Trade and Development in a Globalized World: The Roadmap for a Research Agenda

Minutes

The workshop was held in Brussels (Université libre de Bruxelles)

on Wednesday 24 June 2015

Contents

Attendance list

Miklós Koren	Principal Investigator
Cecília Hornok	Coauthor
Marianne Paasi	EC Research Programme officer, case officer
László Mátyás	Executive Committee of COEURE

Francisco Alcala	Pascal Lamy
Marc Auboin	Yanping Liu
Thierry Beranger	Erik van der Marel
Piotr Bogumil	Eunate Mayor
Lucian Cernat	Lars Nilsson
Paola Conconi	Joana Pestana
Jonathan Eaton	Nuno Sousa
Peter Egger	Zuzanna Studnicka
Lothar Ehring	Marcel Timmer
Pinelopi Goldberg	Péter Tóth
Michal Grajek	Alessandra Tucci
Inger Gregersen	Hylke Vandenbussche
Russell Hillberry	Roberto Venturini
Marc Ivaldi	Julia Woerz
Beata Javorcik	
Riina Kerner	

Andrea Kiss	minutes taker
Márta Jombach	administrator

1. Introduction

László Mátyás opened the workshop and emphasized the aim of the COEURE workshops. He was followed by Marianne Paasi, who summarized the goals and the rationale of COEURE.

2. Trade, Globalization and Development: The Scientific State of the Art

Miklós Koren presented the survey that was written by Cecília Hornok and himself.

3. Comments from Research

Pinelopi Goldberg agreed on the conclusions and recommendations offered by the survey. During her talk she reemphasized the main points and added her own view on the topic. First, she highlighted the focus of the survey and raised the question if intra-EU heterogeneity was worth considering or not. Also, according to her, little is known about the causes of the success of trade unions. Second, turning to data and measurement she underlined that trade economics can rely on more and better data than ever before, which raises (econometric) challenges. She suggested using the case-study approach and, in line with the survey, opening up the black box of trade costs. Third, Professor Goldberg shared her view on the relationship between academic research and policy. She mentioned that although international economics is an applied field, it is less policy relevant than it could be. In addition, trade research is ideological, trying to prove by all means that free trade is optimal. These result in reduced credibility of academia and thus a considerable gap between policy and research. This gap does not shrink because economists do not focus on (policy-)relevant questions, use terms that are difficult to link to policy and neglect policies in trade models. She then concluded and finished her talk by drawing attention to the confusion about structural and semi-structural models.

4. Comments from Policy

Pascal Lamy had two main reactions to the survey. The first is that politics drive policies, which then drives research. He believes the consequences of this are the following: a) There is a discrepancy between policy makers and researchers, in particular the mercantilist view being the main conflict. b) Value addition – invented by politics need – helps to bridge the discrepancy between macro and micro economics. c) Value addition turns the attention to the distributional effect of trade, which is the new achievement of the Geneva Consensus.

In his second main comment Mr Lamy concentrated on future research questions. He agreed that the question of bilateralism versus multilateralism should be put aside. According to him there will be a change in terms of the purpose of trade obstacles: in the "old world" producers were protected, in the "new world" consumers will be. That is, instead of protection, precaution will evolve and more research is needed on this new phenomenon. He also argued that the name of "non-tariff barriers" is misleading, due to the fact that this term mixes protectionism and precaution, yet their politics and policy stance are different. He suggested measuring trade obstacles stemming from precaution in differences and the way they are administered. Finally, he challenged the audience by giving three numbers: 5%, 10% and 20%. These are the remained level of protection (average tariff rate), the border friction rate and the precautional based cost of compliance respectively. In the next 10 years these numbers will change to 2%, 5% and 20%. As the precautional part is the largest, he advised researchers to turn their attention to it in the following years.

5. Q&A from Audience

After the comments, participants raised the following questions and comments:

- Tariffs are low, because they are trade weighted. If the tariff is so high that there is little trade it will get a low weight.
- Mr Lamy's point of convergence raises two more questions: 1) What is the proportionality of the convergence rules and the (recognized) risks? 2) Is it the case that multilateral trade

agreements are favorable, but bilateral agreements are not because of the trade aversion effect?

