



Institute for the relations
between Italy and Africa, Latin
America and Middle East



MULTILATERAL TRADE LIBERALIZATION

IMPACT ANALYSIS ON DEVELOPING COUNTRIES: A GLOBAL VIEW

by

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Impact of Rich Countries' Policies on Poverty
Workshop
GDN Conference
St. Petersburg, Russia
January 22-23, 2006



Structure of the Presentation...

- ❖ Introduction
- ❖ What we know
- ❖ Key Caveats
- ❖ Critical Points
- ❖ What is to be done
- ❖ A first exercise on EU-MED FTA

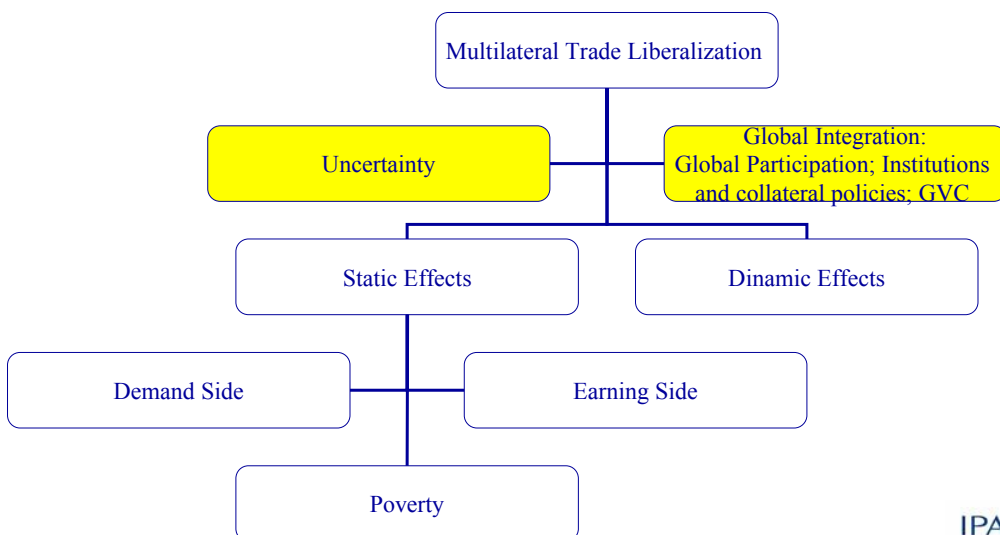


Introduction: main questions

- ❖ As GDN GRP (Trade Annex) clearly states, trade is the most direct economic means by which rich countries influence poor ones;
- ❖ As a result, the global impact of trade policies (especially multilateral ones) has been extensively studied (focusing on UR implementations and, more recently, on DDA);
- ❖ The GDN-IPALMO research unit carried out this first survey on the topic to answer the following main questions:
 - ❖ What is the “state of the art” of our knowledge about the overall effects of multilateral trade liberalization on DCs?
 - ❖ What are the limits of our current knowledge?
 - ❖ What we need to do to enlarge the benefits of further multilateral trade liberalization to DCs?



What we know: a background scheme



What we know: the Global Impact

KEY ISSUE: THE GLOBAL IMPACT OF MULTILATERAL TRADE POLICY ON DCs' INCOME

WHAT WE KNOW	REFERENCES	QUANTIFICATION	ASSUMPTIONS
<p>Empirical works focused on the effects of various multilateral round negotiations. DCs are taken as a group both at regional and global level. They did not achieve a common stand on the issue.</p>			
<p>Most of the earlier studies (based on UR) present overall positive effects on income</p>	<p>OECD (1993), Goldin, Knudsen, and van der Mensbrugge (1993), Francois, McDonald and Nordstrom (1994), World Bank/OECD (1993), Stoekel (1990), Peterson (1992), DRI (1993), Nguyen, Peroni and Wigle (1993)</p>	<p>On average, the earlier studies estimate an increase from 1% up to 5% of world income (smaller for DCs)</p>	<ol style="list-style-type: none"> 1. Focus on those elements more easily quantifiable (tariff cuts, agriculture, textiles) rather than on elements harder to quantify (dispute settlement, TRIMS, TRIPs). 2. They typically assume perfect competition and constant returns to scale.
<p>Recent studies (mainly focused on DDA projections) are more cautious about the estimated DCs' gains from trade liberalization. This is partially due to: an improving of the econometric models that better specifies country characteristics; more detailed trade policies considered in the analysis; updated data sets; less protectionism left to lose</p>	<p>Yang (1994), Francois, McDonald, Nordström (1995), Harrison, Rutherford, Tarr (1996), Goldin and van der Mensbrugge (1996), Hertel, Martin, Yangashima, and Dimaran (1996), Brown, Deardorff, Fox, and Stern (1996), Laird and Safadi (1996), Whalley (2000); Hertel and Martin (2000); Hoekman et al. (2003); Dimaranan, Hertel and Keeney (2003); Francois, van Meijl and van Tongeren (2003); Stiglitz and Charlton (2004); Hertel and Winters (2005); Hertel and Keeney (2005); Ackerman, (2005).</p>	<p>Recent studies estimate an increase of less than 1% of world income (even less for DCs) together with extremely limited effects on poverty alleviation</p>	<ol style="list-style-type: none"> 3. They follow fairly conventional literature 4. Basically static analysis (growth impacts are evaluated by comparing regional income before and after liberalization);



