Literature Report

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Abstract

Multinational Firms and Plant Divestiture

- Review of International Economics---2015---Pehr-Johan Norbäck,Ayca Tekin-Koru,Andreas Waldkirch

Multinational firms not only make acquisitions, but also frequently divest affiliates. Affiliate divestiture is the result of many factors, some internal and some external to the firm. Using detailed confidential survey data of Swedish multinationals, we are able to examine divestiture decisions within the context of the worldwide affiliate network of the firm. In contrast, most existing studies of multinational exit focus on one country only. A model of mergers and acquisitions with financing constraints generates predictions regarding the correlation between affiliate size and the decision to sell. Consistent with this theory, we find that larger affiliates are more likely to be divested, but an increase in relative size of an affiliate reduces the probability of divestiture. Additional network characteristics, the presence of other affiliates nearby and sales of affiliates elsewhere, are also positively correlated with divestiture. We find no support for the notion of footloose multinationals.

Patterns of International Capital Flows and Productivity Growth: New Evidence

- Review of International Economics---2015---Margaux MacDonald

Recent evidence from developing and emerging economies shows a negative correlation between growth and net capital inflows, a contradiction to neoclassical growth theory. I provide updated and disaggregated evidence on the origins of this puzzle. An analysis of the components of capital flows and of gross portfolio positions shows that foreign direct investment is directed towards countries with the highest growth rates, but that portfolio investment outflows exceed these inflows. Liberalized capital accounts further exacerbate this pattern. My results suggest a desire for international portfolio diversification in liquid assets by fast-growing countries lies at the heart of the puzzle.

The Roles of Innovators and Labor in a Schumpeterian Factor Endowments Based Model of Intra-industry Trade

- Review of International Economics---2015---Norman H. Sedgley,Kerry M. Tan

This paper builds a model of Schumpeterian innovation and trade that emphasizes endowments of innovators and labor as a key factor in determining the pattern of trade. The model suggests a strong complementarity between intra-industry and inter-industry trade. The pattern of inter-industry vs intra-industry trade is analyzed using the Grubel–Lloyd index. The theoretical model predicts that the prominence of intra-industry trade is a nonlinear function of the ratio of the proportion of world knowledge domestically generated to the domestic share of the world labor supply. Strong empirical evidence for this key result is presented and implications are discussed.

Market Structure and the Environmental Implications of Trade Liberalization: Russia's Accession to the World Trade Organization

- Review of International Economics---2015---Christoph Böhringer,Thomas F. Rutherford,David Tarr,Natalia Turdyeva

We investigate the environmental impacts of Russia's World Trade Organization (WTO) accession with a computable general equilibrium model incorporating imperfectly competitive firms, foreign direct investment and endogenous productivity. WTO accession increases CO 2 emissions through technique ( ), composition (+) and scale (+) effects. We consider three complementary policies to limit CO 2 emissions: cap and trade, emission intensity standards and energy efficiency standards. With imperfectly competitive firms, gains from WTO accession result with any of these policies. If we assume perfectly competitive market structures, the negative environmental impacts of WTO accession are smaller and no net gains arise when environmental regulation involves energy intensity or efficiency standards.

Trade Frictions and Market Access of Developing Countries: A Product-level Empirical Investigation

- Review of International Economics---2015---Eugene Bempong Nyantakyi,Steven Husted,Shuichiro Nishioka

This paper examines the effects of trade frictions on export market access at the product level and the role these frictions have on the ability of developing countries to access world markets. We find distance and trade frictions are determinants of the probability of success in entering foreign markets. We examine whether there are any systematic biases from these frictions that further limit market access for exporters from developing countries. Our results suggest that developing countries are not differentially impacted by these factors.

Tariff Liberalization and Trade Integration of Emerging Countries

- Review of International Economics---2015---Anne-Célia Disdier,Lionel Fontagné,Mondher Mimouni

This paper investigates how tariff liberalization has affected exporting at the product-destination level in emerging countries. We use a highly disaggregated (six-digit level of the harmonized system—HS—classification) bilateral measure of market access to compare tariffs applied in 1996 and 2006, which includes the timing of the Uruguay Round and episodes of bilateral liberalization. Our econometric estimations consider impacts of tariff cuts on three components of the trade margins: extensive margin of entry (new trade relationships at the product-destination level), extensive margin of exit (disappearance of existing relationships) and intensive margin of trade (deepening existing relationships). Our main estimates indicate that a reduction of bilateral applied tariffs of 1 percentage point increases the extensive margin of entry by 0.1% and the intensive one by 2.09%, while it reduces the extensive margin of exit by 0.25%.

Real Exchange Rate Volatility and Imports of Intermediate Inputs: A Microeconometric Analysis of Manufacturing Plants

- Review of International Economics---2015---Ricardo López,Huong Nguyen

This paper uses plant-level data from the manufacturing sector of Chile for the period 1995–2007 to examine the effect of real exchange rate (RER) volatility on imports of intermediate inputs at the micro level. Using input–output tables, we construct sector-level RERs relevant for input import decisions and find that increases in the RER and its volatility reduce the fraction of imported intermediate inputs used by plants, while plants' probability of importing is not affected. Thus, fluctuations in the RER affect the intensive margin of imports (the amount of inputs imported) but not the extensive margin (the decision to import).

Tobin Tax and Volatility: A Threshold Quantile Autoregressive Regression Framework

- Review of International Economics---2015---Olivier Damette,Beum Jo Park

From an original data set on the euro–dollar and on the won–dollar currency pairs (2008–2010), we conduct a threshold quantile autoregressive model to explain the role of a Tobin tax (TT) on the exchange rate volatility, taking into account two types of nonlinearity (regimes and quantiles). We find evidence that the impact of a TT would not be monotonic. A TT may be a good instrument to stabilize foreign exchange volatility only in normal times and/or in efficient markets. In contrast, a TT could be counterproductive in turbulent periods by increasing the volatility. In addition, by comparing a major currency pair (euro/dollar) and a minor currency pair (won/dollar), it appears that the potential stabilizing effect of a TT would be more clear-cut in the low volatility regime of a major currency pair, similar to the euro/dollar. Our results do not corroborate the previous studies that derived a monotonic and positive impact of a TT on volatility.

Corruption, Financial Resources and Exports

- Review of International Economics---2015---Qing Liu,Ruosi Lu,Xiangjun Ma

This paper argues that a country's comparative advantage in exports depends on both the factor abundance and the allocation efficiency of the endowments. However, the latter is not considered in the traditional Heckscher–Ohlin model. In line with the "sand" view of corruption, this paper empirically studies the role of corruption in shaping a country's export pattern by distorting the allocation of financial resources. We find that the resource misallocation resulting from corruption undermines the export growth promoted by the positive external financial shock. The negative effects are realized by the extensive margins instead of the intensive margins of heterogeneous firms.

Can the Consumption Capital Asset Pricing Model Account for Traders' Expected Currency Returns?

- Review of International Economics---2015---Josh Stillwagon

This study uses survey data on traders' exchange rate forecasts to test whether their expected excess returns are related to the covariance between the exchange rate and consumption; as predicted by the consumption capital asset pricing model (CCAPM). The covariance is measured through the novel use of rolling windows of the realized covariance (both forward and backward looking) and testing is conducted with the cointegrated VAR. The model is able to account for expected returns with more plausible degrees of risk aversion, but only when using sufficiently long, backward-looking measures of the covariance. This suggests that market participants assess risk, in part, based upon the procyclicality of returns, and infer it from experience in the recent past. There is also evidence that inclusion of the real exchange rate improves the plausibility of the estimates and the model fit.

The Impact of Foreign Aid Linked to Infrastructure and Pollution Abatement

- Review of International Economics---2015---Ilaski Barañano,Marta San Martín

This paper studies the macroeconomic effects of foreign aid taking into account environmental quality. We develop a dynamic equilibrium model in which public investments in both infrastructure and pollution abatement can be co-financed using domestic resources and international aid. We consider untied aid, aid fully tied to either infrastructure or abatement and aid equally tied to both expenditures. We find that when the extent to which agents are affected by environmental problems is taken into account, then, regardless of the chances of substitution between factors, transfers linked to both infrastructure and pollution abatement may be the best welfare-enhancing alternative.

Outsourcing, Importing and Innovation: Evidence from Firm-level Data for Emerging Economies

- Review of International Economics---2015---Ursula Fritsch,Holger Görg

This paper investigates two sourcing strategies of firms, outsourcing and importing, and links these to innovation activities. The authors examine this empirically using firm-level data for 28 emerging market economies and find robust evidence that outsourcing increases the likelihood to spend on R&D and via this channel raises innovation output, whereas importing increases innovation output, but not R&D. The results hold when implementing an instrumental variables approach. It is found that results crucially depend on the institutional environment in the economy, e.g. property rights and intellectual property rights protection. The results suggest that better institutions magnify the gains from importing, but not from outsourcing. EU countries also reap additional positive innovation effects from importing compared with non-EU countries.

Sources of Fluctuations in the Real Exchange Rates and Trade Balances of the G-7: A Sign Restriction VAR Approach

- Review of International Economics---2015---Hyeon-seung Huh,Won Soon Kwon

This paper estimates structural vector autoregression models of output, the real exchange rate and trade balance for the group of seven leading advanced economies (G-7). Unlike previous studies, we do not impose long-run purchasing power parity as an identifying assumption; instead, the shocks underlying the model are structurally identified using a set of theory-consistent sign restrictions. Empirical results show that nominal shocks account for most of the long-run variability in trade balances across the G-7 countries. We are able to attribute this finding to long-run movements in the real exchange rate, as the real exchange rate is significantly affected by nominal shocks in the long run.

Trade Liberalization and Heterogeneous Technology Investments

- Review of International Economics---2015---Maria Bas,Ivan Ledezma

We propose a trade model where heterogeneous firms decide on a productivity-enhancing technology investment. The model analyzes the impact of multilateral trade liberalization on firm- and industry-level productivity. Freer trade increases the incentives to invest in technology by raising export profits. It also dampens these incentives, however, as profits stemming from domestic sales are reduced. Only exporters benefit from the former positive effect. The shape of the distribution of efficiency draws, the level of trade costs and the technology intensity of the industry are key elements removing the ambiguities regarding the net impact of trade liberalization.

Exchange Rate Movements and the Distribution of Productivity

- Review of International Economics---2015---Ben Tomlin,Loretta Fung

This paper examines how movements in the real exchange rate affect the distribution of labor productivity within industries. Appreciations of the local currency expose domestic plants to more competition as export opportunities shrink and import competition intensifies. As a result, smaller less productive plants are forced from the market, which truncates the lower end of the productivity distribution, and surviving plants face a reduction in physical sales (unless they adjust their mark-up), which, in the presence of scale economies, can lower productivity. Using quantile regression, we find that movements in the exchange rate do, indeed, have distributional effects on productivity.

The Sustainability of European External Debt: What have We Learned?

- Review of International Economics---2015---Juan Cuestas,Luis Gil-Alana,Paulo Regis

In this paper we aim to analyze the level of sustainability of external debt and, more importantly, how it has changed for a number of European economies. Given the severity of the crisis since 2008, we argue that the path of external debt burdens may have changed since the start of the crisis, given the concerns about debt accumulation in most countries. We analyze the reaction of present debt accumulation to past debt stock, incorporating the possibility of endogenously determined structural breaks in this reaction function. We find that structural breaks happen in most cases after 2008, highlighting the importance of the policy measures taken by most governments.

Reforms, Finance, and Current Accounts

- Review of International Economics---2015---Giuseppe Bertola,Anna Lo Prete

We analyze the implications of labor market reforms for an open economy's human capital investment and future production. A stylized model shows that labor market deregulation can imply more positive current-account balances if financial markets are imperfect and labor market institutions not only distort labor allocation, but also smooth income. Empirically, in Organisation for Economic Co-operation and Development (OECD) country-level panel data, we find that labor market deregulation has been positively related to current-account surpluses on average and more strongly so when and where financial market access was more limited. These results are robust to inclusion of standard determinants of current-account imbalances, and do not appear to be driven by cyclical phenomena.

Fiscal Transfers in a Monetary Union with Exit Option

- Review of International Economics---2015---Carsten Hefeker,Michael Neugart

It is widely debated whether a monetary union has to be accompanied by a fiscal transfer scheme to accommodate asymmetric shocks. We build a model of a monetary union with a central bank and two heterogeneous countries that are linked by a fiscal transfer scheme with repercussions on monetary policy. A central bank aiming at securing the existence of a monetary union in the presence of asymmetric shocks has to compensate single countries for the tax distortions arising from fiscal transfers. Monetary policy may become more expansionary or restrictive depending on asymmetries between member countries' inflation aversion and exit costs.

A Note on the New Rule for the Current Account

- Review of International Economics---2015---Iñaki Erauskin

In this note, we show that the two main concerns against the new rule for the current account are flawed. The new rule states that the impact of a transitory income shock on the current account is given by the savings generated by the shock multiplied by the ratio of the net foreign asset position to domestic wealth. First, we adapt the new rule to distinguish between gross and net foreign asset positions. Second, we demonstrate that the results for the new rule are driven neither by an accounting-based “approximate” regression nor a steady state.

The Trade Consequences of Maritime Insecurity: Evidence from Somali Piracy

- Review of International Economics---2015---Alfredo Burlando,Anca D. Cristea,Logan M. Lee

In the past decade (2000–2010), pirates from Somalia have carried out thousands of attacks on cargo ships sailing through the Gulf of Aden and the Indian Ocean, causing what others have identified as significant damage to maritime trade. In this paper, we use variations in the spread and intensity of Somali piracy to estimate its effect on the volume of international trade. By comparing trade volume changes along shipping routes located in pirate waters to those that are not, we estimate that Somali piracy reduced bulk commodities trade passing through the Gulf of Aden by 4.1% per year from 2000 to 2010. We find smaller reductions in total trade, consistent with the fact that not all goods are shipped by sea or are targets of pirate attacks. While our estimates suggest that the trade costs of piracy are much lower than what has been suggested in the existing literature, we find that they remain significant and unevenly distributed, with five countries and the EU shouldering 70% of the total costs.

Externalities of National Pharmaceutical Policy when Markets are Integrated through Parallel Trade

- Review of International Economics---2015---Laura Birg

This paper studies externalities of nationally determined cost-sharing systems, in particular coinsurance rates, under pharmaceutical parallel trade in a two-country model with a vertical distributor relationship. Parallel trade generates a price-decreasing competition effect in the destination country of the parallel import and a price-increasing double marginalization effect in the source country. An increase of the coinsurance rate in the destination country mitigates the double marginalization effect in the source country. An increase of the coinsurance rate in the source country reinforces the competition effect in the destination country. This may be a case for policy coordination in the European Union.

An Illustrated User Guide to the World Input–Output Database: the Case of Global Automotive Production

- Review of International Economics---2015---Marcel Timmer,Erik Dietzenbacher,Bart Los,Robert Stehrer,Gaaitzen de Vries

This article provides guidance to prudent use of the World Input–Output Database (WIOD) in analyses of international trade. The WIOD contains annual time-series of world input–output tables and factor requirements covering the period from 1995 to 2011. Underlying concepts, construction methods and data sources are introduced, pointing out particular strengths and weaknesses. We illustrate its usefulness by analyzing the geographical and factorial distribution of value added in global automotive production and show increasing fragmentation, both within and across regions. Possible improvements and extensions to the data are discussed.

Per Capita Income and the Mystery of Missing Trade

- Review of International Economics---2015---James Cassing,Shuichiro Nishioka

The literature on the Heckscher–Ohlin–Vanek (HOV) model has concentrated on the production side, particularly the unrealistic assumptions of identical techniques and factor price equalization. However, less is known about the demand side. In this paper, we compare the supply side assumptions versus the demand side assumptions as a cause of the empirical failures in the HOV prediction. While the relaxation in the supply side assumptions is crucial to predict the direction of factor trade, the demand side assumptions are shown to play an important role in explaining why factor trade is “missing” in relation to the HOV prediction. For example of the slope test for labor, the supply side repair improves from 0.026 to 0.162, whereas the demand side repair improves significantly from 0.162 to 0.891.

