A. Introduction

Welcome to the 42nd 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](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](http://www.worldbank.org/trade) 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](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. International Migration, Economic Development and Policy


International migration has become a central element of international relations and global integration process due to its rapidly increasing economic, social and cultural impact in both the source and destination countries. The purpose of this new book is to expand earlier work on migration and development both in terms of geography, methodology, and the issues examined.

This second research volume adds to the first volume (International Migration, Remittances, and the Brain Drain, 2005) by expanding the number of countries covered, and by providing thinking on new topics such as the gender-differentiated impact of migration and remittances; the impact of migration on fertility rates in the country of origin; and temporary/return migration.

- Nine additional studies cover countries in Latin America and the Caribbean, Middle East and North Africa, North America, South Asia and the Pacific, as well as Western Europe.
- Part I consists of four chapters, three of which examine the impact of migration and remittances on development indicators in Pakistan and twelve Latin American and Caribbean countries, while one examines an entirely new topic--the impact of international migration on birth rates and the extent of the demographic transition in the migrants' countries of origin, with focus on Egypt, Morocco and Turkey.
- Part II consists of two chapters dealing with host country policies and their impact on migrants (New Zealand and Switzerland).
- In Part III, one chapter examines the determinants of return and repeat migration in Norway, and the second looks at the degree of success and the occupational choice of return migrants relative to non-migrants with similar profiles in Egypt.


2. Global Trade and Poor Nations: The Poverty Impacts and Policy Implications of Liberalization

Edited by Bernard Hoekman and Marcelo Olarreaga, Brookings Institution Press, in collaboration with Yale University and Sciences Po; 2007, 254 pages.

This volume assesses the likely impact of reformed trade policies on the poorest of the poor - those on the bottom economic rungs in developing nations. The focus on a
spectrum of poor nations across different regions provides some guidelines regarding the likely impacts of a global trade reform, agreed upon under the auspices of the World Trade Organization, as well as the impact of such reforms on economic development.

In order to facilitate lesson-drawing across different regions, each country study utilizes a similar methodology. They combine information on trade policy at the product level with income and consumption data at the household level, thus capturing effects both on the macro level and in individual households where development policies ideally should improve day-to-day life. This uniformity of research approach across the country studies allows for a deeper and more robust comparison of results.

For more info about the book, please visit: http://www.brookings.edu/press/books/globaltradeandpoornations.htm.

3. Transparency and Trade in the Facilitation Asia Pacific: Estimating the Gains from Reform

By Matthias Helble, Ben Shepherd and John S. Wilson, Asia Pacific Economic Cooperation and the World Bank, published by the Department of Foreign Affairs and Trade, Australia 2007, 77 pages.

This new World Bank trade study highlights that improving the transparency of trade policy is a critical aspect of trade facilitation and any structural reform agenda tied to regional or global integration goals. The study finds that increasing the transparency can be an important complement to traditional liberalization of tariff and non-tariff barriers. The report focuses on two key dimensions of transparency: predictability (reducing the cost of uncertainty) and simplification (reducing information costs). Using the APEC member economies as a case study, the authors construct indices of importer and exporter transparency for the region from a wide range of sources. Results from a gravity model suggest that improving trade-related transparency in APEC could hold significant benefits by raising intra-APEC trade by approximately $148 billion or 7.5% of baseline (2004) trade in the region. Action to improve transparency measures examined could be undertaken in many forms, including within the current APEC framework or future talks on a Free Trade Area of the Asia Pacific. For more information and to download the study, please visit: http://econ.worldbank.org/projects/trade_costs

4. Recent Book Chapters, Journal Articles and Other Papers

• Fernandes, Ana M. and Aart Kraay (2007), "Property Rights Institutions, Contracting Institutions and Growth in South Asia Macro and Micro Evidence", Chapter 4 in South Asia Growth & Regional Integration, edited by Sadiq Ahmed and Ejaz Ghani, Macmillan India Ltd.

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C. Recent Trade Working Papers
• Indian manufacturing: a slow sector in a rapidly growing economy, Devashish Mitra and Beyza P. Ural, (WPS # 4233), May 2007.
• Immigrant overeducation: evidence from Denmark, Chantal Pohl Nielsen, (WPS #4234), May 2007.
• Poverty analysis using an international cross-country demand system, J. A. L. Cranfield, Paul V. Preckel, and Thomas W. Hertel, (WPS #4285), July 2007.
• Specialization and adjustment during the growth of China and India: the Latin American experience, Daniel Lederman, Marcelo Olarreaga, and Eliana Rubiano, (WPS #4318), August 2007.

