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implication from the findings is that developing countries export less because the top of the firm-size distribution is truncated. [10]

Domestic Value Added in Exports: Theory and Firm Evidence from China



China has defied the declining trend in domestic content in exports in many countries.

Hiau Looi Kee and Heiwei Tang study China's rising domestic content in exports using firm- and customs transaction-level data. The

approach embraces firm heterogeneity and hence reduces aggregation bias. The authors find that the substitution of domestic for imported materials by individual processing exporters caused China's domestic content in exports to increase from 65 to 70 percent in 2000–2007. Such substitution was induced by the country's trade and investment liberalization, which deepened its engagement in global value chains and led to a greater variety of domestic materials becoming available at lower prices. [13]

Political Connections and Tariff Evasion: Evidence from Tunisia



Are politically connected firms more likely to evade taxes? **Bob Rijkers**, Leila Baghdadi and Gael Raballand present evidence suggesting firms owned by President Ben Ali and his family were more prone to evade import tariffs. During Ben Ali's reign, evasion gaps, defined as the

difference between the value of exports to Tunisia reported by partner countries and the value of imports reported at Tunisian customs, were correlated with the import share of connected firms. This association was especially strong for goods subject to high tariffs, and driven by underreporting of unit prices, which diminished after the revolution. Consistent with these product-level patterns, unit prices reported by connected firms were lower than those reported by other firms, and declined faster with tariffs than those

of other firms. Moreover, privatization to the Ben Ali family was associated with a reduction in reported unit prices, whereas privatization per se was not. [15]

Resource Rents, Coercion, and Local Development: Evidence from post-Apartheid South Africa



Paulo Bastos and Nicolas Bottan examine how the dismantling of coercive institutions associated with the end of apartheid in South Africa in 1994 affected the distribution of rents from natural resource exports. The authors identify the interplay between coercive institutions and natural resource

rents as an important driver of local development. Using data from the 1996 census, the paper documents large income gaps between communities located just-inside and just-outside the former self-governing territories set aside for black inhabitants. Examining relative changes between 1996 and 2011, the authors find that spatial income convergence was considerably stronger among marginalized communities with higher initial exposure to resource rents. These results accord with standard bargaining theory in which the dismantling of coercive institutions improves the negotiating position of unionized workers in the mining industry. [3]

RECENT ARTICLES

Artuc, Erhan, and John McLaren. 2015. "Trade Policy and Wage Inequality: A Structural Analysis with Occupational and Sectoral Mobility." *Journal of International Economics* 97(2): 278–94.

Bastos, Paulo, and Odd Rune Straume. 2016. "Preschool education in Brazil: Does public supply crowd out private enrollment?." *World Development* 78: 496-510.

Bastos, Paulo, Nicolas Bottan, and Julian Cristia. 2016. "Access to pre-primary education and progression in primary school: Evidence from rural

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Guatemala,” *Economic Development and Cultural Change*, forthcoming.

Beine, M., F. Docquier, **Caglar Ozden**. 2015. “Dissecting network externalities in international migration,” *Journal of Demographic Economics* 81: 379-408

Borchert, Ingo, Batshur Gootiiz, Arti Grover Goswami and **Aaditya Mattoo**. 2016. “Services Trade Protection and Economic Isolation,” *The World Economy*, forthcoming.

Bown, Chad P. and Jennifer A. Hillman, “Bird Flu, the OIE, and National Regulation: The WTO’s India - Agricultural Products Dispute,” *World Trade Review*, forthcoming

Cadot, Olivier, **Ana Fernandes**, Julien Gourdon, and **Aaditya Mattoo**. 2015. “Are Export Support Programs Effective? Evidence from Tunisia.” *Journal of International Economics* 97(2): 310-24.

Cristea, Anca, **Russell Hillberry**, and **Aaditya Mattoo**. 2015. “Open Skies over the Middle East.” *The World Economy* 38(11): 1650-81.

Fernandes, Ana, Caroline Freund and **Martha Denisse Pierola**. 2016. “Exporter Behavior, Country Size and Stage of Development: Evidence from the Exporter Dynamics Database” *Journal of Development Economics*. 119: 121–137.

Gootiiz, Batshur and **Aaditya Mattoo**. 2016. “Regionalism in Services: A Study of ASEAN,” *World Economy*, forthcoming.

Hallward-Driemeier, Mary, **Bob Rijkers** and Andrew Waxman. 2015. “Can Minimum Wages Close the Gender Wage Gap? Evidence from Indonesia.” *Review of Development Economics*, forthcoming.

