

RESEARCH NEWSLETTER

The Distributional Effects of International Trade | March 2020

FEATURED RESEARCH



From left to right: Erhan Artuc, Aart Kraay, Bill Maloney.

[Presentation](#) | [Video](#) | [Event information](#)

The Distributional Effects of International Trade: Facts and Misconceptions

Has international trade contributed to a growing rift between winners and losers in the global economy? Over the last decade, researchers have developed new empirical and analytical approaches to answer this question. In a recent Policy Research Talk, World Bank economist [Erhan Artuc](#) laid out the facts and misconceptions surrounding this growing literature, and highlighted three empirical challenges that have led to overstating the net costs of trade liberalization.

RESEARCH HIGHLIGHTS

✓ [Household Impacts of Tariffs: Data and Results from Agricultural Trade Protection](#)

[Erhan Artuc](#), [Guido Porto](#), [Bob Rijkers](#), *World Bank Policy Research Working Paper 9045*, December 2019 | *VoxEU* article: [Inequality and trade: Simulation evidence for 54 developing nations](#) | *Future Development Blog*: [Who gains from trade?](#) | [Household Impacts of Tariffs \(HIT\) Simulation Tool](#)

Data from a new dataset, the Household Impacts of Tariffs, is used to simulate gains and losses from eliminating agricultural tariffs for 54 low- and lower-middle income countries. On average, unilateral elimination of agricultural tariffs would increase household incomes by 2.5 percent.

✓ [Trading Off the Income Gains and the Inequality Costs of Trade Policy](#)

[Erhan Artuc](#), [Bob Rijkers](#), [Guido Porto](#), *Journal of International Economics* 120 (1): 1–45, September 2019 (open access) | [Working Paper Version](#).

Trade liberalization often increases aggregate income in small open economies but can also cause inequality to increase, creating a trade-off between income and inequality. An analysis of trade liberalization for 54 low- and middle-income countries shows 45 countries face a trade-off between income and inequality, while only nine do not.

✓ [Exports to Jobs: Boosting the Gains from Trade in South Asia](#)

Erhan Artuc, Gladys C. Lopez-Acevedo, Raymond Robertson, Daniel Samaan, South Asia Development Forum, International Labour Organization and World Bank, Washington, DC, 2019 | Blog: [How labor markets in South Asia can benefit from higher exports.](#)

South Asia's economy has grown rapidly, and poverty has fallen, but jobs remain limited. This study shows that as exports increase, better-educated and more-experienced workers (mostly men) earn higher wages, and less-skilled and rural workers find employment in the formal sector. Policies to increase skills, remove trade barriers, and invest in infrastructure would help all workers find higher-paying jobs.

✓ [Does Automation in Rich Countries Hurt Developing Ones? Evidence from the U.S. and Mexico](#)

Erhan Artuc, Luc Christiaensen, Hernan Winkler, World Bank Policy Research Working Paper 8741, February 2019.

This paper investigates how local labor markets in Mexico exposed to automation in the U.S. through trade fared in exports and employment outcomes. An increase of one robot per thousand workers in the U.S. lowers growth in exports per worker from Mexico to the U.S. by 6.7 percent. Overall, higher exposure to U.S. automation redistributed but did not change the overall level of wage employment.

✓ [Robots, Tasks and Trade](#)

Erhan Artuc, Paulo Bastos, Bob Rijkers, World Bank Policy Research Working Paper 8674, December 2018 | Blog: [What does the rise of the robots mean for trade?](#)

An analysis of the impact of robotization on bilateral trade flows over the past two decades suggests that using more robots in advanced economies (10 percentage points) leads to a rise in imports of semi-finished products from less developed countries (8.6 percentage points) and an increase in imports of other goods from those countries (4.9 percentage points). The data shows no evidence for reshoring, and suggests that automation in high-income countries can potentially benefit developing countries.

✓ [Trade, Informal Employment and Labor Adjustment Costs](#)

Javier Arias, Erhan Artuc, Daniel Lederman, Diego Rojas, Journal of Development Economics 133: 396–414, July 2018 | [Working Paper Version.](#)

This paper sheds light on the mobility costs faced by formal and informal workers, and the switching patterns of workers after a trade shock in Brazil and Mexico. The simulations show total employment increases after a tariff reduction, but informal employment increases more than formal employment, mostly by entry into the labor market by previously idle labor.

✓ [Impact of U.S. Market Access on Local Labor Markets in Vietnam](#)

Trung X. Hoang, Ha Nguyen, World Bank Policy Research Working Paper 8366, March 2018.

Following the implementation of the Vietnam–United States bilateral trade agreement in December 2001, manufacturing employment in Vietnam increased in provinces more exposed to U.S. tariff cuts. Employment also increased in many service sectors in these provinces, reflecting strong job spillover gains.

✓ [Trade Policy and Redistribution when Preferences Are Non-Homothetic](#)

[Quy-Toan Do](#), [Andrei A. Levchenko](#), *Economics Letters* 155 (June): 92–95, June 2017.

Should restrictive trade policy be used as a means of redistribution within a country? This paper contends that lump sum transfers and trade policy can be equivalent in some contexts, as could have been the case with food export bans imposed by many developing countries in the late 2000s.

