

TRADE RESEARCH* NEWSLETTER

Winter/Spring 2015

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IN THE NEWS

DECTI Economist and His Coauthors Win 2014 Research Academy Award



The paper “All in the Family: State Capture in Tunisia”, coauthored by **Bob Rijkers**, Caroline Freund, and Antonio Nucifora won the 2014 Research Academy, which is sponsored by the World Bank Research Director and the Global Practices Chief Economist as one of the very best new research papers

from across the institution, being both academically innovative, rigorous, and highly operationally relevant.

Their paper exposes the abuse of power by former President Ben Ali and his clan. The authors show that connected firms outperformed their competitors by (ab)using investment regulations that enabled them to enjoy monopoly rents. The ensemble of Ben Ali firms pocketed 21% of all private sector profits in Tunis, in spite of accounting for a mere 3% of all output and less than 1% of all wage jobs. When existing regulations did not suffice to protect the family's business interests, new regulations were invented and instituted by means of presidential decrees ordained by Ben Ali himself. Tunisia's industrial policies thus served as a vehicle for state capture. [23]

In the Media

Chad Bown's Temporary Trade Barriers database update provided evidence that the increase in import protection that began alongside the Great Recession in 2008 may be leveling off. The [report](#) was cited in the [Financial Times](#), [The Washington Post](#), and [the Wall Street Journal](#).

[All in the Family: State Capture in Tunisia](#) by **Bob Rijkers**, Caroline Freund, and Antonio Nucifora was cited in the [Financial Times](#) and in the [Economist](#) showing 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 global trade slowdown: cyclical or structural?”](#) by Cristina Constantinescu, **Aaditya Mattoo**, and Michele Ruta was cited in the Financial Times, ([1](#), [2](#), [3](#), [4](#)), [The Economist](#), [Le Monde](#), [The Guardian](#), and [Reuters](#) demonstrating that global trade slowed down not only due to cyclical factors but also structural ones.

[“The Labor Market Effects of Immigration and Emigration in OECD Countries,”](#) by Frédéric Docquier, **Caglar Ozden**, and Giovanni Peri, finds that immigration had a positive effect on the wages of less educated natives and that it increased or left unchanged the average native wages. The paper was cited in the [Financial Times](#).

SPECIAL FEATURES

International Trade, Poverty, and Shared Prosperity

On December 10-11, 2014, the World Bank's research department held the Trade, Poverty, and Shared Prosperity Conference. The two-day event convened leading academics and senior policy experts to dissect

*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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the relationship between trade and household welfare, and identify policies that can accelerate progress toward the Bank's twin goals of reducing extreme poverty and boosting shared prosperity.

Participants addressed a range of questions that included: Does openness exacerbate volatility? How do labor mobility costs vary across different countries? How do food prices affect poverty? The conference's agenda included sessions on household welfare and poverty, the labor market, and crime and conflict.

"Trade liberalization has tremendous potential to catalyze development," said World Bank Director of Research Asli Demirguc-Kunt, who delivered the conference's opening remarks. "But how will increased integration impact poverty and inequality? How can globalization be harnessed to reduce poverty and boost shared prosperity?"



From left to right: Chico Ferreira, Ana Revenga, Aaditya Mattoo, Alan Winters, and Branko Milanovic

Moderator **Aaditya Mattoo** (World Bank) assigned panelists Alan Winters (University of Sussex), Branko Milanovic (City University of New York), Ana Revenga (World Bank), and Francisco Ferreira (World Bank) roles in the debate, which laid out the challenges of building the goal of shared prosperity into trade policy.

Highlighting the potentially unequal impact of liberalization, Winters argued that "opening an economy does not increase volatility per se, but does alter the way shocks reverberate through the economy." Panelists warned that trade policy is a long-term tool that can be captured by political groups for their own agenda, making it difficult to apply in service of the twin goals. However, given that trade

liberalization can generate unequal gains, the consequences that trade policy can have on the bottom 40 percent must be taken into consideration and addressed through policy approaches that include taxes and transfer instruments.