- Precautional costs are difficult to measure and the term is dubious for manufacturing.

In his answer Mr Lamy agreed that tariff peaks matter more, yet he thinks that most tariffs will evaporate. He admitted that there is a grey zone between protection and precaution (mostly due to ideological questions), but he believes that the grey zone is going to shrink. He also pointed out that during protectionism the measures are public, while in the case of precaution measures are usually private. These measures are collected by the International Trade Centre (ITC) in a database[1].

Regarding the survey the comments were that:

- The survey suggests that the gains from trade come mostly from allocative efficiency. Does productivity increasing have a role as well?
- The non-linear models are missing from the survey (e.g.: FDI threshold effect).
- Also missing is how a country can position itself in the global value chain.

6. Data Issues, Data Development, Data Harmonization

Jonathan Eaton first shared his experience about the improved interaction between data and theory in the last few years. He then moved on to show regularities in trade that can be detected in the data. First, it was revealed that only a few firms export and they are bigger and more productive than non-exporting firms. Then based on his paper[2] about French firms, he explained other regularities. Professor Eaton also summarized the type of data sources and pointed out major challenges such as matching different data sources, matching exporters across customs records, matching buyers and in general matching across years. He pinpointed three main obstacles: fragmented, national level datasets; disparity between sources (e.g.: COMTRADE); and inconsistent identifiers. However, being able to create matched datasets would allow researchers to find more regularity. The attempt to create network from trade data is one example of this.

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[1] http://www.standardsmap.org/
[2] Eaton, Jonathan, et al. "Dissecting the French export wage premium." Penn State University mimeo (2011).

Russell Hillberry centered his talk on how to create data and how to match it with researchers. He used his insights from the World Bank and introduced its four datasets that were compiled by researchers. These databases are the Exporter Dynamics Database, the Global Bilateral Migration Database and two policy databases, namely the Temporary Trade Barriers Databases and The Pattern of Services Trade Restriction. He explained the main characteristics of these datasets and mentioned a couple of findings related to them. Next, Professor Hillberry described the preconditions for creating such databases. These are the institutional presence, financial resources and good match of committed researchers with funds. Finally, he gave an example of researching trade policy, in particular trade facilitation. He concluded by emphasizing the need for a data collection model.

Riina Kerner from Eurostat gave a speech on trade in services. She first defined it and showed descriptive statistics for the EU countries. She said that Eurostat uses a classification system named EBOPS for trade of services. She then introduced the "Services trade by enterprise characteristics" (STEC) database, which is a result of linking services traders with the Business Register. After showing the main analyses and findings stemming from the STEC database, she summarized the mirror analysis approach, which is used when discrepancies are checked between member states' input-output tables. Following her presentation, the audience asked her if there is any data available at micro level for researchers. According to Ms Kerner due to strict confidentiality rules, there is no possibility to access these databases.

7. Recent Topics in Trade Policy

Paola Conconi presented the latest research of her team on NAFTA and the Rules of Origin. Their broad research question is: what is the effect of regional trade agreements on outsourcing? To answer the question, they tuned to the NAFTA agreement, which specifies for each of the goods the conditions for its inputs that have to be satisfied to receive preferential tariff rates. They compiled a new dataset consisting of input-output linkages coming from these conditions. She underlined that her team follows a diff-in-diff approach before and after the trade agreement in the case of Mexico. Professor Conconi revealed their preliminary results, based on which, the Rules of Origin has a significant effect on outsourcing: as a lower bound, it decreases third

country imports of intermediary goods by 18%. In the end she mentioned the team's future research plans.

Hylke Vandenbussche talked about her joint research with Christian Viegelahn on the effect of trade on within-firm adjustments. They turned to the input side of the firms for which they used two datasets: Indian firm level data and antidumping duties. Their identification strategy was to compare the share of the protected inputs to non-protected inputs between importers and non-importers before and after a shock. For this they followed the triple difference regression methodology and found that protection induces input switching on the intensive margin (but not on the extensive margin). In addition, this effect was stronger for large and multiproduct firms. Professor Vandenbussche stressed that they found significant switching on the output side as well. They could also confirm that switching had a negative effect on firm level productivity.