Productivity and Firms’ Sales Destination: Chinese Characteristics

- Review of International Economics---2015---Qun Bao,Jiuli Huang,Yanling Wang

In the trade literature, it is often assumed that there is little or no trade cost within a country’s borders, but large trade costs across a country’s borders. Thus, productive firms self-select into exporters and the less productive firms can only serve domestic consumers. This paper presents a similar but different case in China, whose domestic markets are segmented by provincial borders mainly owing to the various (hidden) protective measures favoring local firms. These discriminative measures are de facto trade barriers. It applies the heterogeneous trade theory to examine the effects of firms' productivity on their sales choices in both the international and domestic markets, in the presence of intra-national and international trade costs. We find that productive firms not only self-select into exporters, but also into sales in other provincial markets. This pattern is sensitive to firms' locations and ownerships. For foreign direct investment (FDI)-controlled firms, increases in productivity are associated with a higher probability of selling into other provincial markets, rather than into international ones. Productivity increases for firms operating in the inland area exhibit different patterns than those in the Eastern area.

The Distributional and Allocative Impacts of Virtual Labor Mobility across Time Zones through Communication Networks

- Review of International Economics---2015---Noritsugu Nakanishi,Ngo Long

Using a specific-factors' model, with two goods (a shift-working good and a non-shift-working good), three factors (capital specific to shift-working, land specific to non-shift-working and labor) and two countries (Home and Foreign), which are located in different time zones, we highlight the impact of trade in labor services via communication networks on factor prices and production patterns. If two countries are identical in size, then under free trade in labor services, all workers work only in their local daytime, and night shift in each country is performed by imported labor services supplied by residents of the other country in their local daytime. Night-time wage becomes the same as daytime wage (a wage equalization result). Other factor prices are also equalized. In both countries, capital rental rate increases, while land rent decreases. However, if two countries are different in size, trade in labor services does not equalize wages: in the large country, wages for night-shift workers are higher than daytime wages and some residents work at night; in the small country, daytime wages become higher than night-time wages and no one works at night, and night-shift work is done by imported labor services from the large country. Land rent in the small country decreases. Land rent in the large country may or may not decrease, but it is always higher than in the small country. Capital rental rates in both countries are equalized and increase.

The IMF and the Global Financial Crises: Phoenix Rising? by Joseph P. Joyce Cambridge, UK: Cambridge University Press, 2013, pp. 241; index

- Review of International Economics---2015---Michael M. Hutchison

2015

Can Trade Agreements Curtail Trade Creation and Prevent Trade Diversion?

- Review of International Economics---2015---Juyoung Cheong,Do Won Kwak,Kam Ki Tang

type="main"> This paper investigates how pre-existing preferential trade agreements (PTAs) dilute the trade creation effect and shield the trade diversion effect of new PTAs. Countries having pre-existing PTAs enjoy smaller gains in intra-bloc trade because of the dilution effect and experience smaller losses or even gains in extra-bloc trade because of the shielding effect. The findings support the proposition that PTAs could be used to fend off future trade diversion.

Does Preferential Trade Benefit Poor Countries? A General Equilibrium Assessment with Nonhomothetic Preferences

- Review of International Economics---2015---Joachim Stibora,Albert de Vaal

We develop a Ricardian model of trade with nonhomothetic preferences to analyze preferential trade agreements (PTAs) among countries of different stages of economic development. The richer a country is, the more likely will PTAs improve its terms of trade, also when it is a non-member. Rich non-member countries are also less likely to incur welfare losses from PTAs. PTA membership only guarantees welfare gains for countries that are too poor to import the goods rich countries produce. For all other countries, the welfare effects of joining PTAs depend on the world income distribution and on the strength of comparative advantages.

Trade Openness and Cross-country Income Differences

- Review of International Economics---2015---Christian Hepenstrick,Alexander Tarasov

This paper asks how variations in trade openness contribute to cross-country income differences. We approach this question using counterfactual experiments within a quantified general equilibrium model of trade. We find that trade costs gain their relevance only by amplifying the effects of existing differences in endowments, population sizes and technologies. If, for example, market entry costs were the same in all countries, inequality would be about 13% lower. Variable trade costs are found to have a similar effect. In contrast, if countries differed only by their degree of trade openness, the resulting variance of per capita income would be negligible.

Vertically Related Markets, Foreign Competition and Optimal Privatization Policy

- Review of International Economics---2015---Winston Chang,Han Eol Ryu

This paper examines the optimal privatization policy in vertically related markets in which an upstream public firm competes with a foreign private rival in supplying a produced input to the domestic and foreign downstream firms competing in the domestic market. It shows that if the upstream public firm's market share is sufficiently high, full nationalization is optimal and the resulting profit margin is positive. However, complete privatization is never optimal. Numerical simulations reveal both the diverse optimal privatization regimes and the patterns of optimal privatization levels with varying numbers of the domestic and foreign downstream firms.

Innovation and Intellectual Property Rights in a Product-cycle Model of Skills Accumulation

- Review of International Economics---2015---Hung-Ju Chen

This paper examines the effects of stronger intellectual property rights protection in the South based on a North–South general-equilibrium model with foreign direct investment (FDI). Two types of innovation are considered – innovation targeting all products and innovation targeting only imitated products. We show that for both types of innovation, there will be increases in the innovation rate and Northern wage inequality and a decrease in the proportion of Northern unskilled labor if imitation intensity is sufficiently low. As regards the pattern of production, the extent of FDI will increase while the extent of Northern production and Southern production will decrease.

Currency Exposure to Downside Risk: Which Fundamentals Matter?

- Review of International Economics---2015---Victoria Dobrynskaya

I study whether or not countries' macroeconomic characteristics are systematically related to their currencies' exposure to the downside market risk. I find that the currency downside risk is strongly associated with the local inflation rate, real interest rate and net foreign asset position. Currencies of countries with high inflation and real interest rates and negative net foreign asset position (debtor countries) are more exposed to the downside risk whereas currencies of countries with low inflation and real interest rates and positive net foreign asset position (creditor countries) exhibit “safe haven” properties. The local real interest rate has the highest explanatory power in accounting for the cross-section of currency exposure to the downside risk. This suggests that the high currency exposure to the downside risk is a consequence of investments in high-yield risky countries and flight from them in “hard times”.

Fiscal Balance and Current Account in Professional Forecasts

- Review of International Economics---2015---Paolo Bianchi,Bruno Deschamps,Khurshid Kiani

This paper investigates the relationship between financial institutions' expectations of the current account and the fiscal balance. Using professional macroeconomic forecasts for the G-7 countries, we find a positive relationship between forecasts of the cyclically adjusted fiscal balance deficit and forecasts of the current account deficit, indicating that professional forecasts embody links implied by the twin deficits hypothesis. In assessing the relationship between the forecasts of the fiscal deficit and the current account, we find that forecasters correctly make the distinction between the effect of fiscal policy and automatic stabilizers.

The Portfolio Theory of Exchange Rates—Then and Now

- Review of International Economics---2015---Stanley Black

In the early 1970s, the portfolio theory of exchange rates with rational expectations was introduced to explain the behavior of floating exchange rates. While attractive in principle, the approach failed along with other theories to provide empirically convincing results. Over the years, the theory has been extended to a general equilibrium setting and modified to include central bank intervention and non-rational expectations. More recently, it has become a platform for the micro-structural approach emphasizing order flows, which shows increasing promise as an empirical explanation of exchange rate behavior.

Financial Support from the Family Network and Illegal Immigration

- Review of International Economics---2015---Slobodan Djajić

Barriers to immigration of low-skilled workers from developing countries into the advanced countries prevent many potential migrants from leaving their countries of origin. With very low home-country wages in relation to the cost of undocumented migration, the opportunity to migrate often hinges on the possibility of obtaining credit from a human smuggling organization or family and friends. This paper examines the conditions under which migration is optimal for an individual who lacks liquid assets, with a focus on alternative options for financing migration costs. One is by accumulating the required amount of savings out of source-country income, with or without financial support from the family or social network. The other is debt-bonded migration, which involves borrowing from a smuggling organization and paying off the loan while working in the host country. I find that greater financial support from the family network increases the attractiveness of debt-bonded relative to self-financed migration.

Faddists, Enthusiasts and Canadian Divas: Broadcasting Quotas and the Supply Response

- Review of International Economics---2015---Martin Richardson,Simon Wilkie

This paper constructs a model of the recorded music market to investigate the consequences of local content requirements in broadcasting for the "internationalization" of domestic music. It models the entry decisions of bands, the contracting decisions of record companies, the airplay decisions of radio stations and the radio listening and recording purchasing decisions of consumers. The paper shows that a local content quota leads, perversely, to the increased internationalization of domestic music. A quota that also requires increased broadcasting of "new" music yields an additional welfare loss but does nothing to a record company's incentives to sign up new bands.

Investment in Infrastructure and Effects of Tourism Boom

- Review of International Economics---2015---Akihiko Yanase

This paper develops a dynamic trade model of a small open economy with productivity effects of public infrastructure and inbound tourism (i.e. foreign visitors' consumption of nontradable goods produced in the home country). It is shown that the economy either specializes in the production of the nontradable good or diversifies production. In the case of specialization, a tourism boom, i.e. an increase in the foreign tourists' demand for the nontradable good, makes the economy better off. In the case of diversified production, by contrast, a tourism boom induces a deterioration in the terms of trade and the economy may be worse off.

Multimarket Linkages, Trade and the Productivity Puzzle

- Review of International Economics---2015---Noriaki Matsushima,Laixun Zhao

This paper examines the relationship between firms' productivity improvement and the volume of exports, and shows that it can be sometimes negative, which seems to be an empirical puzzle. The key lies in that we simultaneously take into account intermediate retailers (i.e. vertically) and multimarket linkages (i.e. horizontally). With convex cost functions, when market conditions worsen, the manufacturer increases supply to the retailer who is larger or more efficient in trade cost.

Endogenous Home Bias in Portfolio Diversification and Firms' Entry

- Review of International Economics---2015---Marta Arespa Castello

The home bias in portfolios is considered a main puzzle in international macroeconomics. This paper provides a new benchmark for its analysis in a tractable new open economy macroeconomic model, where the home-biased position is an optimal allocation. An equilibrium model of perfect risk-sharing is specified, with endogenous portfolios and firm entry. Unlike in previous work, the international portfolio diversification is driven by home bias in capital goods—independently of home bias in consumption when countries are of equal size. The model explains the recent patterns of portfolio allocations in developed economies. Most important, optimal portfolio shares are independent of market dynamics.

Endogenous Product Differentiation, Market Size and Prices

- Review of International Economics---2015---Shon Ferguson

This paper provides a framework to understand how market size affects firms' investments in product differentiation in a model of monopolistic competition. The theory proposes that consumers' love of variety makes them more sensitive to product differentiation efforts by firms, which leads to more differentiated products in larger markets. The framework also predicts an inverted U -shaped effect of trade liberalization on product differentiation, with trade liberalization leading to more differentiated products when starting from autarky but then leading to less differentiated products as the countries approach free trade.

Growing into Export Markets: The Impact of Exporting on Firm-level Investment in Indonesia

- Review of International Economics---2015---Youngwoo Rho,Joel Rodrigue

This paper documents the impact of exporting on capital accumulation across heterogeneous manufacturing firms in Indonesia. The findings show that entering export markets significantly increases investment behavior during the year of initial entry and for as much as three years after entry. The results imply that the investment rate among new exporters is 37% higher than non-exporters in the year of entry and 14–26% higher in the three years after entry. Using detailed data on firm ownership, the paper further show that foreign-owned affiliates invest at systematically higher rates upon entry into export markets. The estimates indicate that domestically owned exporters are potentially credit constrained and suggest that improving credit market access may increase the investment rate among domestic exporters by as much as 40% in the year of entry.

The Losses from Trade Restrictions: Policy Dynamics with Firm Selection and Endogenous Markup

- Review of International Economics---2015---Soojae Moon

In this paper, I explore the aggregate effects of trade restrictions in a two-country, dynamic, general equilibrium (DGE) model with firm selection and variable adjustment of markup. As a response to the trade collapse in the global crisis of 2008 and 2009, temporary trade restrictions have emerged in several countries. With analyzing the dynamics of a negative macroeconomic shock in the home economy first, and the subsequent introduction of trade restrictions in the foreign economy second, I show that both economies are in a worse position than they were during the economic downturn. The follow-ups to the recession and trade restrictions are investigated through three mechanisms: (1) variable markup as a new avenue of increasing competitive pressure for producers (e.g. more competitive firms lower their markups); (2) average individual firms' specific productivity cut-off, which induces their optimum export choice (e.g. an increase in the export productivity cut-off means exporting becomes more difficult than before.); and (3) the movement of international relative prices (e.g. the real exchange rate and terms of trade).

Cross-border Mergers and Greenfield Foreign Direct Investment

- Review of International Economics---2015---Ignat Stepanok

This paper presents a model of international trade and foreign direct investment (FDI), where FDI is comprised of greenfield FDI and mergers and acquisitions (M&A). In a monopolistically competitive environment merging firms do not reduce competition. Mergers are motivated by efficiency gains and transfer of technology. Following empirical evidence, greenfield investors are modeled as more productive than M&A firms, which are in turn more productive than exporters. The model has two symmetric countries and generates two-way flows of both M&A and greenfield FDI. Trade liberalization makes more firms choose greenfield FDI over M&A and leads to lower productivity and welfare.

Persistence of Current-account Disequilibria and Real Exchange-rate Misalignments

- Review of International Economics---2015---Blaise Gnimassoun,Valérie Mignon

This paper aims at studying whether the persistence of the gap between the observed current-account position and its equilibrium value nonlinearly depends on real exchange-rate misalignments. Estimating a panel smooth transition regression model on a sample of 22 industrialized countries, we find evidence for this hypothesis, showing that persistence of current-account imbalances strongly depends on the deviation of the real exchange rate from its long-term equilibrium. More specifically, while there is no persistence in cases of currency undervaluation or weak overvaluation, persistence tends to augment for overvaluations higher than 11%. In addition, whereas disequilibria are persistent even for very low overvaluations in the euro area, persistence is observed only for overvaluations higher than 14% for non-eurozone members.

Selective Immigration Policies and Wages Inequality

- Review of International Economics---2015---Anthony Edo,Farid Toubal

We quantify the overall impact of immigration on native wages in France from 1990 to 2010. Our short-run simulations indicate that immigration has decreased native wages by 0.6%. We find on average no impact of immigration on wages in the long run. However, we show that the long-run effects of immigration on wages are detrimental to high-skilled native workers and benefits to low-skilled native workers. Our structural estimation allows us to evaluate the impact of "selective" migration policies. In particular, we find that selective immigration policies toward highly educated workers reduce the wage dispersion of French native workers.

Econometric Analyses of Home Bias in Government Procurement

- Review of International Economics---2015---Anirudh Shingal

The extent of discrimination in government procurement and its impact on economic efficiency has attracted both theoretical and analytical work, but little econometric evidence. We bridge this gap by building a new sector-level dataset on domestic and foreign purchases by Japanese and Swiss governments over 1990–2003 to undertake “new” econometric analyses. Unlike previous work, we explain home-bias using variables inspired by the political economy, trade-macroeconomic and procurement literatures. We also provide “new” econometric evidence for previous theoretical predictions. Our results reveal the importance of domestic-foreign productivity differences in governments’ cross-border purchases and also support previous theoretical predictions. However, Membership of the World Trade Organizations’s Agreement on Government Procurement is not found to increase market access.