Senior Director of the World Bank Group Global Practice on Trade and Competitiveness Anabel Gonzalez brought the event to a close and summarized the findings in the context of World Bank trade strategy. Gonzalez encouraged the experts assembled to ask, "How do we enable poor people to trade?" She outlined the challenges that poor people living in remote areas experience when they try to gain market access, including violence, the instability of fragile states, and gender-specific dangers, and encouraged experts to include these issues in their research agendas.

The workshop was organized by **Bob Rijkers** (DECTI, World Bank). For more information about the conference and papers, please visit the [conference web page](#).

Third IMF-World Bank-WTO Joint Trade Research Workshop

The World Bank's research department co-hosted the Third IMF-World Bank-WTO Joint Trade Workshop, which was held at the IMF on November 6-7, 2014. The event brought together experts on trade from the three institutions to share their latest research findings and discuss current trade issues.

IMF Managing Director Christine Lagarde and WTO Director General Roberto Azevêdo opened the event with an emphasis on trade as a catalyst for growth, the importance of trade research to informed policy, and the ability of research collaboration across the three institutions to increase coherence in policy advice. Speakers at the conference presented research that addressed these themes with contributions on key questions such as: At what stage of development do countries upgrade the quality of their exports? What is the impact of Basel III on trade finance? And what is the implication of global value chains for countries' tariff and non-tariff policies?

This year's workshop was co-organized by Michele Ruta (IMF), **Chad P. Bown** (World Bank), and Marc Auboin (WTO).

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For conference highlights and papers, please see the [Feature Story](#) and the [Conference Webpage](#).

Pushing the Limits of International Trade Policy

Over the last two decades, tariffs in nearly all emerging economies have dropped substantially. In many cases, the average tariff rate applied by a given country has fallen below 10 percent, a historical low since the Second World War. Despite this clear downward trend, over the same time period the world has witnessed a commensurate increase in non-tariff barriers, partially offsetting the benefits of reduced tariffs.

These and many other findings on current and future challenges in trade policy were discussed by **Chad Bown**, lead economist in the World Bank's research department, at the Policy Research Talk series. The series is a monthly event held by the research department to foster a dialogue between World Bank researchers and operational colleagues.



From left to right: Chad P. Bown, Asli Demirguc-Kunt, Sudhir Shetty

"We know that as countries develop, they inevitably become more integrated into the global economy, and trade policy becomes a key part of a successful development strategy," said World Bank Research Director Asli Demirguc-Kunt, who hosted the event. "But today's trade policy has become more challenging than ever to get right, particularly in the face of growing concern about globalization, jobs, and inequality."

Bown's research builds on the Temporary Trade Barriers Database, a unique set of data collected by

the World Bank's research department that covers more than thirty countries' use of policies such as antidumping, global safeguards, and countervailing duties. The freely available database covers the period from the 1980s until 2013, and allows users to track the evolution of the frequency and incidence of temporary trade barriers

UPCOMING: 8th International Conference on Migration and Development

The French Development Agency (AFD) Research Department, the World Bank Development Research Group (DECRG) and the Center for Global Development (CGD) are jointly organizing the 8th International Conference on "Migration and Development".

The conference is devoted to investigating ways in which international migration affects economic and social change in developing countries. Possible topics include the effects of migration on poverty, inequality, and human capital formation; social networks and migration; diaspora externalities; remittances; brain drain; migration and institutional/technological change.

The keynote speaker will be Ran Abramitzky (Stanford University) and Dani Rodrik (Institute for Advanced Studies, Princeton). The Word Bank will host the conference in Washington DC, on June 8-9, 2015.

LATEST RESEARCH FINDINGS

Evaluation in Aid for Trade



The demand for accountability in aid-for-trade is increasing but monitoring has focused on case studies and impressionistic narratives. Olivier Cadot, **Ana Fernandes**, Julien Gourdon, Aaditya Mattoo, and Jaime de Melo review recent evidence from a wide range of studies, recognizing that a multiplicity of approaches is needed to learn what works and what does not. The review concludes that there is some support for the emphasis on reducing trade costs through investments in hard infrastructure (like ports and roads) and soft infrastructure (like

