

TRADE RESEARCH* NEWSLETTER

Spring 2017

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In addition to considering tariff barriers, this case study incorporated the costs associated with non-tariff barriers. Kee also discussed examples of how trade and FDI policies may affect global product networks and what might happen if a country fails to retain or attract FDI. Her most recent paper on global production networks (coauthored with Heiwai Tang) is forthcoming in the *American Economic Review*.

The event was chaired by World Bank Research Director Asli Demirguc-Kunt. World Bank's Middle East and North Africa Region's chief economist Shanta Deverajan discussed Kee's research and policy impact on trade, FDI and global value chains. Details of Kee's presentation are available at [the policy research talk series webpage](#).

SPECIAL FEATURES

Policy Research Talk: Trade, FDI, and Global Value Chains



Recent events such as the vote for Brexit point to a potential backlash against the globalized economy. In a world where value chains and foreign investment crisscross the globe, the adverse impacts for developed and developing economies could be significant.

On September 26, 2016, **Hiau Looi Kee** presented a case study of how costly a rupture in the existing trade regime could be, in the Policy Research Talk series. She drew on the Overall Trade Restrictiveness Index (OTRI)—a tool pioneered during the financial crisis to better understand the drivers of trade flows—to examine the potential costs associated with a country's withdrawal from a free trade union. In

Policy Research Report: Global Migration and Labor Markets

Moving to better employment opportunities and wages is the key mechanism by which the majority of the world's population, especially the poor, can hope to improve their lives. Migration is, hence, vital to achieving World Bank goals: worldwide poverty eradication, economic growth and shared prosperity. The forthcoming Policy Research Report (PRR) on Global Migration and Labor Markets will examine the determinants and labor market impacts of global migration patterns. As a part of the dissemination series for the PRR, **Caglar Ozden** and Mathis Wagner gave three seminars over the last six months. Their presentations took a 360-degree perspective considering the impact on destination and source countries, as well as the migrants themselves. Reflecting the current high-profile debate, an emphasis was placed on analyzing refugee flows.

* 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.

5th IMF-World Bank-WTO Joint Trade Research Workshop

The World Bank's research department hosted the Fifth IMF-World Bank-WTO Joint Trade Workshop at the World Bank on November 30, 2016. The one-day workshop that brought together researchers from the World Bank, the IMF and the WTO along with more than 70 other participants, included papers addressing topical questions in areas as diverse as the links between trade, wage inequality and the poor, global value chains, non-tariff measures, preferential trade agreements, FDI restrictions, and migration.

The papers and presentations as well as video recordings for the conference sessions are available at the [conference webpage](#).

This year's workshop was co-organized by Christian Henn (IMF), **Ana M. Fernandes** and **Alejandro F. Rojas** (World Bank), and Marc Auboin (WTO).

Conference on International Trade and Regulatory Cooperation

DECRG and the Centre for International Governance Innovation (CIGI) organized a conference on Monday March 13th 2017 on International Trade and Regulatory Cooperation. The focus was on recent research on approaches to reduce the costs of regulatory heterogeneity across countries and the potential role of trade agreements in supporting regulatory cooperation and the achievement of national regulatory objectives.

This event was organized by Oonagh Fitzgerald (CIGI) Bernard Hoekman (EUI) and **Aaditya Mattoo** (WB).

IN THE NEWS

A recent paper by **Caglar Ozden** and his coauthors, titled "[Global Talent Flows](#)" was featured in the Wall Street Journal Article "[Four Nations are winning the Global War for Talent](#)". The paper is forthcoming in the Journal of Economic Perspectives.