US Security Strategy and the Gains from Bilateral Trade

- Review of International Economics---2014---Vincenzo Bove,Leandro Elia,Petros Sekeris

We explore the geo-strategic determinants of bilateral trade flows between the USA and the rest of the world. We develop a three-party model of security and trade patterns and use data on military assistance and troop deployments over the 1950–2009 period to validate its predictions. We find that security assistance has significant, positive impacts on the shares of bilateral trade between the USA and the recipient country, results that are robust to issues of reverse causality and hold across different sectors.

Intra-industry Trade Liberalization and the Environment

- Review of International Economics---2014---Michael Benarroch,James Gaisford

type="main"> This paper examines how trade liberalization affects national and global pollution in a multi-country model incorporating monopolistic competition and intra-industry trade as well as inter-industry trade. Each country produces skill-intensive differentiated goods and labor-intensive goods. Pollution is a by-product of production but pollution abatement can be undertaken. Regardless of country characteristics, if the differentiated-good sector is sufficiently cleaner (dirtier) then, without any change in environmental taxes, a multilateral reduction in import protection accorded to the differentiated good or to both goods typically leads to a decline (rise) in pollution in all countries. Pollution havens tend not to arise.

Donor Altruism and the Transfer Paradox in an Overlapping Generations Model

- Review of International Economics---2014---Kojun Hamada,Mitsuyoshi Yanagihara

This paper examines the transfer problem between two countries when a donor exhibits altruistic utility toward a recipient in a one-sector overlapping generations model. We demonstrate that if the donor has a larger marginal propensity to save than the recipient, the donor’s altruism never contributes to donor enrichment irrespective of the degree of the donor’s altruism. Donor enrichment occurs only if the donor has a smaller marginal propensity to save and a sufficiently high level of altruism. These findings imply that the altruism of a donor toward a recipient does not necessarily explain the motivation to voluntarily provide a transfer.

Horizontal Mergers, Entry and International Trade

- Review of International Economics---2014---Duarte Brito,Daniel Magueta

type="main"> We use a two-country trade model to analyze an authority’s decision to approve or reject a merger followed by entry, when the entrant can choose where to locate. We show that approval of a merger in the small country followed by timely, likely and sufficient entry may lead to lower consumer welfare than its rejection: when the alternative to such entry is entry into another country that also benefits consumers through trade, then the gains of attracting entry are small. In this context, we discuss differences between optimal decisions by the small country's authority, large country's authority and supranational authority.

Supply Disruptions and Regional Price Effects in a Spatial Oligopoly—An Application to the Global Gas Market

- Review of International Economics---2014---Christian Growitsch,Harald Hecking,Timo Panke

Supply shocks in the global gas market may affect countries differently, as the market is regionally interlinked but not perfectly integrated. Additionally, high supply-side concentration may expose countries to market power in different ways. To evaluate the strategic position of importing countries with regard to gas supplies, we disentangle the import price into different components and characterize each component as price increasing or price decreasing. Because of the complexity of the interrelations in the global gas market, we use an equilibrium model programmed as a mixed complementarity problem (MCP) and simulate the blockage of liquefied natural gas (LNG) flows through the Strait of Hormuz. This enables us to account for the oligopolistic nature and the asymmetry of the gas supply. We find that Japan faces the most severe price increases, as the Japanese gas demand completely relies on LNG supply. In contrast, European countries such as the UK benefit from good interconnection to the continental pipeline system and domestic price taking production, both of which help to mitigate an increase in physical costs of supply as well as in the exercise of market power.

Foreign Exchange Intervention and Monetary Policy: A Tale of Two Agencies with Conflicting Objectives

- Review of International Economics---2014---Val Lambson,Shinji Takagi,Issei Kozuru

In several industrial countries, the government is responsible for foreign exchange intervention while the central bank is given operational independence in conducting domestic monetary policy. We model the interaction between the two agencies when their views differ and generate empirical implications using lattice-theoretic techniques. Japanese data from 2001–2004 support the model's predictions with respect to central bank behavior. The evidence is less conclusive as to whether the massive intervention of 2001–2004 by the Ministry of Finance caused the Bank of Japan to raise the monetary target.

Mismeasurement of Distance Effects: The Role of Internal Location of Production

- Review of International Economics---2014---Hakan Yilmazkuday

The estimated effects of distance in empirical international trade regressions are unrealistically high. Using state-and-sector level US exports data, this paper shows analytically and proves empirically that ignoring the internal location of production (of international exports), which leads to the overestimation of distance effects by about twofold, is a possible explanation. This overestimation is mostly attributed to the mismeasurement of the distance elasticity of trade costs when internal locations of production are ignored. A corrective distance index is proposed to avoid such mismeasurements and is shown to work well for the median sector. The results are robust to the consideration of alternative estimation methodologies and data sets.

The Border Effect and the Nonlinear Relationship between Trade and Distance

- Review of International Economics---2014---Nuria Gallego,Carlos Llano Verduras

The border-effect literature confirms that sub-national units tend to trade more with the rest of their country than with foreign markets. However, it is likely that ongoing processes of trade integration will generate a trade-off between internal and external integration for sub-national units within countries. In this paper we estimate the internal and external border effect, using a novel dataset that captures intra- and international shipments between Spanish regions and regions in eight European countries with alternative treatments of the nonlinear relationship between distance and trade.

The "Emulator Effect" of the Uruguay Round on US Regionalism

- Review of International Economics---2014---Marco Fugazza,Frederic Robert-Nicoud

Using a detailed data set at the tariff line level, we find an emulator effect of multilateralism on subsequent regional trade agreements (RTAs) involving the USA. We exploit the variation in the frequency with which the US grants immediate duty free access (IDA) to its RTA partners across tariff lines. A key finding is that the US grants IDA status especially on goods for which it has cut the multilateral most favored nation (MFN) tariff during the Uruguay Round the most. Our results suggest that the Uruguay Round multilateral "concessions" have elicited subsequent preferential trade liberalization.

Interdependence and Contagion in Global Asset Markets

- Review of International Economics---2014---John Beirne,Jana Bricco ('Gieck')

We assess interdependence and contagion across three asset classes (bonds, stocks, and currencies) for over 60 economies over the period 1998–2011. Using a global VAR, we test for changes in the transmission mechanism—both within and cross-market changes—during periods of global financial turbulence. Contagion effects within-market are notable in Latin American and Emerging Asian equities. In addition, in times of financial crisis, we find that US equity shocks lead to risk aversion by investors in equities and currencies globally and in some emerging market bonds. Euro area shocks are significant mainly within the bond market.

Sudden Stops and Currency Crashes

- Review of International Economics---2014---Yanping Zhao,Jakob Haan,Bert Scholtens,Haizhen Yang

This paper investigates which factors determine whether sudden stops in international capital flows are followed by a currency crash using data for 85 economies in the period 1980–2012. An event study approach is used for an 11-year window around the crises for nine potential explanatory variables. In addition, the paper estimates discrete-choice panel models. The results suggest that low trade openness, shallow financial markets, and current account imbalances increase the likelihood that a sudden stop will be followed by a currency crash. Moreover, it is established that the impact of these factors differs across different exchange rate regimes.

The Devil you Know: Pegs vs Floats with Uncertain Outcomes

- Review of International Economics---2014---Menna Bizuneh,Neven Valev

Theory predicts that a fixed exchange rate regime will be abandoned after a sizable economic shock as currency devaluation could stimulate exports and output. However, devaluation is risky as the new level of the exchange rate and the rate of inflation cannot be predicted. We show that this uncertainty creates resistance to devaluation. Policymakers prefer to maintain the fixed exchange rate and to undergo internal adjustment. We illustrate the point theoretically and provide supporting evidence from Bulgaria's currency board.

Comparing Parametric and Non-parametric Early Warning Systems for Currency Crises in Emerging Market Economies

- Review of International Economics---2014---Fabio Comelli

This paper compares in-sample and out-of-sample performances of parametric and non-parametric early warning systems (EWS) for currency crises in emerging economies. The parametric EWS achieves superior out-of-sample results compared with the non-parametric EWS. The policymaker faces a trade-off when using EWS: greater cautiousness allows the policymaker to correctly call more crisis episodes, but this comes at the cost of issuing more false alarms. The benefit of correctly calling more currency crises needs to be traded off against the cost of issuing more false alarms and of implementing corrective policies prematurely.

Early Warning for Currency Crises: What Is the Role of Financial Openness?

- Review of International Economics---2014---Jon Frost,Ayako Saiki

The paper explores whether financial openness—capital account openness and gross capital inflows—makes countries vulnerable to currency crises. A quarterly dataset on 46 advanced and emerging market economies (AEs and EMEs) during 1975Q1–2011Q4 is used, with the period after Q2 2007 used for out-of-sample testing. The key findings are: (1) capital account openness is associated with lower probability of currency crises, but less so for EMEs; (2) surges in gross capital flows are associated with increased risk of currency crises; and (3) the model performs well out-of-sample, confirming that early warning models are helpful in judging relative vulnerability.

Is Globalization Weakening the Inflation–Output Relationship?

- Review of International Economics---2014---Antonia López-Villavicencio,Sophie Saglio,Antonia López Villavicencio

This paper investigates whether trade and financial openness has weakened the inflation–output trade-off and caused a shift in the preferences of monetary authorities. Based on the backward-looking Phillips curve and a Taylor-type interest rate rule, our results for France, the UK and the USA for the 1970–2012 period do not provide support for the relevance of globalization in making inflation less responsive to output expansions. Moreover, the change of preferences of Central Banks towards growth-oriented objectives is neither due to higher trade nor to financial globalization.

The Impact of Visibility on Trade: Evidence from the World Cup

- Review of International Economics---2014---Omer Bayar,Georg Schaur

Success in the FIFA World Cup provides countries with substantial international visibility. This paper uses this information shock associated with the World Cup to show that visibility has a significant impact on trade flows. In isolating the visibility effect, two identification problems are solved. Match outcomes in the World Cup are subject to significant uncertainty. This uncertainty, when combined with controls for economic development, makes World Cup success exogenous to exports. By contrast, hosting the World Cup is potentially endogenous owing to self-selection issues. The paper exploits FIFA’s host selection policy to construct exogenous instruments for hosting. The results show that success in the World Cup raises exports temporarily by around 5%.

Journey into the Unknown? Economic Consequences of Factor Market Integration under Increasing Returns to Scale

- Review of International Economics---2014---Andreas Schäfer,Thomas Steger

What are the dynamic consequences of comprehensive integration shocks? The answer to this question appears all but trivial. A dynamic macroeconomic model is set up of a small open economy with capital mobility, migration and increasing returns to scale. The model features multiple equilibria as well as (local and global) indeterminacy. Despite its simplicity, the model creates a rich set of plausible implications. This paper clarifies the mechanics that may lead an integrating economy to the good or to the bad equilibrium by showing how fundamentals and expectations interact in the process of equilibrium selection. The model is applied to replicate two striking empirical characteristics of macroeconomic development in East Germany since 1990.

Controlling Illegal Immigration: On the Scope for Cooperation with a Transit Country

- Review of International Economics---2014---Slobodan Djajić,Michael Michael

We consider the implications of cooperation with respect to immigration control between a final-destination country (D) and its poorer neighbor (T). Assuming that the latter serves as a transit country for undocumented immigrants, a key question is how much aid should D provide to T for the purpose of strengthening its immigration controls. The problem for T is to determine what proportion of aid to use strictly for immigration control rather than trying to meet other border-security objectives. We examine the Nash equilibrium values of the policy instruments of both countries and compare them with those which are optimal when international cooperation on immigration control extends to maximization of joint welfare. We also consider a two-stage game in which D first decides on how much aid to transfer to T, with the latter subsequently choosing how to use it.

Legal Reform, Contract Enforcement and Firm Size in Mexico

- Review of International Economics---2014---Sean Dougherty

The variation in legal system quality across states in Mexico is used to examine the relationship between judicial quality and firm size over the course of the 2000s, when systemic changes were taking place. Using economic census microdata and survey-based measures of legal institutions, a robust effect of judicial quality is observed on the firm size distribution and efficiency, instrumenting for underlying historical determinants of institutions. Indicative evidence is found that the effect is strongest in more capital-intensive industries. Market size and distance-to-market are also found to matter for firm size outcomes, consistent with the new trade literature.

Should Smaller Countries Be More Protectionist? The Diversification Motive for Tariffs

- Review of International Economics---2014---James Gaisford,Olena Ivus

This paper examines the diversification motive for tariffs under trade-related uncertainty when there is incomplete international and domestic risk sharing. In the context of a two-country Ricardian continuum-of-sectors model with shocks to foreign technologies or preferences, tariffs allow a country to mitigate external risk by diversifying across sectors. Given sufficiently high risk and risk aversion, the optimality of tariffs depends primarily on a country's ability to diversify, rather than its market power, such that small countries gain most.

A Welfare Ranking of Multilateral Reductions in Real and Tariff Trade Barriers when Firms are Heterogenous

- Review of International Economics---2014---Philipp Schröder,Allan Sørensen

Trade liberalization comes about through reductions in various types of trade barriers. This paper introduces, apart from the customary real trade costs (i.e. iceberg and fixed export costs), two revenue generating trade barriers (i.e. an ad valorem tariff and a trade license) into a standard heterogeneous-firms-trade model with Pareto distributed productivities. We derive analytical welfare rankings of all four liberalization channels for an equal effect on two openness measures, for any trade cost level and while all four barriers are simultaneously present, i.e. for any initial equilibrium. We show that when openness is measured at retail prices, not border prices, the welfare rankings are sensitive to the degree of efficiency in revenue redistribution, e.g. the share of tariff revenues wasted on rent-seeking activities. As a result, multilateral tariff reductions can switch from the least to the most preferred mode of liberalization. Among the other three barriers we establish a universal welfare ranking for any strictly positive level of revenue redistribution and for either measure of openness.

Race-to-the-bottom Tariff Cutting

- Review of International Economics---2014---Pierre-Louis Vézina

Unilateral tariff liberalization accounts for the lion's share of trade liberalization since the 1980s and has accompanied the most successful trade-led development model of the past 50 years, “Factory Asia”. Understanding what drove this liberalization is therefore crucial to our grasp of the process of economic development. This paper provides empirical evidence for seven Asian emerging economies from 1988 to 2006 consistent with a tariff race to the bottom driven by a competition for foreign direct investment (FDI). The identification is two-pronged. First, it is shown that tariffs on parts and components, intermediates and capital goods, crucial locational determinants for assembly firms, are correlated in competitive space, i.e. across countries at a similar level of development, but not across all countries. Second, it is shown that the tariff correlation in competitive space is significantly higher for inputs than consumer goods.

Capital Tax Competition and Cooperation with Endogenous Capital Formation

- Review of International Economics---2014---Akira Yakita

Incorporating consumption–savings choices under a general concave utility function and hence an endogenous capital supply into a model of capital tax competition, we re-investigate Nash equilibrium and compare it with the optimum under cooperative tax policy. In contrast to the case of fixed capital supply, it is shown that if savings sufficiently increase with the interest rate, a Nash equilibrium may be more efficient than a cooperative tax policy. Therefore, the distortionary effects of capital supply are important to issues of tax policy coordination.

Dynamic Free Trade Networks: Some Numerical Results

- Review of International Economics---2014---Hiroshi Daisaka,Taiji Furusawa

To help predict whether the proliferation of free trade agreements (FTAs) continues until global free trade is effectively attained, this paper investigates dynamic paths of FTAs, generated by numerical simulations of a model of an FTA network formation game with many countries. The characteristics of the final FTA network naturally depend on how the proposer of an FTA is chosen in each period. The paper finds that if the country that has the largest incentive to form an FTA is chosen as a proposer in each period, the network evolution always leads to a unique final FTA network, which may or may not be the complete network of FTAs. FTA networks often evolve to a partition of the world into a small number of groups of asymmetric size owing to the negative network externality caused by preference erosion.

