

TRADE RESEARCH NEWSLETTER

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IN THE NEWS

DECTI Economist Wins 2013 Albies Award for Best Writing in Global Political Economy



A paper by **Hiau Looi Kee**, Cristina Neagu and Alessandro Nicita was one of the ten recipients of Foreign Policy magazine's 2013 Albies Award for the best writing in global political economy.

Their work, "Is protectionism on the rise? Assessing national trade policies during the crisis of 2008," was published in the Review of Economics and Statistics. The paper attempts to understand the role of trade policies in the crisis of 2008, in part through constructing overall trade restrictiveness indices for a wide range of countries using their tariff schedules in 2008 and 2009. The index summarizes the trade policy stance of a country, taking into account the share of each good in trade as well as its corresponding import demand elasticity.

The authors found that there has been no widespread increase in protectionism via tariff policies since the global financial crisis has unfolded. While many countries increased tariffs on selected products, only a handful of countries, such as Malawi, Russia, Argentina, Turkey and China focused on products that have significant impacts on trade flows. The United States and the European Union, by contrast, rely mainly on anti-dumping

duties to shield domestic industries. Overall, while the rise in tariffs and anti-dumping duties in these countries may have jointly caused global trade to drop by as much as US\$43 billion during the crisis period, it explains less than 2 percent of the collapse in world trade. [1]

On the Blogs

- "[The Golden Mean of Export Promotion](#)" by **Ana M. Fernandes** and **Aaditya Mattoo**, on Project Syndicate (Feb 19, 2014)
- "[The Power of Imagery: The White House Celebrates International Trade This Holiday Season](#)" by **Chad P. Bown**, on The Trade Post (Dec 17, 2013)
- "[Transatlantic Trade for All](#)" by **Aaditya Mattoo**, on Project Syndicate (Oct 2, 2013)
- "[Trade and Innovation in Services](#)" by Leonardo Iacovone, **Aaditya Mattoo** and Andreas Zahler, on Vox (Oct 10, 2013)

SPECIAL FEATURE

Research Policy Talk: International Cooperation and Global Public Goods - Patterns of Global Migration and Opportunities for Policy Makers

In 2013, the U.S. Green Card lottery—the system that allocates permanent residency to people from countries with low immigration rates to the United States—had 14 million applicants for only 55,000 slots. Recent Gallup Polls find that, in many developing countries, over 40 percent of the population would immediately migrate to OECD countries if they were offered the chance. Furthermore, conservative estimates indicate the economic gains from 5 percent of the world population migrating to higher-income areas would

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easily surpass the gains generated by completely eliminating existing restrictions on trade and capital flows. In light of many pressing obstacles to inequality, productivity, education, aging, and gender, why are policy makers leaving such low hanging fruit on the trees?



Caglar Özden, Asli Demirguc-Kunt, and Shanta Devarajan

On November 5, 2013 **Caglar Özden** presented recent research that addressed these and related questions, in the World Bank's Policy Research Talk series. He highlighted patterns in migration flows, as well as the various forces that shape the global movement of people based on the World Bank's Global Bilateral Migration Database. He also showcased two recent projects examining labor market outcomes in highly disparate migrant destinations, the European Union and Malaysia, which address the job-stealing concerns by providing surprising evidence on how migrants can complement a native labor force. Finally, Özden reviewed channels through which enhanced global labor mobility can address various development challenges faced by the policymakers and the World Bank.

"Migration is leading to a lot of policy questions," said World Bank Research Director Asli Demirguc-Kunt, who hosted the event. "There are issues both for migrant-sending countries and for receiving countries. With the recent focus on jobs and job creation, this makes migration the most contentious component of globalization."

Recent research has produced surprising results that have overturned common beliefs about

migration's impact in labor markets in destination countries. Özden explained that immigration has had a positive effect on the wages of less-educated locals in OECD countries. Furthermore, in many of these countries emigration has mattered more than immigration in its impact on wages, with the departure of skilled workers hurting the incomes of less-educated locals.

"Reducing the barriers to migration is low-hanging fruit on the development tree," Özden said. Shantayanan Devarajan, chief economist of the World Bank's Middle East and North Africa Region, emphasized the point, saying that lowering the hurdles for migrants "may be the biggest win for development, so let's not miss the chance."

