

TRADE RESEARCH* NEWSLETTER

Summer/Fall 2015

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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>

IN THE NEWS

The New York Times published an article based on Bob Rijkers and his coauthors' recent work, "All in the Family: State Capture in Tunisia". Their paper shows 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 article can be viewed from [NYT website](#).

New York Times article cited a paper by Caglar Ozden and his coauthors. The article can be viewed from [NYT website](#).

["The global trade slowdown: cyclical or structural?"](#) by Cristina Constantinescu, **Aaditya Mattoo**, and Michele Ruta was cited in the [Financial Times](#) and [Le Monde](#).

SPECIAL FEATURES

UPCOMING: Release of the Exporter Dynamics Database 2.0

The Trade & International Integration Unit of the World Bank's Development Research Group (DECTI) is releasing a 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 69 countries with indicators on



The launch will take place in MC13-121 between 12:30pm and 2:30pm. The EDD team (Ana Margarida Fernandes, Denisse Pierola and Aldo Pazzini) will present this second version of the EDD followed by a panel of guest speakers who will discuss their use of the EDD. Aaditya Mattoo (Research Manager, Trade and International Integration Unit of the Development Research Group) will give opening remarks. The guest speakers are Caroline Freund (Peterson Institute for International Economics), Jose Daniel Reyes (Trade & Competitiveness GP) and Thomas Farole (Jobs Cross-Cutting Solutions Area). The event will be chaired by Jose-Guilherme Reis Practice Manager, Trade & Competitiveness Global Practice.

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8th International Conference on Migration and Development

The 8th Migration and Development Conference was held on June 8-9 at the World Bank Group headquarters in Washington, DC. This was part of the premier annual conference series on migration issues that investigates how international migration affects economic and social change in developing countries. This conference was co-sponsored with the French Development Agency (AFD) and the Center for Global Development (CGD). In addition to Çağlar Özden from the World Bank, the organizers of the conference were Cyrille Bellier (AFD), Hillel Rapoport (Paris School of Economics) and Michael Clemens (CGD).

Thirty leading academics from universities and think tanks across the globe presented their research. In addition to standard migration related topics such as impact on labor markets, remittances and poverty, the papers covered a wide range of issues from diaspora externalities to the transfer of cultural norms, social networks to human capital formation. The wide range of the topics was another indication how the latest research is moving far beyond traditional subjects.

The conference was opened by the Keynote presentation by Dani Rodrik of the Institute for Advanced Study at Princeton. The keynote was titled "Migration and Inequality: Is the Nation State the Enemy of Global Equality?" and chaired by Kaushik Basu, Senior Vice President and Chief Economist of the World Bank. The conference concluded with the second keynote address by Ran Abramitzky of Stanford University and titled "Economic and Cultural Assimilation during the Age of Mass Migration."

For more information about the conference and papers, please visit the [conference web page](#).

Fourth IMF-World Bank-WTO Joint Trade Research Workshop

The World Bank's research department co-hosted the Fourth IMF-World Bank-WTO Joint Trade Workshop, which took place at the WTO on June 29, 2015. The event brought together more than 50 experts on trade from the three institutions to share their latest research findings and discuss current trade issues.

The main objectives of this workshop series are to demonstrate the importance of trade research to inform policy and to foster the research collaboration across the three institutions to increase coherence in policy advice.

WTO Director General Roberto Azevêdo opened the event while the event closed with a panel discussion focused on the multilateral trade system at its 20th anniversary and how to make it work better featuring Robert B. Koopman (WTO Chief Economist), Anabel Gonzalez (Senior Director of the Global Trade and Competitiveness Practice of the World Bank), Martin Kaufman (Unit Chief of the Strategy, Policy and Review Department of the IMF) and Thomas Cottier (Professor at the University of Bern).

Speakers at the conference presented research that addresses three themes: (i) global value chains, growth, and price movements, (ii) trade, productivity and growth, and (iii) trading firms, uncertainties and policies.

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

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

LATEST RESEARCH FINDINGS

Trade effects of customs reform: evidence from Albania



Despite enormous academic interest in international trade costs and keen policy interest in efforts to mitigate them, so far there is very little hard evidence on the impacts of trade facilitation efforts. This paper exploits a dramatic reduction in the rate of physical inspections by Albanian customs to estimate the effects of fewer inspection-related delays on the level and composition of imports. In this setting, the paper finds evidence that the expected median number of days spent in Albanian customs falls by 7 percent when the probability that a shipment is inspected falls from 50 percent or more to under 50 percent. In turn, this reduction in time produces a 7 percent increase in import value. **Ana Fernandes**, Russell Hillberry, and Alejandra Mendoza find evidence that the reforms favored imports from preferential trading partners,

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especially the European Union. There are also reform-induced changes in the composition of trade, including increases in average quantities and unit prices, the number of shipments, and the number of importing firms per product-country pair and the number of countries per firm-product pair. A back-of-the-envelope calculation suggests that the estimate of 7 percent import growth along an intensive margin is roughly consistent with a 0.36 percentage point reduction in average tariff equivalent trade costs. Applying this figure to the value of Albania's non-oil imports produces a reform-induced trade cost savings estimate of approximately US\$12 million in 2012. [4]

