

**38** World Scientific  
Studies in  
International  
Economics

# **INTERNATIONAL TRADE, DISTRIBUTION AND DEVELOPMENT**

**Empirical Studies of Trade Policies**

**Paul Brenton**



**38** World Scientific  
Studies in  
International  
Economics

# **INTERNATIONAL TRADE, DISTRIBUTION AND DEVELOPMENT**

## **Empirical Studies of Trade Policies**

**Paul Brenton**

The World Bank, USA

 **World Scientific**

NEW JERSEY • LONDON • SINGAPORE • BEIJING • SHANGHAI • HONG KONG • TAIPEI • CHENNAI

*Published by*

World Scientific Publishing Co. Pte. Ltd.

5 Toh Tuck Link, Singapore 596224

*USA office:* 27 Warren Street, Suite 401-402, Hackensack, NJ 07601

*UK office:* 57 Shelton Street, Covent Garden, London WC2H 9HE

**Library of Congress Cataloging-in-Publication Data**

Brenton, Paul.

International trade, distribution and development : empirical studies of trade policies /

Paul Brenton.

pages cm. -- (World Scientific studies in international economics ; 38)

Includes bibliographical references.

ISBN 978-9814603379 (hardcover : alk. paper)

1. Commercial policy. 2. International trade. I. Title.

HF1411.B743 2014

382'.3--dc23

2014020839

**British Library Cataloguing-in-Publication Data**

A catalogue record for this book is available from the British Library.

Copyright © 2015 by World Scientific Publishing Co. Pte. Ltd.

*All rights reserved. This book, or parts thereof, may not be reproduced in any form or by any means, electronic or mechanical, including photocopying, recording or any information storage and retrieval system now known or to be invented, without written permission from the publisher.*

For photocopying of material in this volume, please pay a copying fee through the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, USA. In this case permission to photocopy is not required from the publisher.

In-house Editor: Li Hongyan

Typeset by Stallion Press

Email: [enquiries@stallionpress.com](mailto:enquiries@stallionpress.com)

Printed in Singapore

**INTERNATIONAL TRADE,  
DISTRIBUTION AND DEVELOPMENT**  
Empirical Studies of Trade Policies

## World Scientific Studies in International Economics

(ISSN: 1793-3641)

**Series Editor** Robert M. Stern, *University of Michigan and  
University of California-Berkeley, USA*

**Editorial Board** Vinod K. Aggarwal, *University of California-Berkeley, USA*  
Alan Deardorff, *University of Michigan, USA*  
Paul De Grauwe, *London School of Economics, UK*  
Barry Eichengreen, *University of California-Berkeley, USA*  
Mitsuhiro Fukao, *Keio University, Tokyo, Japan*  
Robert L. Howse, *New York University, USA*  
Keith E. Maskus, *University of Colorado, USA*  
Arvind Panagariya, *Columbia University, USA*

- 
- Vol. 32 Asian Free Trade Agreements and WTO Compatibility:  
Goods, Services, Trade Facilitation and Economic Cooperation  
*by Shintaro Hamanaka (Asian Development Bank, Philippines)*
- Vol. 33 Economics and Politics of Trade Policy  
*by Douglas R Nelson (Tulane University, USA)*
- Vol. 34 Applied Trade Policy Modeling in 16 Countries: Insights and Impacts  
from World Bank CGE Based Projects  
*by David G Tarr (Consultant and Former Lead Economist, The World Bank, USA)*
- Vol. 35 The Floating World: Issues in International Trade Theory  
*by Wilfred J Ethier (University of Pennsylvania, USA)*
- Vol. 36 Trade Policy in Asia: Higher Education and Media Services  
*edited by Christopher Findlay (University of Adelaide, Australia),  
Hildegunn Kyvik Nordas (Organisation for Economic Co-operation and  
Development, France) & Gloria Pasadilla (APEC Secretariat, Singapore)*
- Vol. 37 The Path of World Trade Law in the 21st Century  
*by Steve Charnovitz (The George Washington University, USA)*
- Vol. 38 International Trade, Distribution and Development: Empirical Studies of  
Trade Policies  
*by Paul Brenton (The World Bank, USA)*
- Vol. 39 Evolving Patterns in Global Trade and Finance  
*by Sven W Arndt (Claremont McKenna College, USA)*
- Vol. 40 Shadow Banking Within and Across National Borders  
*edited by Stijn Claessens (International Monetary Fund, USA),  
Douglas Evanoff (Federal Reserve Bank of Chicago, USA),  
George Kaufman (Loyola University of Chicago, USA) &  
Luc Laeven (International Monetary Fund, USA)*