• **The growth of China and India in world trade: opportunity or threat for Latin America and the Caribbean?** Daniel Lederman, Marcelo Olarreaga, and Isidro Soloaga, (WPS #4320), August 2007.


• **Canada-Wheat: discrimination, non-commercial considerations, and state trading enterprises**, Bernard Hoekman and Joel Trachtman, (WPS #4337), August 2007.

• **Developing economies and international investors: do investment promotion agencies bring them together?** Torfinn Harding and Beata Smarzynska Javorcik, (WPS #4339), August 2007.

• **Structure and performance of the services sector in transition economies**, Ana M. Fernandes, (WPS #4357), September 2007.

• **Foreign direct investment in Latin America during the emergence of China and India: stylized facts**, Javier Cravino, Daniel Lederman and Marcelo Olarreaga, (WPS #4360), September 2007.

• **Substitution between foreign capital in China, India, the rest of the world, and Latin America: much ado about nothing?** Javier Cravino, Daniel Lederman and Marcelo Olarreaga, (WPS #4361), September 2007.

### D. Working Paper Abstracts

- **Indian manufacturing: a slow sector in a rapidly growing economy**, Devashish Mitra and Beyza P. Ural

  This paper investigates the determinants of productivity in Indian manufacturing industries during the period 1988-2000. Using two-digit industry level data for the Indian states, we find evidence of imperfect inter-industry and interstate labor mobility as well as misallocation of resources across industries and states. Trade liberalization increases productivity in all industries across all states, and productivity is higher in the less protected industries. These effects of protection and trade liberalization are more pronounced in states that have relatively more flexible labor markets. Similar effects are also found in the case of employment, capital stock and investment. Importantly, per capita state development expenditure seems to be the strongest and the most robust predictor of productivity, employment, capital stock and investment. Industrial delicensing increases both labor productivity and employment but only in the states with flexible labor market institutions. Finally, trade liberalization benefits most the export-oriented industries located in states with flexible labor-market institutions.

- **Immigrant overeducation: evidence from Denmark**, Chantal Pohl Nielsen

  Anecdotes abound in the Danish public debate about well-educated immigrants that are in jobs they are formally overqualified for. Using a 1995-2002 panel data set based on Danish registers, this study attempts to find out how large a problem
immigrant overeducation is in the context of the Danish labor market. The authors find that among wage earners with at least a vocational education or higher, 25 percent of male non-Western immigrants are overeducated. The same applies for 15 percent of native Danes. Particularly immigrants with a foreign-acquired education risk becoming overeducated - here the share is 30 percent among those with a vocational education or higher. The authors also find that Danish labor market experience is extremely important in reducing the likelihood of becoming overeducated. In terms of earnings consequences, the study concludes that years of overeducation do increase wages for immigrants, but much less so than years of adequate education.

- **The structure of import tariffs in the Russian Federation: 2001-05**, Oleksandr Shepotylo and David Tarr

  The Russian tariff structure contains over 11,000 tariff lines of which about 1,700 use the so-called "combined" tariff rate system. For the combined system tariff lines, the actual tariff applied by Russian customs is the maximum of the ad valorem or specific tariff. The lack of available data and the difficulty in calculating the ad valorem equivalence of the specific tariffs have resulted in some previous efforts that have simply ignored the specific tariffs. The authors show that ignoring the specific tariffs results in an underestimate of the actual tariff rates by about 1 to 3 percentage points, depending on the year. The average tariff in Russia has increased between 2001 and 2003 from about 11.5 to between 13 and 14.5 percent, but it has held steady in 2004 and 2005. This places Russia's tariffs at a level slightly higher than other middle-income countries and considerably higher than the OECD countries. The food sector and light industry are the aggregate sectors with the highest tariff rates-their tariff rates in 2005 were 23.1 percent and 19.5 percent on a trade-weighted basis.

- **Poverty analysis using an international cross-country demand system**, J. A. L. Cranfield, Paul V. Preckel, and Thomas W. Hertel

  This paper proposes a new method for ex ante analysis of the poverty impacts arising from policy reforms. The authors compute the change in the head-count of poverty, poverty gap, and squared poverty gap arising from policy reforms, where the poverty measures are derived using a unique poverty level of utility, rather than an income or expenditure-based measure. They use the techniques with a demand system for food, other non-durables and services estimated using a combination of 1996 ICP data set and national expenditure distribution data. Calibration is demonstrated for three countries for which household survey expenditure data are used during estimation-Indonesia, the Philippines and Thailand. The authors also assess the effects of an assumed 5 percent food price rise as might be realized in the wake of a multilateral trade agreement. Results illustrate the important role of subsistence expenditures at lowest income levels,
but of discretionary expenditure at higher income levels. The welfare analysis underscores the relatively large impact of the price hike on poorer households.