The present-day directions for European trade policy were discussed by Lothar Ehring (EU DG Trade). At the beginning he reflected on the previous presentations noting that the NAFTA type rules of origin might be the easiest to handle, but against WTO regulation they have obvious trade policy purposes. He shared his vision about simplifying and harmonizing rules of origin across countries. He continued by characterizing the present work of EU trade policy. According to him, most of the activities are related to the bilateral trade agenda, in which trade economists were closely involved – they helped selecting potential partner countries to negotiate with. Lastly, he talked about the TTIP negotiations and evaluated its timing.

Following this speech, Marc Auboin explained the research process at the WTO. Then he identified two areas where economists are needed in the world of lawyers: 1) dispute settlement and export measure cases; and 2) committee support (especially for low income countries). He then described the ongoing work of the WTO. According to him, their work focuses on the relationship between trade and growth, in particular on trade elasticities. Professor Auboin noted that the causality between trade and development is not well understood yet, which they will work on in the future. He also confirmed that they are continuing their database related work and study more the ways of poverty reduction, trade finance and the link between trade and skills. In his concluding remarks he assessed the value of the WTO system and highlighted its two main contributions to welfare: reduced uncertainty and non-conflictuality.

8. Q&A from Audience

The comments in this session were concentrated on two topics: data issues, and remarks about the presented research papers. The main points were the following:

On data issues:

- There is a misunderstanding between data providers and researchers. Rich datasets are not utilized (for instance the Eurostat tables), because researchers cannot reach the data they would need for their calculations due to confidentiality issues. Confidentiality should not be used as an excuse to deny access to micro data.
- Datasets within the EU are usually not managed properly and are not up-to-date.
- Trade data are frequently missing or incomplete, even though country level ministries have them (as in the case of anti-dumping, for example). The WTO could possibly gather these.
- Too few longitudinal, panel data sets available.

On research papers:

- Since the COEURE topics are closely related to each other, Professors Koren and Hornok were advised to contact Professor Aghion (the principal investigator of the R&D topic), and maybe other survey writers as well, and find potential synergies, sort out evident overlaps.
- Regarding Professor Vandenbussche's presentation, political economic concerns were raised about lobbying.
- It seems that protectionism has large effects if one uses micro data. Based on the presentations, protection does not seem to disappear.

9. Panel Discussion: "Agenda for European Research"

To start the debate, Professor Javorcik summarized three main reasons why research and policy are separated. According to her, the two sides have different views and obsessions. Second, economists use elegant methods to provide a better answer to questions that are not interesting

from the policy perspective. Finally, researchers are reluctant to make generalizations, especially if the topic is outside their narrow field of studies. This neglect gives an opportunity for consulting firms to take the place of researchers. She offered to promote career movements between academics and policy and also to involve academics more deeply in international organizations.

Lucian Cernat represented the policy makers' view and mentioned that there is a recent program at DG Trade, in which they intend to interact with academics. The program's name is "List of vendors" and it invites researchers to sign up. He then introduced the "Trade policy 2.0 and advised for researchers using policy variables to be policy relevant and talking more often with policy makers. Finally, he argued that SMEs have an important role in international trade.

Data issues were naturally a topic of conversation; they were emphasized many times (especially by Peter Egger and Marcel Timmer). One obstacle is that, official, well maintained data sets are needed for studies, but universities might not have them – due to confidentiality reasons or budget restrictions. Peter Egger indicated three concerns: 1) measurement problems are severe, given that policy measures are usually not well defined, 2) statistical offices are under financial pressure (Germany) or have been privatized (Austria) and thus data is expensive and 3) in some cases political pressure plays a role in limiting the available datasets. Lucian Cernat pointed out that large datasets are available at for-profit firms and the focus should be on existing, unused databases first. In general panel discussants missed coordination in data preparation and in collection.

Participants debated the need to bring researchers closer to policy makers. According to the arguments, policy makers need researchers for credibility and researchers would need relevant questions. On the other hand, the academic world does not reward such works, thus at the moment there is neither supply nor demand for policy works coming from researchers. Often, by the time economists are involved, it is already too late; they should support the work of lawyers from the start. The next steps to accommodate these issues will be to set up a list of policy research questions.

After the panel discussion the workshop was closed by Professor Mátyás.