The findings from a paper by Ingo Borchert, **Aaditya Mattoo** and Batshur Gootiiz (2014), Policy Barriers to International Trade in Services: Evidence from a New

Database, World Bank Economic Review, vol. 28(1), 162-188, were cited in the Economist (Feb 4-10, 2017): [Trading places: Where should Britain strike its first post-Brexit trade deals?](#)

The findings from a paper by Cristina Constantinescu, **Aaditya Mattoo** and Michele Ruta (2015), The global trade slowdown: cyclical or structural?, World Bank Policy Research Working Paper 7158, were cited in a Financial Times editorial (March 29, 2017): "[Healthy global trade flow belies the pitfalls ahead.](#)"

The findings from a report by Cristina Constantinescu, Aaditya Mattoo and Michele Ruta (2017), Global Trade Watch: Trade Developments in 2016, DECRG and Trade and Competitiveness Practice, World Bank, were cited in the Financial Times (February 21, 2017): "[Policy uncertainty threatens trade growth.](#)" These findings were also cited in [Xinhua](#) and [a range of other media](#).

OPERATIONAL SUPPORT HIGHLIGHTS

Cities flagship report for the LCR Chief Economist Office. An ongoing background study for this report uses a spatial equilibrium model to investigate how the growth of cities determines aggregate growth in Brazil. Specifically, the paper examines: (1) the extent to which the contribution of a city to aggregate growth differed from what might naively be inferred from the growth of the city's GDP; and (2) the extent to which relaxing constraints to housing supply in major Brazilian cities can improve the spatial allocation of labor, and thereby generate gains in aggregate output and welfare. This theme is particularly relevant in the Brazilian context, where increased labor flows towards large cities such as Sao Paulo and Rio de Janeiro, along with the relative scarcity of adequate housing supply and transport infrastructure in these cities, appeared to have played

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an important role in shaping patterns of local and aggregate growth in the country.

Madagascar Public Sector Reform Project

for the Customs Authority of the Government of Madagascar and the Bank's Governance Global Practice: Evaluation and assistance with implementation of performance contracts for customs inspectors in order to facilitate trade, improve revenues, and reduce fraud. Preliminary results suggest these contracts are highly effective, and have contributed to a 37% improvement in revenues between January 2016 and February 2017.

Economic Impacts of the Syrian Civil War

for MFM Global Practice and the MENA region: The plight of refugees and reconstruction of countries embroiled in civil wars are among the biggest challenges the world is facing. The project assesses the relative importance of channels through which the Syrian Civil War has had an impact: capital destruction, casualties and economic disorganization through the destruction of the production networks. The economic impact is mainly felt through the collapse of networks as well as the migration of productive workers. The overall results confirm the importance of human capital, rather than physical capital.

Malaysian Labor Market and Foreign

Labor for the Government of Malaysia and the Social Protection and Labor Global Practice: Low-skilled foreign workers constitute over 15 percent of Malaysia's labor force. The Government of Malaysia included foreign worker management as one of the key issues in its 11th Malaysia plan and asked the World Bank to analyze the impact of foreign labor on key economic outcomes and suggest specific policy reforms. The results were presented to the Prime Minister and other Ministers, and the Cabinet encouraged the World Bank team to work with various government agencies to operationalize the policy recommendations.

Afghanistan Trade Study for the Government of Afghanistan, the World Bank's South Asia Region and the T&C Practice: As part of a broader effort to assess the potential role of trade in reviving Afghanistan's sluggish growth, this report examined opportunities and challenges in selected services sectors. The constraints on service sector development due to Afghanistan's small market and limited endowments of skills and capital could in principle be alleviated by greater regional and global integration. If the political and security situation improves, foreign participation in transport and communications infrastructure and services could enhance connectivity both domestically and internationally, and create the basis for Afghanistan to become an exporter of transit services to its neighboring countries. Facilitating consumption abroad of health and education services by Afghan citizens could boost their human capital and equip them to engage productively in both the domestic and global economy in the long run.

Impact on South Asian Countries of Trade Policy Changes in the Major Economies

for the SAR Chief Economist Office: This report analyzes the potential impact on SAR countries of changes in foreign trade policy and a strengthening of the US dollar, relying on recent trade elasticity estimates. The report calculates the potential short run trade responses in specific destination country policy scenarios. These include increases in tariffs on imports from specific or all countries and an appreciation of the US dollar with respect to all South Asia/world currencies. In all cases, the report estimates the potential spillovers to the SAR countries based on their current export profiles. Results show that reversals of openness in destination markets may present hurdles or new market opportunities for SAR exports depending on the specific actions that are taken.

