A. Introduction

Welcome to the 40th issue of the World Bank Trade Research Electronic Newsletter, a periodic E-mail publication containing abstracts of recent trade working papers, publications and other works. Additional information on the Bank’s Trade Research Team activities can be found on the recent redesigned World Bank Trade Research website (http://www.econ.worldbank.org/programs/trade). This provides basic information on research activities in progress, trade working papers, other Bank trade publications, trade newsletters and links to other trade related web sites. You may also visit the periodically updated website of the International Trade Department at http://www.worldbank.org/trade for additional information on trade and development, including the World Bank Institute’s activities in the area of capacity-building and training, the Integrated Framework for Trade-related Technical Assistance, periodic “Trade Notes” on topics of current interest and recent events and projects. If you do not wish to receive this electronic bulletin, please send an E-mail message with “Unsubscribe” in the title area to trade@worldbank.org.

All of the working papers listed below are available for downloading from the website in the Adobe Acrobat format at the address: http://www.econ.worldbank.org/programs/trade.

To obtain a hard copy of a working paper, please send your request (with postal mailing address) via E-mail to trade@worldbank.org.
B. Special Feature

1. **Natural Resources: Neither Curse nor Destiny**

   This volume studies the role of natural resources in development and economic diversification. It brings together a variety of analytical perspectives, ranging from econometric analyses of economic growth to historical studies of successful development experiences in countries with abundant natural resources. The evidence suggests that natural resources are neither a curse nor destiny. Natural resources can actually spur economic development when combined with the accumulation of knowledge for economic innovation. Furthermore, natural resource abundance need not be the only determinant of the structure of trade in developing countries. In fact, the accumulation of knowledge, infrastructure, and the quality of governance all seem to determine not only what countries produce and export, but also how firms and workers produce any good.

   The individual chapters of the book are listed as below. For more information, please see the website:

   **Contents**
   1. Neither Curse nor Destiny: Introduction to Natural Resources and Development - Daniel Lederman and William F. Maloney

   **Part I: Are Natural Resources a Curse? Econometric Evidence**
   2. Trade Structure and Growth - Daniel Lederman and William F. Maloney
   3. Resource Curse or Debt Overhang? - Ozmel Manzano and Roberto Rigobon
   4. The Relative Richness of the Poor? Natural Resources, Human Capital, and Economic Growth - Claudio Bravo-Ortega and Jose de Gregorio

   **Part II: Are Natural Resources a Curse? Lessons from History**
   5. Prebisch-Singer Redux - John T. Cuddington, Rodney Ludema and Shamila A. Jayasuriya
   6. Missed Opportunities: Innovation and Resource-Based Growth in Latin America - William F. Maloney
   7. Resource-Based Growth Past and Present - Gavin Wright and Jesse Czelusta
   8. From Natural Resources to High-Tech Production: The Evolution of Industrial Competitiveness in Sweden and Finland - Magnus Blomstrom and Ari Kokko

   **Part III: Are Natural Resources Destiny?**
   9. Trade, Location, and Development: An Overview of Theory - Anthony Venables

2. **Export Promotion Agencies: What Works and What Does Not**
The number of national export promotion agencies (EPAs) has tripled over the last two decades. While more countries made them part of their national export strategy, studies criticized their efficiency. EPAs have been retooled partly in response to these critiques. This note studies the impact of existing EPAs and their strategies, based on a new data set covering 119 developing and developed countries. Results suggest that on average they have a strong and statistically significant impact on exports. For each US dollar of export promotion, it estimates a $300 increase in exports for the median EPA. However, there is heterogeneity across regions, levels of development and types of instruments. Furthermore, there are strong diminishing returns, suggesting that as far as EPAs are concerned, small is beautiful. For the full text, please visit our web: http://siteresources.worldbank.org/INTRANETTRADE/Resources/239054-1126812419270/Trade_Note30.pdf.