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customs). But failure to implement complementary reform -- especially the introduction of competition in transport services -- may erode the benefits of these investments. Direct support to exporters does seem to lead to diversification across products and destinations, but it is not yet clear that these benefits are durable. In general, it is difficult to rely on cross-country studies to direct aid-for-trade. More rigorous impact evaluation is an underutilized alternative, but situations of clinical interventions in trade are rare and adverse incentives (because of agency problems) and costs (because of the small size of project) are a hurdle in implementation. [11]

FDI Benefits Domestic Firms through Common Local Input Suppliers



New intermediate inputs have been used to explain productivity gains and growth in many theoretical growth models. Most of the empirical evidence comes from trade liberalization episodes where tariffs of imported intermediate inputs were lower. This research, carried out by **Hiau Looi Kee**, shows that local intermediate inputs enhance the performance of domestic firms through the shared supplier spillovers of foreign direct investment firms, based on a representative sample of Bangladeshi garment firms. In particular, a European Union trade policy shock which caused some FDI firms in Bangladesh to expand led to better performance of the domestic firms that shared their suppliers, as the local input suppliers expand their product varieties and quality to meet the demand of their FDI customers. Overall, the shared supplier spillovers of foreign direct investment explain 1/4 of the product scope expansion and 1/3 of the productivity gains within domestic firms. [20]

New Patterns in WTO's dispute settlement

Research carried out by **Chad Bown** from a new data set establishes a set of basic facts and patterns regarding the trade that countries fight about under

World Trade Organization (WTO) dispute settlement. First, there is striking heterogeneity in the level of market access at stake across disputes: for example, 14 percent of cases over disputed import products feature bilateral trade that is less than \$1 million per year and another 15 percent feature bilateral trade that is more than \$1 billion per year. Nevertheless, both high- and low-income complainants tend to suffer important losses in foreign market access in the products that ultimately become subject to dispute. Furthermore, although the respondent's imposition of an allegedly WTO-inconsistent policy is associated with reductions, on average, in trade values, volumes, and exporter-received prices, there is some evidence of differences in the size of these changes across the different types of policies under dispute and the potential exporter country litigants. Finally, these different types of policies under dispute can have dissimilar trade effects for the complainant relative to other (non-complainant) exporters of the disputed product and this is likely to affect the litigation allegiance of third countries. [10]

Exporting to High-Income Nations Leads to Quality Upgrading



The extent to which the destination of exports matters for the input prices paid by firms is examined in recent research by **Paulo Bastos**, Joana Silva and Eric Verhoogen, using detailed customs and firm-product-level data from Portugal. When exchange rate movements are used as a source of variation in export destinations, firms that export to richer countries charge more for outputs and pay higher prices for inputs, other things equal. The results are supportive of the hypothesis that an external increase in average destination income leads firms to raise the average quality of goods they produce and to purchase higher-quality inputs. These findings have implications for our understanding of the upgrading process in developing countries. In particular, they indicate that raising the quality of outputs requires raising the quality of inputs, which in turn suggests that increasing exports to high-income destinations may require the upgrading of entire

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complexes of suppliers and downstream producers, not just of exporters. [6]

Weak job growth in Tunisia due to insufficient firm dynamism

Examining which firms create jobs in a small developing country, suffering from high and persistent unemployment, offers new information about the constraints to job creation in emerging economies. Using unique data covering all private firms in Tunisia over the period 1996-2010, **Bob Rijkers**, Hassen, Arouri, Caroline Freund, and Antonio Nucifora show firm dynamics were sluggish and overall net job creation disappointing, despite stable growth of gross domestic product. The firm size distribution has remained skewed toward small firms, because of stagnation of existing firms and new entrants starting small, typically one-person firms (self-employment). Churning is limited, especially among large firms, and few firms manage to grow. Post-entry, small firms are the worst performers for job creation, even if they survive. Moreover, the association between productivity, profitability, and job creation is feeble, pointing toward weaknesses in the re-allocative process. Weak net job creation thus appears to be due to insufficient firm dynamism rather than excessive job destruction. [22]

Open Skies over The Middle East



The dynamism of air traffic markets in the Middle East obscures the persistence of restrictions on international competition. But how important are such restrictions for passenger traffic? Detailed data on worldwide passenger aviation is used in this study by Anca Cristea, **Russell Hillberry**, and