What we know: Long term growth and productivity effects

WHAT WE KNOW	REFERENCES	QUANTIFICATION	ASSUMPTIONS
Long term Growth and Productivity effects			
<p>In recent years, the putative gains from trade have been analyzed also as accelerator of economic growth.</p>			
<p>However, there is a weak consensus among economists that open trade policies help fostering growth</p>	<p>Grossman and Helpman, 1991, Romer (1986), Lucas (1988), Romer (1992), Grossman and Helpman (1991), Barro and Sal-I. Martin, Krugman (1994), Rodrik (1995), Coe and Helpman (1995), Eaton and Kortum (1996), Coe, Helpman and Hoffmaister (1997), Vamvakidakis (1999); Lumenga-Neso, Olarreaga, and Schiff (2001); Rodriguez and Rodrik (2000); Dollar and Kraay (2001);</p>	<p>This literature mainly follows a "production function" approach. The most of the existing studies models learning-by-exporting as a change in the stochastic process governing firm's productivity induced by export behaviour.</p>	<p>A) The basic assumption is that goods embody technological know-how which is related to the levels of Research and Development (R&D) and therefore countries can improve their productivity level through imports.</p>
<p>A massive body of theoretical and empirical literature attempted also to understand the mechanisms through which trade might affect also productivity</p>		<p>Measures used for productivity varies significantly among studies. One of the more used is Total Factor Productivity, estimated both by parametric and semi parametric techniques. One other important tool is the Translog Production Function approach.</p>	<p>B) According to the direction of causality highlighted:</p>
<p>A second group of studies is related to research on the link existing between firm exporting and firm productivity, focusing on the role of exports in increasing firms efficiency and learning opportunities.</p>	<p>Clerides, Lach, and Tybout, 1998; Bernard and Jensen, 1997, 1999, 2001; Aw et al., 2000; Bernard and Wagner, 2001; Söderbom and Teal, 2000; Isgut, 2001, Fafchamps et al., 2002; Hallward-Driemcicr, Jarossi and L. Sokoloff (2002), Arnold and Hussinger, 2004, Kraay, 1999; Bigsten et al., 2002; Castellani, 2001; Bleaney et al., 2000; Blalock and Gertler, 2003</p>	<p>Once they estimate a measure of productivity growth, the empirical strategy is generally based on regression of this measure on measures of export behaviour (learning equation), controlling for other individual observable characteristics.</p>	<ol style="list-style-type: none"> 1) Emphasis on the difficulties linked to access to foreign markets due to the existence of sunk costs associated to selling abroad and fiercer competition in international markets. Exporting firms are likely to be the ones able to cope with sunk costs; 2) Exporting improve firms efficiency. Emphasis on the possibility of technological and managerial inputs from international contacts as well as the possibility of exploitation of economies of scale by operating in several markets
<p>A recent debate has been arise on the direction of causality between firm productivity and export status: "exporting causes efficiency gains or efficient firms may self-select into the export market or both?"</p>			



What we know: effects on world prices

KEY ISSUE: THE GLOBAL IMPACT OF MULTILATERAL TRADE POLICY ON WORLD PRICES

WHAT WE KNOW	REFERENCES	QUANTIFICATION	ASSUMPTIONS
<p>The main finding of the first strand of studies (focused on UR) is that the effects of on world prices are quite small.</p> <p>The more recent strand of literature (focused on DDA), show that larger price changes occur when fully liberalization episodes are considered.</p> <p>Also in the specific case of prices for agricultural commodities changes are unlike to be significant. Given the hypothesis of reduction in the current policy of domestic support and export subsidies, the direction of the estimated price changes is towards an increase in commodities' prices.</p>	<p>Brandao and Martin (1993), Goldin, Knudsen, and van der Mensbrugge (1993), Goldin and van der Mensbrugge (1995), Hertel, Martini, Yanagishima and Dimaranan (1995), Hertel, Preckel, Cranfield, and Ivanic (2002), Dimaranan, Hertel, and Keeney (2003), Gomez-Plana and Devadosso (2004), Ivanic (2005), Hertel e Ivanic (2005)</p>	<p>Simulation exercises of the effects of trade reforms on world prices are implemented mainly in global CGE models.</p> <p>Hertel and Ivanic (2005) show the effects of agricultural prices variation under DDA scenarios is 1/3 of those produced by full trade liberalization scenario</p>	<p>Regions and countries are assumed to behave competitively and trade homogenous commodities.</p> <p>Market clearing conditions are at the basis of the models</p> <p>Elasticities of substitution amongst commodities groups are key parameter coming from previous and related estimates</p>