LATEST RESEARCH FINDINGS

Political Instability, FDI, and the Arab Spring



Which foreign direct investments are most affected by political instability? Martijn Burger, Elena Ianchovichina, and **Bob Rijkers's** analysis of quarterly greenfield investment flows into countries in the Middle East and North Africa from 2003 to 2012 shows that adverse political shocks are associated with significantly reduced investment inflows in the non-resource tradable sectors. By contrast, investments in natural resource sectors and non-tradable activities appear insensitive to such shocks. The reduction in FDI inflows into Arab Spring affected economies was starkest in the non-resource manufacturing sector. Political instability is thus associated with increased reliance on non-tradables and aggravated resource dependence. [2]

Questioning the Benefits of Export Promotion Programs

New research from Olivier Cadot, **Ana M. Fernandes**, Julien Gourdon, and **Aaditya Mattoo** evaluates the effect of Tunisia's export promotion program – "FAMEX" – on the performance of beneficiary firms. While much of the previous

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research assesses only the short-term impact of such programs, this examination also considers the longer-term impact. The results from a number of different empirical techniques all suggest that beneficiaries initially see faster export growth and greater diversification across destination markets and products. However, three years after the intervention, the growth rates and the export levels of beneficiaries are not significantly different from those of non-beneficiary firms. Exports of beneficiaries do remain more diversified, but the diversification does not translate into lower volatility of exports. There is also no evidence that the program produced spillover benefits for non-beneficiary firms. Nevertheless, the results on the longer-term impact of export promotion must be interpreted cautiously because the later years of the sample period saw a collapse in world trade, which may not have affected all firms equally. [3]

Impact of Increased Food Safety Standards on International Trade



Recent research from **Esteban Ferro, John S. Wilson,** and Tsunehiro Otsuki uses newly available data on maximum residue

levels of pesticides for 61 importing countries to suggest that on average, more restrictive food safety standards are associated with less trade. This is likely because stricter standards increase the cost of entering the market and force exporting firms to make investments to comply with the new standards. In fact, once firms enter the market higher standards do not appear to have a noticeable impact on the level of exports. In cross country comparisons, increased food safety standards in the BRICS (i.e., Brazil, Russia, India, China, and South Africa) have a greater impact on trade than increased standards in other importing countries, but current standards in BRICS also tend to be less strict than those of other nations. Finally, there is some evidence that exports from low income countries are more negatively affected by increased

product standards than those from higher income countries. [4]

Export Entrepreneurship and Trade Structure in Latin America and the Caribbean during Good and Bad Times



Ana M. Fernandes, Daniel Lederman and Mario Gutierrez-Rocha use a new data set on export transactions to assess how “export entrepreneurship” fared in the Latin America and the Caribbean region during years of fast export growth (2005–2007) and those of depressed external demand (2008-2009). Annual rates of exporter entry, exit and survival in the region are similar to those in other countries. Within the region, survival rates appear to be highest in the agriculture sector. In countries with abundant natural resources, the size of export entrants is smaller than that of incumbents from 2005 to 2007, but less so during the crisis years of 2008 and 2009. Entry rates tend to be lower in sectors with comparative advantage for a given country, but exit rates and survival rates of new exporters are higher in those sectors. The slow growth of exports during the global recession of 2008-2009 in Latin America and the Caribbean was due to fewer exports from incumbent firms’ pre-existing products and destinations, while new products and destinations tended to alleviate the recession’s effects. [5]

Mapping How Workers Adjust to Trade Shocks

Labor-market rigidities, such as the costs for moving, firing, and hiring, make labor adjustment costly. That is why trade shocks, which affect wages and employment, can hurt the economy. In a recent working paper, **Erhan Artuç,** Daniel Lederman, and Guido Porto seek to quantify the impact of the labor-mobility costs in developing countries, using a new estimation strategy. They find that on average, the life-time impact of such costs are equivalent to nearly five times the annual income for the average worker, which varies significantly across regions (5.45 times the income in South Asia, 5.34 in Latin

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America, 4.96 in Eastern Europe, 4.40 in Middle East and North Africa, 4.26 in Sub-Saharan Africa, and 3.30 in East Asia). Labor-mobility costs are negatively correlated with per capita gross domestic product, educational attainment and school quality, but they are positively associated with other costs and economic distortions. In addition, labor-mobility costs can take a toll on the economy; it can take six years for a country to fully recover from a trade shock, but it takes even longer when the mobility costs are higher. The inability to adjust quickly is costly, taking up 60 percent to the full cost of the gains from trade. [6]

Trade Policies in Emerging Economies Are More Responsive To Economic Shocks under the WTO