Trade Liberalization and Firm Productivity: Evidence from Chinese Manufacturing Industries

- Review of International Economics---2014---Guangzhou Hu,Zhengning Liu

This paper examines the impact of tariff reduction following China's World Trade Organization (WTO) entry on the productivity of Chinese manufacturing firms using a firm-level panel database that comprises all of China's manufacturing firms with an annual turnover above 5 million yuan and that spans the period of 2000–2006. An instrumental variable estimator is used to account for the endogeneity of the tariff reduction. The results indicate that China's trade liberalization in the five years following its WTO entry has led to a 0.94% annual increase in total factor productivity for Chinese manufacturing firms. However, the overall productivity gain from the tariff reduction is a net result of a productivity depressing effect of output tariff reduction and a productivity enhancing effect of input tariff reduction. Both effects have diminished in magnitude over the years after China joined the WTO.

Firm heterogeneity and turnover plays an important role in generating gains from trade liberalization. The surviving firms have managed to cope with and take advantage of lower tariffs. The extent to which the tariff reduction affects Chinese firms' productivity is also dependent on the ownership structure of the firms with foreign-invested firms being the clear winner.

Bilateral versus Multilateral Free Trade Agreements: A Welfare Analysis

- Review of International Economics---2014---Demet Yilmazkuday,Hakan Yilmazkuday

Why is a proliferation of bilateral free trade agreements (FTAs) between certain types of countries observed instead of progress in attaining global free trade through a multilateral FTA? This paper answers this question by exploring the enforceability of different types of FTAs through comparing minimum discount factors that are necessary to sustain them in an infinitely repeated game framework. The authors search for the globally welfare maximizing trade agreements that are sustainable under different conditions. The results depict that transportation costs, differences in country sizes and comparative advantages are all obstacles for having a multilateral FTA. Accordingly, international development policies conducted for the removal of such obstacles should be the main goal toward achieving a multilateral FTA, which is shown to be the first-best solution to the maximization problem of global welfare.

Learning to Export and the Timing of Entry to Export Markets

- Review of International Economics---2014---Nicholas Sheard

Exporters normally enter their first foreign markets some time after beginning to sell locally, then enter subsequent markets progressively. Standard trade models are essentially static and do not explain these elementary facts about exporting, which can bias the estimation of trade patterns. This paper proposes a model that endogenously generates the timing of entry to new export markets. The timing results from a learning mechanism. More productive firms are less sensitive to the learning effect and therefore (1) enter markets more quickly and (2) enter larger markets earlier and smaller markets later. These predictions are confirmed using Swedish firm-level data.

Endogenous Free Trade Agreements and Foreign Lobbying

- Review of International Economics---2014---Andrey Stoyanov

This paper assesses the political viability of free trade agreements (FTAs) in the presence of lobbying by organized foreign interest groups. The assessment is based on a model in which external tariffs and the decision to form an FTA are endogenously determined. The findings demonstrate that, in the presence of an organized lobby group in a prospective partner country, an FTA may initiate an increase in the level of protection against imports from third countries and impede trade with non-member countries. Further, this study finds that a foreign lobby may encourage the local government to enter a welfare-reducing trade-diverting FTA. Finally, this paper shows that an FTA increases the lobbying power of the organized lobby groups of the member countries, which can potentially obstruct the viability of welfare-improving multilateral trade liberalization.

Who Exports Better Quality Products to Smaller or More Distant Markets?

- Review of International Economics---2014---Unjung Whang

The role of across-firm differences in product quality and firms' competitiveness in determining the spatial patterns of within-product export unit values across destinations is examined in this paper. Using product level export data, it is shown that the average export unit value of a product shipped from the USA or Korea increases with distance and decreases with destination market's size. However, within-product average unit values for products exported from China and India decrease with distance and increase with market size. To interpret these different spatial patterns of unit values across exporting countries, model of quality heterogeneity is developed in which firms differ in their workers' skill level and higher-skilled workers show greater productivity in performing tasks that improve product quality. The model predicts that in relatively skill-abundant countries, exporting firms specialize in high-quality products using relatively cheap skilled labor, whereas, in relatively skill-scarce countries, firms that produce lower-quality products are more competitive.

Market Access, Export Performance and Survival: Evidence from Peruvian Firms

- Review of International Economics---2014---Marco Fugazza,Alain McLaren

This paper explores the effect of market access on firms' export performance and their survival in foreign markets. The data used covers all Peruvian exporting firms between 2002 and 2008, a period during which Peru was active in joining the global economy. This is done using two indices, one that summarizes the tariffs faced by exporters, the other that measures the preferential margin at the bilateral level. Results show that more than market access conditions per se, it is market access conditions relative to those faced by competitors that significantly influences export performance and survival. About a fifth of the increase of exports directed to Mercosur countries is due to improvement in preference margins.

Corporate Social Responsibility and International Competition: A Welfare Analysis

- Review of International Economics---2014---Yang-Ming Chang,Hung-Yi Chen,Leonard F. S. Wang,Shih-Jye Wu

This paper examines the welfare implications of corporate social responsibility (CSR) in international markets under imperfect competition. Based on a stylized model of an import-competing duopolistic market, we show the feasibility of moving toward tariff reductions when both domestic and foreign firms launch CSR initiatives in that their payoffs include not only individual profits, but also the benefits of consumers. For the case where the foreign exporter unilaterally adopts the consumer-oriented CSR as a strategy, there is a rent-shifting effect because the foreign firm's payoff increases whereas the domestic firm's profit decreases. In response, the importing country's government raises its tariff on the foreign product. If, instead, the domestic firm adopts the CSR strategy unilaterally, the rent-shifting effect disappears and both the competing firms' payoffs increase. We further identify the conditions under which the CSR initiatives of the firms constitute the dominant strategy, leading to a Pareto efficient outcome at which the firms' payoffs, consumer surplus, and social welfare are at their maximum levels.

Trade and the Environment: The Role of Firm Heterogeneity

- Review of International Economics---2014---Udo Kreickemeier,Philipp Richter

In this paper, we derive a new effect of trade liberalization on the quality of the environment. We show that in the presence of heterogeneous firms, the aggregate volume of emissions is influenced by a reallocation effect resulting from an increase in the relative size of more productive firms. The relative importance of this reallocation effect and the scale effect well-known from the literature is affected by the emission intensity at the firm level. Domestic emissions decrease as a result of a unilateral tariff reduction if and only if firm-specific emission intensity decreases strongly with increasing firm productivity. As a result of the induced change in foreign emissions, domestic pollution can increase even if domestic emissions decrease.

International Trade and Unemployment—the Worker-selection Effect

- Review of International Economics---2014---Marco Pinto,Jochen Michaelis

This paper investigates the labor market effects of trade liberalization. We incorporate trade unions and heterogeneous workers into the Melitz framework. Workers differ with respect to their abilities. Our main findings are: (i) trade liberalization harms low-ability workers, they lose their job and switch to long-term unemployment (worker-selection effect); (ii) high-ability workers are better off in terms of both higher wages and higher employment; (iii) if a country is endowed with a large fraction of low-ability workers, trade liberalization leads to a rise in aggregate unemployment—in this case, trade liberalization may harm a country's welfare; (iv) the overall employment and welfare effect crucially hinges on the characteristics of the wage bargain.

A Simple Theory of Trade, Finance and Firm Dynamics

- Review of International Economics---2014---Gabriel Felbermayr,Gilbert Spiegel

A stylized monopolistic competition model of international trade is proposed where firms differ with respect to the expected economic lifetime of their innovations. Upon entry, they receive a commonly observed signal which is updated over time. Jointly with partial irreversibility of investment, this generates heterogeneity in effective discount rates and, thus, in the cost of finance. In line with evidence, the model predicts a negative correlation between firms' financing costs and their age. Over a firm's life cycle, per period net profits and the export participation probability grow. Exporters are less likely to exit than purely domestic firms. Belief updating entails excessive financing of incumbents relative to entrants and too much exporting. Asymptotically, trade liberalization reduces overall general equilibrium exit rates, but it does not necessarily increase welfare. With multiple asymmetric export markets, firms gradually expand their market coverage and total sales. A confidence crisis modeled by belief reversion causes an over-proportional decrease in exports, thereby offering a novel interpretation of the trade slump in 2008/09.

Bilateral Exchange Rates and Jobs

- Review of International Economics---2014---Eddy Bekkers,Joseph Francois

We study the labor market effects of realignment in fixed bilateral exchange rates, such as China's peg to the US dollar. We employ the open economy model by de Melo and Robinson to identify the core parameters of the real, trade side of the economy driving the unemployment effects of bilateral exchange rate realignment. A small open economy version of the model is explored analytically and a large multicountry version numerically. Analytics in the small open economy model show that unemployment effects of adjusting of a bilateral peg hinge on the fraction exported to and imported from the trading partner. A larger fraction exported to and a smaller fraction imported from the trading partner make it more likely that revaluation of a trading partner's currency has beneficial effects. Numerics in the large economy model show that Chinese revaluation can generate both positive and negative unemployment effects depending upon underlying parameter values. Adverse unemployment effects can go along with an improving trade balance.

Transportation Costs and US Manufacturing FDI

- Review of International Economics---2014---Joseph Daniels,Marc Ruhr

In empirical models of foreign direct investment (FDI), distance is most often used to proxy for transportation costs and other pure-trade costs. Given that distance is time invariant but transportation costs are not, this approach is less than satisfactory when actual transportation costs rise and fall over time.The contribution of this work is to explicitly control for transportation costs and thereby better understand their impact on FDI. We explore the impact of shipping costs on total US FDI stocks abroad, manufacturing stocks and service stocks using measures of sea-shipping and air-shipping costs in a Hausman–Taylor model that controls for endogeneity and allows for time-invariant variables such as distance. We find that transportation costs have a positive and statistically significant relationship with US total and manufacturing FDI, suggesting a substitute relationship between FDI and trade flows consistent with horizontal MNE activity. As one would expect, these costs are insignificant for service stocks.

The Location of US States' Overseas Offices

- Review of International Economics---2014---Andrew Cassey

Forty US states operated an overseas office in 2002. Treating overseas offices as sales offices, the model assumes offices facilitate exports by reducing the transaction cost of selling abroad. From theory, states operate an office if aggregate savings outweigh operating costs. Exploiting the differences in where states locate offices in the data, and controlling for aggregate characteristics, the paper estimates the impact of exports on the probability of an office existing. In addition, the average state savings from an office is 0.04–0.10% of exports, with a cut-off threshold of US$850 million.

Location for Foreign Direct Investment in Vertically Related Markets

- Review of International Economics---2014---Chrysovalantou Milliou

This paper studies a multinational enterprise's (MNE's) location decision in a vertically related market with endogenous vertical technology transfer (VTT). We show that, even though VTT is more costly in a less developed country, an MNE can transfer more technology there than in a developed country (DC). When the opposite occurs, the MNE sometimes locates in a DC where, although it faces stronger competition, it obtains the input at better terms. Therefore, by arguing that the MNE's decision can be crucially affected by the upstream market's outcomes, an alternative explanation is provided for the commonly observed foreign direct investment (FDI) in DCs.

Spillovers from Foreign Direct Investment in Spanish Manufacturing Firms

- Review of International Economics---2014---Pedro Sánchez-Sellero,Jorge Rosell-Martinez,José Manuel García-Vázquez

This paper examines the effect of participation by foreign capital and the spillovers from a foreign presence on the technical progress of Spanish manufacturing firms. The results show that foreign direct investment (FDI) creates positive spillover effects for local firms, and when the presence of foreign capital and the absorptive capacity of spillovers from FDI are large, more technical progress ensues. Also, local companies in capital- and research and development (R&D)-intensive industries experience larger positive FDI spillovers. For these reasons, government policies should aim to attract FDI, especially in the aforementioned industries.

Structural Operations and Net Migration Across European Union Member Countries

- Review of International Economics---2014---Peter Egger,Wolfgang Eggert,Mario Larch

This paper analyzes the effects of international transfers to finance infrastructure on net migration flows among countries within the EU. A new economic geography model is employed with common pool financed infrastructure investments to derive a set of empirically testable hypotheses about the effects of transfer payments to finance infrastructure investments on migration. A significant effect of structural fund expenditures is identified on the bilateral net migration of workers among the EU member countries. On average, a one percentage point increase in the expenditures on structural funds (in per cent of gross domestic product (GDP)) leads to a reduction in the measure of bilateral net migration by about 0.4–0.8%.

International Reserves and the Composition of Foreign Equity Investment

- Review of International Economics---2014---Xingwang Qian,Andreas Steiner

This paper studies the effect of central banks' international reserve hoardings on the composition of foreign equity investment. Specifically, it examines whether reserves affect the share of foreign portfolio equity investment (PEI) in total foreign equity investment, which includes both PEI and foreign direct investment

(FDI). Foreign investors' decisions regarding the location and the type of equity capital investment might be influenced by a country's level of international reserves. In a simple theoretical model, it is shown that higher reserves, thanks to their ability to lower exchange rate risk, reduce the risk premium of PEI. Hence, higher reserves are expected to increase the inflow of PEI relative to FDI. This hypothesis is tested for a sample of 76 developing countries during the period 1980–2010 using different estimation methods, model specifications and data samples. The results suggest that higher levels of reserves are associated with a larger share of PEI relative to FDI. This result points to a collateral benefit of reserves that has been neglected so far. Reserves may contribute to develop domestic financial markets and facilitate domestic firms' access to foreign portfolio equity financing. In addition, this paper finds a strong negative effect of the global financial crisis beginning in 2008 on the share of PEI, which confirms the hypothesis that PEI is more crisis-dependent than FDI.

Comparative Trade Policy

- Review of International Economics---2014---Magnus Wiberg

Current research has found ambiguous theoretical and empirical results with respect to the effects of the type of electoral regime on trade policy. The present paper aims to reconcile the different views within a theoretical model. It is shown that the equilibrium level of trade protection can be relatively higher, as well as lower, under a majoritarian electoral rule compared with proportional representation. Trade policy is more (less) protectionist under proportional electoral regimes, as compared with majoritarian institutions, if swing districts are populated by relatively more (less) factor owners with stakes in the exporting sector. It is also shown that politicians optimally apply a lower (higher) level of rent seeking under the majoritarian electoral rule if there are relatively more factor owners in the swing districts with stakes in the exporting (import-competing) sector.

Capital and Consumption Tax Reforms in a Small Open Economy

- Review of International Economics---2014---Chi-Chur Chao,Eden S. H. Yu

The effects of a reform in capital and consumption taxes on private welfare and government tax revenue are examined for a small open, capital-importing economy. A trade-off between private welfare and tax revenue is encountered in maximizing social welfare. Nonetheless, lowering capital taxes and raising consumption taxes can increase both private welfare and tax revenue if the initial tax rates are not optimal. In addition, a tax reform by this fashion is a likely response to a rise in the foreign rate of return on capital.

Currency Unions, Export Margins, and Product Differentiation: An Empirical Assessment for European Monetary Union

- Review of International Economics---2014---Harald Badinger,Kemal Turkcan

This paper reconsiders the trade effects of the euro, providing a decomposition into its effects on the extensive margin and intensive margin. Furthermore, it relates the more disaggregated estimates for 93 two-digit HS product groups to the elasticity of substitution, thereby testing a key hypothesis of heterogenous firm trade theory. The estimates for the period 1996–2011 suggest a trade effect of the euro of some 28%, which has mainly materialized through the intensive margin. A negative net effect of the euro on the extensive margin is found for several product groups, supporting anecdotal evidence that firms have consolidated their product varieties in response to the elimination of exchange rate variability. Finally, the disaggregated estimates are in line with heterogenous firm trade theory models, suggesting that a large elasticity of substitution dampens the effect of a trade cost reduction on the extensive margin and amplifies its effect on the intensive margin.