- ❖ Price changes simulations are the starting point for the micro-macro synthesis analysis to assess the effect of trade reforms on welfare. (this has been made mainly at the country level without drawing a global picture of the phenomenon);
- ❖ Additional analyses deal with observed price changes (ex post analysis). The most part of these contributions does not have a global focus.



What we know: effects on aggregate Poverty

KEY ISSUE: THE GLOBAL IMPACT OF MULTILATERAL TRADE POLICY ON AGGREGATE POVERTY

WHAT WE KNOW	REFERENCES	QUANTIFICATION	ASSUMPTIONS
<p>The common wisdom is that multilateral trade liberalization benefits the poor in the long run. However, some studies, using mainly FGT poverty measures, show a modest and mixed evidence with aggregate poverty.</p> <p>2) Mixed results are confirmed also in the case of trade reforms undertaken under different Doha scenarios. Ivanic (2005) shows that the Doha Round is quite neutral in term of poverty reduction at the global level. The smallness of the poverty impact from the Doha Round is explained, among others, by the modest extent of reform involving DCS.</p> <p>3) Even in the most optimistic view, freeing up trade would provide only a partial contribution to the eradication of poverty (Cline, 2004)</p>	<p>Hertel, Preckel, Cranfield, and Ivanic (2002); Anderson (2004); Ivanic (2005); Anderson, Martin and van der Mensbrugge (2005)</p>	<p>1) Two approaches: A) Adoption of Global Models to simulate both price changes and poverty impact B) Adoption of a 2 steps framework in which estimated price changes are passed on to national models. Poverty effects of trade reforms are assessed through the effects on household's real income and using the initial poverty level as benchmark</p> <p>2) Applying a poverty elasticity of -2, the World Bank (2002) estimates that trade liberalization would boost the rate of reduction of the absolute number of the global poor from 2 to nearly 3 percent annually until 2015. Disaggregated results Ivanic (2005) range from a percentage decrease in poverty of -5.80% in the case of the full liberalization scenario in Vietnam to a 1.30% increase for the same scenario in the case of Venezuela. negotiated accord are considered)</p>	<p>1) All the hypothesis that are at the basis of traditional poverty analyses and linked, more specifically with the identification of a poverty line, the degree of poverty elasticity, etc;</p> <p>2) Assumptions of CGE modeling are crucial (all the markets clear and prices are flexible);</p> <p>3) Hypothesis about the households can be different: household data can be incorporated within the modeling framework or single representative household ca</p> <p>4) Hypothesis about the reform scenarios are different (alternative versions of the increase for the same scenario in the case of Venezuela. negotiated accord are considered)</p>