RESEARCH HIGHLIGHTS

Expediting trade: impact evaluation of an in-house clearance program



Despite the importance of trade facilitation as an area of trade and development policy, there have been very few impact evaluations of specific trade facilitation reforms. **Ana Fernandes**, Russ Hillberry and Claudia Berg offer an

evaluation of in-house clearance, a reform that allows qualified firms in Serbia to clear customs from within their own warehouse rather than at the customs office. The pooled synthetic control method applied here offers a novel solution to many of the empirical challenges that frustrate efforts to evaluate trade facilitation reforms. The overall results suggest that the most evident benefit of the program for participating firms is reduced uncertainty about clearance times. [14]

Learning Prices and Firm Dynamics



Using data from the Portuguese manufacturing sector, **Paulo Bastos**, Daniel Dias and Olga Timoshenko document that: (1) within narrow product categories, firms with longer spells of activity in export destinations tend to ship larger quantities at similar prices, thus obtaining larger export revenue; (2) older

exporters tend to import more expensive inputs; and (3) revenue growth within destinations (conditional on initial size) tends to decline with market experience. The authors develop a model of endogenous input and output quality choices in a learning environment that is able to quantitatively account for these patterns. Counterfactual simulations reveal that minimum quality standards on exports reduce welfare by lowering entry in export markets and reallocating resources from old and large toward young and small firms. [5]

Global talent flows



The global distribution of talent is highly skewed and the resources available to countries to develop and utilize their best and brightest vary substantially. The migration of skilled workers across countries tilts the deck even further. Using newly available data, Sari Kerr, William

Kerr, **Caglar Ozden** and Chris Parsons review: the landscape of global talent mobility; the determinants of global talent flows at the individual and firm levels; and different approaches used to select migrants for admission. [18]

Services and Global Value Chains



Services play a role in global value chains (GVCs) in many ways similar to goods. But **Cecilia Heuser** and Aaditya Mattoo argue that they deserve special attention because of how they are transacted, how they affect downstream sectors, how they are regulated, and how international cooperation can

contribute to integration of national markets. Even though international transactions in services that take place through foreign investment are hard to measure, their economic impact can be estimated: the resulting improved access to services facilitates the emergence of GVCs, enhances downstream manufacturing firms' productivity, and shifts the pattern of comparative advantage towards sectors intensive in these services. International cooperation in services has attempted to follow the goods example of reciprocal market opening, but more could be achieved through a greater emphasis on international regulatory cooperation. [16]

Transit Migration: All Roads Lead to America



The paths of many migrants include multiple destinations and transit routes, yet this pattern is almost never reflected in empirical analyses. For example, 9% of recent immigrants to the United States arrived from a transit country as opposed to the one they were born in. Among those arriving from many OECD

countries, transit migration ratio exceeds 30%. To explain these patterns, **Erhan Artuc** and Caglar Ozden construct a dynamic model of global migration that allows transit migration opportunities to impact the attractiveness of locations. After estimating structural parameters of the model, they simulate various counterfactual scenarios to highlight the spillovers of transit migration paths. [1]

Productivity Slowdown and Vertical Specialization



We are witnessing a decline in the growth of trade and productivity. Previous research has demonstrated that the slowing expansion in global value chains (GVCs) can partially explain the current trade slowdown. Cristina Constantinescu, **Aaditya Mattoo** and Michele Ruta investigate

whether changes in vertical specialization, as manifested in global value chains (GVCs), can explain the current productivity slowdown. The results based on a panel estimation covering 13 sectors in 40 countries over 15 years suggest that participation in global value chains is a significant driver of labor productivity. Backward participation in global value chains, that is, the use of imported inputs to produce for exports, emerges as particularly important. [12]

RECENT ARTICLES

Artuc, Erhan and **Caglar Ozden**. 2017. "Transit Migration: All Roads Lead to America", *The Economic Journal*, forthcoming.

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

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Kerr, Sari Pekkala, William Robert Kerr, **Caglar Ozden**, and Christopher Robert Parsons. 2016. "Global talent flows," *Journal of Economic Perspectives*, forthcoming.

