

Trade Policy and Research in an Era of 'Free Trade'

**19th Annual Conference on
Global Economic Analysis**

The World Bank, Washington DC

**Pinelopi Koujianou Goldberg
Yale University, NBER and BREAD
June 15, 2016**

Road Map for this Talk

- Take stock of the present situation. Where do we stand in terms of:
 - Trade/Trade Policy
 - Trade Research
- The Future: Challenges and potential directions for future research

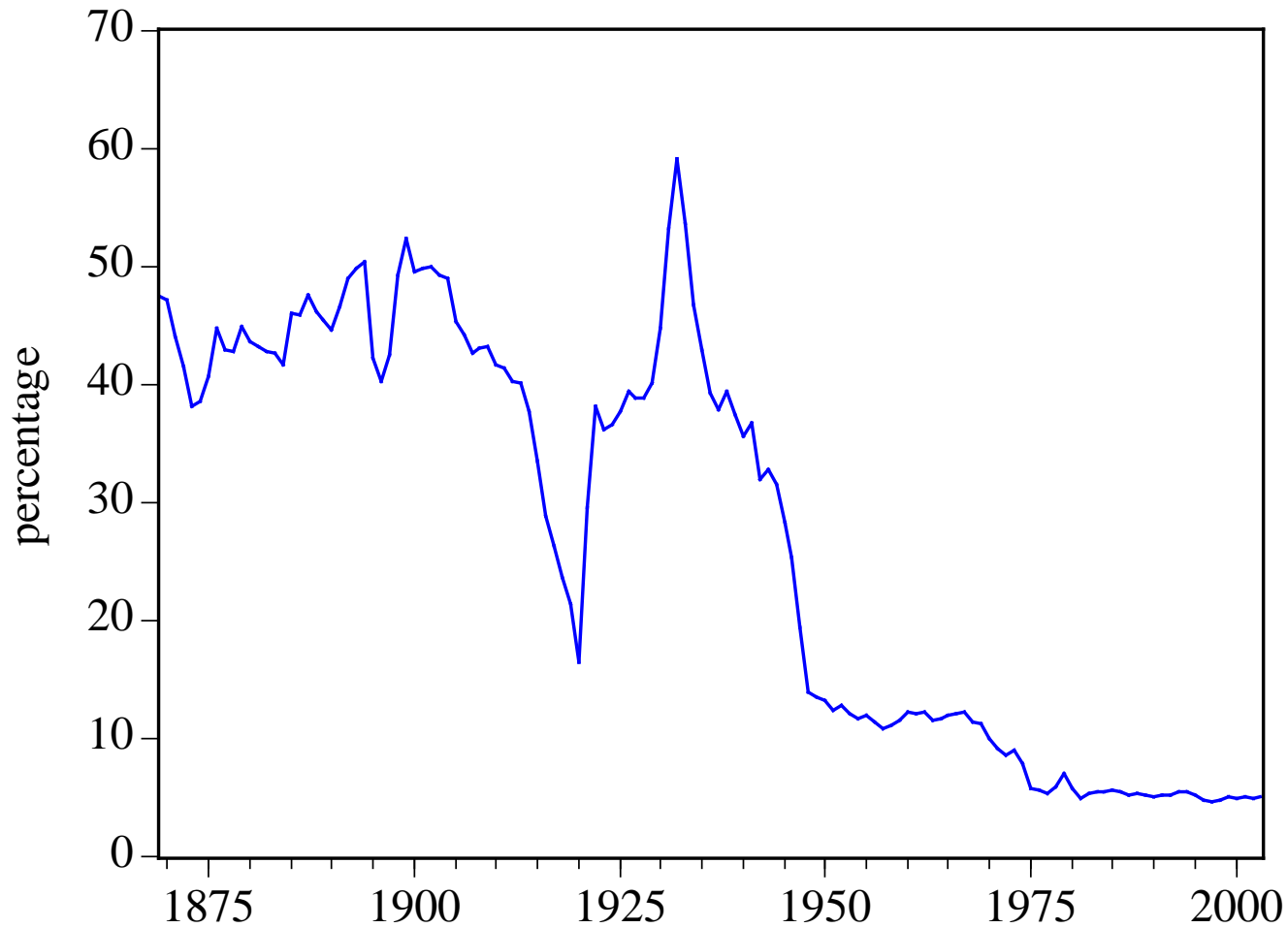
The Present

Trade Policy and Trade Flows

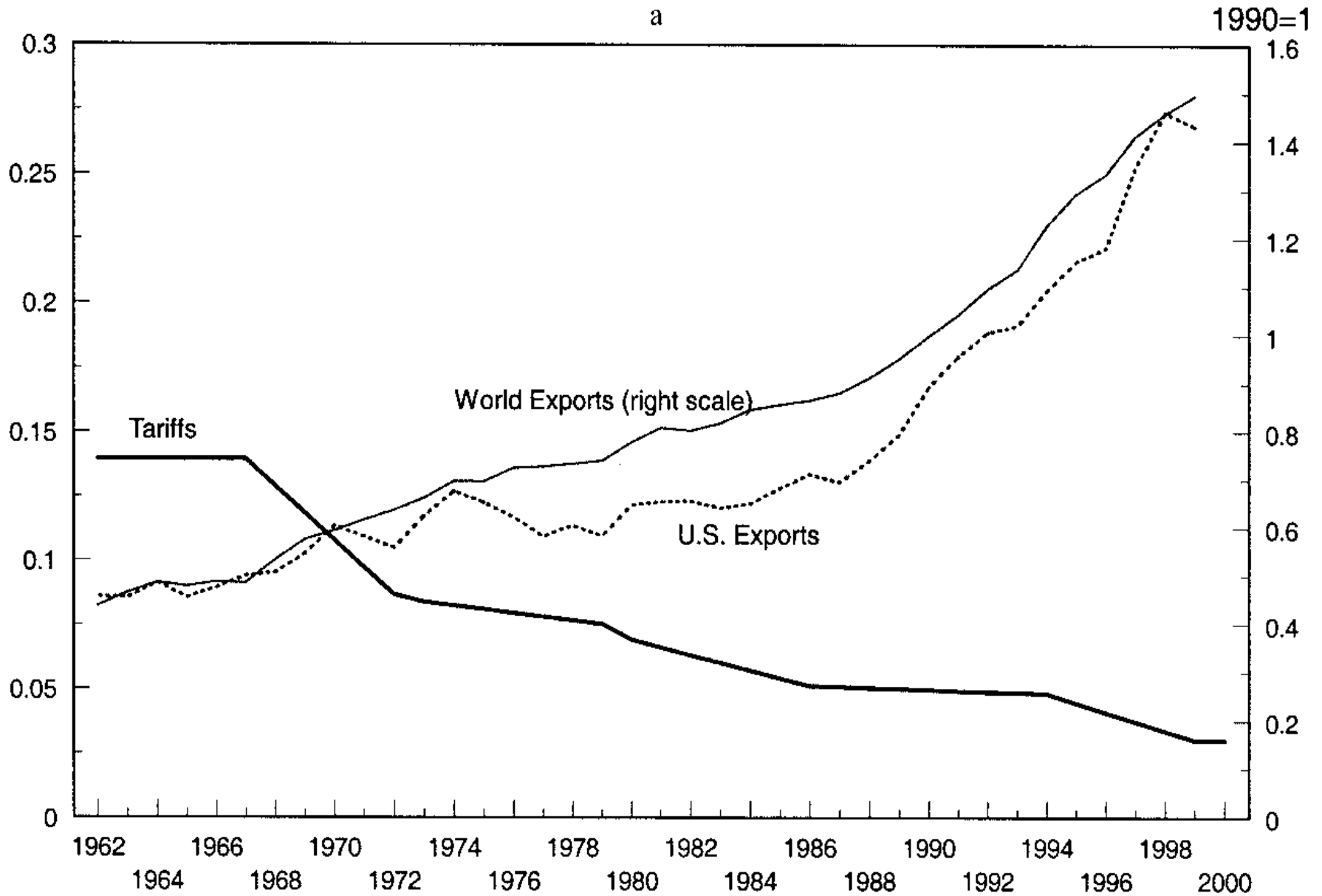
- Measureable Trade Barriers at an all-time low (→ 'Era of Free Trade')
- Trade Volumes have exploded post-World War II
- Many developing countries now integrated in world markets (China, India, South-East Asia, Latin America)