Firm Heterogeneity and Costly Trade: A New Estimation Strategy and Policy Experiments



Ivan Cherkashin, Svetlana Demidova, **Hiau Kee**, and Kala Krishna build a tractable partial equilibrium model to help explain the role of trade preferences given to developing countries, as well as the efficacy of various subsidy policies. The model

allows for firm level heterogeneity in demand and productivity and lets the mass of firms that enter be endogenous. Trade preferences given by one country have positive spillovers on exports to others in this model. Preferences given by the European Union to Bangladesh in an industry raise profits, resulting in entry, and some of these firms also export to the United States. The parameters of the model are estimated using cross sectional customs data on Bangladeshi exports of apparel to the United States and European Union. Counterfactual experiments regarding the effects of reducing costs, both fixed and marginal, or of trade preferences offered by an importing country are performed. The counterfactuals show that reducing fixed costs at various levels has very different effects and suggest that such reductions are more effective in promoting exports when applied at later stages when firms are more committed to production. A subsidy of 1.5 million dollars to industry entry costs raises exports by only 0.4 dollars for every dollar spent, but when applied to fixed costs of production, it raises exports by \$25 per dollar spent. [2]

Trade agreements and enforcement: evidence from WTO dispute settlement



Chad Bown and Kara Reynolds examine in this paper the implications of the terms-of-trade theory for the determinants of outcomes arising under the enforcement provisions of international agreements. Like original trade agreement negotiations, the paper models formal trade dispute negotiations

as potentially addressing the terms-of-trade externality problem that governments implement import protection above the globally efficient level so as to shift some of the policy's costs to trading partners. The approach is to extend earlier theoretical models of trade agreement accession negotiations to the setting of enforcement negotiations in order to guide the empirical assessment. The paper uses instrumental variables to estimate the model on trade volume outcomes from World Trade Organization (WTO) disputes over 1995–2009. The evidence is consistent with theoretical predictions that larger import volume outcomes are associated with products that have smaller increases in foreign exporter-received prices (terms-of-trade losses for the importer) as a result of the dispute, larger pre-dispute import volumes, larger import demand elasticities, and smaller foreign export supply elasticities. Dispute settlement outcome differences are also explained by variation in institutionally-motivated measures of retaliation capacity and the severity of the free-rider problem associated with foreign exporter concentration. [2]

Can Minimum Wages Reduce Gender Pay Gaps? Firm-level evidence from Indonesia



Using manufacturing plant-level census data, Mary Hallward-Driemeier, **Bob Rijkers**, and Andrew Waxman find in this paper that minimum wage increases in Indonesia reduced gender wage gaps among production workers, with heterogeneous impacts by level

of education and position of the firm in the wage distribution. Paradoxically, educated women appear to

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have benefitted the most, particularly in the lower half of the firm average earnings distribution. By contrast, women who did not complete primary education did not benefit on average, and even lost ground in the upper end of the earnings distribution. Minimum wage increases were thus associated with exacerbated gender pay gaps among the least educated, and reduced gender gaps among the best educated production workers. Unconditional quantile regression analysis attests to wage compression and lighthouse effects. Changes in relative employment prospects were limited. [15]

Policy and performance in customs: evaluating the trade facilitation agreement



The 2013 World Trade Organization ministerial in Bali produced a comprehensive framework agreement on trade facilitation. If fully implemented, the agreement should increase the speed and reduce the cost of moving goods across international borders. But which reforms are most likely to

improve these outcomes, how much improvement should be expected, and what might such improvements be worth? This paper, authored by **Russell Hillberry** and Xiaohui Zhang, adopts the Organisation for Economic Co-operation and Developments trade facilitation indicators as quantitative descriptions of trade facilitation policy. It estimates the impact of the indicators and other variables on the time necessary to clear customs, the associated cost, and a customs performance index. Of the 12 policy bundles, the good governance and impartiality indicator is most clearly related to customs clearance time. A move to best practice in all policies by all World Trade Organization members would reduce the predicted time spent in customs by an average of 1.6 days for imports and 2 days for exports. Using a conservative estimate of the value of time in trade, such comprehensive reforms imply a mean tariff equivalent reduction of 0.9 percentage points on imports and 1.2 percentage points on exports. The same estimates are used to calculate welfare gains of policy reform by World Trade Organization members.