In the aftermath of the Great Recession, many concluded that trade policy was dead. However, **Chad P. Bown** and Meredith Crowley's new research using DECTI's Temporary Trade Barriers Database provides evidence not only on the growing economic importance of these new forms of import

protection but also that economic shocks continue to affect the application of trade policy; it is simply that this now occurs through different policy instruments than in the past. In particular, aggregate-level fluctuations – such as slowdowns to economic growth, increases in unemployment, and sharp appreciations of the real exchange rate – increasingly influence emerging economies' application of new temporary trade barriers. Finally, some of the explanation for the fact that emerging economy trade policy increasingly resembles that employed by high-income economies may be due to the WTO agreement itself. The institutional environment facing these emerging economies changed considerably as they joined the WTO and adopted disciplines to restrain application of other trade policies such as applied import tariffs. [7]

Trends in Developing Country Trade 1980–2010

A recent paper by authors Michalopoulos Constantine and **Francis Ng** analyzes the complex patterns to developing country trade flows taking place between 1980 and 2010. During this 30-year span, world trade in goods expanded rapidly, especially in developing countries and especially over the last decade. A similar picture emerges for trade in services. These overall trends, however, mask complicated patterns occurring over time, across countries and regions. For example, with the exception of Asia, the 1980s were essentially a “lost” decade for many developing countries. The 1990s and 2000s resulted in tremendous change with trade by all major developing countries growing faster than developed countries. Furthermore, trade by Least Developed Countries grew much more slowly between 1980 and 2000 than that of developing countries as a whole; yet LDCs experienced the fastest trade growth in the most recent decade. This strong overall trade performance with some exceptions (for example Sub-Sahara Africa in manufacturing trade) raises questions about sustainability, trade policy and the architecture of the trading system. [8]

Drivers of Turkey's Export Boom

Tolga Cebeci and **Ana M. Fernandes** examine the microeconomics behind Turkey's dramatic export boom during the 2000s. Using disaggregated customs data covering Turkish exports from 2002 to 2011, they describe firm-level dynamics in the export sector and decompose export growth at the aggregate, sector, and destination-market levels to analyze how the turnover of firms, destinations, and products affects exports. The authors find that in the short run, aggregate export growth was dominated by the growth of established exporters, which was in turn dominated by the exports of their existing products to old destinations. But in the long run, the high frequency of churning across firms, destinations, and products accounts for a significant portion of Turkey's export growth. The patterns of micro-dynamics of export growth are verified across sectors and groups of destination markets, with some exceptions for exports to new emerging

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markets, where net entry by Turkish exporters plays a more critical role for long-term growth. [9]

Understanding Why the Size of the Informal Sector Can Rise After Trade Liberalization



The incidence of informal employment in developing countries ranges from 40 and 80 percent of the labor force. New research by Javier Arias, **Erhan Artuç**, Daniel Lederman and Diego Rojas estimates workers' switching costs

between informal and formal employment in light of the effects of trade liberalization on labor reallocations, wages, and welfare. The work looks in particular at two developing countries, Brazil and Mexico, which appear to represent the range of informality rates observed in Latin America. The results suggest that inter-industry labor mobility costs are large, but entry costs into informal employment are significantly lower than the costs of entry in formal employment. Simulations of labor-market adjustments caused by a trade related fall in manufacturing goods prices indicate that the share of informally employed workers rises after liberalization, but this is due to entry into the labor market by previously idle labor. [10]

Trade in Services as a Source of Dynamism



A closer look at trade and innovation in the services sector suggests that the growing faith in services as a source of dynamism may not be misplaced. Prior studies on innovation and international

trade have traditionally focused on manufacturing because neither was seen as important for services. Moreover, the few existing studies on services focus only on industrial countries, even though services in many developing countries is already the largest sector in the economy and an important determinant of overall productivity growth. New research by Leonardo Iacovone, **Aaditya Mattoo** and Andreas Zahler uses a recent firm-level innovation survey for Chile to compare the manufacturing and "tradable"

services sector. The authors find that first, although services firms have on average a much lower propensity to export, services exports are less dominated by large firms and tend to be more skill intensive. Second, services firms appear to be as innovative as – and in some cases more innovative than – manufacturing firms. Third, services exporters (like manufacturing exporters) tend to be significantly more innovative than non-exporters, with a wider gap for innovations close to the global technological frontier. [11]

RECENT PUBLICATIONS

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