Economic Determinants of Free Trade Agreements Revisited: Distinguishing Sources of Interdependence

- Review of International Economics---2014---Scott Baier,Jeffrey Bergstrand,Ronald Mariutto

One of the most notable international economic events since 1990 has been the enormous increase in the number of free trade agreements (FTAs). While Baier and Bergstrand were the first to show empirically the impact of a country-pair's economic characteristics on the likelihood of the pair having an FTA, the literature has been extended to demonstrate the importance empirically of FTA "interdependence"—the effect of other FTAs on the probability of a pair having an FTA. In the context of the Baier–Bergstrand framework, this paper delves deeper into the sources of interdependence—an "own-FTA" effect and a "cross-FTA" effect. The authors argue that the own-FTA effect (the impact on the net welfare gains of an FTA between two countries owing to either already having other FTAs) likely dwarfs the cross-FTA effect (the impact on the net welfare gains of an FTA between the pair owing to other FTAs existing in the rest of the world, or ROW). Augmenting a parsimonious logit model with simple "multilateral FTA" and "ROW FTA" terms to differentiate the own and cross effects empirically, it is shown that the marginal impact on the probability of a country-pair having an agreement of either country having one more FTA with a third country is 50 times that of one more FTA between another pair in ROW. The results suggest that "domino (own-FTA) effects" have far exceeded "competitive liberalization (cross-FTA) effects" in the proliferation of FTAs.

International Trade, Offshoring and Heterogeneous Firms

- Review of International Economics---2014---Richard Baldwin,Toshihiro Okubo

Recent trade models determine the equilibrium distribution of firm-level efficiency endogenously and show that freer trade shifts the distribution towards higher average productivity because of entry and exit of firms. These models ignore the possibility that freer trade also alters the firm-size distribution via international firm migration (offshoring); firms must, by assumption, produce in their "birth nation." We show that when firms are allowed to switch locations, new productivity effects arise. Freer trade induces the most efficient small-nation firms to move to the large nation. The large country gets an "extra helping" of the most efficient firms while the small nation's firm-size distribution is truncated on both ends. This reinforces the large-nation productivity gain while reducing or even reversing the small-nation productivity gain. The small nation is nevertheless better off allowing firm migration.

Productivity Gains and Spillovers from Offshoring

- Review of International Economics---2014---Bernhard Michel,Francois Rycx

Offshoring is generally believed to be productivity enhancing and this belief is underpinned by economic theory. This paper estimates the impact of materials and business services offshoring on productivity in Belgium over the period 1995–2004. It contributes to the literature: (i) by examining this issue separately for manufacturing and market services industries and (ii) by investigating the possibility of forward and backward spillovers from offshoring, i.e. that productivity gains from offshoring feed through to upstream and downstream industries. Results show that materials offshoring has no effect on productivity, while business services offshoring leads to productivity gains in manufacturing. Furthermore, there is no evidence of either forward or backward spillovers from offshoring.

FDI Location and the Relevance of Spatial Linkages: Evidence from Provincial and Industry FDI in China

- Review of International Economics---2014---Shalendra Sharma,Miao Wang,M. C. Sunny Wong

In this study both aggregate and industry-level foreign direct investment (FDI) data are employed to investigate the spatial dependence of FDI hosts. The analysis contributes to the existing literature by focusing on the heterogeneous spatial correlation of FDI in different industries. Using more comprehensive FDI data across multiple industries and multiple provinces in China from 1999 to 2007, the results show a significant spatial correlation among provinces. Aggregate FDI tends to be regional trade platform oriented indicating neighboring provinces become competitors for FDI. In contrast, results based on industry-level provincial FDI show stronger support for vertical or complex vertical FDI.

Nontraded Goods and Real Exchange Rates in a Multi-Good Ricardian Model

- Review of International Economics---2014---Roy J. Ruffin

The two-country Ricardian trade model with discrete goods and uniform transport costs for tradable goods is applied to the decomposition of the real exchange rate into traded and nontraded components. The real exchange rate is driven almost entirely by changes in the productivity differentials in nontraded goods and also explains the Balassa–Samuelson effect of a lower cost of living in poor countries, but extraordinary transport costs for some nontraded goods are necessary to easily explain the Balassa–Samuelson effect.

Intertemporal Budget Policies and Macroeconomic Adjustment in Indebted Open Economies

- Review of International Economics---2014---Marcelo Bianconi,Walter Fisher

This paper analyzes the role of government intertemporal budget policies in a growing open economy including nominal assets in the presence of an upward sloping supply of debt. This introduces transitional dynamics that influence the effects of government policy instruments on economic growth and the long term fiscal liability. It is shown that capital income taxes or a combination of tax-cum-expenditure or government expenditure alone can balance the long term intertemporal government budget constraint. However, those results are shown to depend critically upon the extent of distortion in capital flows brought about the upward sloping supply of debt.

“Out of Sync”: The Breakdown of Economic Sentiment Cycles in the EU

- Review of International Economics---2014---Dimitrios Thomakos,Fotis Papailias

Empirical evidence is presented about the properties of economic sentiment cycle synchronization for Germany, France and the UK and they are compared with the “crisis” countries Italy, Spain, Portugal and Greece. Instead of using output data it is preferred to focus on the economic sentiment indicator (ESI), a forward-looking, survey-based variable consistently available from 1985. The cyclical nature of the ESI allowed the analyis of the presence or not of synchronicity among country pairs before and after the onset of the financial crisis. The results show that ESI movements were mostly synchronous before 2008 but they exhibit a breakdown after 2008, with this feature being more prominent in Greece. It is also found that, after the political maneuvering of the past two years, a cycle re-integration or re-synchronization is on the way. An analysis of the evolution of the synchronicity measures indicates that they can potentially be used to identify sudden phase breaks in ESI co-movement and they can offer a signal as to when the EU economies are getting “in” or “out of sync”.

Labor Training and Foreign Direct Investment

- Review of International Economics---2014---Qing Liu,Larry Qiu

Evidence shows that most foreign direct investment (FDI) flows from developed to developed countries (North–North) in skilled labor-intensive industries. This paper builds a model that incorporates labor training into the proximity–concentration tradeoffs to analyze the entry mode of multinationals to a foreign country. Production requires both skilled labor and unskilled labor.. A multinational pursuing FDI needs to provide training to some workers in the host country to equip them with skills that are specific to the production of the firm. Labor training and skill specificity lead to contract friction. It is shown that in skilled labor-intensive industries, FDI increases along with the economic development level of the host country, whereas in unskilled labor-intensive industries, the reverse is true. This paper provides a theoretical explanation for the empirical findings on the prevalence of North–North FDI in skilled labor-industries and North–South FDI in unskilled labor-intensive industries.

The Gain from International Trade in Pool Goods and Private Goods

- Review of International Economics---2014---Geoffrey Fishburn,Murray C. Kemp

It is well known that perfectly competitive free trade is potentially beneficial for all countries if all goods are both rivalrous and excludable in consumption (“private goods”) and recently (2011) the proposition has been modified to accommodate non-rivalrous and non-excludable goods (“public goods”), as well as non-rivalrous and excludable goods (“club goods”). In the present paper the proposition is modified again, to accommodate rivalrous and non-excludable goods (“pool goods”). The primary focus is on ocean fisheries, access to which is shared (not necessarily equally) by all countries. However the central proposition to be established is valid for all international pool goods.

Trade and Industrial Policies with Heterogeneous Firms: The Role of Country Asymmetries

- Review of International Economics---2014---Michael Pflüger,Stephan Russek

This paper explores the role of country asymmetries for trade and industrial policies with heterogeneous firms. The analysis delivers a number of novel results. First, trade policies, infrastructure policies and industrial policies which improve the business conditions in one country have negative productivity and welfare effects on the trading partner. Second, symmetric trade liberalization is immiserizing for a trading partner whose business conditions are inferior. Third, there are gains from trade even for a country whose monopolistically competitive sector with heterogeneous firms is wiped out by switching from autarky to trade.

Uncertain Productivity Growth and the Choice between FDI and Export

- Review of International Economics---2014---Erdal Yalcin,Davide Sala

While determinants of FDI patterns have received widespread attention, the timing of their surge remains largely unexplained. According to the proximity–concentration trade-off argument, a surge in FDI in times of decaying international transportation costs seemingly represents a paradox. Besides transportation costs, other factors have contextually changed: in particular, the uncertainty that firms bear has increased. Enriching the classical choice problem of a multinational firm with insights from the literature on investment under uncertainty, we illustrate how different types of uncertainty determine the timing and optimal entry mode (i.e. FDI or export) of a multinational enterprise into a new market.

How do Migrants Choose Their Destination Country? An Analysis of Institutional Determinants

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Exchange Rate Policy and Liability Dollarization: What do the Data Reveal about Causality?

- Review of International Economics---2010---S. Pelin Berkmen,Eduardo Cavallo

The paper identifies the contemporaneous relationship between exchange rate policy and liability dollarization using three different definitions of dollarization. The presence of endogeneity makes the empirical identification elusive. We use identification through heteroskedasticity to solve the endogeneity problem in the present context (Rigobon, 2003). While we find that countries with high liability dollarization (external, public, or financial) tend to be more actively involved in exchange rate stabilization operations, we do not find evidence that floating, by itself, promotes dedollarization. Copyright © 2010 Blackwell Publishing Ltd.

Antidumping Regulations: Anti-Competitive and Anti-Export

- Review of International Economics---2010---David Collie,Vo Phuong Mai Le

In a Bertrand duopoly model, it is shown that an antidumping regulation can be strategically exploited by the home firm to reduce the degree of competition in the home market. The home firm commits not to export to the foreign market which gives the foreign firm a monopoly in its own market. As a result the foreign firm will increase its price allowing the home firm to increase its price and its profits. If the products are sufficiently close substitutes then the higher profits in the home market are large enough to compensate for the loss of profits on exports. Copyright © 2010 Blackwell Publishing Ltd.

Peripheral Tasks Are Offshored

- Review of International Economics---2010---Fumio Dei

I build a model in which an offshoring firm has a core task and a peripheral task. This study demonstrates that in a world composed of the North and the South, the peripheral task is offshored but the core task is not. The study also demonstrates that offshoring does not occur if the skill level of the southern workers is too low. Copyright © 2010 Blackwell Publishing Ltd.

The Loss from Trade under International Cournot Oligopoly with Cost Asymmetry

- Review of International Economics---2010---Baomin Dong,Lasheng Yuan

This paper examines the efficiency and welfare effects of intra-industry trade in the presence of imperfect competition and heterogeneous technologies. We show that when a Southern country has a relatively less concentrated industry and faces low demand, the output of the Northern country may contract after initiating trade. Production inefficiencies can outweigh the gain effected by trade-induced competition and lower price in trade, resulting in a net loss in the global welfare. In some circumstances, voluntary technology transfer, managed trade through VERs, or the introduction of a tariff can improve both trading partners' welfare. Copyright © 2010 Blackwell Publishing Ltd.

The Gains from Trade in a Cournot-Nash Trading Equilibrium

- Review of International Economics---2010---Murray Kemp

It has recently been suggested by several authors that a Cournot-Nash free-trade equilibrium might leave each country worse off than under autarky, in apparent contradiction of earlier findings. In the present note it is shown that the suggestion is typically based on self-contradictory assumptions and is therefore unacceptable. Copyright © 2010 Blackwell Publishing Ltd.

Innovation, Imitation, and Intellectual Property Rights with International Capital Movement

- Review of International Economics---2010---Yoshifumi Okawa

This paper extends the established Helpman (1993) model by introducing international capital movement, and obtains new results concerning the welfare implications of tightening intellectual property rights (IPR) in the South. First, if separated capital markets in the North and the South are integrated, enforcement of IPR would have more desirable welfare effects in both regions. Second, when international capital movement is allowed, the North always gains from the tightening of IPR if the imitation rate is sufficiently high. This implies that the North's demand on the South to tighten IPR becomes stronger as the integration of international capital markets progresses. Copyright © 2010 Blackwell Publishing Ltd.

Understanding the Relationship between Financial Development and Monetary Policy

- Review of International Economics---2010---Luis Carranza,Jose Galdon-Sanchez,Javier Gomez-Biscarri,Javier Gómez Biscarri

In this paper we summarize the results of a broad exploratory empirical analysis where we relate the level of financial development with the effectiveness of monetary policy. The analysis is based on a panel of countries for which we calculate measures both of financial development and of monetary policy effectiveness. We look for statistically significant relationships between the indicators of financial development, the effectiveness coefficients, and other macroeconomic characteristics by estimating dynamic panels and performing a cluster analysis. We present our results in the form of a list of stylized facts that we consider deserve further attention. Copyright © 2010 Blackwell Publishing Ltd.

Business Cycle Comovement and Labor Market Institutions: An Empirical Investigation

- Review of International Economics---2010---Raquel Fonseca,Lise Patureau,Thepthida Sopraseuth

This paper examines the empirical link between labor market institutions and international business cycle synchronization. Using a data panel of 20 OECD countries over the 1964-2003 period, we evaluate how cross-country labor market heterogeneity affects business cycle comovement. Our estimation strategy controls for a large set of possible factors influencing cross-country GDP correlation, which allows a comparison of our results with those found in previous studies. We find that bilateral trade, trade similarity, monetary and fiscal convergence, as well as EMU membership lead to more synchronized cycles. Our results show that labor market regulations affect the extent of business cycle synchronization. Disparities in employment protection laws and direct taxation tend to lower international comovement while divergence in union density, unemployment benefits, and indirect taxation enhance cross-country correlations. The level of labor market regulations also matters. Heavier employment taxes are found to raise GDP comovement. Copyright © 2010 Blackwell Publishing Ltd.

Does the Protection of Foreign Intellectual Property Rights Stimulate Innovation in the US?

- Review of International Economics---2010---Larry Qiu,Huayang Yu

Although standard theories suggest that patent protection helps stimulate innovative activities, some new theories argue the opposite. Empirical studies do not generate conclusive results either. This paper investigates empirically the impacts of foreign patent reforms on innovation in the US, using data on successful patent applications in the US over 33 years and major IPR reforms in 21 countries, in addition to the patent reforms in the US and the TRIPS Agreement of the WTO. We find that the TRIPS Agreement has had significant impacts on innovation in the US, which highlights the importance of international cooperation in patent protection. However, the effects of strengthening patent protection by individual countries are not statistically significant. This result seems to imply that the US market is already sufficiently large/profitable to provide innovation incentives in the US and therefore further strengthening foreign patent protection simply increases the US innovators' rent, but not their innovation. Copyright © 2010 Blackwell Publishing Ltd.

ISO Standards: A Certificate to Expand Exports? Firm-Level Evidence from Argentina

- Review of International Economics---2010---Christian Volpe Martincus,Sebastián Castresana,Tomás Castagnino

Does standard adoption help firms in developing countries overcome information barriers and thereby perform better in international markets? What are the channels through which certification affects firms' exports, the intensive margin, or the extensive margin? We provide evidence on the impact of certification on export performance using a unique firm-level dataset for Argentina over the period 1998-2006. We find that ISO certification is associated with increased exports, along the extensive margin-primarily in terms of destination countries-and the intensive margin. Copyright © 2010 Blackwell Publishing Ltd.

Endowments, Specialization, and Policy

- Review of International Economics---2010---Olivier Cadot,Yuliya Shakurova

The paper explores the relationship between industry shares in production and their determinants including factor endowments, technology, and government policies, in a GDP-function framework. We use a new international panel dataset on production and trade compiled by the World Bank. As an intermediate step we calculate Hicks-neutral productivity indices that vary across industries, time, and countries. We find that own-TFP is robustly associated with industry shares across time and countries and that, after correcting for these productivity differences, output shares are related to factor endowments (Rybczynski effects) in a plausible way. Once Rybczynski effects are controlled for, we find little evidence of demand-side policies (import tariffs) affecting the allocation of resources; we find, however, more role for supply-side policies as the relative size of capital-intensive industries is positively associated with infrastructure-capital endowments. Copyright © 2010 Blackwell Publishing Ltd.