What we know: effects on labor mkt

WHAT WE KNOW	REFERENCES	QUANTIFICATION	ASSUMPTIONS
EFFECTS ON WAGES			
<p>Empirical literature, mainly based on LA, opposing to the standard theory, underline a significant increase in the relative reward of skilled labor in DCs (wage premium effect accompanied by the increase in the skilled to unskilled employment ratio in quite all sectors); Trade as a mean for international diffusion of technologies which increases high skilled labor productivity</p> <p>Hence: relative remuneration of unskilled labor fall; inequality raise; informal economy grows (if we are willing to assume that informal sectors employ mainly unskilled labor);</p>	<p>Behrman, Birdsall and Szekeley (2003); Harrison and Hanson (1999); Murphy K. and Welch, F. (1991); Pavcnik, N., A. Blom and P. Goldberg (2004); Wood, A. (1997); Wood, A. (1994); Goldberg, P. and Pavcnik, N. (2005); Milanovic and Squire (2005); Galliani and Sanguinetti (2003).</p>	<p>Most of the international economics literature on trade and employment/wages is based on CGE. CGE analysis focus on: production factors' prices change; reallocation of labor force among sectors; changes in the level of skills of labor force</p> <p>Labor economics approach tends to be of partial equilibrium, focusing on labor demand/supply and the functioning of the labor market with an emphasis on institutional factors (such as minimum wages, existence of unions, incentives to pay efficiency wages).</p>	<p>1) Full employment or exogenous employment assumption (in the long run employment returns to its initial level);</p> <p>2) Skilled and unskilled labor force are considered as imperfect substitutes but fully mobile across sectors</p> <p>3) Absence of distortions;</p> <p>4) Demand expands to absorb supply;</p> <p>5) "Vent for surplus thesis": trade provides access to a large global market allowing an economy to productively employ "surplus" capacity</p> <p>6) Structuralist view of an adjustment path sufficiently long and painful to dominate policy reforms effects</p>
EFFECTS ON EMPLOYMENT LONG RUN			
<p>1) Multilateral trade policy reforms "per se" should not have a long term impact on employment levels in the long run, unless they are accompanied by labor market reforms;</p> <p>2) Little evidence of association between trade reforms and worsening working conditions are present only in settings characterized by labor market rigidities</p> <p>3) Long term employment creation needs complementary policies such as education, infrastructure; market regulations.</p>	<p>Hoekman and Winters (2005)</p> <p>Marquez G and Pages Serra C. (1998); IADB (2004); Kee and Hoon (2005); Nicita (2004)</p>		
SHORT RUN			
<p>In the short run, trade liberalization involve reallocation of labor or wage impacts within sectors;</p> <p>It can produce also "transitional unemployment"</p>	<p>Harrison, A. and G. Hanson. (1999); Harrison, A. and A. L. Revenga. (1998); Wacziarg, R. and Seddon Wallack J. (2004); Papageorgiou, Michaya and Choksi (1991); Goldberg, P. and N. Pavcnik. (2005); Milanovic and Squire (2005)</p>		



Key Caveats: Global Participation

WHAT WE KNOW	REFERENCES	QUANTIFICATION	ASSUMPTIONS
Global Participation and Institutional Environment			
<p>Recent analyses underline DCs' lower gains from trade liberalization can be partially imputable to their weak participation to the multilateral system .</p> <p>Participation to multilateral system is also strongly linked to the domestic institutional environment. An inadequate institutional environment often leads to a lack of international institutional arrangements.</p> <p>According to the literature, the enhancing of DCs participation in the multilateral regime follows two main channels:</p> <p>a) defining and enforcement of rules (assuring a more predictable, secure and credible international trading environment), the dispute settlement procedures and the development "dimension" of the WTO;</p> <p>b) strengthening of the DCs and LDCs' capacity building (also with reference of the growing number and complexity of current and future negotiations).</p>	<p>Krueger (1999), Oskam et al. (2004), Stiglitz (2000)</p> <p>Finger and Schuler (2000), Finger (2001), Oyejide (2000), Hoekman (2002), Mattoo and Subramanian (2003), Hertel et al. (2002), Khor (2000), Panagariya (1999), Langhammer and Lücke (2001); Oskam et al. (2004)</p>	<p>WTO commitments and obligations by a country is supposed to bring an additional degree of stability and predictability to trade-related policies, which is good for economic efficiency and investor confidence (Krueger, 1999).</p>	<p>1. Weak integration of DCs into the world economy;</p> <p>2. DCs as free rider;</p> <p>3. Inadequate national institutions;</p> <p>4. WTO little awareness of development problems;</p> <p>5. Weak DCs' negotiating capacity;</p> <p>6. Limited resources for implementation;</p> <p>7. High cost of WTO membership;</p> <p>8. Less economic power (subordinate position).</p>



Key Caveats: Collateral Policy

KEY ISSUE: *The impact of multilateral trade policy on Global Integration*

WHAT WE KNOW	REFERENCES	ASSUMPTIONS	QUANTIFICATION
<p>The role of collateral policies-institutions</p> <p>1) Whether the impacts of trade liberalization operate more or less through wages as opposed to employment depends importantly on labour market institutions, the efficiency of capital markets and social policies;</p> <p>2) The institutional aspect should help to explain why the employment effects of trade and liberalization has not been uniform among DCs liberalizing countries (see Asia and Latin America)</p> <p>3) Growth effects of openness are positive only if certain complementary reforms are undertaken;</p>	<p>Loyaza et al (2005); World Commission on the Social Dimensions of Globalization (ILO, 2004); Maloney, W.F. (2004); Bolaky, B., and Freund C. (2004); Besley and Burgess (2004) ; Hoekman B. and Winters A.(2005)</p>	<p>1.Reforms such as domestic deregulation and privatization have greater effects on intersectoral labor movements than trade reform in isolation;</p> <p>2. Distortions in the labour market interact with tariffs or other distortions in international trade;</p> <p>3. The impact of trade opening on productive efficiency depends on labour market conditions;</p>	<p>1)Harris Todaro Model where output gains after trade liberalization depend on the degree of labour market flexibility;</p> <p>2)Non linear growth regressions by using proxy of trade openness with proxies of educational, investment, inflation, public infrastructure, governance, labour market flexibilities.</p>