→ The Age of Globalization

Average U.S. Tariffs 1875-2002



From Yi (JPE, 2003)



The Present (contd.)

Trade Research

- Better data than ever before (incl. disaggregate firm- or plant-level data)
- Significant modelling advances
- New generation of quantitative models
- Academic research is exploding!

Against this background:

- What is there left to do? Have free trade advocates won the battle?
- Shift of focus towards “economic geography” and spatial allocation of economic activity indicative of lost interest in INTERNATIONAL Trade.

Two Observations...

- Situation reminiscent of state of Macro prior to the financial crisis of 2007
- Public perception of state and benefits of trade at odds with academic research
 - current election campaign
 - renewed demands for protectionism

Implications for Research

- Why is there such a gap between conclusions of academic research and public perception of trade?
- How do we made research 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. Better measurement of trade barriers → back to case studies?
3. Better understanding of implications of global production sharing.

1. The Distributional Effects of Trade

- Aggregate gains from trade well understood by now
- Solid understanding of sources of gains from trade
- But quantitative effects? Less agreement
- ACR (Arkolakis, Costinot and Rodriguez-Clare) formula: Aggregate gains depend only on share of domestic expenditure and trade elasticity in a large class of models.
- But implication of ACR: Gains from trade small!

Distributional Effects (continued)

- Reaction: Controversy
- What about dynamic gains? Multiple sectors?
Is there one trade elasticity?
- Are results credible?
- But why is this question interesting? Are we questioning the gains from specialization?

Distributional Effects (continued)

- Contrast to “Distributional Effects”. Relatively little work.
- Questions regarding distribution equally important and first-order for public perception of trade.
- General lesson from existing work: effects dependent on setting and particular policies implemented. Example: Latin America
- Recent work on effects of China on U.S. labor markets (Autor et al, Pierce and Schott) point to large adjustment costs