3. **Global Antidumping Database - Version 2.1**

This updated version has been recently posted at our website that includes several additions to the primary version: (i) detailed safeguard use data has been entered for all WTO member countries; (ii) antidumping revocation data and revocation year data has been verified and added for each of the 19 antidumping-use countries. This data was taken from bi-annual reports from the WTO's Committee on Anti-dumping Practices under article 16.4 of the Agreement; and (iii) detailed data linking challenged to specific antidumping, safeguard, and countervailing measures via formal WTO Dispute Settlement Understanding (DSU) trade disputes have been added via a new set of spreadsheets. For more info and details, please see the recent working paper which has been updated to reflect these changes (the previous working paper for version 1.0 of the database can also be found from the World Bank Policy Research Working Paper, No. 3737, 2005) or contact Chad Bown at cbown@brandeis.edu.

4. **International Migration and Development e-Newsletter**

It is a weekly e-publication of policy and research results on the World Bank’s International Migration and Development Research Program by the Migration Team of Development Research Group. It contains abstract of recently published working papers and research highlight on the migration issues. For more info, please visit the website at http://econ.worldbank.org/programs/migration. If you are interested to subscribe this newsletter, please e-mail to migration_research@worldbank.org.

5. **Recent Book Chapters, Journal Articles and Other Papers**


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C. Recent Trade Working Papers
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• Tariff retaliation versus financial compensation in the enforcement of international trade agreements, Nuno Limao and Kamal Saggi, (WPS #3873), April 2006.
• Foreign direct investment, regulations, and growth, Matthias Busse and Jose Luis Groizard, (WPS #3882), April 2006.
• Protection, openness, and factor adjustment: Evidence from the manufacturing sector in Uruguay, Carlos Casacuberta and Nestor Gandelman, (WPS# 3891), April 2006.
• The data chase: What's out there on trade costs and nontariff barriers? Shweta Bagai and John S. Wilson, (WPS #3899), April 2006.
• The relative importance of global agricultural subsidies and market access, Kym Anderson, Will Martin and Ernesto Valenzuela, (WPS# 3900), April 2006.
• Do global trade distortions still harm developing country farmers? Kym Anderson and Ernesto Valenzuela, (WPS #3901), April 2006.
• Political institutions, inequality, and agricultural growth: The public expenditure connection, Hunt Allcott, Daniel Lederman and Ramon Lopez, (WPS #3902), April 2006.
• Farm productivity and market structure: Evidence from cotton reforms in Zambia, Irene Brambilla and Guido Porto, (WPS #3904), May 2006.
• Trends in tariff reforms and trends in wage inequality, Sebastian Galiano and Guido Porto, (WPS #3905), May 2006.
• Turkey's evolving trade integration into Pan-European markets, Bartolomej Kaminski and Francis Ng, (WPS #3908), May 2006.
• Trading on time, Simeon Djankov, Caroline Freund and Cong S. Pham, (WPS #3909), May 2006.

E. Working Paper Abstracts

• Tariff retaliation versus financial compensation in the enforcement of international trade agreements
  The authors analyze whether financial compensation is preferable to the current system of dispute settlement in the World Trade Organization that permits member countries to impose retaliatory tariffs in response to trade violations committed by other members. They show that monetary fines are more efficient than tariffs in terms of granting compensation to injured parties when there are violations in equilibrium. However, fines suffer from an enforcement problem since they must be paid by the violating country. If fines must ultimately be supported by the threat of retaliatory tariffs, they fail to yield a more cooperative outcome than the current system. The authors also consider the use of bonds as a means of settling disputes. If bonds can be posted with a third party, they do not have to be supported by retaliatory tariffs and can improve the negotiating position of countries that are too small to threaten tariff retaliation.

• Foreign direct investment, regulations, and growth
  This paper explores the linkage between income growth rates and foreign direct investment (FDI) inflows. So far the evidence is rather mixed, as no robust relationship between FDI and income growth has been established. The authors argue that countries need a sound business environment in the form of good government regulations to be able to benefit from FDI. Using a comprehensive data set for regulations, they test this hypothesis and find evidence that excessive regulations restrict
growth through FDI only in the most regulated economies. This result holds true for different specifications of the econometric model, including instrumental variable regressions.