- **China, India, and the future of the world economy: fierce competition or shared growth?** Betina Dimaranan, Elena Ianchovichina, and William J. Martin

Although both China and India are labor-abundant and dependant on manufactures, their export mixes are very different. Only one product refined-petroleum appears in the top 25 products for both countries, and services exports are roughly twice as important for India as for China, which is much better integrated into global production networks. Accelerated growth through efficiency improvements in China and India, especially in their high-tech industries, will intensify competition in global markets leading to contraction of the manufacturing sectors in many countries. Improvement in the range and quality of exports from China and India has the potential to create substantial welfare benefits for the world, and for China and India, and to act as a powerful offset to the terms-of-trade losses otherwise associated with rapid export growth. However, without efforts to keep up with China and India, some countries may see further erosion of their export shares and high-tech manufacturing sectors.

- **Specialization and adjustment during the growth of China and India: the Latin American experience**, Daniel Lederman, Marcelo Olarreaga, and Eliana Rubiano

This paper examines the extent to which the growth of China and India in world markets is affecting the patterns of trade specialization in Latin American economies. The authors construct Vollrath's measure of revealed comparative advantage by 3-digit ISIC sector, country, and year. This measure accounts for both imports and exports. The empirical analyses explore the correlation between the revealed comparative advantage of Latin America and the two Asian economies. Econometric estimates suggest that the specialization pattern of Latin A-with the exception of Mexico-has been moving in opposite direction of the trade specialization pattern of China and India. Labor-intensive sectors (both unskilled and skilled) probably have been negatively affected by the growing presence of China and India in world markets, while natural resource and scientific knowledge intensive sectors have probably benefited from China and India's growth since 1990.

- **Product innovation by incumbent firms in developing economies: the roles of research and development expenditures, trade policy, and the investment climate**, Daniel Lederman

A model of firm innovation illustrates the effects of the threat of imitation and product varieties on a representative firm's decision to invest in research and development to produce new product varieties. The model motivates two
empirical questions: (1) Is research and development partially correlated with firms' propensity to introduce new products or product innovation in developing countries? (2) Do trade policies and the national investment climate affect firms' propensity for product innovation? The econometric evidence suggests that the answers are yes and yes, but the investment climate affects product innovation in a manner that is consistent with the presence of market failures and state capture. National trade-policy distortions appear to reduce the probability of product innovation, and the density of exporting firms at the national level also seems to positively affect the propensity to introduce new products by individual firms.

- **The growth of China and India in world trade: opportunity or threat for Latin America and the Caribbean?** Daniel Lederman, Marcelo Olarreaga, and Isidro Soloaga

This paper studies the relationship between the growth of China and India in world merchandise trade and Latin American and Caribbean commercial flows from two perspectives. Econometric estimations that control for the systematic correlation between expected bilateral trade volumes and the size of their regression errors, as well as importer and exporter fixed effects and year effects, provide consistent estimates of the relevant parameters for different groups of countries in Latin America and the Caribbean. Results suggest that the growth of the two Asian markets has produced large opportunities for Latin American and Caribbean exporters, which nevertheless have not been fully exploited. The evidence concerning the effects of Chinese and Indian trade with third markets is not robust, but there is little evidence of negative effects on Latin American and Caribbean exports of non-fuel merchandise. In general, China's and to a large extent India's growing presence in world trade has been good news for Latin America and the Caribbean, but some of the potential benefits remain unexploited.

- **European Community--Sugar: cross-subsidization and the World Trade Organization**, Bernard Hoekman and Robert Howse

An important recent WTO dispute settlement case for many developing countries concerned EU exports of sugar. Brazil, Thailand, and Australia alleged that the exports have substantially exceeded permitted levels as established by EU commitments in the WTO. This case had major implications for both EU sugar producers and developing countries that benefited from preferential access to the EU market. It was also noteworthy in the use of economic arguments by the WTO dispute settlement panel, which held that the excess sugar exports were in part a reflection of illegal de facto cross-subsidization-rents from production that benefited from high support prices being used to cover losses associated with exports of sugar to the world market. Although in principle the economic arguments of the panel could apply to many other policy areas, in practice WTO provisions greatly limit the scope to bring similar arguments for trade in products.
that are not subject to explicit export subsidy reduction commitments of the type that were made for sugar and other agricultural commodities.