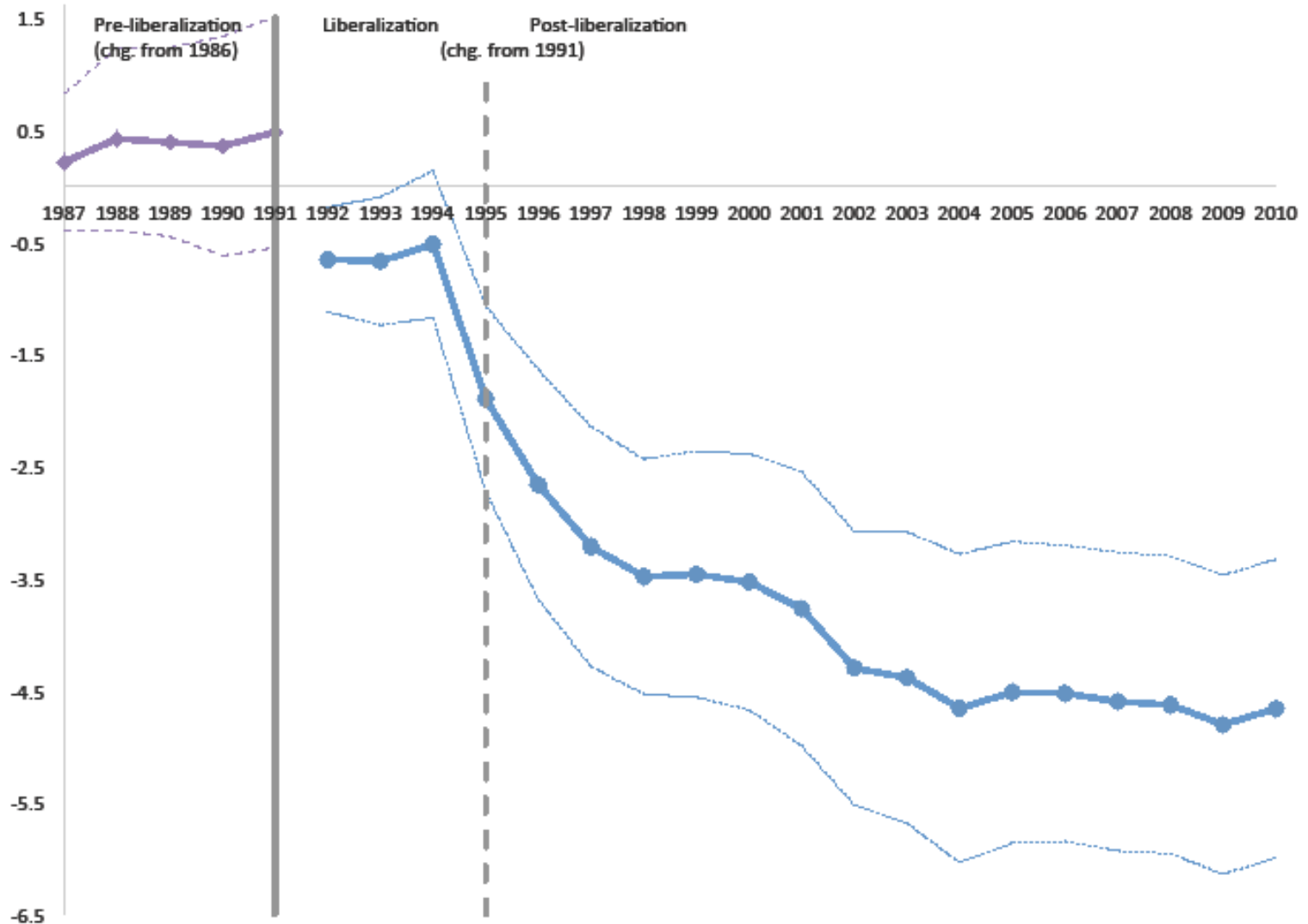
Distributional Effects (continued)

- A positive trend: many recent papers focus on distributional effects of trade.
- For identification of winners and losers, time frame of analysis is important.
- But how long is the “long run”? How much mobility is there? How large are mobility costs?