The complete list of the published volumes in the series can be found at

<http://www.worldscientific.com/series/wssie>

## Acknowledgements

Several of the essays in this collection have also appeared in other publications in different versions. Below are the citations to the original sources with grateful acknowledgement of the publications and co-authors in each case.

**Chapter 2.** Quantifying the Economic Effects of Non-Tariff Barriers: The Case of UK Footwear (co-authored with Alan Winters), was originally published in *Kyklos*, Vol. 44, No. 1 (February 1991), pp. 71–92;

**Chapter 3.** Voluntary Export Restraints and Rationing: U.K. Leather Footwear Imports from Eastern Europe (co-authored with Alan Winters), was originally published in *Journal of International Economics*, Vol. 34, No. 3–4 (1993), pp. 289–308;

**Chapter 4.** Anti-Dumping Policies in the EU and Trade Diversion, was originally published in *European Journal of Political Economy*, Vol. 17 (2001), pp. 593–607;

**Chapter 5.** The Potential Trade Effects of an FTA between the EU and Russia (co-authored with Natalia Tourdyeva and John Whalley), was originally published in *Weltwirtschaftliches Archiv*, Vol. 133, No. 2 (June 1997), pp. 205–225;

**Chapter 6.** Technical Barriers to Trade in the European Union: Importance for Accession Countries (co-authored with John Sheehy and Marc Vancauteran), was originally published in *JCMS: Journal of Common Market Studies*, Vol. 39, No. 2 (June 2001), pp. 265–284;

**Chapter 7.** Economic Integration and FDI: An Empirical Analysis of Foreign Investment in the EU and in Central and Eastern Europe (co-authored with Francesca Di Mauro and Matthias Lücke), was originally published in *Empirica*, Vol. 26, No. 2 (1999), pp. 95–121;

- Chapter 8.** Assessing the Adjustment Implications of Trade Policy Changes Using the Tariff Reform Impact Simulation Tool (TRIST) (co-authored with Christian Saborowski, Cornelia Staritz, and Erik von Uexkull), was originally published in *World Trade Review*, Vol. 10, No. 2 (April 2011), pp. 249–276;
- Chapter 9.** Outsourcing and Low-Skilled Workers in the UK (co-authored with Robert Anderton), was originally published in *Bulletin of Economic Research*, Vol. 51, No. 4 (October 1999), pp. 267–286.
- Chapter 10.** What's Trade Got to Do with It? Relative Demand for Skills within Swedish Manufacturing (co-authored with Robert Anderton and Eva Oscarsson), was originally published in *Weltwirtschaftliches Archiv*, Vol. 138, No. 4 (December 2002), pp. 629–651;
- Chapter 11.** Trends in Disaggregated Import and Export Prices in Europe: Implications for the Trade and Wages Debate (co-authored with Anna Maria Pinna), was originally published in *Scottish Journal of Political Economy*, Vol. 49, No. 1 (February 2002), pp. 1–21;
- Chapter 12.** Adjustment to Globalisation: A Study of the Footwear Industry in Europe (co-authored with Anna Maria Pinna and Marc Vancauteren), was originally published in Robert Anderton, Paul Brenton, and John Whalley (eds.), *Globalisation and the Labour Market: Trade, Technology and Less-Skilled Workers in Europe and the United States*, London: Routledge, 2006, pp. 72–95;
- Chapter 13.** Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preferences Under “Everything But Arms”, was originally published in *Journal of World Trade*, Vol. 37, No. 3 (2003), pp. 623–646;
- Chapter 14.** Making EU Trade Agreements Work: The Role of Rules of Origin (co-authored with Miriam Manchin), was originally published in *The World Economy*, Vol. 26, No. 5 (May 2003), pp. 755–769;
- Chapter 15.** Watching More than the Discovery Channel to Diversify Exports (co-authored with Richard Newfarmer), was originally published in Richard Newfarmer, William Shaw, and Peter Walkenhorst (eds.), *Breaking into New Markets: Emerging Lessons for Export Diversification*, Washington, D.C.: World Bank, 2006, pp. 111–124;
- Chapter 16.** The Life and Death of Trade Flows: Understanding the Survival Rates of Developing-Country Exporters (co-authored with Martha Denisse Pierola and Erik von Uexkull), was originally published in Richard Newfarmer, William Shaw, and Peter Walkenhorst (eds.), *Breaking into New Markets: Emerging Lessons for Export Diversification*, Washington, D.C.: World Bank, 2006, pp. 127–144;