Key Caveats: the governance of the firms' global integration

WHAT WE KNOW	REFERENCES	ASSUMPTIONS	QUANTIFICATION
<p>Global Value Chains</p> <p>The "global value chain (GVC) approach" is fundamental to investigate the actual benefit of local firms integration into the world markets.</p> <p>It focuses on the strategic global dispersion of different value added activities in a value chain and on the possibilities for technological and industrial upgrading for local enterprises from the positioning in product specific value chains .</p> <p>The concept of "governance" is central to the global value chain approach. It is defined as "authority and power relationships" that determine how financial, material, and human resources are allocated and flow within a chain'</p>	<p>Schmitz, Hubert 1995, Gereffi, 1999, Gereffi and Kaplinsky, 2001,Humphrey and Schmitz, 2000, Kaplinsky, R. and J. Readman 2000, Kaplinsky, R. 2002, Schmitz 2004</p>	<p>Two types of chain: Buyer-driven chains which are characteristic of labour intensive industries and therefore highly relevant to developing countries; producer-driven chains where producers take responsibility for assisting the efficiency of both their suppliers and their customers.</p> <p>Three central factors of the governance structure of the chain: 1. The complexity of transactions. More complex transactions require more interaction among actors and thus stronger forms of governance than simple price-based markets. 2. The codifiability of transactions. In some industries schemes have been worked out to codify complex information in a manner in which data can be handed off between GVC partners with relative ease. 3. The competence of suppliers. The ability to receive and act upon complex information or instructions from lead firms requires a high degree of competence on the part of suppliers.</p>	<p>The most part of analysis are based on case studies and surveys and on collection of original data. Given that, the aim of those studies is not to identify causal relationships but rather to explore the empirical evidence.</p> <p>A central concept is that of upgrading. That concept has been often used by the literature on competitiveness (Porter, 1990, Kaplinsky, 2000) as a concept related to innovation – making better products, making them more efficiently, or move into more skilled activities (Pietrobelli, Rabellotti and Giuliani 2004).</p>



Key Caveats: Uncertainty

KEY ISSUE: *The impact of multilateral trade policy on Global Integration*

WHAT WE KNOW	REFERENCES	ASSUMPTIONS	QUANTIFICATION
The role of uncertainty			
<p>A new approach is pushing its way among scholars: the idea that trade openness (which usually precedes capital account liberalization in the process of reform) could induce socio-economic long term negative effects, especially in the case of the more fragile partner countries, even in a context of long term growth</p> <p>Up to now, the most important achievements on the role of uncertainty at the macro level have been got by the literature on volatility. Concerning the effects of volatility on long term growth, there is, in fact, growing evidence which suggests a negative link between "extreme volatility" and consumption growth in the case of the developing countries.</p> <p>This literature has been complemented by the literature of socio-economic vulnerability throughout a better understanding of the role of "resilience" (i.e. the ability of a system to cope successfully in the case of a negative shock, as well as the availability of efficient coping mechanisms</p>	<p>Concerning trade as a determinant of volatility: Prasad and Gable 1997; Wolf, 2004; Hnatkowska and Loayza, 2004, Kose, 2002; Kose and Yi, 2003</p> <p>Concerning trade as a determinant of vulnerability; Montalbano et al. 2005a in the case of CEECs; Montalbano et al. 2005b in the case of SMCs</p>	<p>Vulnerability literature typically expresses welfare in terms of consumption.</p> <p>Vulnerability to trade is simply the expected value of its welfare loss, calculated as the difference between the expected per capita consumption growth under the hypothesis of no shocks and the expected value of the same variable under the hypothesis of covariate trade shocks (Ligon and Schechter, 2003; Thomas, 2003; Montalbano et al., 2005)</p>	<p>World Bank's Handbook on Macro volatility underlines, empirically, the higher volatility of the terms of trade linked to output volatility.</p> <p>Trade openness and output volatility: Razin and Rose (1994) no robust effect, other studies have found a positive link.</p> <p>Montalbano et al. (2005a and 2005b) focusing on CEECs during the transition process underline that non-EU Members are particularly vulnerable to trade liberalization (their probability of experiencing extreme volatility because of a terms-of-trade shock is almost 1 out of five).</p>