Productivity, the Terms of Trade, and the Real Exchange Rate: Balassa-Samuelson Hypothesis Revisited

- Review of International Economics---2010---Ehsan Choudhri,Lawrence Schembri

The paper examines how the Balassa-Samuelson hypothesis is affected by a modern variation of the standard model that allows product differentiation (within the traded and nontraded goods sectors) with the number of firms determined exogenously or endogenously. The hypothesis is found to be fragile in the modified framework. Small variations in the elasticity of substitution between home and foreign traded goods (within the range of estimates suggested in the literature), for example, can make the effect of a traded-goods productivity improvement on the real exchange rate negative or positive, as well as small or large. This result provides a potential explanation of the mixed empirical results that have been obtained on the relationship between productivity and the real exchange rate. Copyright © 2010 Blackwell Publishing Ltd.

Is Mexico a Lumpy Country?

- Review of International Economics---2010---Andrew Bernard,Raymond Robertson,Peter Schott

Courant and Deardorff (1992) show theoretically that an extremely uneven distribution of factors within a country can induce behavior at odds with overall comparative advantage. We demonstrate the importance of this insight for developing countries. We show that Mexican regions exhibit substantial variation in skill abundance, offer significantly different relative factor rewards, and produce disjoint sets of industries. This heterogeneity helps both to undermine Mexico's aggregate labor abundance and to motivate behavior that is more consistent with relative skill abundance. Copyright © 2010 Blackwell Publishing Ltd.

Who Trades with Whom? Exploring the Links between Firms' International Activities, Skills, and Wages

- Review of International Economics---2010---Francesco Serti,Chiara Tomasi,Antonello Zanfei

Using firm-level data on the Italian manufacturing industry, we examine how trade activities are related to workforce composition and wages. We contribute to empirical research on these issues in three ways. First, we provide new evidence that is consistent with multi-attribute models on firm heterogeneity and trade. We show that even after controlling for various company characteristics, including size and capital intensity, exporters still pay higher wages and employ more skilled workers than nonexporters. Second, we consider engagement in international transactions, either by means of exports, imports, or a combination of the two. We show that failing to control for importing activities may bias upward export premia. Third, we look at how the wage and the employment structures of trading firms change with the country of destination and origin of trade flows. We find that wage and skill premia are influenced by the characteristics of partner countries.

Trade-Induced Unemployment: How Much Do We Care?

- Review of International Economics---2010---Yoto Yotov

It is a common perception that a government, especially in the face of elections, is particularly sensitive to the presence of trade-induced unemployment. In this paper, I ask: how much weight does the incumbent politician actually attach to unemployment resulting from trade? To answer, I build a model that captures government's sympathy to trade-affected workers and allows me to decompose the channels through which trade-induced unemployment affects the level of sectoral protection chosen by a politically-driven incumbent official. I provide empirical evidence that the US government is very sensitive to the presence and the magnitude of trade-induced unemployment. Specifically, I estimate the weight that the office holder attaches to the welfare of trade-affected workers to be positive, significant, and four times larger than the weight on the welfare of those who are not affected by trade.

Unemployment of Skilled and Unskilled Labor in an Open Economy: International Trade, Migration, and Outsourcing

- Review of International Economics---2010---Richard Brecher,Zhiqi Chen

We show how international trade, migration, and outsourcing affect unemployment of skilled and unskilled labor, in a framework that integrates the Heckscher-Ohlin model of trade with the Shapiro-Stiglitz model of unemployment. Our approach allows us to analyze changes in not only aggregate unemployment, but also the distribution of unemployment between skilled and unskilled labor. As the analysis demonstrates, the unemployment rates of these two types of labor often move in opposite directions, thereby dampening the change in aggregate unemployment. Results depend on the source of comparative advantage, based on international differences in (for example) unemployment insurance or production technology.

A Public Choice Approach to Strategic and Nonstrategic Environmental Policy

- Review of International Economics---2010---Stefan Csordas

In this paper we take a public choice perspective on strategic environmental policy and international environmental agreements. We examine cooperative and noncooperative environmental policies under governments that are either welfare maximizers ("good dictators") or tax revenue maximizers ("Leviathans"). We show that Leviathans can perform better in terms of welfare and that good dictators can set higher taxes. We then analyze international environmental agreements and show that the breakdown of environmental cooperation can indeed lead to a welfare gain for all signatory countries. Considering a delegation game between governments, we find that a Pareto-superior Leviathan outcome can be the unique Nash equilibrium.

Bilateral and Third-Country Exchange Rate Effects on Multinational Activity

- Review of International Economics---2010---Hartmut Egger,Peter Egger,Michael Ryan

In an earlier paper, we showed that bilateral exchange rates are important determinants of multinational activity of both the US and Japan and that increases in the bilateral and third-country exchange rates exert opposing effects on bilateral multinational activity. Furthermore, the signs of the exchange rate coefficients differ between Japan and the US. In this paper, we formulate a three-country model with coexisting exporters and multinational firms that engage in Cournot competition to rationalize these effects. In this model, we identify two counteracting effects which govern the bilateral and third-country effects of an exchange rate increase on bilateral multinational activity. Our theoretical framework is flexible enough to explain the Japanese as well as the US patterns of exchange rate effects and it allows us to identify those factors that are responsible for the respective differences.

Globalization and the Inequality-Unemployment Tradeoff

- Review of International Economics---2010---Joel Hellier,Nathalie Chusseau

Over the last 20 years, advanced economies have experienced an "unemployment versus inequality" tradeoff that is critically uneven across countries. To explain this, we propose an extended HOS model in which: the factors are skilled and unskilled labor; there is a continuum of goods; the world comprises two North countries (one egalitarian and one nonegalitarian) and the South; there is no factor price equalization; globalization consists in the South cornering a growing share of world production. In the North, globalization entails an inequality-unemployment tradeoff and the adjustment to globalization is more painful for the country that was initially inequality-oriented.

Partial- and General-Equilibrium Measures of Trade Restrictiveness

- Review of International Economics---2010---Peter Lloyd,Donald MacLaren

New partial-equilibrium forms of the Trade Restrictiveness Index and the Mercantilist Trade Restrictiveness Index have recently been used by the World Bank and others. In this paper we examine the bias in the partial-equilibrium forms due to the neglect of general-equilibrium effects. We propose "semi-general-equilibrium" measures that capture those general-equilibrium effects due to vertical input-output relations without the need for a computable general-equilibrium model. These measures also incorporate nontariff measures. Australian data are used to compute the semi-general-equilibrium measures. These estimates indicate that the partial-equilibrium forms generally underestimate the true value of the indices, and by a large margin in some cases.

Domestic versus External Borrowing and Fiscal Policy in Emerging Markets

- Review of International Economics---2010---Garima Vasishtha

This paper presents a model of an emerging market sovereign that can selectively default on its domestic or external creditors. The two classes of creditors have different ways of punishing the government in the event of default, which in turn creates a differential in the sovereign's incentives to default on its domestic versus foreign creditors. We explore the extent to which the possibility of differential treatment of creditors affects the composition of debt. We find that a country characterized by volatile output, sovereign risk, and costly tax collection will want to borrow in domestic as well as in international markets.

Exports versus FDI in German Manufacturing: Firm Performance and Participation in International Markets

- Review of International Economics---2010---Jens Arnold,Katrin Hussinger

Recent theoretical work has been able to explain how even within narrowly defined industries, firms can exhibit heterogeneous degrees of participation in international commerce. Differences in productivity between firms are the principal explanation offered by theory to explain heterogeneity with respect to international commerce. In particular, theory predicts that the least productive firms will produce for the domestic market only, while better performers engage in export activities, and the top firms establish foreign subsidiaries. This paper presents an empirical test of the relationship between productivity and patterns of international trade and production. Using German firm-level data from 1996 to 2002, we test the predicted rank ordering of productivity according to firms' trade pattern by examining the distribution functions of the three subsets of firms for stochastic dominance. Our results are generally consistent with the predictions from theory, and document significant productivity differences according to trade patterns. Copyright © 2010 Blackwell Publishing Ltd.

Should Small Countries Fear Deindustrialization?

- Review of International Economics---2010---Ai Ting Goh,Tomasz Michalski

Will small countries deindustrialize when opening up to trade with large countries? Donald Davis (1998) shows that for the home market effect to lead to deindustrialization of small countries, trade costs for homogeneous goods must be sufficiently smaller than trade costs in differentiated goods, a condition which is not supported by empirical evidence. We show that if differentiated goods production uses tradable inputs small countries can become deindustrialized when trading with a sufficiently large country and if trade costs are low. Copyright © 2010 Blackwell Publishing Ltd.

On the Complementarity of Equilibrium Exchange-Rate Approaches

- Review of International Economics---2010---Agnès Benassy-Quere,Sophie Béreau,Valérie Mignon

Based on a simple, stock-flow adjustment framework, we show that existing concepts of equilibrium exchange rates can be viewed as realizations of the same model at different time horizons. We then compare fundamental and behavioral estimations of equilibrium exchange rates based on the same, econometric modeling of the net foreign asset position in the long run, for a panel of 15 countries over the 1980-2005 period. These estimations suggest that, although more robust to alternative assumptions, the BEER approach may rely on excessive confidence on past behaviors in terms of portfolio choices. Symmetrically, FEERs may underestimate the plasticity of international capital markets because they focus on the adjustment of the trade balance. Copyright © 2010 Blackwell Publishing Ltd.

Intellectual Property Rights and Entry into a Foreign Market: FDI versus Joint Ventures

- Review of International Economics---2010---Dermot Leahy,Alireza Naghavi

We study the effect of the intellectual property rights (IPR) regime of a host country (South) on a multinational's decision between serving a market via greenfield foreign direct investment to avoid the exposure of its technology or a North-South joint venture (JV) with a local firm, which allows R&D spillovers under imperfect IPRs. JV is the equilibrium market structure when R&D intensity is moderate and IPRs strong. The South can gain from increased IPR protection because it encourages a JV, whereas policies to limit foreign ownership in a JV gain importance in technology-intensive industries as complementary policies to strong IPRs. Copyright © 2010 Blackwell Publishing Ltd.

Trade, Migration, and Inequality in a World without Factor Price Equalization

- Review of International Economics---2010---Paul Oslington,Isaac Towers

The behavior of trading economies in the absence of factor price equalization is not well understood, although empirical evidence against factor price equalization is overwhelming. We map regions of diversification and specialization for competitive world economies with different factor endowment partitions. Goods and factor price responses as economies move within and across different regions of specialization are explored using a series of novel diagrams. The usefulness of endogenizing patterns of specialization is illustrated by considering the impact on inequality of migration flows (such as US-Mexico), the substitutability of trade and migration, and the impact of the entry of a large unskilled labor-intensive economy (such as China) on factor prices and factor flows. Copyright © 2010 Blackwell Publishing Ltd.

Do Customs Union Members Engage in More Bilateral Trade than Free-Trade Agreement Members?

- Review of International Economics---2010---Jayjit Roy

This paper provides the first empirical analysis directly comparing the effects of customs unions (CUs) and free-trade agreements (FTAs) on members' bilateral trade, while addressing the biases arising from log-linearization of the gravity model and crucial time-invariant unobservables. Since Fiorentino et al. (2007) question the popularity of CUs relative to FTAs, considering the latter to be more practical in the current trading climate, such a comparison seems especially relevant. While Baier and Bergstrand (2007) find an FTA to approximately double members' bilateral trade after 10 years, the results of this paper find CUs to have had a much larger impact than FTAs. Copyright © 2010 Blackwell Publishing Ltd.

Outsourcing of Unionized Firms and the Impact of Labor Market Policy Reforms

- Review of International Economics---2010---Erkki Koskela,Ronnie Schöb,Ronnie Schoeb

This paper shows that outsourcing of parts of the workforce in unionized firms leads to wage moderation both in the case of strategic and flexible outsourcing. As long as the share of the outsourced workforce is not too large, this wage-moderation effect on domestic employment outweighs the direct substitution effect so that domestic employment increases in unionized firms as outsourcing costs fall. With respect to the impact of labor tax reform changes in the wage tax rate, the tax exemption and the unemployment benefit payments affect domestic wage setting in the same way as in the absence of outsourcing. Furthermore, increasing the degree of tax progression by keeping the relative tax burden per worker constant continues to be good for employment. However, except for low outsourcing activities, the impact of these policy measures will become smaller as outsourcing costs fall. Copyright © 2010 Blackwell Publishing Ltd.

North-South Integration and the Location of Foreign Direct Investment

- Review of International Economics---2010---Ayca Tekin-Koru,Andreas Waldkirch

We investigate how North-South integration affects the location of foreign direct investment (FDI) between the two regions. The theoretical analysis suggests that integration affects the incentives of partner and nonpartner Northern countries to locate in the South differently and may lead to investment diversion from the Northern partner. We test our propositions using data from the North American Free Trade Agreement (NAFTA), the first major North-South integration scheme. We find that NAFTA partner FDI in Mexico has increased since the inception of NAFTA above what is implied by other determinants of FDI and the global upward trend during this time. Other countries have not increased their use of Mexico as an export platform. We also find no evidence that inward US FDI has been diverted.

The results are robust to a number of different model and econometric specifications as well as the skill data used. Copyright © 2010 Blackwell Publishing Ltd.

A Calibrated Trade Model of Agglomeration

- Review of International Economics---2010---Paul Friesen,Stephen Kosempel

This paper explores just how good the idea of international agglomeration of industry can be at explaining observed economic differences between countries. An international trade model with industrial agglomeration is outlined and calibrated to real data from the world's 10 largest countries by population, in order to assess how well it can explain the gap between rich and poor countries, observed trade volumes, price differences, and other types of data. The model is revealing in showing that, given the existing location of labor, an asymmetric exogenous distribution of firms is enough to generate income disparity and other stylized facts. Copyright © 2010 Blackwell Publishing Ltd.

On the Stationarity of Current Account Deficits in the European Union

- Review of International Economics---2010---Mark Holmes,Jesus Otero,Theodore Panagiotidis

In this paper, we test for the stationarity of EU current account deficits. Our testing strategy addresses two key concerns with regard to unit-root panel data testing, namely (i) the identification of which panel members are stationary, and (ii) the presence of cross-sectional dependence. For this purpose, we employ an AR-based bootstrap approach to the Hadri (2000) test. While there is only mixed evidence that current account stationarity applies when examining individual countries, this does not appear to be the case when considering panels comprising both EU and non-EU members. Copyright © 2010 Blackwell Publishing Ltd.

Nonlinear Exchange Rate Adjustment in the Enlarged Eurozone: Evidence and Implications for Candidate Countries

- Review of International Economics---2010---Nikolaos Giannellis,Athanasios Papadopoulos

This paper sheds light on the importance of the validity of PPP hypothesis for the accessing process of the candidate countries towards EMU. The evidence of nonlinear adjustment in real exchange rates suggests the estimation of a nonlinear SETAR model. While linear half-life estimates are biased upward (five years on average), SETAR half-life estimates imply a faster reverting process (1.5 years on average). Moreover, we found that TPI-based real exchange rates are more appropriate than CPI-based real exchange rates in testing for PPP hypothesis. For the cluster of EMU countries and for the pre-EMU period, our nonlinear model confirms stationarity for the majority of the TPI-based real exchange rates with half-life estimates less than a year. Copyright © 2010 Blackwell Publishing Ltd.