- Chapter 17.** What Explains the Low Survival Rate of Developing Country Export Flows? (co-authored with Christian Saborowski and Erik von Uexkull), was originally published in *The World Bank Economic Review*, Vol. 24, No. 3 (March 2010), pp. 474–499;
- Chapter 18.** Product specific technical assistance for exports — has it been effective? (co-authored with Erik von Uexkull), was originally published in *The Journal of International Trade & Economic Development: An International and Comparative Review*, Vol. 18, No. 2 (2009), pp. 235–254;
- Chapter 19.** Carbon Labelling and Low-Income Country Exports: Review of the Development Issues (co-authored with Gareth Edwards-Jones and Michael Friis Jensen), was originally published in *Development Policy Review*, Vol. 27, No. 3 (2009), pp. 243–267;



To Rachel, Hannah and Jonathan

# Contents

<i>Acknowledgements</i>	vii
Chapter 1: Introduction and Overview <i>Paul Brenton</i>	1
<b>Section 1: Modelling the Impacts of Trade Barriers and FDI Flows</b>	<b>23</b>
Chapter 2: Quantifying the Economic Effects of Non-Tariff Barriers: The Case of UK Footwear <i>Alan Winters and Paul Brenton</i>	25
Chapter 3: Voluntary Export Restraints and Rationing: U.K. Leather Footwear Imports from Eastern Europe <i>Paul Brenton and Alan Winters</i>	47
Chapter 4: Anti-Dumping Policies in the EU and Trade Diversion <i>Paul Brenton</i>	67
Chapter 5: The Potential Trade Effects of an FTA between the EU and Russia <i>Paul Brenton, Natalia Tourdyeva, and John Whalley</i>	83

Chapter 6: Technical Barriers to Trade in the European Union: Importance for Accession Countries	105
<i>Paul Brenton, John Sheehy, and Marc Vancauteran</i>	
Chapter 7: Economic Integration and FDI: An Empirical Analysis of Foreign Investment in the EU and in Central and Eastern Europe	125
<i>Paul Brenton, Francesca Di Mauro, and Matthias Lücke</i>	
Chapter 8: Assessing the Adjustment Implications of Trade Policy Changes Using the Tariff Reform Impact Simulation Tool (TRIST)	153
<i>Paul Brenton, Christian Saborowski, Cornelia Staritz, and Erik von Uexkull</i>	
<b>Section 2: Trade, Wages and Adjustment</b>	<b>183</b>
Chapter 9: Outsourcing and Low-Skilled Workers in the UK	185
<i>Robert Anderton and Paul Brenton</i>	
Chapter 10: What's Trade Got to Do with It? Relative Demand for Skills within Swedish Manufacturing	205
<i>Robert Anderton, Paul Brenton, and Eva Oscarsson</i>	
Chapter 11: Trends in Disaggregated Import and Export Prices in Europe: Implications for the Trade and Wages Debate	229
<i>Paul Brenton and Anna Maria Pinna</i>	
Chapter 12: Adjustment to Globalisation: A Study of the Footwear Industry in Europe	251
<i>Paul Brenton, Anna Maria Pinna, and Marc Vancauteran</i>	