Kee, Hiau Looi and Tang, Heiwai. 2015. “Domestic Value Added in Exports: Theory and Firm Evidence from China.” *American Economic Review*, forthcoming.

Ozden, Caglar. 2016. “Migration of Health Care Professionals from Sub-Saharan Africa: Issues, Data, and Evidence” in Richard M. Scheffler, Christopher H. Herbst, Christophe Lemiére, and Jim Campbell (eds.) *Tools and Data Needs for Health Labor Market Analyses in Low- and Middle-Income Countries*

Rijkers, Bob, Leila Baghdadi and Gael Raballand. 2015. “Political Connections and Tariff Evasion: Evidence from Tunisia,” *World Bank Economic Review*, forthcoming.

BLOGS

Bown, Chad P., 2015. “[Emerging Economies and WTO Tariff Liberalisation after Doha.](#)” VoxEU.org, 23 December 2015.

Bown, Chad P. and Douglas A. Irwin. 2015. “[The Urban Legend: Pre-GATT Tariffs of 40%.](#)” VoxEU.org, 19 December 2015.

Fernandes, A., E. Ferro and J. Wilson. 2015. “[Why agricultural product standards matter for small traders in developing countries](#)” World Bank Blog, 17 December 2015.

NEW WORKING PAPERS

[1] Anderson, James E., Ingo Borchert, **Aaditya Mattoo** and Yoto V. Yotov. 2015. “[Dark Costs, Missing Data: Shedding Some Light on Services Trade.](#)” Policy Research Working Paper 7465, World Bank, Washington, DC.

[2] Alcántara, Alejandra Mendoza, **Ana M. Fernandes** and **Russell Hillberry**. 2015. “[Understanding the Operations of Freight Forwarders: Evidence from Serbia.](#)” Policy Research Working Paper 7311, World Bank, Washington, DC.

[3] **Bastos, Paulo**, and Nicolas Bottan. 2016. “[Resource rents, coercion, and local development: Evidence from post-Apartheid South Africa.](#)” Policy

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Research Working Paper 7572, World Bank, Washington, DC.

[4] **Bastos, Paulo**, and Odd Rune Straume. 2016. "Preschool education in Brazil: Does public supply crowd out private enrollment?" Policy Research Working Paper 7573, World Bank, Washington, DC.

[5] **Bastos, Paulo**, Nicolas Bottan, and Julian Cristia. 2016. "Access to pre-primary education and progression in primary school: Evidence from rural Guatemala." Policy Research Working Paper 7574, World Bank, Washington, DC.

[6] Blanchard, Emily J., **Chad P. Bown**, and Robert C. Johnson. 2016. "Global Supply Chains and Trade Policy." Policy Research Working Paper 7536, World Bank, Washington, DC

[7] **Bown, Chad P.** 2015. "What's Left for the WTO?" Policy Research Working Paper 7502, World Bank, Washington, DC.

[8] Fally, Thibault and **Russell Hillberry**. 2015. "A Coasian Model of International Production Chains." Policy Research Working Paper 7434, World Bank, Washington, DC.

[9] **Fernandes, Ana M.**, Esteban Ferro and John S. Wilson. 2015. "Product Standards and Firms' Export Decisions." Policy Research Working Paper 7315, World Bank, Washington, DC.

[10] **Fernandes, Ana M.**, Caroline Freund and **Martha Denisse Pierola**. 2015. "Exporter Behavior, Country Size and Stage of Development: Evidence from the Exporter Dynamics Database." Policy Research Working Paper 7452, World Bank, Washington, DC.

[11] Gootiiz, Batshur and **Aaditya Mattoo**. 2015. "Regionalism in Services: A Study of ASEAN." Policy Research Working Paper 7498, World Bank, Washington, DC.

[12] Hallward-Driemeier, Mary, **Bob Rijkers** and Andrew Waxman. 2015. "Can Minimum Wages Close the Gender Wage Gap? Evidence from Indonesia."

Policy Research Working Paper 7364, World Bank, Washington, DC.

[13] **Kee, Hiau Looi**, and Heiwei Tang. 2015. "Domestic Value Added in Exports: Theory and Firm Evidence from China." Policy Research Working Paper 7491, World Bank, Washington, DC.

[14] **Pierola, Martha D., Ana Fernandes**, and Thomas Farole. 2015. "The Role of Imports for Exporter Performance in Peru." Policy Research Working Paper 7492, World Bank, Washington, DC.

[15] **Rijkers, Bob**, Leila Baghdadi and Gael Raballand. 2015. "Political Connections and Tariff Evasion: Evidence from Tunisia." Policy Research Working Paper 7336, World Bank, Washington, DC.