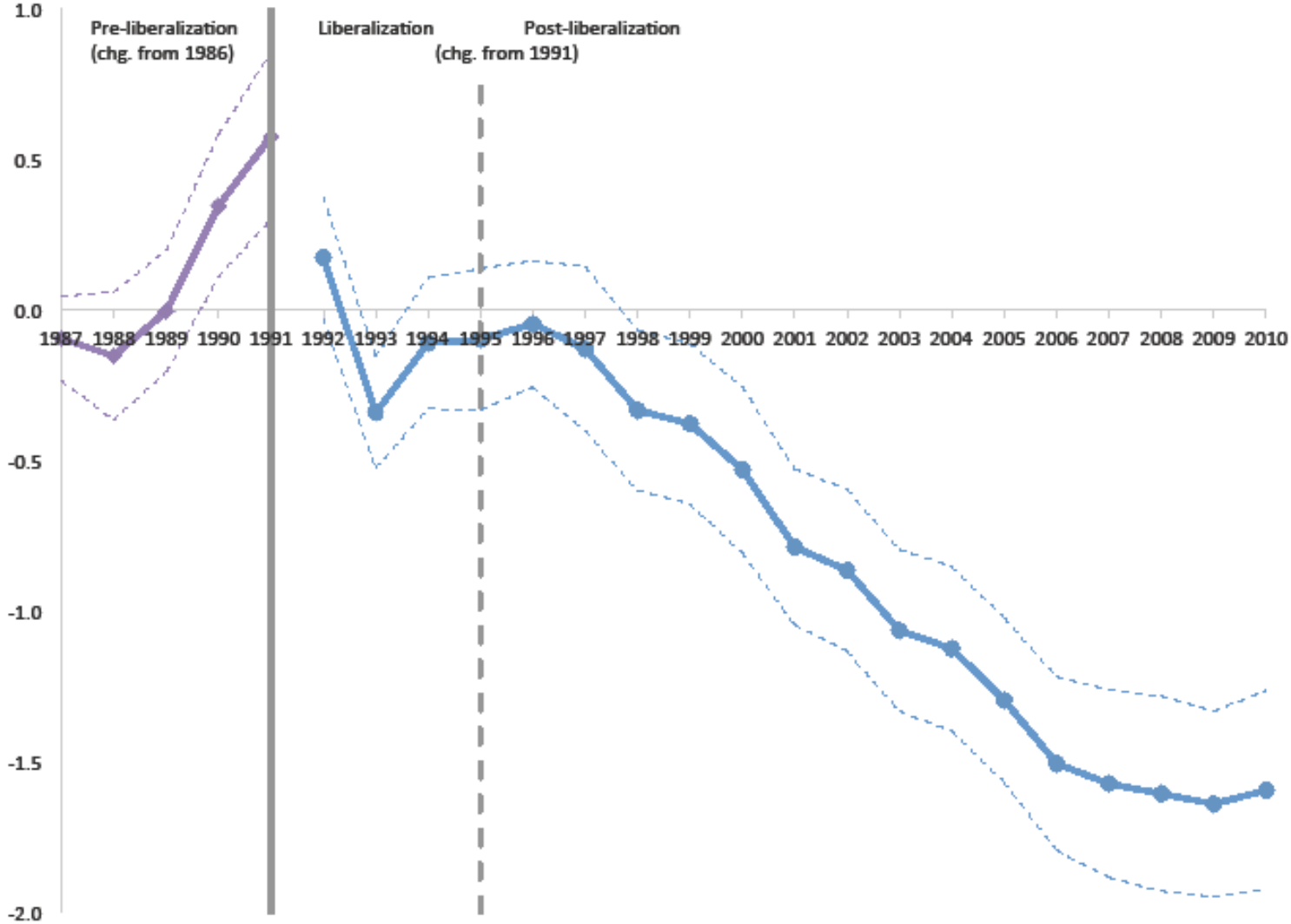
Distributional Effects (continued)

- Two observations here:
 - Autor et al: Large effects after nearly a decade of adjustment (2007-2010)
 - Dix Carneiro and Kovak (Brazilian Trade Liberalization in early 1990s): striking, counter-intuitive results: adverse effects get magnified over time, and long-run distributional impact larger than short-run impact.

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



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



2. Better Measurement

- 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’?

Better Measurement (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) **Miravete et al (2015):** “Innovation, Emissions Policy, and Competitive Advantage in the Diffusion of European Diesel Automobiles”, CEPR Wo. Paper
- 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.
- b) **Conconi et al (2016):** “From Final Goods to Inputs: the Protectionist Effect of Rules of Origin,” Wo. Paper
- 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

Better Measurement (continued)

To conclude:

- Academic research should be more receptive to such studies
- Need to open up the black box of “trade costs”
- Feed more informative measures of trade costs into GE models
- Are markets really open? Do exporters have market access in foreign destinations?

3. 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.
- Active (though esoteric) area of research!

Conclusion

To maintain relevance in the era of apparent free trade, need to:

- Address distributional effects and transition dynamics
- Combine GE models with case studies to investigate the presence of non-tariff barriers, especially “behind the border” measures.
- Continue research on measuring value-added trade

Thank you!