**Section 3: Trade and Development** **273**

- Chapter 13: Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preferences Under “Everything But Arms” 275  
*Paul Brenton*
- Chapter 14: Making EU Trade Agreements Work: The Role of Rules of Origin 299  
*Paul Brenton and Miriam Manchin*
- Chapter 15: Watching More than the Discovery Channel to Diversify Exports 315  
*Paul Brenton and Richard Newfarmer*
- Chapter 16: The Life and Death of Trade Flows: Understanding the Survival Rates of Developing-Country Exporters 329  
*Paul Brenton, Martha Denisse Pierola, and Erik von Uexkull*
- Chapter 17: What Explains the Low Survival Rate of Developing Country Export Flows? 347  
*Paul Brenton, Christian Saborowski, and Erik von Uexkull*
- Chapter 18: Product Specific Technical Assistance for Exports — Has It Been Effective? 373  
*Paul Brenton and Erik von Uexkull*
- Chapter 19: Carbon Labelling and Low-Income Country Exports: Review of the Development Issues 393  
*Paul Brenton, Gareth Edwards-Jones, and Michael Friis Jensen*

## Chapter 1

# Introduction and Overview

---

More than 25 years ago Robert Baldwin decried the “long-standing lack of interest by economists in trade policy matters”. Has this changed? The assertion of this introductory chapter is that empirical analysis of international trade and trade policies is as important as ever. While the theoretical support for the benefits of open trade regimes has been strengthened over time, policymakers remain skeptical that trade liberalization is more than a zero sum game and fail to internalize that openness to trade brings significant benefits to an economy that exceed the costs of adjustment that may be incurred. The chapter then summarises the subsequent collection of papers which have sought to contribute to policy discussions around the impact of trade policies.

Sound empirical analysis is critical for informed and effective trade policy making. This is because trade policies typically have important distributional impacts; of particular concern is how they affect the poor and inequality. Trade policies fundamentally affect the incentives in an economy towards trade-related activities and the allocation of resources across sectors. They also affect long-term growth outcomes and hence the number of jobs in an economy as well as the capacity for certain groups within a country to participate in trade. But too often trade policy discussions and decisions are made by small groups within government using at best limited information on potential economic outcomes and overly influenced by politically well-connected interest groups.

It is important for policymakers and other trade policy stakeholders to have access to relevant and reliable information and analysis on the effects of different trade policies options. Empirical studies can be vital in bringing an important trade policy issue to the attention of policymakers. Certain stakeholders, especially the poor are often sorely under-represented in trade policy deliberations. This is particularly the case for women. In Africa and other regions, women are key participants in trade but their interests are rarely captured by trade officials and political leaders. Analysis that shows the constraints and harassment that women

face in crossing borders and the costs these impose on their families can elevate discussion of this issue and lead to implementation of simple measures that can facilitate the activities for poor traders.<sup>1</sup>

The availability of data will typically frame the type of analysis that can be undertaken. Detailed and comprehensive data can be used to provide careful estimates of changes in welfare for the country as a whole and for key stakeholders. Nevertheless, policymakers can be confronted with important information even in the most challenging environments using rudimentary data. For example, Brulhart and Hoppe (2012) used simple survey methods to discover that if the residents of San Francisco faced the same charges pro rata in crossing the Bay Bridge to Oakland as do residents crossing the Congo River between Kinshasa and Brazzaville, a similar distance, they would pay more than \$1200 for a return trip. As a result passenger traffic at this obvious focal point for cross-border trade between the two Congo's is around five times smaller than that between East and West Berlin in 1988 — well before the dismantling of the Wall!

