

August 18, 2010

Conference summary

“Trade Costs and International Trade Integration: Past, Present and Future”

Palazzo Pesaro-Papafava, Venice, Italy
June 25-26, 2010

Barriers to international trade are generally seen as one of the greatest policy challenges in the field of international trade. These barriers include transportation costs, tariffs as well as other costs such as language barriers and red tape.

This conference brought together researchers based in the United States, Canada and Europe who work in the general area of trade costs in international trade. The papers that were presented at the conference discussed the determinants or the impact of trade costs with both theoretical and empirical methods. The papers examined trade costs across a range of countries (both developing and developed countries) as well as in historical perspective over the long run (from the 19th century to the present).

Conference participants included both senior and junior academics from various universities and business schools in North America and Europe as well as from policy institutions such as the World Bank (Caroline Freund) and the Organisation for Economic Co-operation and Development (Sébastien Miroudot, Trade and Agriculture Directorate, Paris).

The conference was sponsored by a grant from the UK’s Economic and Social Research Council (ESRC) as well as by the new ESRC Centre for Competitive Advantage in the Global Economy (CAGE) at the Department of Economics, University of Warwick. The conference was organised by **Dennis Novy (University of Warwick)**, **David Jacks (Simon Fraser University)** and **Christopher Meissner (University of California, Davis)**.

Online resources

- Conference details can be found at the conference website at <http://www2.warwick.ac.uk/fac/soc/economics/research/centres/cage/events/conferences/trade>
- One of the participants, Menzie Chinn of the University of Wisconsin, posted a detailed conference summary on his widely-read ‘Econbrowser’ blog, available at http://www.econbrowser.com/archives/2010/07/thinking_about.html
- The ‘Econbrowser’ blog entry has been referenced by ‘The Economist’ magazine in the Free Exchange section, see http://www.economist.com/blogs/freeexchange/2010/07/recommended_economics_writing_8 as well as by the ‘Mostly Economics’ blog, see <http://mostlyeconomics.wordpress.com/2010/07/14/assorted-links-480/>

- Most conference papers will be made available in the CAGE Working Paper series, available at <http://www2.warwick.ac.uk/fac/soc/economics/research/centres/cage/research/papers/>

Overview of conference papers

The papers were grouped into four sessions with three paper presentations each. The first session was on 'Trade Costs in Emerging Economies.' **Caroline Freund (World Bank)** discussed the constraints faced by African exporters, focusing on the delays caused by transit, documentation and customs in African countries. **Keith Head (University of British Columbia)** documented the erosion of colonial trade linkages after former colonies gained independence, using a large data set of trade flows between 1948 and 2006. A main finding is that while there is little short-run effect on trade, after four decades trade the former colonizer has contracted by about 65 percent. **John Brown (Clark University)** followed with a presentation that also focussed on economic history. Examining Japan's 19th century opening to world trade, he provided causal evidence on positive gains from trade, showing that Japan's early gains arose from its ability to import relatively scarce input factors that helped making Japan's economy more productive.

The second session was entitled 'New Empirical Methods.' **Michael Waugh (Stern School of Business, New York University)** presented new evidence on the elasticity of trade. This elasticity is a crucial parameter in the international trade literature as it determines how strongly trade flows react to changes in trade costs such as a reduction in tariff barriers. Using new disaggregate price and trade data for 123 developing and developed countries, Waugh finds a significantly lower value of the elasticity compared to the previous literature, implying a doubling in the welfare costs associated with economic autarky. **Volodymyr Lugovskyy (Georgia Institute of Technology)** examined how the quality of exports depends on relative country size and their remoteness, showing theoretically that product quality decreases in country size and increases in remoteness from foreign markets. He confirmed this prediction empirically by examining a detailed product-level data set of imports into Latin American countries. **Ivan Cherkashin (Pennsylvania State University)** modelled and structurally estimated the responses of heterogeneous firms to trade policies in different product and export destinations. He used the model to perform counterfactual experiments regarding the effects of reducing trade costs, in particular trade preferences with distortionary rules of origin offered by an importing country.

The third session was on 'The Dynamics of International Trade and Trade Costs.' **Menzie Chinn (LaFollette School of Public Policy, University of Wisconsin)** examined import and export demand functions for the United States over the past 35 years. His findings indicate that the rising importance of vertical specialization (i.e., the internationalization and slicing-up of production chains) combined with changing tariff rates and transportation costs can reconcile some of the high income elasticities found in previous studies. **Beata Javorcik (University of Oxford)** investigated what

aspiring destinations of foreign direct investment (FDI) can do to reduce investment obstacles such as red tape and the lack of relevant information. She used newly collected data on 124 countries to examine the effects of investment promotion on inflows of FDI from the United States, finding that FDI promotion by investment promotion agencies works in developing countries but not in industrialized countries. **Paul Bergin (University of California, Davis)** presented results as to how a currency union increases international trade over time. Empirical work with data from the European Monetary Union shows that the extensive margin of trade (i.e., the entry of new firms or goods) responds several years ahead of the actual implementation of the monetary union. A dynamic stochastic general equilibrium model of trade studies the announcement of a future monetary union as a news shock and finds that the early entry of new firms in anticipation can be explained as a rational forward-looking response.

The fourth and final session was on 'Trade Policy.' **James Anderson (Boston College)** presented results on the effects of specialization on trade cost incidence, i.e., how changes in the productive capacity of countries affect their exposure to trade costs. He finds that most countries have gained from specialization over the period from 1990 to 2002 in the sense that they have become less exposed to trade costs. **Marcelo Olarreaga (University of Geneva)** provided estimates of the economic impact of politically and economically motivated free trade agreements. He finds that agreements with a stronger political motivation are more trade creating than agreements signed for pure market access reasons. **Jeffrey Bergstrand (University of Notre Dame)** explained reasons behind the proliferation of bilateral free trade agreements over the past 20 years. While evidence supports that competitive liberalization is a force for signing bilateral free trade agreements, the effect on the probability a pair of countries forming an agreement of the pair's agreements with other countries (i.e., tariff complementarity) is just as important as the effect of competitive liberalization.