

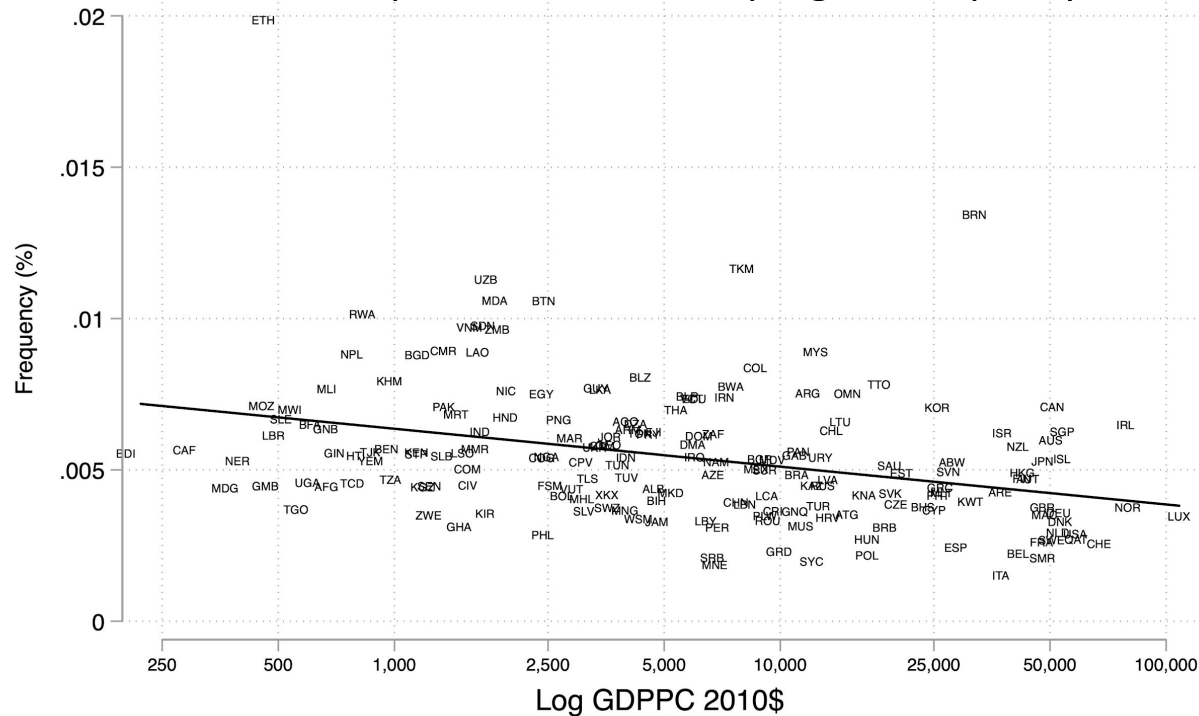
How Distortions Alter the Impacts of International Trade in Developing Countries

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Why Focus on the Impacts of Trade on Developing Countries?

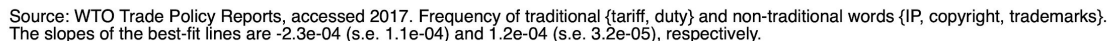
Why Focus on the Impacts of Trade on Developing Countries?

Trade policy perceived as more important for developing-world policymakers: **IMF IVs**



Source: IMF Article IV Consultations, accessed 2017. Frequency of trade-related words: {trade, imports, exports, tariffs, duties}. The slope of the best-fit line is $-5.4e-04$ (s.e. $1.1e-04$).

Trade policy perceived as more important for developing-world policymakers: **WTO TPRs**



Taxonomy

3 broad frictions that dev lit argues as pervasive, but absent standard trade models

1. Weak Institutions and Rule of Law
2. Market-Level Distortions
3. Firm-Level Distortions

How do these distortions interact (or may interact) with trade reforms?