✓ [A Mapping of Labor Mobility Costs in the Developing World](#)

[Erhan Artuc](#), [Daniel Lederman](#), [Guido Porto](#), *Journal of International Economics* 95 (1): 28–41, January 2015 (open access) | [Working Paper Version](#).

In a study of 56 countries, workers face significantly higher moving costs in developing countries compared to high-income countries. Gains from trade are lower and distributed less equally in the shortrun in economies with higher labor market frictions.

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UPCOMING EVENTS

- **May 19:** [Policy Research Talk: Making Banks Work for Development](#)
- **June:** [Policy Research Talk: Distorted Markets: Firm-Size Distribution and the Missing Middle in Developing Economies](#)
- **June 22–23:** [Annual Bank Conference on Development Economics 2020: Global Unrest](#)

To see more events, please click [here](#).

ANNOUNCEMENTS

[The Land and Poverty Conference 2020: Institutions for Equity and Resilience](#) has been postponed until next year, March 22–26, 2021.

SOCIAL MEDIA

What can low-income countries do to provide relief for the poor and the vulnerable during the COVID-19 pandemic?

[Berk Özler](#) | *Development Impact*, March 19, 2020

As countries like the United States pass temporary legislation to cushion the massive blow that is on the horizon that is about to hit many of their citizens — poor and not poor — it is important to think about the tools available to governments of low-income countries, what kind of preparations they might consider, and what type of fiscal burden they face for social protection programs that can be financed through their own budgets and grants from international development institutions like the World Bank.

[Read the blog](#)

Immediate action needed: four ideas to alleviate economic slowdowns

[Erica Bosio](#), [Simeon Djankov](#), [Rita Ramalho](#) | *Let's Talk Development*, March 19, 2020

Searching for ideas to alleviate sudden economic slowdowns is a perpetual concern for governments. As the world works to manage the COVID-19 crisis and a possible slowdown, a number of governments have announced preliminary measures in recent days and weeks, ranging from providing automatic rollovers of debt to small businesses (for example, Italy and Germany) to extending unemployment insurance equivalent to nearly 100 percent of wages to all laid off workers (France). The urgency is warranted, as similar questions were asked during the global financial crisis a decade ago. An analysis of Doing Business data reveals four ideas on how to stem the negative effect on workers and businesses.

[Read the blog](#)

Policymakers and aid donors need to take the politics of development seriously

[Vijayendra Rao](#), [Michael Woolcock](#) | *Let's Talk Development*, March 12, 2020

Politics shape development outcomes. The World Bank, in recent World Development and Policy Research Reports, [ref1](#), [ref2](#) encourages all development actors to focus on the political incentives of those in positions of power, which often conflict with providing public goods and upholding civic norms. Analytical approaches such as 'Thinking and Working Politically' [ref3](#) offer practical tools for assessing how different forms and sources of power influence institutional structures and shape whose voices, interests, priorities and aspirations prevail.

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Designing good policies is one thing, implementing them is another

[Norman Loayza](#), [Michael Woolcock](#) | *Let's Talk Development*, March 5, 2020

Forging and adopting technically sound policies is necessary for successful development, but it is not enough: any policy is only as good as its implementation. Policy implementation can fail for two broad reasons: (1) the absence of complementary measures needed to make the chosen policy effective; and (2) the inadequate capability of prevailing institutions and administrative systems.

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A big win for data users: World Bank unveils MIX Market database as open data

[Omar Hadi](#), [Bob Cull](#) | *Data Blog*, March 04, 2020

The Microfinance Information Exchange (MIX) Market dataset, used to compare and analyze the performance of financial service providers (FSPs) and microfinance institutions (MFIs) in more than 100 developing markets, is now freely available via the World Bank Open Data Catalog. The potential impact of making this high-value repository of essential information open to everyone — without charge — is especially significant in underserved, low-income communities, which will benefit from access to meaningful intelligence and greater transparency in the microfinance industry.

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To design good policies, macro outcomes need to be understood “from the ground up”

[Roberto N. Fattal Jaef](#), [Hiau Looi Kee](#), [Sergio Schmukler](#) | *Let's Talk Development*, February 27, 2020

Traditionally, macroeconomic outcomes such as growth, economic fluctuations, and reactions to policies and shocks have been studied using aggregate data at the country level. A flurry of new research over the past decade has centered on using micro data at the product, firm, and sector level to shed new light on aggregate outcomes.

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Inequality and social unrest in Latin America: The Tocqueville Paradox revisited

[Francisco Ferreira](#), [Marta Schoch](#) | *Let's Talk Development*, February 24, 2020

There is clearly not a single cause for all the different protests around the world. Rebellion against — or fear of encroaching — authoritarianism clearly played a role in many cases. So did disgust at perceived corruption by governing elites. Social media clearly acted as an important facilitator. In this post, we want to comment more narrowly on two commonly proposed hypotheses linking inequality — or income distribution more generally — to the protests in Latin America and, particularly, in democratic and relatively prosperous countries such as Chile and Colombia.

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How service providers are paid matters as much as how much they are paid

[Deon Filmer](#), [Adam Wagstaff](#) | *Let's Talk Development*, February 20, 2020

Service providers, such as schoolteachers or health workers, must be paid. How they are paid shapes their incentives to provide high-quality services as much — if not more than — how much they are paid. Service providers around the world typically are paid in one of three ways, each of which is problematic.

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