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

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Alix-Garcia, Jennifer, **Erhan Artuc** and Harun Onder. 2017. Economics of Hosting Refugees: A Host Community Perspective from Turkana, World Bank, Washington D.C.

Dickerson, Sarah and **Caglar Ozden**. 2017. "Return Migration & Diaspora Engagement" in Anna Triandafyllidou (ed.) Handbook on Migration and Globalisation, Edward Elgar, forthcoming.

Heuser, Cecilia, and **Aaditya Mattoo**. 2017. "Services Trade and Global Value Chains," forthcoming as a chapter in David Dollar et al., Global Value Chains and Development.

Kone, Zovanga and **Caglar Ozden**. 2017. "Labor Market Implications of Immigration and Emigration in the Dominican Republic," in Francisco Carneiro (ed.) When Growth is not Enough: Explaining the Rigidity of Poverty and Inequality in the Dominican Republic, World Bank, forthcoming.

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Ozden, Caglar and Christopher Parsons. 2017. "International mobility of knowledge workers and high-skilled migration" in Fink, Carsten, and Ernest Miguelez (eds.) Innovation, Intellectual Property, and Economic Development (Cambridge, UK: Cambridge University Press, forthcoming.

BLOGS

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Fernandes, A., and **A. F. Rojas**. "[International trade and integration: The latest research.](#)" World Bank Blog, December 8, 2016.

NEW WORKING PAPERS

- [1] **Artuc, Erhan; Ozden, Caglar**. 2016. *Transit Migration All Roads Lead to America*. Policy Research working paper 7880. Washington, D.C. World Bank Group.
- [2] **Bastos, Paulo**; Bottan, Nicolas. 2016. *Resource rents, coercion, and local development: Evidence from post-Apartheid South Africa*. Policy Research working paper 7572. Washington, D.C. World Bank Group.
- [3] **Bastos, Paulo**; Straume, Odd Rune. 2016. *Preschool education in Brazil: Does public supply crowd out private enrollment?* Policy Research working paper 7573. Washington, D.C. World Bank Group.
- [4] **Bastos, Paulo**; Bottan, Nicolas; Cristia, Julian. 2016. *Access to pre-primary education and progression in primary school: Evidence from rural Guatemala*. Policy Research working paper 7574. Washington, D.C. World Bank Group.
- [5] **Bastos, Paulo**; Dias, Daniel; Timoshenko, Olga A. 2016. *Learning, Prices, and firm dynamics*. Policy Research working paper 7667. Washington, D.C. World Bank Group.
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- [9] **Bown, Chad P.**; Irwin, Douglas A. 2016. *The GATT's starting point: tariff levels circa 1947*. Policy Research working paper 7649. Washington, D.C. World Bank Group.
- [10] **Bown, Chad P.**; Crowley, Meredith A. 2016. *The empirical landscape of trade policy*. Policy Research working paper. Washington, D.C. World Bank Group.
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- [12] Constantinescu, Cristina, **Aaditya Mattoo** and Michele Ruta. 2017. *Does Vertical Specialization Increase Productivity?* Policy Research working paper 7978. Washington, D.C. World Bank Group.
- [13] Del Carpio, Ximena Vanessa; **Ozden, Caglar**; Testaverde, Mauro; Wagner, Mathis Christoph. 2016. *Global migration of talent and tax incentives: evidence from Malaysia's returning expert program*. Policy Research working paper 7875. Washington, D.C. World Bank Group.
- [14] **Fernandes, Ana Margarida**; **Hillberry, Russell Henry**; Berg, Claudia N. 2016. *Expediting trade:*
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impact evaluation of an in-house clearance program.

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Services in the Trans-Pacific Partnership: What Would

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[16] **Heuser, Cecilia;** and **Aaditya Mattoo.** 2017.

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[17] **Kee, Hiau Looi** and Tang, Heiwai. 2016.

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[18] Kerr, Sari Pekkala; Kerr, William Robert; **Ozden,**

Caglar; Parsons, Christopher Robert. 2016. *Global talent flows.* Policy Research working paper WPS

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