

The Changing World We Live In

Keynote Address

WTO Economic Conference
Updating Trade Cooperation: An Economic View



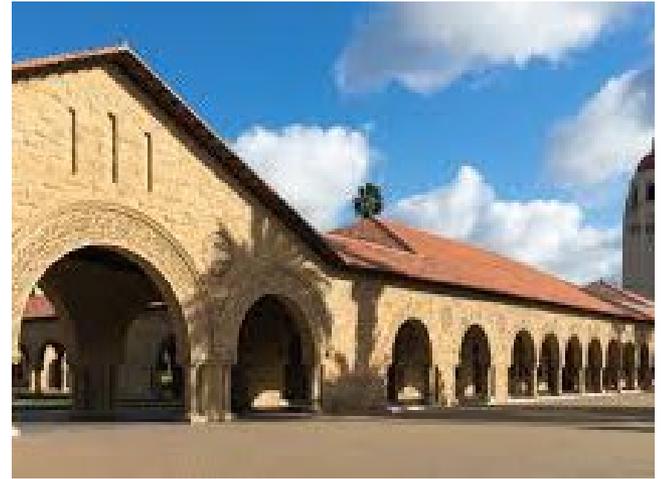
WORLD BANK GROUP

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Thirty years ago...

At Stanford

- I enter Stanford Ph.D program in Economics
- Thesis title: “Imperfect Competition in International Markets: The Case of the U.S. Automobile Industry”
- U.S. – Japan trade tensions. Role of industrial policies, importance of market access, fair trade...



Thirty years ago...

At the World Bank

- Chief Economist: Anne Krueger
- World Development Report 1988:
Industrialization and Foreign Trade
- Report warns about “new protectionism” in the US
- Report resonates in the current climate



Thirty years later...