Methodological Tools: Descriptive and Data-based

KEY ISSUE: *METHODOLOGIES IMPLEMENTED FOR THE ASSESSMENT OF THE GLOBAL IMPACT OF LIBERALIZATION*

WHAT WE KNOW	REFERENCES
DESCRIPTIVE APPROACH	
<p>It usually contemplates a detailed description of the reforms undertaken in a given country, the concurrent qualitative and quantitative changes in a number of welfare indicators (often differentiated among household groups) and, finally, the most likely institutional channels through which the implemented set of policies determined the observed welfare changes.</p> <p>Through the descriptive approach a wide and comprehensive picture about the nature, the implementation and the aims of trade reforms and of the welfare changes during the considered period.</p>	<p>Cornia et al. (1987) Hadda and King (1997) Killick (1995) McCulloch, Baulch and Chereh-Robson (2000) Squire (1991) UNDP (1999) Van der Hoeven (1996) White (1997) World Bank (2002)</p>
DATA - BASED APPROACH	
<p>The empirical approach try to overcome the main limit of descriptive approach by compiling a huge amount of data, in order to empirically test through econometric analyses a specific theory about the causal link between trade reforms and observed welfare changes.</p> <p>Data are usually collected through household surveys and units of the sample are selected in order to ensure that the results of the analysis can be generalized at aggregated level. Then, econometric analyses try to explain how adjustments concerning the characteristics of the households (as education level, the number of components, the assets owned) and of the location (a shock in the availability of natural resources for example) are linked to observed changes of income and/or consumption.</p> <p>With respect to the descriptive approach, the empirical one statistically test specific hypotheses about the nature of the links between trade and internal variables.</p>	<p>Baulch and Hoddinott (2000) Bhagwati and Srinivasan (1999) Dercon (1998) Dollar and Kraay (2001a;2001b) Jalan and Ravallion (1998) McCulloch and Baulch (2000) McCulloch et al (2001) Montalbano et al. (2005a; 2005b) Rodriguez and Rodrik (1999)</p>



Methodological Tools: Modelling

KEY ISSUE: METHODOLOGIES IMPLEMENTED FOR THE ASSESSMENT OF THE GLOBAL IMPACT OF LIBERALIZATION

WHAT WE KNOW

REFERENCES

MODELLING APPROACH

It is undoubtedly the most adopted approach: it makes the researcher able to construct a theoretical model about the supposed causal link between trade and welfare.

Modelling approach allows the counterfactual, that is the evaluation of what is likely to happen when an alternative set of policies is considered.

The most part of the study are static based on a comparative approach. In this sense, modelling approach represents an useful help for the understanding of the long run impact of a given policy, but nothing can be said about the path followed by the economic system during the transition to the new equilibrium

PARTIAL EQUILIBRIUM

The adoption of a partial equilibrium model implicitly assumes that it is reasonable to analyse the behaviour of a particular sector, assuming as fixed the impact on the other sectors, that is this kind of approach does not consider the inter-relationships among different fields of the economic system.

GENERAL EQUILIBRIUM

In general, this kind of models offer a systematic framework for analysing price and quantity interactions in all markets, ensuring that both direct and indirect effects are counted, while none are double counted (Ackerman, 2005). I

n particular, General Equilibrium Models usually refer to microeconomic behaviours in multiple markets of one or more economies, solved computationally for equilibrium values or changes due to specified policies. The equations are anchored with data from the considered countries, while behavioural parameters are either assumed or adapted from estimates elsewhere.

Generally speaking, these models are based on the assumption of the optimising behaviour of consumers and producers: consumers maximise their utility or satisfaction, while producers maximise profits (and minimise costs). GTAP is currently the dominant methodology for the ex ante analysis of the economic consequences of comprehensive trade agreements (both multilateral and bilateral).

Goldin and Knudsen (1989)
Martin and Winters (1996)
Ackerman (2005)

FAO (1995 and 1998)
Guyomard et al. (1991 and 1993)
Haley (1989)
Mahé and Moreddu (1987)
Münch and Banse (1999)
OECD (1999a; 1999b and 1999c)
Roningen et al. (1991a and 1991b)
Sharma et al. (1995)
von Lampe (1998)
Weber (1995)
Wolf (1995)

Ackerman (2002 and 2005)
Ackerman and Gallagher (2004)
Adams (2004)
Francois (2000)
Hertel (1997)
Kurzweil (2002)
Oslington (2005)
Tokarick (2005)
Weyerbrck, S. (1998)
Whalley (2000)