- **Protection, openness, and factor adjustment: Evidence from the manufacturing sector in Uruguay**
  The authors use a panel of manufacturing firms to analyze the adjustment process in capital blue collar and white collar employment in Uruguay during a period of trade liberalization when average tariff protection fell from 43 to 14 percent. They calculate the desired factor levels arising from a counter factual profit maximization in the absence of adjustment costs, generating a measure of factor shortages or surpluses. The average estimated output gap for 1982-95 is 2 percent. The authors' policy analysis shows that trade openness affected the adjustment functions of all three factors of production. Highly protected sectors adjust less when creating jobs (reducing labor shortages) than sectors with low protection. The results for capital are qualitatively similar but quantitatively smaller, suggesting that trade protection plays less of a role in explaining adjustment costs for capital.

- **The data chase: What's out there on trade costs and nontariff barriers?**
  This paper provides a summary overview of data and indicators relevant to these issues and has been informed by work underway at the World Bank on trade facilitation over the past several years to catalogue data sets and indicators. Although there has been progress in expanding data sets and developing policy-relevant indicators on trade costs and barriers, much more is needed. In order to assess progress toward achieving the Millennium Development Goals, evaluating the impact of development projects, and whether meeting Aid for Trade goals will be met, for example, a dedicated and expansive new effort to collect and assess data is needed. This paper attempts to highlight gaps in data on trade costs and provides insight into the type of new data that might be developed in the future.

- **The relative importance of global agricultural subsidies and market access**
  The claim by global trade modelers that the potential contribution to global economic welfare of removing agricultural subsidies is less than one-tenth of that from removing agricultural tariffs puzzles many observers. To help explain that result, the authors first compare the OECD and model-based estimates of the extent of the producer distortions (leaving aside consumer distortions), and show that 75 percent of total support is provided by market access barriers when account is taken of all forms of support to farmers and to agricultural processors globally, and only 19 percent to domestic farm subsidies. Then the authors provide a back-of-the-envelope (BOTE) calculation of the welfare cost of those distortions. The analysis suggests 86 percent of the welfare cost is due to tariffs and only 6 percent to domestic farm subsidies. When the higher costs associated with the greater variability of trade measures relative to domestic support are accounted for, the BOTE estimate of the latter's share falls to 4 percent. This is close to the 5 percent generated by the most commonly used global model (GTAP).

- **Do global trade distortions still harm developing country farmers?**
  The authors estimate the impact of global merchandise trade distortions and services regulations on agricultural value added in various countries. Using the latest versions of the Global Trade Analysis Project (GTAP) database and the GTAP-AGR model of the global economy, their results suggest real net farm incomes would rise in developing countries with a move to free trade, thereby alleviating rural poverty. This occurs despite a terms of trade deterioration for developing countries that are net food importers or that enjoy preferential access to agricultural markets of high-income countries. The authors also show, for several large developing countries, the contribution of their own versus other countries' trade policies.
• Political institutions, inequality, and agricultural growth: The public expenditure connection
  This paper brings together the literatures on the political economy of public expenditures and the determinants of economic growth. Based on a new dataset of rural public expenditures in a panel of Latin American economies, the econometric evidence suggests that non-social subsidies reduce agricultural GDP. Furthermore, the evidence suggests that political and institutional factors as well as income inequality are determinants of the size and structure of rural public expenditures, through which they have large and significant effects on agricultural GDP.

• Farm productivity and market structure: Evidence from cotton reforms in Zambia
  This paper investigates the impacts of cotton marketing reforms on farm productivity, a key element for poverty alleviation, in rural Zambia. The reforms comprised the elimination of the Zambian cotton marketing board that was in place since 1977. Following liberalization, the sector adopted an outgrower scheme, whereby firms provided extension services to farmers and sold inputs on loans that were repaid at the time of harvest. There are two distinctive phases of the reforms: a failure of the outgrower scheme, and a subsequent period of success of the scheme. The authors' findings indicate that the reforms led to interesting dynamics in cotton farming. During the phase of failure, farmers were pushed back into subsistence and productivity in cotton declined. With the improvement of the outgrower scheme of later years, farmers devoted larger shares of land to cash crops, and farm productivity significantly increased.