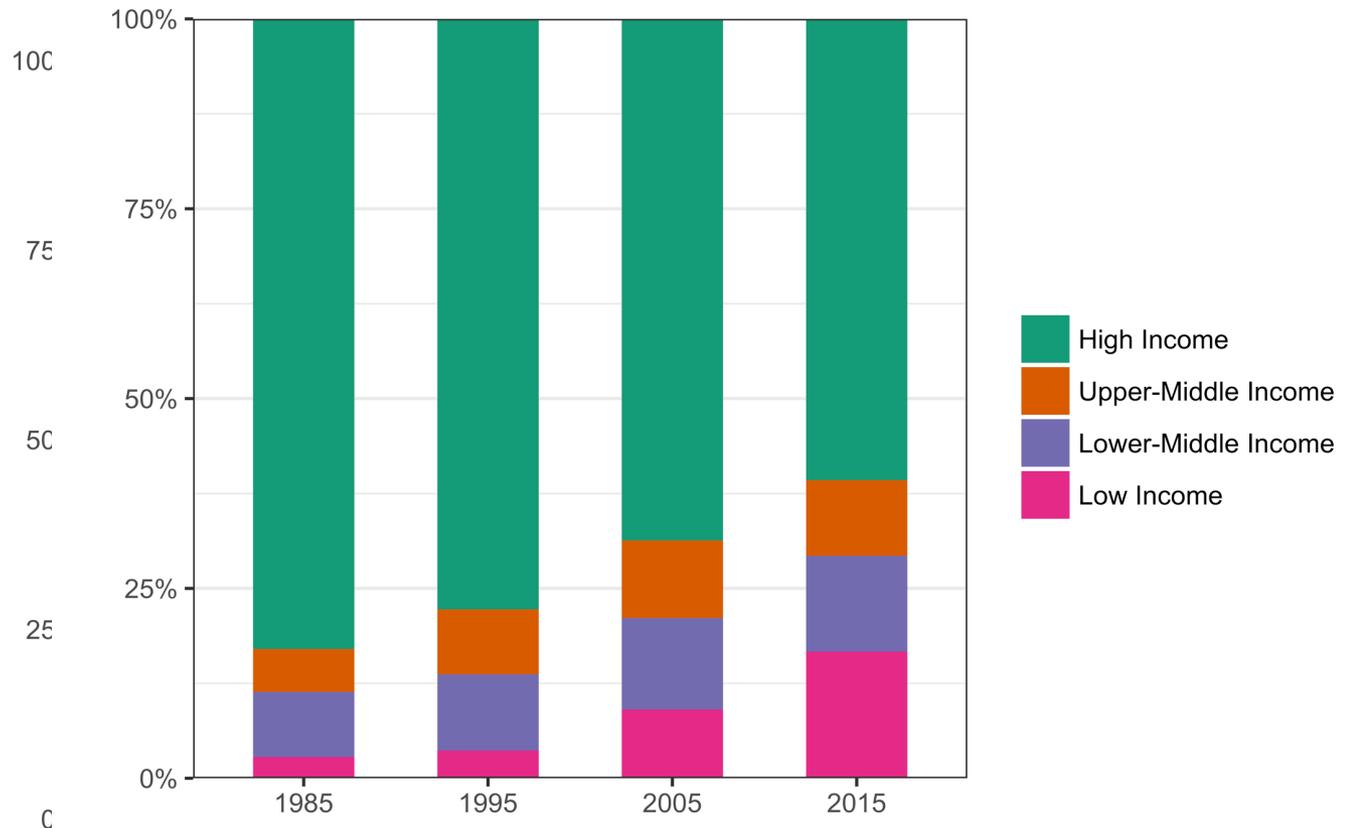
Current Landscape

- Rapid and transformative technological change
- Changing nature of jobs
- Major realignments in the economic geography of trade and production
- Immigration

What has changed?

- Economic Environment
- Actors
 - Developing countries much more integrated
 - China
- Pace of change
- Communications and information technology
 - increasing polarization
- Multilateralism under attack

Composition of World Exports by Income Group



Source: WDI, Pavcnik (2017); a country's time-invariant income category based on 1987 WB income groups.

Role of International Organizations and Economists

Three Approaches:

- 1) The “Napoleon Joke” approach
- 2) Talk past each other
- 3) Dispassionate, objective research and analysis