Competition Policy as Strategic Trade with Differentiated Products

- Review of International Economics---2010---Martino De Stefano,Marc Rysman

The paper analyzes how countries use competition policy as a tool for strategic trade. In the model, two countries export to a third country. Each exporting country is endowed with a set of differentiated products. Each government chooses the number of exporters for its country and the products that each exporter sells in the first period, and a tax policy in the second period. Firms choose prices or quantities independently in the third period. In the unique subgame-perfect equilibrium, both countries group all their products within a single firm-the "national champion policy." We study the implication of different assumptions about the timing of the game. Copyright © 2010 Blackwell Publishing Ltd.

Why the Lens Condition Cannot Imply Factor Price Equalization

- Review of International Economics---2010---Ling Qi

This paper explains why the lens condition cannot imply the factor price equalization condition when the rank of the factor use matrix is larger than two, but smaller than the number of goods. This arises from production substitution and the degeneration of the convex polyhedrons consisting of the possible output vectors of a country where the factor market is cleared. Two kinds of necessary and sufficient conditions for the factor price equalization condition are given. As a byproduct, a simple proof is given on equivalence between the lens condition and the factor price equalization condition in the case where the rank of the factor use matrix is two.

Competing to Outsource in the South

- Review of International Economics---2010---Laixun Zhao,Makoto Okamura

This paper analyzes foreign direct investment (FDI) competition in a three-country framework: two Northern countries and one Southern country. We have in mind the competition of Airbus and Boeing in a developing country. The host-country government endogenizes tariffs, while Airbus and Boeing choose domestic output and FDI. Wages and employment in the home countries are negotiated. We find that in the unique equilibrium, both Airbus and Boeing compete to undertake FDI in the developing country. This arises because the host country can play off the multinationals, which in turn stems from three factors: (a) oligopolistic rivalry; (b) quid pro quo FDI; (c) strategic outsourcing-FDI drives down the union wages at home if the host-country wage is sufficiently low. However, if the host-country wage is sufficiently high, the union wage increases under FDI. In such cases, FDI competition benefits the multinationals, the labor unions, as well as the host country.

FDI, Technology Spillovers, and Wages

- Review of International Economics---2010---Dieter Urban

This study distinguishes multinational firm (MNE) technology-spillover from learning effects. Whenever learning takes time, the model predicts that foreign investors deduct the economic value of learning from wages of inexperienced workers and add it to experienced ones to prevent them from moving to local competitors. Hence, the national wage bill is unaffected by the presence of MNEs. In contrast to learning, technology spillover effects occur whenever a worker with MNE experience contributes more to local firms' than to MNEs' productivity. In this case, experienced MNE workers are hired by indigenous firms and the host country obtains a welfare gain from the presence of MNEs.

Foreign Aid, Wage Inequality, and Welfare for a Small Open Economy with Tourism

- Review of International Economics---2010---Chi-Chur Chao,Jean-Pierre Laffargue,Pasquale Sgro

While the welfare effect of foreign aid has been extensively analyzed, the impact on the distribution of income has received less attention. At the same time, there has been recent work on tourism where it is complementary to aid in improving welfare. By combining these two strands, this paper concentrates on wage inequality in developing countries. We find that an increase in aid in the form of tied aid can lower the relative price of nontraded goods. The rent extracted from tourists declines, reducing welfare of domestic residents. In addition, the fall in the nontradable price can widen the wage inequality between skilled and unskilled workers. Thus, increased foreign aid may have detrimental effects on national welfare and the distribution of income. Rising wage inequality is confirmed by numerical simulations.

Technology Diffusion through Trade with Heterogeneous Firms

- Review of International Economics---2010---Bulent Unel

I investigate the long-run implications of trade and technology diffusion through trade, when firms are heterogeneous and trade is costly. This paper integrates firm heterogeneity and trade into a product innovation growth model from endogenous growth theory. I find that although exposure to trade increases average productivity, it has an ambiguous effect on economic growth and consumer welfare. Copyright © 2010 Blackwell Publishing Ltd.

The Red-Green Channel Dilemma: Customs Declaration and Optimal Inspection Policy

- Review of International Economics---2010---Gideon Yaniv

Despite the evolvement of an extensive literature on the economics of smuggling, the evasion of customs duties under the common red-green channel system has failed to attract any theoretical attention. The present paper develops a simple three-passenger-type model to examine the passenger's decision of whether to pass through the green or red channel, as well as to derive the optimal inspection policy for a revenue-maximizing customs authority. The analysis reveals that if net revenue collection when inducing truthful declaration is positive, it is never optimal for the customs authority to provide incentives for passing through the green channel, although it may be optimal to provide incentives for cheating at the red channel. However, if the penalty for evasion is large enough to wipe out passengers' income, providing incentives for passing through the green channel may be the optimal policy. Copyright © 2010 Blackwell Publishing Ltd.

Trade, Strategic Environmental Policy, and Global Pollution

- Review of International Economics---2010---Akihiko Yanase

This paper examines the effects of international trade in a model with global pollution that accumulates over time because of production emissions in each country. If countries cooperatively determine their environmental policies, autarky and free trade in the absence of trade costs generate the same optimal solution. By contrast, if environmental policies are determined noncooperatively, the effects of trade on global pollution and welfare are ambiguous because policy games can result in multiple equilibria. Although trade increases both the lower and upper bounds of the pollution stock, whether trade expands the range of possible steady-state pollution levels is ambiguous. The analysis then extends to consider trade costs. Copyright © 2010 Blackwell Publishing Ltd.

Trade Agreements and Trade Opportunities: A Flexible Approach for Modeling Australian Export and Import Elasticities

- Review of International Economics---2010---Kevin Fox,Ulrich Kohli,Alice Shiu

Patterns of trade have changed enormously over the last 30 years, particularly due to the economic emergence of several Asian countries. With the increasing international tendency for bilateral preferential trade agreements, it is important for countries to be aware of trade substitution possibilities. This paper estimates import and export price elasticities for Australia and its major trading partners in Europe and Asia, 1958 to 2002, using a fully flexible version of the Symmetric Normalized Quadratic aggregator function. Imports and exports are disaggregated into six regions, covering 17 countries. Our results illuminate the (changing) substitution and complementarity patterns for Australian foreign trade, highlighting trading opportunities in the face of a changing international environment. Copyright © 2010 Blackwell Publishing Ltd.

Fragmentation and Welfare in Monopolistic Competition

- Review of International Economics---2010---Morihiro Yomogida

We examine the welfare effect of fragmentation with a general-equilibrium model of monopolistic competition. Using the efficiency property of monopolistic competition models, we develop a diagram that is used to show that fragmentation of production arises, i.e. firms in a country specialize in developing blueprints and outsource the manufacturing of their products to the other country. Such fragmentation allows countries to benefit from trade due to two different sources: comparative advantage and product diversity. We show how these two sources result in gains from trade induced by this production fragmentation. Copyright © 2010 Blackwell Publishing Ltd.

Accounting for the China-US Trade Imbalance: An Ownership-Based Approach

- Review of International Economics---2010---Yiping Xu,Guijun Lin,Huayu Sun

This paper focuses on measuring the trade imbalance between China and the United States (US) within the framework of the ownership-based approach. It extends the baseline model developed, respectively, by NAS, Julius, and BEA into a three-country framework, consisting of the domestic economy, the foreign economy, and the rest of the world. The results of the study show that the non-US foreign direct investment in China is mostly responsible for China's trade surplus with the US. As a result, China's ownership-based trade surplus is surprisingly small relative to the conventional measure. Copyright © 2010 Blackwell Publishing Ltd.

Profit Share and Partner Choice in International Joint Ventures

- Review of International Economics---2010---Litao Zhong,Sajal Lahiri

This paper suggests a new approach to the determination of profit allocation between the partners in international joint ventures (IJVs). We also examine the issue of partnership choice. The foreign firm gives a large share of profits to its partner and in return receives a better tax treatment from the host government. Under linearity of costs and demand functions, it would choose the more efficient domestic firm as an IJV partner, and the domestic firms would happily accept the offer of partnership from the foreign firm. However, the host government, under certain situations, may persuade the foreign firm, by a suitable lump-sum transfer, to form a partnership with the less efficient firm. Copyright © 2010 Blackwell Publishing Ltd.

Factor Substitution and Relative Factor Prices

- Review of International Economics---2010---Hikari Ban

This paper examines the effects of factor endowments on factor prices in a three-factor, two-commodity general-equilibrium model with endogenous commodity demand and prices. Unlike the conventional small open-economy model that assumes constant commodity prices, factor substitution influences the direction of these effects. When a factor endowment increases, complementarity with the expanding factor benefits an unchanged factor, but substitutability harms it. If the unchanged factors are complements, there is a possibility of a rise in the expanding factor's price. A comparison of this closed-economy model with the small open-economy model reveals the role of international trade, which dampens the effect on the expanding factor's price. Copyright © 2010 Blackwell Publishing Ltd.

Wage Inequality, Increased Competition, and Trade Liberalization: Short Run vs Long Run

- Review of International Economics---2010---Sajid Anwar

This paper examines the impact of increased competition and trade liberalization on skilled-unskilled wage inequality in the short run as well as the long run. It is shown that an increase in the number of firms in the producer services sector increases wage inequality in the short run even if the income shares of capital in the industrial and agricultural sectors were identical. A decrease in the services sector's fixed cost decreases wage inequality in the short run if the income share of capital in the agricultural sector is relatively large. Owing to the presence of external economies, a decrease in the services sector's fixed cost increases wage inequality in the long run. A decrease in import duty on the agricultural good increases wage inequality in the short as well as the long run but its effect in the long run is stronger due to the presence of external economies in the industrial sector.

Trade Liberalization, Firm Selection, and Variety Growth

- Review of International Economics---2010---Itai Agur

Recent empirical findings indicate that when trade is liberalized both firm selection takes place and product variety increases. Each of these two stylized facts has its own seminal theory. But how can they arise together? This paper presents a model of heterogeneous, multi-variety firms that provides an intuitive explanation. When trade is liberalized efficient foreign exporters enter and push out the least efficient domestic firms. Fewer firms remain in total. But exporters endogenously offer more variety than domestic firms. The entry of variety-rich foreign firms unambiguously dominates the decrease in the number of firms. Thus, total variety increases.

Trade Liberalization and Productivity Growth

- Review of International Economics---2010---Peter Gustafsson,Paul Segerstrom

This paper presents a trade model with firm-level productivity differences and R&D-driven growth. Trade liberalization causes the least productive firms to exit but also slows the development of new products. The overall effect on productivity growth depends on the size of intertemporal knowledge spillovers in R&D. When these spillovers are relatively weak, then trade liberalization promotes productivity growth in the short run and makes consumers better off in the long run. However, when these spillovers are relatively strong, then trade liberalization retards productivity growth in the short run and makes consumers worse off in the long run.

Market Integration, Choice of Technology, and Welfare

- Review of International Economics---2010---Jørgen Drud Hansen,Jørgen Ulff-Møller Nielsen

This paper develops an international trade model where firms in a duopoly may diversify their technologies for strategic reasons. The firms face the same set of technologies given by a tradeoff between marginal costs and fixed costs, but depending on trade costs firms may choose different technologies. Market integration may induce a technological restructuring where firms either diversify their technologies or switch to a homogeneous technology. In general, market integration improves welfare. However, a small decrease of trade costs which induces a switch from heterogeneous technologies to a homogeneous technology may locally reduce global welfare. The model also shows that productivity differences lead to intra-industry firm heterogeneity in size and exports similar to the "new-new" trade models with monopolistic competition.

Quotas, Spillovers, and the Transfer Paradox in an Economy with Tourism

- Review of International Economics---2010---Chi-Chur Chao,Bharat Hazari,Eden S. H. Yu

This paper examines the welfare implications of quotas for an economy that is small in terms of traditionally traded goods and has monopoly power over the trade of goods consumed by tourists. Inbound tourism converts local nontraded goods into tradable goods, creating a tourism terms-of-trade effect for the tourist-receiving economy. Through this effect, quotas result in a spillover to the nontraded sector. Hence, in the presence of tourism, the traditional free-trade prescription for the small open economy is no longer valid. This lends support to the setting of import quotas. Using the optimal quota as a benchmark, we further examine the welfare effect of tied aid. If tied aid brings about an excessive supply of importable goods, then the transfer paradox of the immiserization of the tourist-receiving economy may occur.

Trade Liberalization or Oil Shocks: Which Better Explains Structural Breaks in International Trade Ratios?

- Review of International Economics---2010---Suleiman Abu-Bader,Aamer Abu-Qarn

Ben-David and Papell's (1997) tests for structural breaks in trade ratios over the postwar period revealed that trade ratios exhibited structural breaks in their paths and that postbreak trade averages exceeded prebreak averages. They attributed these breaks to trade liberalization measures carried out during this period. We re-evaluate their results and find that for most countries the averages of actual postbreak ratios were below the averages of the extrapolated prebreak ratios and that a large share of the breaks coincided with the 1970s oil shocks. This would suggest that the oil shocks rather than trade liberalization may account for the breaks.

Sources of Exchange Rate Movements in Japan: Is the Exchange Rate a Shock-Absorber or a Source of Shock?

- Review of International Economics---2010---Lian An,Yoonbai Kim

This paper investigates the sources of movements of the yen-dollar exchange rate using a structural vector autoregression (VAR) with a combination of short-run and long-run zero restrictions. We find that real shocks dominate nominal shocks in explaining the exchange rate movements, with relative real demand shocks as the major contributor. The exchange rate market does not seem to be a major source of disturbances to the Japanese economy. The overall results support the view that the bilateral dollar exchange rate in Japan is a shock-absorber rather than a source of shocks.

Outsourcing and the Heckscher-Ohlin Model

- Review of International Economics---2010---Ravi Batra,Hamid Beladi

The purpose of this paper is to incorporate the currently mushrooming phenomenon of outsourcing into the standard two-sector, two-factor Heckscher-Ohlin model of international trade. We first show how outsourcing modifies a firm's production function, and then demonstrate that outsourcing generally raises the return to capital and lowers the real wage, although the nation's GDP rises in proportion to the value-added in the outsourcing industry. Furthermore, the output of the outsourcing sector may actually fall even though its unit cost goes down; the output of the other sector then rises. By contrast, employment in the outsourcing sector may actually rise.

International Bank Portfolios: Short- and Long-Run Responses to Macroeconomic Conditions

- Review of International Economics---2010---Sven Blank,Claudia Buch

International bank portfolios constitute a large component of international country portfolios. Yet, banks' response to international macroeconomic conditions remains largely unexplored. We use a novel dataset on banks' international portfolios to answer three questions. First, what are the long-run determinants of banks' international portfolios? Second, how do banks' international portfolios adjust to short-run macroeconomic developments? Third, does the speed of adjustment change with the degree of financial integration? We find that, in the long-run, market size has a positive impact on foreign assets and liabilities. An increase in the interest differential between the home and the foreign economy lowers foreign assets and increases foreign liabilities. Foreign trade has a positive impact on international bank portfolios, which is independent from the effect of other macroeconomic variables. Short-run dynamics show heterogeneity across countries, but these dynamics can partly be explained with gravity-type variables.

Estimating an Import Demand Function in Developing Countries: A Structural Econometric Approach with Applications to India and Sri Lanka

- Review of International Economics---2010---M. Shahe Emran,Forhad Shilpi

Owing to the unavailability of time-series data on the domestic market-clearing price of imports, the estimation of notional price and income elasticities of aggregate import demand remains a daunting task for a large number of developing countries. This paper develops a structural econometric model of a two-goods representative agent economy that incorporates a binding foreign exchange constraint at the administered prices of imports. A theoretically consistent parameterization of the "virtual relative price" of imports circumvents the data problem, and thus enables the estimation of income and price responses by cointegration approach. The price and income elasticity estimates for India and Sri Lanka, in contrast to the extant literature, have correct signs, high statistical significance, and plausible magnitudes.