Empirical trade analysis can provide some support to the process of policy formulation and to ensure that choices are based on better knowledge of underlying realities. Of course, politicians and officials may not act on this information. The assertion of Rodrik (1995) that “no other area of economics displays such a gap between what policymakers practice and what economists preach as does international trade”, still has much relevance. This is leading to more emphasis on applied trade analysis that looks carefully at the political environment in which trade policy decisions are made and the incentives affecting the actions of officials. It is only by understanding the politics behind trade policy decisions that we will be able to ascertain why it is often very difficult politically to introduce trade measures that it is believed would raise national welfare and also why particular policies are implemented even though theory and empirical analysis suggest they will reduce national welfare.

The trade policy agenda has become much broader in recent decades reflecting key changes in the global economy and in regional trade and in the data and tools available to trade economists that can now be reflected in empirical trade analysis. First, we are no longer living in a bi-polar trading world dominated by trade between rich countries in Europe and North America and developing countries. The emergence of the BRICS and recent growth in Africa has led to a multi-polar trading world with expanding markets in different locations generating new trade opportunities. So the focus is no longer just on enhancing old established trading relationships but allowing new trade flows to new markets to flourish. In

---

<sup>1</sup>See for example, Brenton *et al.* (2012).

many countries in Africa, while important, the challenge is no longer how to add value to commodities and minerals being shipped to rich countries but also how to exploit new opportunities for trade in manufactures, in services as well as agriculture with neighbours and emerging countries in Asia and South America.

Second, the nature of global production and trade has changed throughout the latter part of the last century and has continued into this century. Production processes have been split up and different parts of production relocated around the world. This great unbundling (Baldwin, 2006) necessitates a reappraisal of the role of trade and investment policies and the need to look at competitiveness in a different way. No longer do countries just import and export finished products, for which all of the production stages were undertaken within a strict physical area. Countries now import to produce to be competitive in the domestic market and import to export to integrate into global value chains. At the same time this has exposed workers at all stages of the value-chain, sometimes in sectors or activities that were previously thought to be non-tradable, to competition from the global market. This, in turn, may entail important impacts on particular groups of workers, such as the low-skilled.

Third, is the increasing importance of trade in services. Services are key inputs into all other economic activities and access to a wide variety of efficiently produced services is critical to competitiveness and an additional important factor governing participation in global value chains. Just as one example, more than 83% of the selling price of fresh cut flowers exported from Ethiopia to Europe is accounted by services. Trade opening can be an effective mechanism for increasing competition in services sectors. Competition is essential in order to increase efficiency in the provision of services and improved access to lower priced and better quality services in the domestic market. Also exports of services offer new opportunities to diversify and create jobs. Tourism has been a traditional services export for many developing countries but new opportunities to export are being exploited in finance, telecommunications, and professional services as well as in IT-related services.

While the benefits of liberalizing trade in services are compelling, it can also bring risks and potential costs that may require appropriate government intervention. This arises because of the need to regulate many services sectors to overcome market failures giving rise to concerns about both efficiency and equity. For example, when imports of services through commercial presence are liberalized, it is important that foreign entry leads to more competition and improved service, not merely to a transfer of ownership from a state monopoly to a private one or from a national monopoly to a foreign one. Reforms to establish an appropriate regulatory framework may need to precede the opening up of a particular sector so as to set

the rules of the game for new investors by establishing appropriate competition and pricing rules for foreign investors in services, defining service and access requirements when relevant, and ensuring adequate oversight and conflict resolution mechanisms. Hence, trade opening may need to be carefully coordinated with regulatory reform.