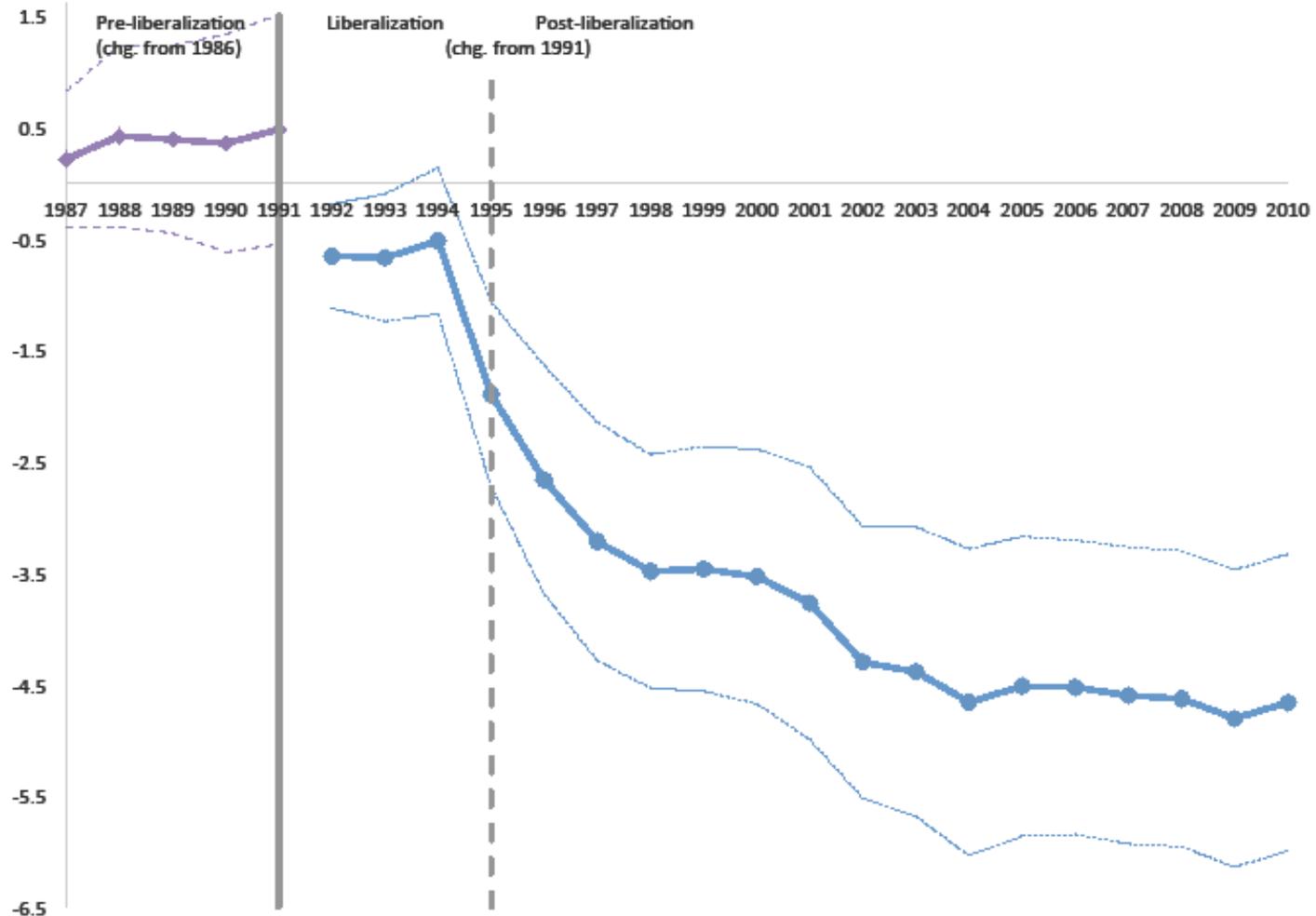
Two focus areas

- Distributional consequences of globalization and technology
 - yet traditional focus of academics and policy advocates has been on aggregate gains
- Role of trade policy and agreements
 - yet until very recently, prevalent view that trade policy had become irrelevant