Investment Liberalization and Cross-Border Acquisitions: The Effect of Partial Foreign Ownership

- Review of International Economics---2010---Serena Fatica

This paper investigates the optimal strategy for a multinational to conduct FDI. We find that the incentives to use acquisition rather than greenfield investment change significantly if the multinational is allowed to have already an ownership interest in the target local firm before the market is fully liberalized. Interestingly, when investment costs are sufficiently high, the multinational prefers not entering the market at all with partial ownership in place, whereas a cross-border takeover would be the optimal entry mode otherwise. For intermediate levels of entry costs, holding a stake in the local producer reverses positively the profitability of a full acquisition compared to greenfield investment.

An Absorption Approach to Modeling the US Current Account

- Review of International Economics---2010---Juann H. Hung,Edward N. Gamber

This paper derives and estimates a current account model based on the absorption approach (which views the current account balance as the difference between domestic saving and investment). This approach provides a framework which allows drivers of cross-border financial flows and other determinants of saving and investment to be included in a current account model, an advantage not offered by the elasticity approach (which views the current account balance as the sum of net exports, net investment income, and net unilateral transfer). We estimate and compare vector error-correction models of the absorption and elasticity approaches, with the absorption model nesting the elasticity model. We find that (1) the restrictions imposed by the elasticity model are rejected; and (2) the mean-squared prediction errors of the absorption model are significantly smaller than those of the elasticity model.

Shaken, Not Stirred: The Impact of Disasters on International Trade

- Review of International Economics---2010---Martin Gassebner,Alexander Keck,Robert Teh

This paper examines the impact of major disasters on import and export flows using a gravity model (170 countries, 1962-2004). As a conservative estimate, an additional disaster reduces imports on average by 0.2% and exports by 0.1%. Despite the apparent persistence of bilateral trade volumes, we find that the driving forces determining the impact of disastrous events are the level of democracy and the geographical size of the affected country. The less democratic and the smaller a country the greater is its loss due to a catastrophe. In autocracies, exports and imports are significantly reduced. Had Togo been struck by a major disaster in 2000, it would have lost 6.2% of its imports and 3.7% of its exports. While democratic countries' exports suffer identical decreases, imports increase.

Current Account Imbalances and Foreign Investment: A Theoretical Analysis of Interrelationships and Causalities

- Review of International Economics---2010---Sajal Lahiri,Akm Morshed

This paper develops a unified structure to examine the interrelationships between current account, foreign investment, and domestic capital accumulation. In particular, we develop a two-country, two-period model with international mobility of both physical and financial capital, and endogenous domestic capital accumulation. We consider cases where (i) current account is endogenous, but foreign investments are exogenous, and (ii) current account is exogenous, but foreign investments are endogenous. For (i), we examine how inflow and outflow of foreign physical capital affects current account. For the second case, we examine how an increase in current account deficit affects foreign investments. The complementarity or substitutability of foreign capital and domestic capital turns out to be crucial to the relationship between current account deficit and foreign investment.

Would NAFTA have been Approved by the House of Representatives under President Bush? Presidents, Parties, and Trade Policy

- Review of International Economics---2010---Christopher Sean Patrick Magee

This paper examines five trade policy votes in the United States House of Representatives, one during each of the last five presidential terms. The paper investigates the determinants of representative voting and shows that Congress members are more likely to support trade liberalization if the President is a member of their own party. The estimation allows a prediction to be made of the likely House trade votes under alternative presidential election outcomes. The model predicts that the probability of NAFTA being approved would have been greatly reduced by a victory for President Bush (41) in the 1992 election. Neither the trade promotion authority granted to President Bush (43) in 2001 nor the CAFTA signed in 2005 would likely have been approved under Democratic Presidents.

International Market Access and Poverty in Argentina

- Review of International Economics---2010---Guido Porto

This paper examines the impact of access to international agro-manufacture markets on poverty in Argentina. Estimates from the literature suggest that expanded market access would cause the international price of Argentine exports of agro-manufactures to increase by between 8.7% and 15.9%. I explore two poverty effects caused by these prices changes: on food expenditure and on wages. Using a household budget survey, I estimate the impact of higher food prices on the Argentine poverty line. Using a labor force survey, I estimate the responses of wages to changes in export prices. My main finding is that market access would cause poverty to decline in Argentina. From a national head count of 29.26%, the poverty rate would decline to between 28.28% and 28.80%. This means that between 161,000 and 343,000 Argentines would be moved out of poverty.

Nonhomothetic Preferences and International Trade

- Review of International Economics---2010---Jeffrey Reimer,Thomas Hertel

This study examines whether nonhomothetic preferences underlie the "missing trade" problem associated with factor content of trade models. We first find that per capita income goes a long way in explaining differences in goods consumption across countries. We then find a striking correlation between the factor content of consumption and per capita income, and show that accounting for this is a key part of resolving the case of the missing trade. However, nonhomothetic preferences over broad categories of expenditure play only a small role in this phenomenon. Rather, we find that as income grows, spending is directed towards the relatively capital-intensive version of a given good. Since recent research shows that capital intensity is correlated with quality (Schott, 2004), our results suggest that within-product quality differences are likely important for explaining the factor content of trade, whereas nonhomothetic preferences over broad categories of expenditure are much less so.

Gravity for FDI

- Review of International Economics---2010---Joern Kleinert,Farid Toubal

Gravity equations explaining foreign affiliates' sales are ad hoc and hence estimated coefficients are hard to interpret. We therefore provide the theoretical underpinnings of the gravity equation applied to the analysis of sales of foreign affiliates of multinational firms. We argue that the success of the gravity equation results from the fact that it can be derived from various theoretical models. We illustrate this point by deriving a gravity equation from three different models of multinational firms. Using data on real affiliate sales, we show how the gravity equation can nevertheless be used to discriminate between the different theoretical models.

Does FDI Facilitate Domestic Entry? Evidence from the Czech Republic

- Review of International Economics---2010---Meghana Ayyagari,Renáta Kosová

This paper analyzes the impact of FDI on domestic firm entry and firm size distributions in the Czech Republic during 1994-2000. We find that larger foreign presence stimulates the entry of domestic firms within the same industry, indicating the existence of positive horizontal spillovers from FDI. We also find evidence of significant vertical entry spillovers-FDI in downstream (upstream) industries initiates entry in upstream (downstream) sectors. Our results also show that entry spillovers through vertical linkages are stronger than horizontal spillovers and that while service industries benefit from both horizontal and vertical spillovers, manufacturing industries do not experience significant positive entry spillovers of any kind. We also find that country of origin of FDI matters-horizontal spillovers are driven by FDI from the EU countries. The right skewness of the firm size distributions in industries without FDI further emphasizes an important role of FDI presence for overall industry dynamics.

Regional Impacts of Liberalization of Barriers against Foreign Direct Investment in Services: The Case of Russia's Accession to the WTO

- Review of International Economics---2010---Thomas Rutherford,David Tarr

In this paper, the authors develop a 10-region comparative static computable general-equilibrium model of Russia to assess the impact of accession to the World Trade Organization on the regions of Russia. The model allows for foreign direct investment in business services and endogenous productivity effects from additional varieties of business services and goods produced under imperfect competition. The authors then show that these features are crucial to the results, as the welfare gains are about 20 times greater than in a constant-returns-to-scale model. The results for the estimated gains vary considerably across the regions; this is principally explained by the ability of the different regions to benefit from a reduction in barriers against foreign direct investment.

Fixed Costs, Foreign Direct Investment, and Gravity with Zeros

- Review of International Economics---2010---Ronald Davies,Helga Kristjánsdóttir

Fixed costs play a crucial role in current models of foreign direct investment (FDI), yet they are almost entirely ignored in empirical treatments of FDI. We fill this gap by using a 1989-2001 panel of FDI flows into Iceland to examine the determinants of fixed costs for multinational firms and how these influence aggregate patterns of investment. Our additions to research in the field include usage of several natural-resource variables, and the analysis of data on initial entry of FDI into a developed country. We use the Heckman two-step procedure, which allows us to account for fixed costs and their impact on estimation. Taken together, we find that the standard OLS approach to the data incorrectly links the quantity of FDI to source-country variables while in fact most of their role is in determining whether FDI takes place at all. Copyright © 2010 Blackwell Publishing Ltd.

Reciprocal Trade Agreements in Gravity Models: A Meta-Analysis

- Review of International Economics---2010---Maria Cipollina,Luca Salvatici

The gravity model is a workhorse tool applicable in a wide range of empirical fields. It is regularly used to estimate the impact of reciprocal trade agreements (RTAs) on trade flows between partners. The studies report very different estimates since there is a significant difference in datasets, sample sizes, and independent variables. This paper combines, explains, and summarizes a large number of results using a meta-analysis approach. We provide pooled estimates, obtained from fixed and random effects models of the RTAs' effect size on bilateral trade: the hypothesis that there is no effect of RTAs on trade is robustly rejected at standard significance levels. The information collected on each estimate allows us to test the sensitivity of the results to alternative specifications and differences in the control variables considered, as well as the impact of the publication selection process. Copyright © 2010 Blackwell Publishing Ltd.

Imperfect Capital Mobility: A General Approach to the Two-Sector Harris Todaro Model

- Review of International Economics---2010---Jai-Young Choi,Eden S. H. Yu

This paper investigates the analytical implications of partially mobile capital among sectors arising in the context of the two-sector general-equilibrium Harris-Todaro (HT) model. It is shown that under partially mobile capital, unlike the case of totally mobile or immobile capital, labor growth (capital accumulation) may destabilize sectoral capital movement and lower the welfare of a small country if the agricultural rental rate is lower (higher) than the manufacturing rental rate. While the price-output response is always normal in a stable system, the Rybczynski type of factor endowment-output response requires more stringent conditions (vis-à-vis perfectly mobile or immobile capital case). Copyright © 2010 Blackwell Publishing Ltd.

How Would an Appreciation of the Renminbi and Other East Asian Currencies Affect China's Exports?

- Review of International Economics---2010---Willem Thorbecke,Gordon Smith

China's global current account surplus equaled 9% of Chinese GDP in 2006 and 11% of GDP in 2007. Many argue that a renminbi appreciation would help to rebalance China's trade. Using a panel dataset including China's exports to 33 countries we find that a 10% renminbi (RMB) appreciation would reduce ordinary exports by 12% and processed exports by less than 4%. A 10% appreciation of all other East Asian currencies would reduce processed exports by 6%. A 10% appreciation throughout the region would reduce processed exports by 10%. Since ordinary exports tend to be simple, labor-intensive goods while processed exports are sophisticated, capital-intensive goods, a generalized appreciation in East Asia would generate more expenditure-switching towards US and European goods and contribute more to resolving global imbalances than an appreciation of the RMB or of other Asian currencies alone.

Modeling Exchange Rate Volatility

- Review of International Economics---2010---Basher A. Balg,Hugh Metcalf

This paper investigates the impact of the volatility of the underlying macroeconomic fundamentals on exchange rate volatility utilizing the bounds testing approach to cointegration. The results show that, in the long run the volatility of the money supply is the sole determinant, whereas in the short run overshooting is found.

Inequality and the Relative Reliance on Tariffs

- Review of International Economics---2010---Margarita Katsimi,Thomas Moutos

In this paper we uncover the existence of a U-shaped relationship between inequality and the relative reliance on tariff revenue, by estimating a cross-sectional regression relating the ratio of the tariff rate over the tax rate to inequality and a set of control variables such as GDP per capita, openness, the degree of democracy, and area dummies. We explain this U-shaped relationship by means of a Ricardian model of trade in vertically differentiated products between a developing country and the (developed) rest of the world. The model generates the U-shaped relationship because the preferences of the political majority (as captured by the median voter model) are shaped not only by the influence of inequality on the desire for redistribution, but also by the influence of inequality on the relative size of the tax base on which income taxes and tariffs are applied.

The Effects of Trade Liberalization in Textiles and Clothing on the Greek Market for Cotton Yarn: A Multi-Market Analysis

- Review of International Economics---2010---Dimitrios Dadakas,Stelios Katranidis

The Uruguay Round (1987-95) signaled the end of the Multifiber Agreement for textiles and clothing. The quota regime, in place since 1974, was decided, according to the Agreement on Textiles and Clothing, to be gradually eliminated by the year 2005. As a result, prices of cotton-yarn in the world markets decreased, affecting producers in all cotton-yarn exporting countries, including Greece. At the same time, the labor cost in western industrialized countries remained high, or even increased, exerting further pressure on yarn producers. The present paper examines these changes for the cotton-yarn industry in Greece. We use a multi-market partial-equilibrium model which allows us to take into account simultaneous input and output price changes, relevant for the industry under study. Findings show that, after the implementation of the program for the gradual elimination of quotas, producers' welfare decreased whereas consumers noted substantial increases in welfare transfers.

ICT Use in the Developing World: An Analysis of Differences in Computer and Internet Penetration

- Review of International Economics---2010---Menzie Chinn,Robert Fairlie

Using panel data for 161 countries, we explore the determinants of cross-country disparities in personal computer and Internet penetration. We find evidence indicating that income, human capital, the youth dependency ratio, telephone density, legal quality, and banking sector development are associated with technology penetration rates. Estimates from Blinder-Oaxaca decompositions comparing rates in the developed-country total to developing countries (Total, Brazil, China, Indonesia, India, Mexico, and Nigeria) reveal that the main factors responsible for low rates of technology penetration rates in developing countries are disparities in income, telephone density, legal quality, and human capital. In terms of dynamics, our results indicate fairly rapid reversion to long-run equilibrium for Internet use, and somewhat slower reversion for computer use.

North South Trade and Supervision of the Social Quality of Goods from the South

- Review of International Economics---2010---Jean-Marie Cardebat,Patrice Cassagnard

This text presents a duopolistic North/South model where the Southern firm can choose to produce ethically or not and to lie or not about the real social quality of its production. The goods from the South are assumed to be ethically unsound (i.e. dubious social content) while those from the North ethically sound. We then study the consequences of monitoring ethics in the North on the nature (fair or unfair) and the volume of North-South trade. On the one hand, an increase in the probability of inspection of goods from the South leads to an increase in imports to the North from the South. This result goes against the idea that this kind of social monitoring is akin to a protectionist measure. On the other hand, if monitoring is large enough that leads the Southern firm to produce ethically and the trade to be fair.

Are Standards Always Protectionist?

- Review of International Economics---2010---Stéphan Marette,John Beghin

We analyze the effect of heterogeneity of foreign and domestic producers on product standard and investigate whether the standard chosen by the welfare-maximizing policymaker is protectionist. In a partial-equilibrium set-up, both domestic and foreign producers compete in selling a product in the domestic market, in the presence of consumption externalities. The policymaker chooses a minimum domestic standard that has to be met by both domestic and foreign producers. Protectionism occurs when the welfare-maximizing domestic standard is higher than the international standard maximizing welfare inclusive of foreign profits. We show that the standard is anti-protectionist when foreign producers are much more efficient at addressing the externality than are domestic producers. Possible exclusion of domestic or foreign producers arises with large standards, which may alter the classification of a standard as protectionist or non-protectionist. The paper identifies multiple caveats for the estimation of tariff equivalents of nontariff barriers.

Joining the World Trade Organization: What is the Impact?

- Review of International Economics---2010---Christopher Balding

Research has called into question the impact of the World Trade Organization (WTO) on trade. This research, however, has been called into question on both modeling grounds for and failing to utilize comprehensive fixed effects. Others have found that when these factors are accounted for, imports rise by significant amounts. This paper seeks to reconcile these findings. I find that the WTO has a larger, though uneven, impact on exports than imports. The results indicate that the WTO frequently causes imports and exports to move in opposite directions negating any increase in overall trade. The regressions with and without fixed country effects generally demonstrate pattern consistency for generalized results that are robust to change. Owing to the finding that imports rise modestly or even fall without country effects while exports rise, the results imply that countries may not be as interested in liberalizing trade as selling to the world.