Aaditya Mattoo to estimate the effect of air transport policy on international air traffic. The policy variable is a quantitative measure of the commitments under international agreements. The analysis is the first of its kind to include plurilateral agreements such as the one between Arab states. The findings suggest that a more liberal policy is associated with greater passenger traffic between countries. Higher traffic levels appear to be driven primarily by larger numbers of city pairs being served, rather than by more passengers traveling along given routes. To demonstrate the

quantitative implication of the estimates, two liberalization scenarios in the Middle East are evaluated. Deepening the plurilateral agreement among Arab states would lead to a 30 percent increase in intraregional passenger traffic. Widening the agreement to include Turkey would generate significantly larger gains because current policy vis-à-vis Turkey is much more restrictive. [16]

Anticipating Trade Liberalization: Theory and Evidence



Trade theory has, for the most part, avoided realistic modelling of labor mobility, assuming either frictionless mobility or complete immobility. Research by **Erhan Artuc**, Shubham Chaudhuri and John McLaren shows how a simple, tractable model of labor adjustment in a trade model can be employed to study the equilibrium and, despite its simplicity, provide a rich variety of properties. For example, pre-announcement leads to anticipatory flight from the liberalizing sector, driving up wages there temporarily and giving workers remaining "anticipation rents." This pre-announcement makes liberalization less attractive to export-sector workers and more attractive to import-sector workers, eventually making workers unanimously in favor of or in opposition to liberalization. This simple model identifies many pitfalls to the empirical study of trade liberalization based on commonly used static models [1]

Non-OECD destinations account for one-third of global high-skilled migration



Among various dimensions of international migration, the movement of highly-skilled professionals, commonly referred to as "brain drain" is one of the most intensely debated. The discussion typically focuses on the movement of human capital from poorer to wealthier countries. On the one hand, many governments are

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designing policies to attract the best and the brightest in an increasingly competitive global labor market. On the other hand, many poorer countries, especially those already suffering from low levels of human capital, are deeply concerned about retaining their skilled workers, whose absence is likely to impact their long-term development. However, this debate has almost completely ignored skilled migration flows between developing countries. Based on newly collected data and novel statistical techniques, a global overview of bilateral human capital mobility—by gender and education categories—is now available for 1990 and 2000 for 190 countries. In addition to identifying key determinants of global migration patterns, this analysis by Erhan Artuc, Frederic Docquier, **Caglar Ozden**, and Chris Parsons provides various nuanced brain drain indicators. Among the important findings, while OECD countries are extremely important destinations, non-OECD destinations account for one-third of total highly-skilled migration stocks and are increasing in importance. Most migration takes place between neighboring countries, but several regional magnets are emerging. Still, developing countries are experiencing net human capital losses while the U.S., the U.K., Canada, and Australia attract two-thirds of all highly-skilled migrants. [2]

The trade-reducing effects of restrictions on liner shipping



The paper by Fabien Bertho, Ingo Borchert, **Aaditya Mattoo** examines how policy governing the liner shipping sector affects maritime transport costs and seaborne trade flows. The paper uses a novel data set and finds that restrictions, particularly on foreign investment, increase maritime transport costs, strongly but unevenly. The cost-inflating effect ranges from 24 to 50 percent and trade on some routes may be inhibited altogether. Distance increases maritime transport costs, but also attenuates the cost impact of policy barriers. Overall, policy restrictions may lower trade flows on specific routes by up to 46 percent and therefore deserve greater attention in national reform programs and international trade negotiations. [7]