Fourth, is the changing climate for trade for developing countries, especially those in Africa. Many countries in Africa have grown strongly since 2000 and are enjoying a sustained period of economic growth. This has been driven by increasing exports of commodities and export diversification remains a key objective to drive job creation and more inclusive growth. It is being increasingly recognized that in addition to exploiting opportunities in global markets there is enormous potential to drive export diversification through regional trade integration (Brenton and Isik, 2012). Regional trade can bring staple foods from areas of surplus production across borders to growing urban markets and food deficit rural areas. With rising incomes in Africa there are emerging opportunities for cross-border trade in basic manufactures such as metal and plastic products that are costly to import from the global market. The potential for regional production chains to drive global exports of manufactures, such as those in East Asia, has yet to be exploited, and cross-border trade in services offers untapped opportunities for exports and better access for consumers and firms to services that are cheaper and provide a wider variety than those currently available.

However, Africa is not achieving its potential in regional trade as substantial barriers remain to the free movement of goods, services, people and capital across African borders with the consequence that it is often easier for Africa to trade with the rest of the world than it is with itself. Effective regional integration is of particular pertinence now. While uncertainty surrounds the global economy and stagnation is likely to continue in traditional markets in Europe and North America, enormous opportunities for cross-border trade within Africa in food products, basic manufactures and services remain unexploited. Regional integration in Africa could provide a much-needed source of export diversification away from minerals and hydrocarbons and a vital source of job creation.

But to deliver integrated regional markets that will attract investment in agro-processing, manufacturing and new services activities, policymakers have to move beyond simply signing agreements that reduce tariffs to drive a more holistic process to deeper regional integration. An approach is needed that: reforms policies that create non-tariff barriers; puts in place appropriate regulations that allow cross-border movement of services suppliers; delivers competitive regionally integrated services markets; and builds the institutions that are necessary to allow small producers and traders to access open regional markets. The appropriate metric for



successful integration is not the extent of tariff preferences but rather reductions in the level of transaction costs that limit the capacity of Africans to move, invest in, and trade goods and services across their borders.

This is a different approach to one that proceeds within the straightjacket of specific sequential steps to integration: free trade area, customs union, common market, and economic and monetary union. For example, there are enormous opportunities from trade in services in Africa that are not dependent on a common external tariff being in place. Countries can work to improve trade facilitation at the border and to remove non-tariff barriers with neighbors while free trade agreements are being designed and implemented. Countries that are not members of the same free trade agreements can work to disseminate information on market prices to producers and traders.

Finally, it has become apparent that successful export growth and diversification require not only entry into exporting but survival and subsequent growth. Evidence suggests that developing countries have much lower survival rates for new exports than do rich countries. As a result, more attention needs to be given to the factors that undermine the survival of trade flows including uncertainty (of producers over costs, of buyers over the quality of product they will receive, of both buyers and sellers when contracts are weakly enforced) and lack of information that prevents effective matches between buyers and sellers in international markets. An interesting finding from initial analysis is the importance of learning-by-doing for export survival: experience with exporting the same product to other markets or different products to the same market are found to strongly increase the chance of export survival. A better understanding of such learning effects could substantially improve the effectiveness of export promotion strategies.

## **Section 1: Modelling the Impacts of Trade Barriers and FDI Flows**

The first section of the volume contains a set of papers that have sought to apply appropriate empirical techniques to available data to contribute to dialogue around a range of trade policy issues. The first two chapters of this section focus on a detailed case study of trade policy barriers in the UK footwear sector undertaken under the leadership of Alan Winters in the late 1980s and early 1990s. At that time footwear was typical of a manufacturing sector in high income countries under pressure from imports from developing countries in East Asia for which policymakers granted additional protection beyond tariffs in the form of quantitative restrictions. The particular non-tariff barrier analysed in these papers is voluntary export restraints (VER), a quantitative restriction imposed by a government to limit the quantity of