Reform in China alone accounts for roughly one-fourth of the global benefits from the Trade Facilitation Agreement. [7]



The Rise of China and Latin American Labor Markets

This paper assesses the impact of the rise of China on the trade of Latin American and Caribbean economies. The authors, **Erhan Artuc**, Daniel Lederman, and Diego Rojas propose an index to measure the impact on trade, which suggests sizable effects,

especially in Argentina, Brazil, Chile, Honduras, Mexico, and Paraguay. The paper uses the index and a model of labor mobility, to calculate the impact of China's growth on labor markets in Argentina, Brazil, and Mexico. The resulting evidence suggests that the rise of China has had positive effects on agriculture and mining in Argentina and Brazil, which offset negative impacts on manufacturing industries, thus leaving total employment and real wages virtually unchanged in the long run. In contrast, the estimated impacts of China's rise on Mexico imply that the sizable shock to manufacturing was not offset by the positive shocks on mining and agriculture, reducing employment in the long run. The paper also discusses the effect of China on the degree of informality in these three economies and contrasts short-run and long-run effects on employment and wages across industries. [1]

Immigrants versus Natives? Displacement and Job Creation



The impact of immigration on native workers is driven by two countervailing forces: the degree of substitutability between natives and immigrants, and the increased demand for native workers as immigrants reduce the cost of production and output expands. The literature so far has focused on the former substitution effect, while ignoring

the latter scale effect. **Caglar Ozden** and Mathis Wagner estimate in this paper both of these effects using labor force survey data from Malaysia (1990–2010), a country uniquely suited for understanding the

impact of low-skilled immigration. The instrumental variable estimates imply that the elasticity of labor demand (3.4) is greater than the elasticity of substitution between natives and immigrants (2.5). On average the scale effect outweighs the substitution effect. For every ten additional immigrants, employment of native workers increases by 4.1 in a local labor market. These large reallocation effects are accompanied by negligible relative wage changes. At the national level, a 10 percent increase in immigrants, equivalent to 1 percent increase in labor force, has a small positive effect on native wages (0.14 percent). The impact of immigration is highly heterogeneous for natives with different levels of education, resulting in substantial changes in skill premiums and hence inequality. Immigrants on net displace natives with at most primary education; while primarily benefiting those with a little more education, lower secondary or completed secondary education. [12]

The Global Trade Slowdown: Cyclical or Structural?



This paper focuses on the sluggish growth of world trade relative to income growth in recent years. The authors, Cristina Constantinescu, **Aaditya Mattoo**, and Michele Ruta use an empirical strategy based on an error correction model to assess whether the global trade slowdown is

structural or cyclical. An estimate of the relationship between trade and income in the past four decades reveals that the long-term trade elasticity rose sharply in the 1990s, but declined significantly in the 2000s even before the global financial crisis. These results suggest that trade is growing slowly not only because of slow growth of gross domestic product, but also because of a structural change in the trade-gross domestic product relationship in recent years. The available evidence suggests that the explanation may lie in the slowing pace of international vertical specialization rather than increasing protection or the changing composition of trade and gross domestic product. [10]

RECENT JOURNAL ARTICLES

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NEW WORKING PAPERS

[1] **Artuc**, Erhan, Daniel Lederman and Diego Rojas. 2015. "The Rise of China and Latin American Labor Markets." World Bank Policy Research Working Paper 7155.

[2] **Bown**, Chad P. and Kara M. Reynolds. 2015. "Trade Agreements and Enforcement: Evidence from WTO Dispute Settlement." World Bank Policy Research Working Paper No. 7242.

[3] Bagwell, Kyle, Chad P. **Bown**, and Robert W. Staiger. 2015. "Is the WTO Passé?" World Bank Policy Research Working Paper No. 7304.

[4] **Fernandes**, Ana Margarida, Russell **Hillberry** and Alejandra Mendoza Alcántara. 2015. "Trade Effects of Customs Reform: Evidence from Albania." World Bank Policy Research Working Paper 7210.

[5] Alcántara, Alejandra Mendoza, Ana Margarida **Fernandes**, and Russell **Hillberry**. 2015. "Understanding the Operations of Freight Forwarders: Evidence from Serbia." World Bank Policy Research Working Paper 7311.

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

[7] **Hillberry**, Russell and Xiaohui Zhang. 2015. "Policy and Performance in Customs: Evaluating the Trade Facilitation Agreement." World Bank Policy Research Working Paper 7211.

[8] **Kee**, Hiau Looi. 2015. "Local Intermediate Inputs, and the Shared Supplier Spillovers of Foreign Direct Investment." World Bank Policy Research Working Paper 7050.

[9] Cherkashin, Ivan, Svetlana Demidova, Hiau Looi **Kee** and Kala Krishna. 2015, "Firm Heterogeneity and Costly Trade: A New Estimation Strategy and Policy Experiments." World Bank Policy Research Working Paper 7156.

[10] Constantinescu, Cristina, Aaditya **Mattoo** and Michele Ruta. 2015. "The global trade slowdown: cyclical or structural?" World Bank Policy Research Working Paper 7158.

[11] Carlotto, Calogero, Jennica Larrison and Çağlar **Özden**. 2015. "Informing Migration Policies: A Data Primer." World Bank Policy Research Working Paper 7082.

[12] **Özden**, Çağlar and Mathis Wagner. 2015. "Immigrants versus Natives? Displacement and Job Creation." World Bank Policy Research Working Paper 6900.

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

[15] Hallward-Driemeier, Mary, Bob **Rijkers** and Andrew Waxman. 2015. "Can Minimum Wages Reduce Gender Pay Gaps? Firm-level evidence from Indonesia." World Bank Policy Research Working Paper 7364.