- Don't focus on differences in preferences, endowments or technology [Goldberg & Pavcnik 07 16; Pavcnik 17; Goldberg & de Loecker 14; Harrison & RC 10; Nunn & Trefler 14; Donaldson 15; Irwin 19](#)

Today: we'll focus on understudied areas and future directions

- these are **our** thoughts, but we are interested in **your** thoughts

Weak Institutions

Defining feature of developing countries, interacts with every step from idea to final sale

1. Tariff Evasion

- ⇒ Missing revenues alter cost-benefit; induces size-dependent distortions; tariffs as IP may be ineffective; enriches corrupt bureaucrats
- Can audits, digitization, incentives reduce tariff evasion?

2. Contract Enforceability

- ⇒ Particular issue for international transactions given time lags and physical distance
- Contracts in value chains, new technologies (e.g. blockchain), new data?

Weak Institutions

3. Enforcement of Regulations

- ⇒ Pollution, child labor, working conditions; Does trade improve/make worse?
- Low-regulation havens hypothesis? Or do MNCs provide enforcement?
- Increasing scrutiny on how products are made, supply chain transparency? [Morjaria 20](#)

4. Institutional Change

- ⇒ Gains (or losses) from trade-induced institutional change may dwarf static gains
- Mechanisms? Evidence from the more recent past, e.g. East Asia?

Market-Level Distortions

Market-level distortions make it difficult for firms and workers to take advantage of trade

1. Labor Markets and Human Capital

- ⇒ Labor mobility & informality are crucial for understanding trade impacts
- Labor policies distort factor allocations, provide social protection
- How to improve labor mobility? Does trade trigger labor market reforms?

2. Capital Markets

- ⇒ Cross-border trade is costly and requires payment up front
- Causal impacts of reducing credit constraints on trade?
- Trade credit; currency invoicing; financial hedging?
- Dynamic adjustments? [Lanteri et al 20](#)

Market-Level Distortions

3. Material, Land, Energy and Other Factor Market Distortions

- ⇒ Much work on materials inputs, but other input markets may matter just as much
 - Distortion centrality and firm-to-firm data? [Donaldson et al 20](#)
 - Design, implementation, and efficacy of SEZs? [Acampora et al 20](#), [Reed 20](#)

4. Imperfect competition and Markups

- ⇒ Developing country markets may be particularly uncompetitive (e.g., weak antitrust)
 - Sector-specific studies to measure better production functions, markups?

Market-Level Distortions

5. Domestic Trade Frictions

- ⇒ High costs distort supply chains, alter distribution of GFT within countries
- Small local markets limit scale economies, pass-through and GFT [Chatterjee 20](#), [Grant & Startz 20](#)

6. Information and Knowledge Frictions

- ⇒ Info frictions (search/match, knowledge barriers) may reduce trade more than traditional trade costs (tariffs, transportation)
- Why are info. frictions large and persistent? Are information markets missing? [Hjort 20](#)
[Alfaro-Ulena et al 20](#)

Firm-Level Distortions

By changing firm- and sector-size distribution, trade may improve or worsen misallocation

1. Small and Informal Firms

- ⇒ If small/informal firms face larger frictions, trade likely to reduce misallocation
- Margins of informality (informal firms vs informal workers)

2. Politically-Connected Firms, Business Groups and Family Firms

- ⇒ Increasing trade may reduce value of political connections and, hence, misallocation
- How do political connections distort GFT? No work on business groups/family ownership?

3. Externalities and Spillovers

- ⇒ While typically not first-best lever, trade may expand firms or sectors with externalities
- Measuring, identifying spillovers [Bergquist et al 20](#)

Wisdom of Crowds

Market Distortions

- Labor Markets & Human Capital
- Capital Markets
- Material/Land/Energy Distortions
- Imperfect competition
- Domestic Trade Frictions
- Information/Knowledge Frictions

Others

- ?
- ?

Weak Institutions

- Tariff Evasion
- Contract Enforceability
- Enforcement of Regulations
- Institutional Change

Firm Distortions

- Small/Informal Firms
- Connected Firms
- Externalities & Spillovers

What trade & development topics would you like to see more work on?

What would you like to see more Trade & Dev work on?