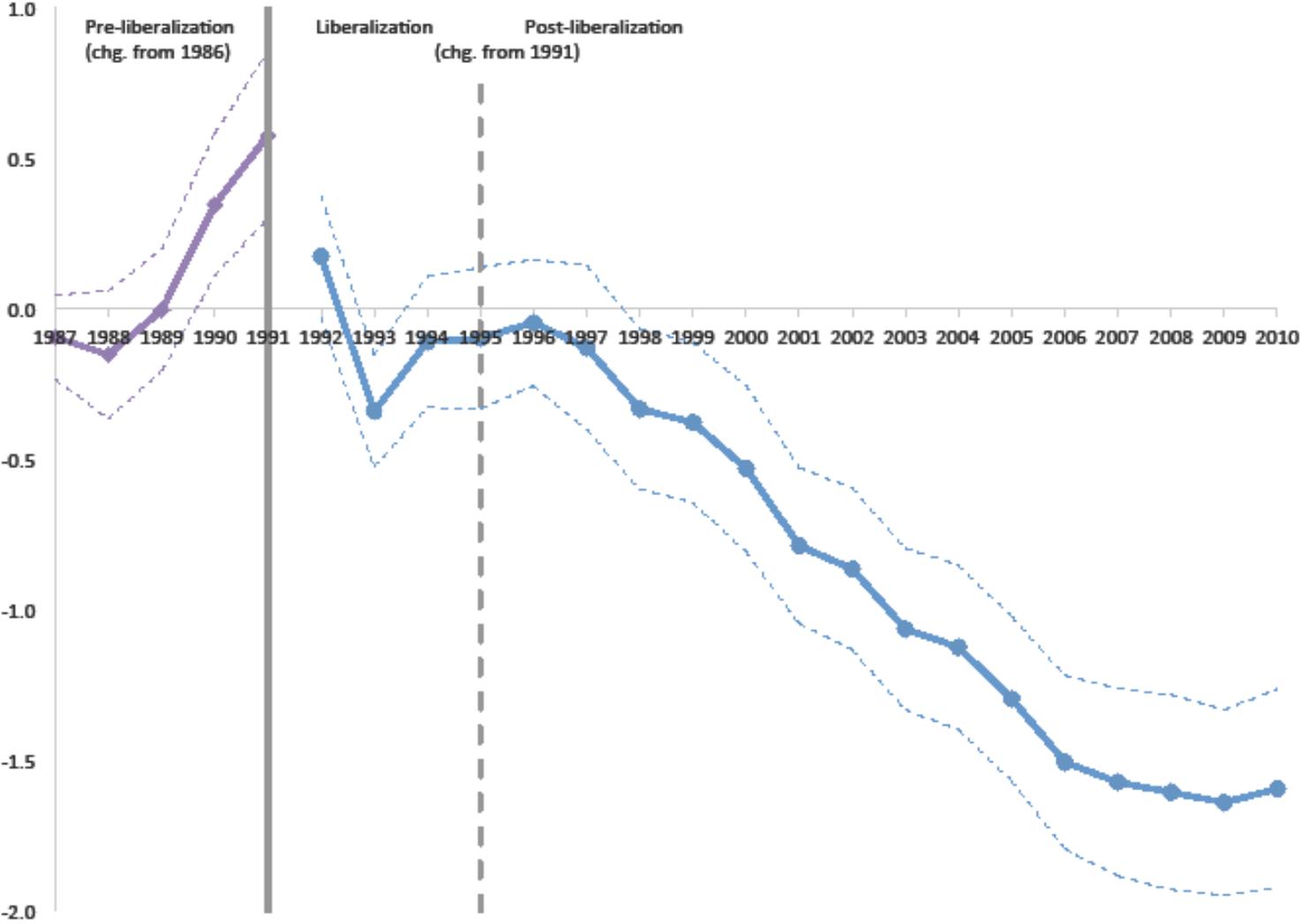
Distributional Consequences

- No evidence that globalization had big effects on the skill premium
- But different picture if one focuses on the spatial/regional dimension:
 - Areas exposed more to globalization experience severe and persistent disruption
- Examples: India, Brazil, U.S. (commuting zones)

Effects of Brazilian Trade Liberalization on Employment (Dix-Carneiro and Kovak, 2015)