• **Canada-Wheat: discrimination, non-commercial considerations, and state trading enterprises**, Bernard Hoekman and Joel Trachtman

Statutory marketing boards that have exclusive authority to purchase domestic production, sell for export, and set purchase and sales prices of commodities are a type of state trading enterprise that is subject to WTO disciplines. This paper assesses a recent dispute brought by the United States against Canada, alleging that WTO rules require state trading enterprises to operate solely in accordance with commercial considerations and that the Canadian government did not require the Canadian Wheat Board to do so. The panel and Appellate Body found that the primary discipline of the WTO regarding state trading enterprises was nondiscrimination, and that operating on the basis of "commercial considerations" was not an independent obligation. Instead, WTO disciplines regarding the pricing behavior of state trading enterprises use a "commercial considerations" test as a possible indicator of discrimination. Although a significant degree of price discrimination is observed in the case of Canadian wheat exports, there are economic arguments why this might also be pursued by a private, profit maximizing firm.

• **Developing economies and international investors: do investment promotion agencies bring them together?** Torfinn Harding and Beata Smarzynska Javorcik

Many countries spend significant resources on investment promotion agencies in the hope of attracting inflows of FDI. Despite the importance of this question for public policy choices, little is known about the effectiveness of investment promotion efforts. This study uses newly collected data on national investment promotion agencies in 109 countries to examine the effects of investment promotion on FDI inflows. The empirical analysis includes (i) it tests whether sectors explicitly targeted by investment promotion agencies receive more FDI in the post-targeting period relative to the pre-targeting period and non-targeted sectors; and (ii) it examines whether the existence of an investment promotion agency is correlated with higher FDI inflows. Results concluded that investment promotion efforts appear to increase FDI inflows to developing countries. Moreover, agency characteristics, such as the agency's legal status and reporting structure, affect the effectiveness of investment promotion. There is also evidence of diversion of FDI due to investment incentives offered by other countries in the same geographic region.

• **Structure and performance of the services sector in transition economies**, Ana M. Fernandes
This paper examines the structure and performance of the services sector in Eastern European and Central Asian countries during 1997-2004. Services represent an increasing share of total value added and employment with the major sub-sectors being wholesale trade, retail trade, inland transport, telecommunications, and real estate activities. High skill intensive sub-sectors and information and communications technology producers and users have exhibited higher productivity levels and growth rates relative to other sub-sectors since 2000. The author finds a positive effect of services liberalization on the productivity growth of services sub-sectors. The author also finds a positive and significant effect of services liberalization in both finance and infrastructure on the productivity of downstream manufacturing.

- **Foreign direct investment in Latin America during the emergence of China and India: stylized facts**, Javier Cravino, Daniel Lederman and Marcelo Olarreaga

In spite of the growing concerns about foreign direct investment being diverted from Latin America to China and India, the best available data show that Latin America has performed relatively well since 1997. Foreign capital stocks from OECD countries and the United States in particular in China and India are still far from those in the largest Latin American economies. The evidence shows that foreign capital stocks in China increased more than in Latin America during 1990-1997, but not as much since 1997. In fact, Latin America has actually performed better than China since 1997 given its lack of relative growth. The growth of foreign capital stocks in India was more stable than in China. Nonetheless, after controlling for shocks emanating from the source countries and bilateral distance between source and host countries, this paper finds a significant change in foreign capital stocks relative to China between 1990 and 1997, but no change relative to India.

- **Substitution between foreign capital in China, India, the rest of the world, and Latin America: much ado about nothing?** Javier Cravino, Daniel Lederman and Marcelo Olarreaga

This paper explores the impact of the emergence of China and India on foreign capital stocks in other economies. Using bilateral data from 1990-2003 and drawing from the knowledge-capital model of the multinational enterprises to control for fundamental determinants of foreign capital stocks across countries, the evidence suggests that the impact of foreign capital in China and India on other countries’ foreign capital stocks has been positive. This finding is robust to the use of ordinary least squares, Poisson, and negative binomial estimators; to the inclusion of time and country-pair fixed effects; to the inclusion of natural-resource endowments; and to the use of the sum of foreign capital stocks in Hong Kong (China) and mainland China instead of using only the latter's foreign capital stocks. There is surprisingly weak evidence of substitution in manufacturing foreign capital stocks away from Central America and Mexico in favor of China,
and from the Southern Cone countries to India, but these findings are not robust to the use of alternative estimation techniques.