What we know: A summary

- ❖ **Global impact:** No common stand. Results highlight **weak gains from trade** even lower in the most recent studies;
- ❖ **Growth and Productivity effects:** weak consensus that open trade policies help fostering growth. Also, the direction of causality between firm productivity and export status is under debate;
- ❖ **Effects on world prices:** quite small, even in the specific case of agricultural commodities
- ❖ **Aggregate Poverty:** Empirical studies show a modest and mixed evidence with aggregate poverty. Even in the most optimistic view, freeing up trade would provide only a partial contribution to the eradication of poverty
- ❖ **Labor:** Empirical analysis underline a significant increase in the relative reward of skilled labor in DCs (and increase of the skilled to unskilled employment ratio) and no long term effects on total employment



What we know: Key caveats

- ❖ **Global Participation:** DCs benefit less from trade liberalization also because of a weak participation to the multilateral trading system and this, at his turn, is caused by their weak institutional environment;
- ❖ **Collateral Policies:** Major effects of trade liberalization occur if complementary reforms are undertaken;
- ❖ **Global Value Chains:** export performances and industrial upgrading of local suppliers are strongly linked with the GVC's governance;
- ❖ **Uncertainty and Vulnerability:** trade openness could induce socio-economic long term negative effects, especially in the case of the more fragile partner countries, even in a context of long term growth



Main critical points: PEMs

- ❖ Very useful for a practical and operational point of view (i.e. require less information and are focused on a limited set of variables)
- ❖ However, they assume it is reasonable to analyse the behavior of a particular sector, not considering all the inter-relationships within the economic system;
- ❖ Their acceptance strongly depends on the model's aims (traditional case: the analysis of policies for a specific sector), especially if the relative size of the activity concerned is limited and inputs are fairly specific to that activity.
- ❖ Extensive use of extremely simplified functional forms, leads to implicit simplifications of agents' behaviour



Main critical points: CGEs

- ❖ Required to take fully account of the wide range of inter-relationships within the economic system, they rely on debatable theoretical simplifications;
- ❖ Impose enormous information requirements
- ❖ Strongly depend on several assumptions as well as on parameters and functions that can barely be tested one-by-one and results can be sensitive
- ❖ Often based on comparative static analysis, describing the movement from one steady state to another, without considering the length and costs of the transition
- ❖ Results about the inter-relationships among sectors are always based on fixed employment assumption



Main critical points: Other Methodological

- ❖ **Conventional Macro Lens:** Ravallion (2004) stressed the significant lessons emerging from massive expansion in household level data availability in DCs in recent years;
- ❖ **Welfare Measurement:** Welfare gains are not directly measurable since welfare is not directly observable;
- ❖ **Long term effect of uncertainty:** this is a neglected issue of the debate. However, current approaches deal mainly on aggregate variables and cross-country comparisons;
- ❖ **Lack of integration:** we still lack a full integration between multi-country and single-country approaches;
- ❖ **Absence of counterfactual effects:** we cannot isolate trade reform or the true counterfactual rate of protection in absence of the multilateral trading system



Main critical points: Thematic

- ❖ **Focus on-non DCs:** Most of the studies focus on developed countries and the positive effects of trade liberalization could be overstated;
- ❖ **Poor investigation of the role of institutions:** even if studies are increasing, a wider research work on the institutional issues linked to multilateral liberalization is still missing;
- ❖ **Lack of adequate consideration of the production side:** Studies are typically based on macro data . They do not consider nor the GVC's governance neither the crucial role of upgrading processes at the firms level;
- ❖ **Narrow view of multilateral trading system:** studies usually take into consideration only those trade policies more easily quantifiable, leaving us without a broad view of the overall effects induced by trade liberalization



What is to be done?

There is consensus among the scholars about the need to work out on the topic following the following directions:

1. Updating modelling instruments

3. Highlight the role of Global Participation and Institutions

2. Analyze in depth pro-poor effects of trade reforms, long term effects of uncertainty, and social protection tools

4. Taking into account the Governance of the firms' integration process



1. Updating modeling instruments

- ❖ Improve the **quantity** and **quality** of data
- ❖ Reach a **common** and acknowledged methodological framework, both theoretical and empirical
- ❖ Reinforce **empirical validation** of the basic assumptions of the models
- ❖ Embody **the role of uncertainty**, highlighting its long term effects and its role during the transition process of reforms;
- ❖ Implement a more effective integration of **micro-macro approaches** (meso level) in order to link global with country analyses

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2. Pro poor effects of trade reforms, vulnerability and social protection

- ❖ Analyze in depth the **pro-poor content** of trade reforms
- ❖ Investigate the **other side of the coin** of trade liberalization (higher inequality as well as increased vulnerability and marginalization);
- ❖ Highlight the role of a number of **key elements** to improve the effectiveness of trade liberalization such as:
 - structural conditions of the economic systems;
 - initial level of inequality;
 - role of the national and international institutions;
 - characteristics of the social protection system;
 - complementary policies, etc.