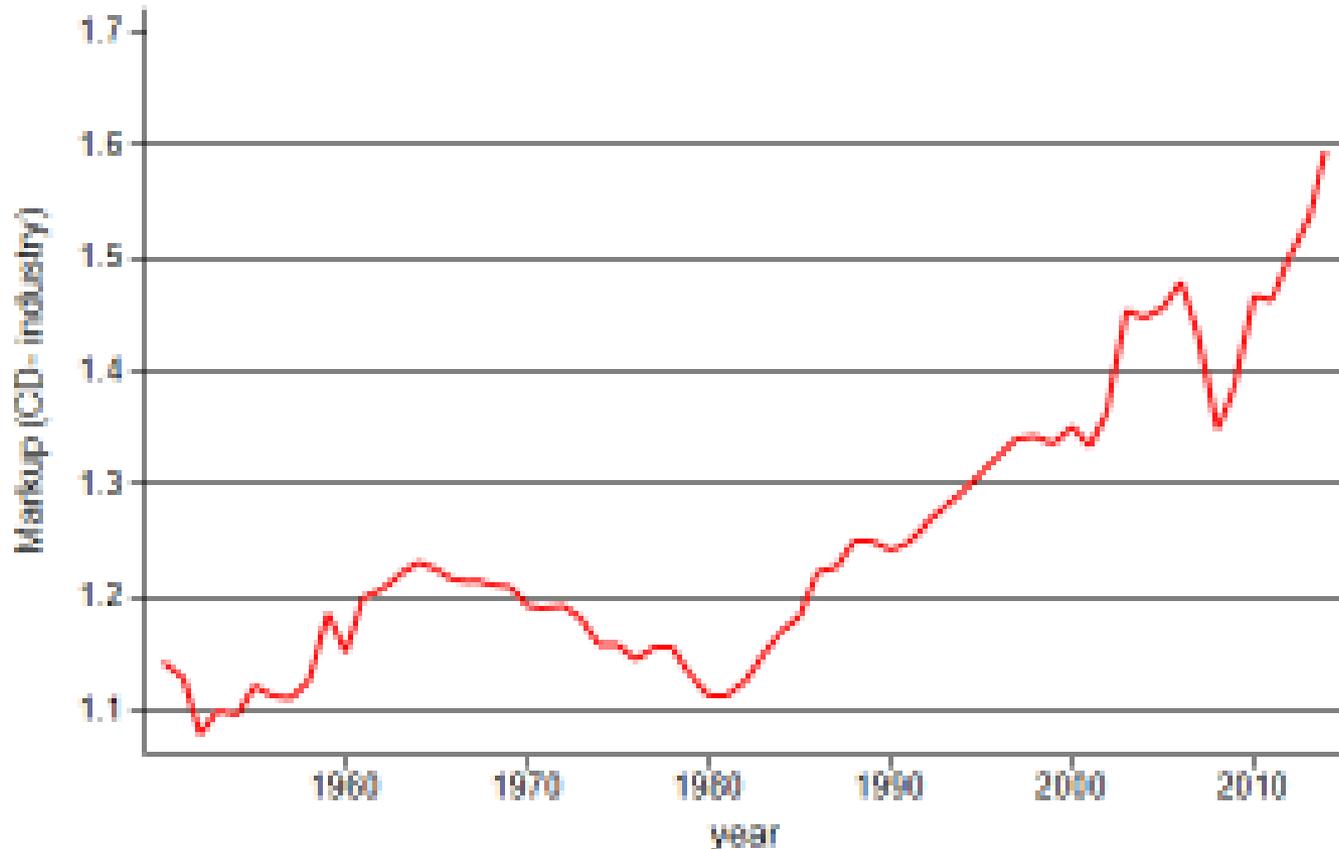


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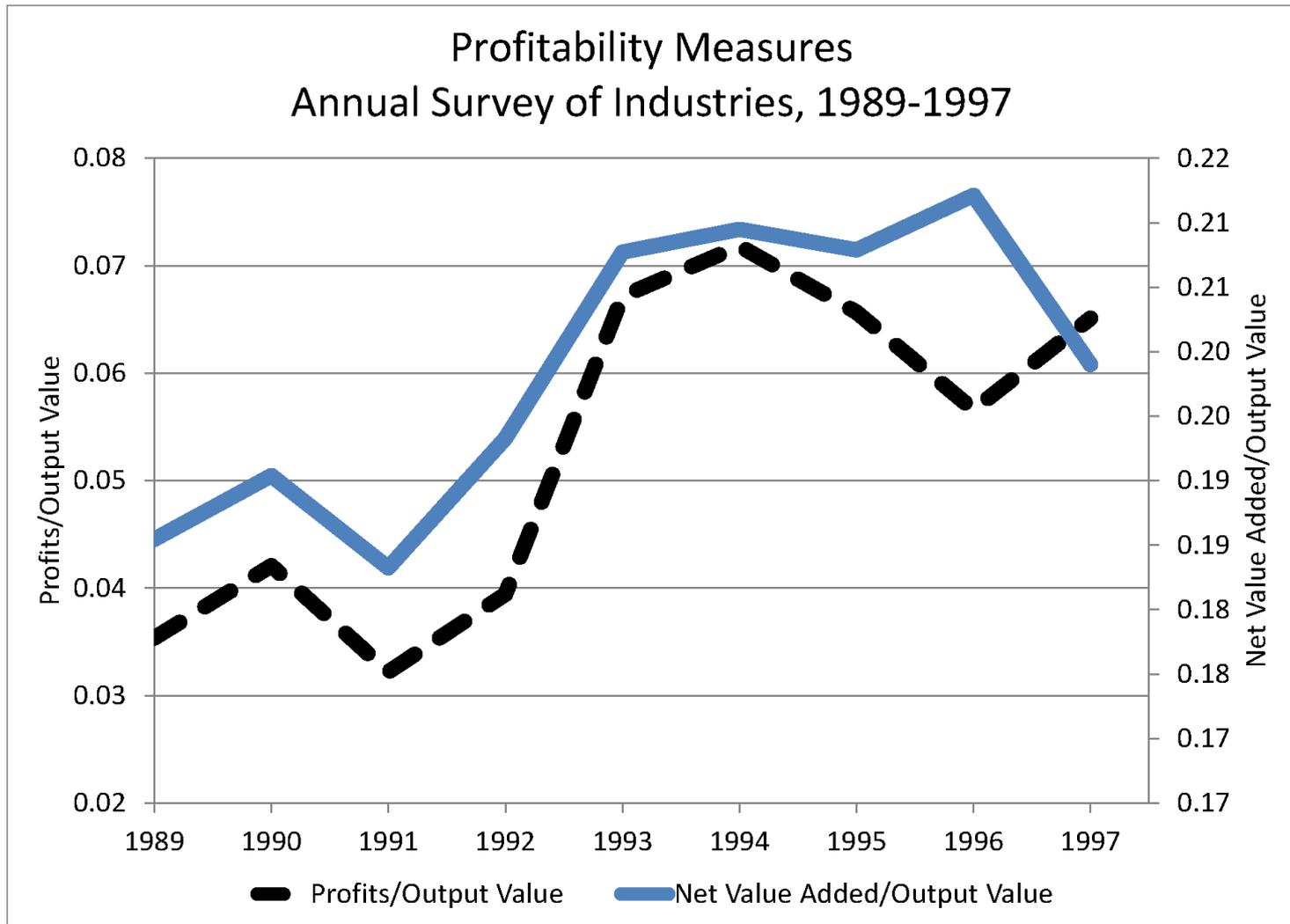


Distributional Impacts Contd.: Product Markets

- Increase in US Firm Profits (i.e. Markups)
- Role of Globalization. Technology. Antitrust?