RECENT PUBLICATIONS

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NEW WORKING PAPERS

- [1] **Artuc, Erhan**; Chaudhuri, Shubham; McLaren, John. November 2014. Some simple analytics of trade and labor mobility. World Bank Policy Research Working Paper 7089.
- [2] **Artuc, Erhan**; Docquier, Frédéric; **Ozden, Caglar**; Parsons, Christopher. May 2014. A global assessment of human capital mobility: the role of non-OECD destinations. World Bank Policy Research Working Paper 6863.
- [3] **Artuc, Erhan**; Iootty, Mariana; Pirlea, Ana Florina. August 2014. Export performance and geography in Croatia. World Bank Policy Research Working Paper 6999.
- [4] Barattieri, Alessandro; Borchert, Ingo; **Mattoo, Aaditya**. June 2014. Cross-border mergers and acquisitions in services: the role of policy and industrial structure. World Bank Policy Research Working Paper 6905.
- [5] **Bastos, Paulo**; Castro, Lucio; Cristia, Julian; Scartascini, Carlos. Does energy consumption respond to price shocks? Evidence from a regression-discontinuity design. World Bank Policy Research Working Paper 6785.
- [6] **Bastos, Paulo**; Silva, Joana; Verhoogen, Eric. June 2014. Export destinations and input prices. World Bank Policy Research Working Paper 6914.
- [7] Bertho, Fabien; Borchert, Ingo; **Mattoo, Aaditya**. June 2014. The trade-reducing effects of restrictions on liner shipping. World Bank Policy Research Working Paper 6921.
- [8] **Bown, Chad P.** January 2014. Trade policy instruments over time. World Bank Policy Research Working Paper 6757.
- [9] **Bown, Chad P.**; Karacaovali, Baybars; Tovar, Patricia. June 2014. What do we know about preferential trade agreements and temporary trade barriers? World Bank Policy Research Working Paper 6898.
- [10] **Bown, Chad P.**; Reynolds, Kara M. July 2014. Trade flows and trade disputes. World Bank Policy Research Working Paper 6979.

- [11] Cadot, Olivier; Fernandes, Ana; Gourdon, Julien; **Mattoo, Aaditya**; de Melo, Jaime. January 2014. Evaluating aid for trade: a survey of recent studies. World Bank Policy Research Working Paper 6742.
- [12] Carletto, Calogero; Larrison, Jennica; **Ozden, Caglar**. November 2014. Informing migration policies: a data primer. World Bank Policy Research Working Paper 7082.
- [13] Chellaraj, Gnanaraj; **Mattoo, Aaditya**. January 2015. Can the knowledge capital model explain foreign investment in services? The case of Singapore. World Bank Policy Research Working Paper 7186.
- [14] Cherkashin, Ivan; Demidova, Svetlana; **Kee, Hiau Looi**; Krishna, Kala. January 2015. Firm heterogeneity and costly trade: a new estimation strategy and policy experiments. World Bank Policy Research Working Paper 7156.
- [15] Constantinescu, Cristina; **Mattoo, Aaditya**; Ruta, Michele. January 2015. The global trade slowdown: cyclical or structural? World Bank Policy Research Working Paper 7158.
- [16] Cristea, Anca; **Hillberry, Russell**; **Mattoo, Aaditya**. June 2014. Open Skies over the Middle East. World Bank Policy Research Working Paper 6937, June Aaditya.
- [17] Freund, Caroline; Hallward-Driemeier, Mary; **Rijkers, Bob**. June 2014. Deals and delays: firm-level evidence on corruption and policy implementation times. World Bank Policy Research Working Paper 6946.
- [18] Freund, Caroline; **Rijkers, Bob**. May 2014. Episodes of unemployment reduction in rich, middle-income, and transition economies. World Bank Policy Research Working Paper 6891.
- [19] **Hillberry, Russell**; McCalman, Phillip. March 2014. Import dynamics and demands for protection. World Bank Policy Research Working Paper 6796.
- [20] **Kee, Hiau Looi**. September 2014. Local intermediate inputs and the shared supplier spillovers of foreign direct investment. World Bank Policy Research Working Paper 7050.
- [21] **Ozden, Caglar**; Wagner, Mathis. June 2014. Immigrant versus natives? Displacement and job

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creation. World Bank Policy Research Working Paper 6900.

[22] **Rijkers, Bob**; Arouri, Hassen; Freund, Caroline; Nucifora, Antonio. October 2014. Which firms create the most jobs in developing countries? Evidence from Tunisia. World Bank Policy Research Working Paper 7068.

[23] **Rijkers, Bob**; Freund, Caroline; Nucifora, Antonio. March 2014. All in the family: state capture in Tunisia. World Bank Policy Research Working Paper 6810.