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3. the Role of DCs ` Global Participation

- ❖ Additional research activity is needed to better understand the whole implications linked to the **level of participation to multilateral regime**;
- ❖ A specific line of research should be dedicated to investigate if, and eventually why and how, **DCs deeply involved in the international system benefit more from trade liberalization**;
- ❖ In those case, we need to identify which **incentives** should be used to promote DCs full participation in the multilateral decision process (how to strengthen the development “dimension” of WTO?)
- ❖ At the same time, we need to better investigate the **governance of the multilateral trading system**. Current *impasse* of the WTO trading system is in-flight turbulence or systemic crisis?
- ❖ Assess if (South-South or North-South) trade integration could provide suitable institutional frameworks to make trade liberalization strategy more credible

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4. Local Firms and GVCs

- ❖ We should study **the organization of the global production and distribution systems** in a more systematic way (current plethora of existing case studies, although often very informative, cannot be easily generalized);
- ❖ we should study in a more systematic way how **DCs' firms integrate into the GVCs** (to shed light on the effects of trade liberalization on the production side);
- ❖ we should also underline the complementarities between the productivity effects of trade liberalization (**production function approach**) and the upgrading measures (**GVCs approach**)
- ❖ to study the **relationship** between different forms of GVC' s governance and local supplier' performance;
- ❖ to extend the span of variables **to capture firms' performance**, by focusing on both productivity and measures of upgrading processes.

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The Proposal: A first exercise on EU-MED FTA

- ❖ Starting from the above critical points **GDN-IPALMO** are going to launch a new approach to the assessment of North-South FTAs, focused on Euro-MED FTA;

The EU-MED FTA:

- ❖ Target date: **2010**
- ❖ The Euro-MED FTA will foresee bilateral (**North-South**) trade liberalization as well as Free Trade Agreements among MPs (**South-South** integration).
- ❖ This FTA foresees **free trade in manufactured goods** and progressive liberalization of trade in agricultural products
- ❖ The EEA+MPs will include **40 States** and about **700 million** consumers, i.e. one of the world's most important trade entities.

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EU-MED FTA: Updating modeling instruments

- ❖ The aim is to develop a new (modified) methodological framework, able to embody **the role of uncertainty**, highlighting its negative and pervasive role
- ❖ This kind of framework will be adopted both at global and regional level, in order to build a most integrated **micro-macro approach** (meso level)
- ❖ The results derived at global level will be applied to the regional model, whose outcomes will constitute a **feedback for global analysis**

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EU-MED FTA: Pro poor growth and social protection

- ❖ To this aim, the project will take into account a double focus:
 - ❖ the specific pro poor effects of Euro-Mediterranean trade liberalization focusing on the main poverty-relevant transmission channels;
 - ❖ the suitable social protection policies for better preventing, coping and managing trade induced risks

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EU-MED FTA: Multilateral integration and North-South regional integration

- ❖ This line of research aims at assessing if the implementation of a North South FTA can help MPs countries in adopting a trade policy regime that fosters multilateral system
- ❖ The objectives of this research activity are threefold:
 - ❖ to investigate if DCs deeply involved in multilateral system have more economic benefits from trade policy;
 - ❖ to underline costs and benefits and changes that are required to make existing policies fully consistent with WTO rules;
 - ❖ to assess if the creation of the Euro MED FTA provides suitable institutional frameworks to foster the participation in the WTO system

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EU-MED FTA: Regional Integration, local suppliers and global value chains

- ❖ to define a systematic measure of **Value Chains' governance**, looking at the specific buyer-supplier relationship and at the strategic role played by the global buyers along the chain;
- ❖ to study the **relationship between different forms of GVC' s governance and local supplier' performance**;
- ❖ to extend the span of variables **to capture firms' performance**, by focusing on both productivity and measures of upgrading processes.

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The GDN-IPALMO Research Proposal: Expected Results

- 1 Get a better and comprehensive picture of the effects of Euro-Med FTA by the introduction of **uncertainty**. This will shed light on the **adjustment process and the socio-economic impacts** of the transition from an equilibrium to a new one.
- 2 **Elaborate guidelines and policy indications** for supporting policy making in the creation of complementary development and social protection strategies
- 3 **Shed light on the interactions between North-South regional and multilateral participation** applied to the case of MPs countries. This study will permit to link the "open regionalism" issue with the development dimension, drawing useful policy indications at the global level.
- 4 **Find out practical ways of how Global Value Chains' analysis can inform policy** throughout a better understanding about the way in which poor producers in MPs connect with producers and consumers in the global economy

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Thanks!

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