Evolution of Markups in India



New Joint World Bank-WTO Publication: “Trade and Poverty Reduction: New Evidence of Impacts in Developing Countries”

- Perfect example of balanced, objective approach
- Eight Case Studies
- Extreme poor face special constraints that limit their ability to benefit from free trade
 - Transportation and logistical costs
 - Informality
 - Fragile states
 - Market power of intermediaries

The Role of Trade Policy and Agreements

- On the perceived irrelevance of trade policy:
 - Globalization an unstoppable, irreversible process driven by technological progress
- A few examples:

“Why the TPP Matters”

[NYT 2015.4.4](#)

“[One myth undermining support for the TPP] is that recent trade agreements have hurt jobs.... This argument fails to differentiate between the impacts of increased global trade and those of trade agreements.

[It] is globalization, technology and flawed educational and tax systems that are driving this trend, not trade pacts.”

A Role for Trade Policy?

“Relative to when I started working as a trade economist in the early 1980s, the world is completely liberalized. So the incremental gains from anything that could happen as a result of WTO negotiations are just infinitesimal”.

Lant Pritchett (2008)

Against this background

- What was there left to do? Free trade advocates seemed to have won the battle.
- Attitude reflected not only in quotes above, but also in academic research
- Shift of focus towards “economic geography” and spatial allocation of economic activity indicative of lost interest in INTERNATIONAL Trade.

Goldberg and Pavcnik (2016)

- “Is it indeed the case that trade policy has become irrelevant, or is the shift of academic research away from trade policy simply the result of the difficulties and complexities associated with its measurement?”
- Investigation of changes in trade policy matters!
- Example: Pierce and Schott (AER, 2013)

Measurement Challenges

- More and better data than ever before
- BUT: Despite more and better data, still key economic entities hard if not impossible to measure (NTBs, “behind the border” restrictions, regulatory restrictions)
- Are we really in an ‘Era of Free Trade’?

Measurement Challenges (continued)

- Research consistently finds “trade costs” (backed out based on models) to be substantially higher than trade policy barriers
- But “iceberg trade costs” hard to link to policy
- Much more research needed on proper measurement of cross-border restrictions. Case studies potentially very useful

Two Examples

- a) Greenhouse emissions policy enacted by European regulators gave a competitive advantage to European auto makers over foreign imports by enabling the adoption of diesel cars, and that this non-tariff policy was equivalent to a 20% import tariff, effectively cutting imports in half

Miravete et al (2015): “Innovation, Emissions Policy, and Competitive Advantage in the Diffusion of European Diesel Automobiles”, CEPR Wo. Paper

- b) NAFTA RoO on final goods led to a significant reduction in Mexican imports of intermediate goods from non-NAFTA countries. On average, RoO decreased imports of intermediaries by around 30 percentage points

Conconi et al (2016): “From Final Goods to Inputs: the Protectionist Effect of Rules of Origin,” Wo. Paper

Additional Challenge: Global Production Sharing

- Goods now cross borders multiple times
- Implication → Magnification effect of trade barriers and trade liberalization
- First-order question for research: how should we measure trade flows now?
- Measures based on value-added do justice to the sequential and fragmented nature of the production process.

TO CONCLUDE: Implications for Economic Analysis

- There is a big gap between the advice of economists and the current backlash against free trade
- How do we make economic analysis more relevant to the concerns of the public? What issues should research focus on in the future?

Three Main Agendas

1. Shift focus from aggregate gains of trade to distributional effects of trade. Moreover, focus on transitional adjustment dynamics.
2. Bring back focus on POLICY
 - Better measurement of trade barriers
 - More case studies?
3. Better understanding of implications of global production sharing

Concluding Thoughts

- In the era of Twitter and other social media, dispassionate, structured thinking more important than ever.
- WDR 1987 failed to foresee: NAFTA, WTO, hyperglobalization
- Are we failing to see a potentially brighter future?
- Future of multilateralism uncertain. At a minimum, we should foster cooperation among international organizations.

THANK YOU!