• Trends in tariff reforms and trends in wage inequality
  The authors provide new evidence on the impacts of trade reforms on wages and wage inequality in developing countries. While most of the current literature on the topic achieves identification by comparing outcomes before and after one episode of trade liberalization across industries, they propose a stronger identifying strategy. The authors explore the recent historical record of policy changes adopted by Argentina: from significant protection in the early 1970s, to the first episode of liberalization during the late 1970s, back to a slowdown of reforms during the 1980s, to the second episode of liberalization in the 1990s. These swings in trade policy comprise broken trends in trade reforms that they can compare with observed trends in wages and wage inequality. After setting up unusual historical data sets of trends in tariffs, trends in wages, and trends in wage inequality, the evidence supports two well-known hypotheses: trade liberalization, other things being equal, (1) has reduced wages, and (2) has increased wage inequality.

• Turkey's evolving trade integration into Pan-European markets
  This is an empirical paper seeking to identify the mode of Turkey's integration into global markets in general, and Pan-European markets in particular, as revealed in its trade performance. The analysis provides empirical support to the following observations. First, the steady expansion of trade in goods and services since the mid-1980s, Turkey has become highly integrated into the world economy. Second, Turkey's export performance in 1996-2004 in EU markets bears strong similarities to the aggregate performance of new EU members from Central Europe (EU-8). Similarities include dynamics, similar factors responsible for the increased presence in EU markets, factor content, and the role of "producer-driven" network trade in production fragmentation. The available evidence suggests that export expansion owes a lot to improved policy environment and domestic liberalization, including coincided with the implementation of most of the provisions of the EU-Turkey Customs Union Agreement, the completion of the removal of tariffs on trade in industrial products among pan-European parties to the Pan European Cumulation of Origin Agreement, and improved macroeconomic stability.
• **Trading on time**
  The authors determine how time delays affect international trade using newly collected World Bank data on the days it takes to move standard cargo from the factory gate to the ship in 126 countries. They estimate a modified gravity equation, controlling for endogeneity and remoteness. On average, each additional day that a product is delayed prior to being shipped reduces trade by at least 1 percent. Put differently, each day is equivalent to a country distancing itself from its trade partners by 70 kilometers on average. Delays have an even greater impact on developing country exports and exports of time-sensitive goods, such as perishable agricultural products. In particular, a day's delay reduces a country's relative exports of time-sensitive to time-insensitive agricultural goods by 6 percent.

• **Recent and prospective adoption of genetically modified cotton: a global computable general equilibrium analysis of economic impacts**
  The authors provide estimates of the economic impact of initial adoption of genetically modified (GM) cotton and of its potential impacts beyond the few countries where it is currently common. They use the latest version of the Global Trade Analysis Project (GTAP) database and model. The results suggest that by following the lead of China and South Africa, adoption of GM cotton varieties by other developing countries-especially in Sub-Saharan Africa—could provide even larger proportionate gains to farmer and national welfare than in those first-adopting countries. Furthermore, the estimated gains are shown to exceed those from a successful campaign under the World Trade Organization's Doha Development Agenda to reduce and remove cotton subsidies and import tariffs globally.

• **The World Trade Organization's Doha cotton initiative: a tale of two issues**
  Four West African nations have demanded that the World Trade Organization's Doha Development Agenda include a Cotton Initiative that involves two issues: cutting cotton subsidies and tariffs, and assisting farm productivity growth in Africa. The authors provide estimates of the potential economic impacts of (1) complete or partial removal of cotton subsidies and import tariffs globally, and (2) cotton productivity growth through the adoption of genetically modified (GM) cotton varieties. Their results confirm that unlike for other agricultural subsidies and tariffs—for cotton it is subsidy reductions rather than tariff cuts that would make by far the largest impact. For Sub-Saharan Africa the potential gains are huge relative to the effects on that region of reforming other merchandise trade policies. But those potential gains, and the affordability of switching to costly GM seed, depend crucially on the extent to which high-income countries are willing to lower domestic support to their cotton farmers.