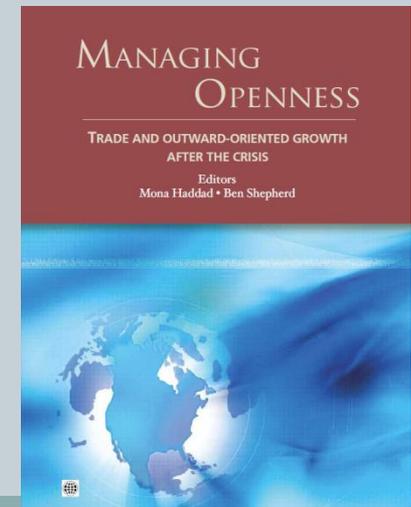


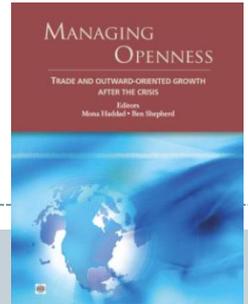
Managing Openness



TRADE AND OUTWARD-ORIENTED GROWTH AFTER THE CRISIS: LESSONS FOR TURKEY?

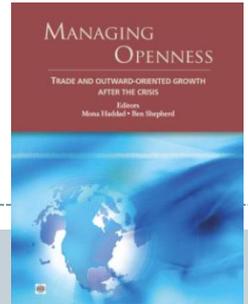


Outline



1. Key Messages of *Managing Openness*
2. Trade and Protectionism in the Crisis
3. Towards Export-Led Growth v2.0
4. Managing Openness in the Post-crisis Environment
5. The Emerging Trade Policy Agenda
6. Main Conclusions of *Managing Openness*
7. Turkey After the Crisis

Key Messages

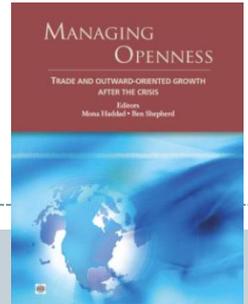


1. Despite the financial crisis and the great trade collapse, most countries remain strongly committed to leveraging openness for growth and development.
2. Openness is not a panacea for development. The key is to manage openness so as to maximize its benefits and minimize its costs.
3. Over the medium-term, we are likely to see the emergence of an “export-led growth v2.0” model in which South-South trade plays a much greater role.
4. Further liberalizing South-South trade, promoting export diversification, and reinforcing macroeconomic fundamentals should be key policy priorities for developing countries.
5. Issues like commodities, global production networks, migration, and climate change are likely to play a major role in the trade policy agenda going forward.

Trade and Protectionism in the Crisis

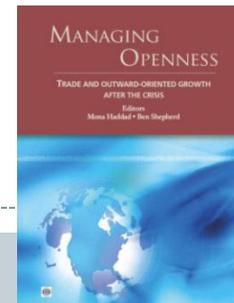


The Great Trade Collapse

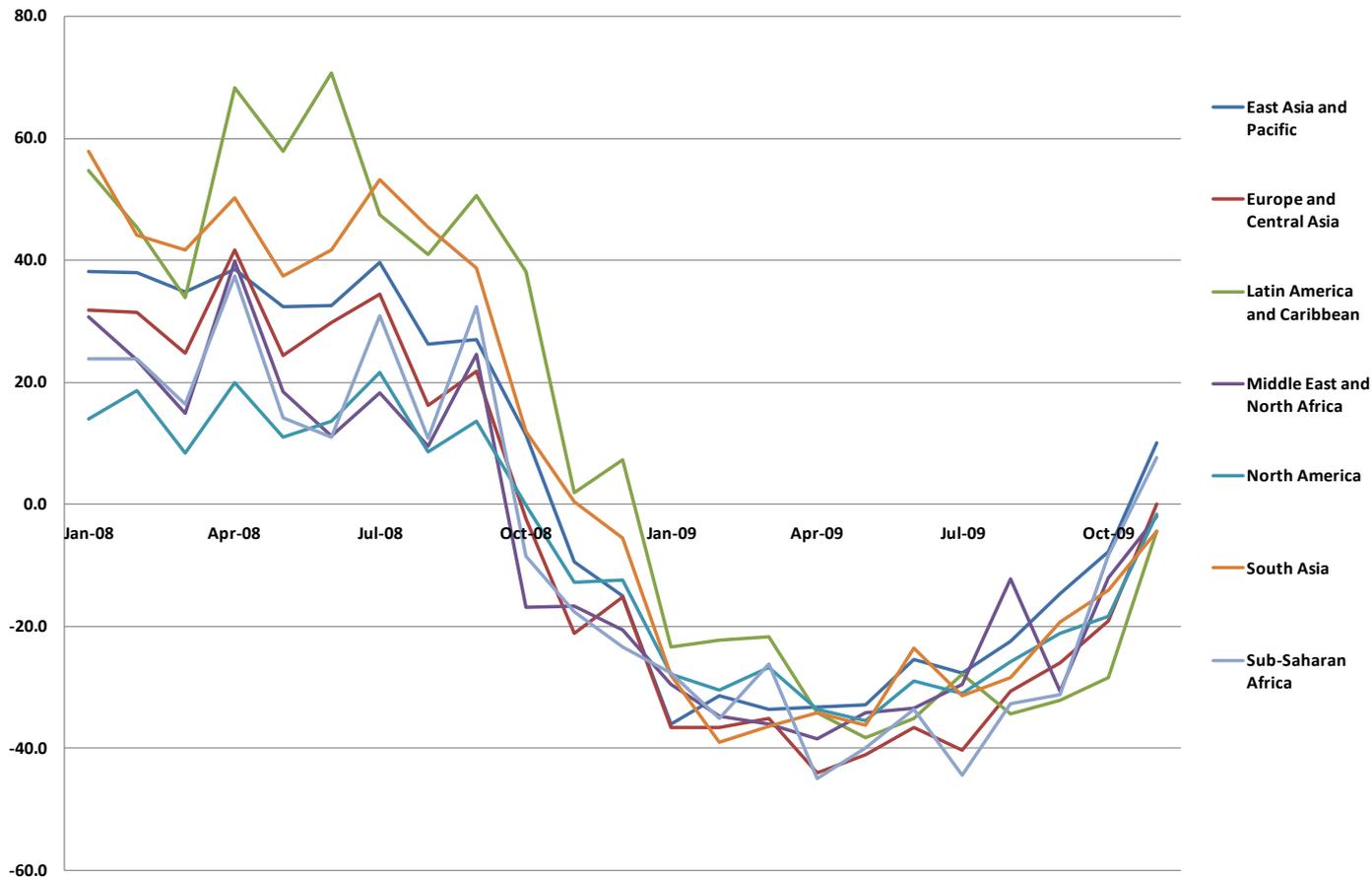


- The global financial crisis quickly spawned the “great trade collapse”.
 - First modern “sudden stop” in trade.
 - Sharpest in recorded history.
 - Deepest since World War II.
- Trade was a key vector by which the crisis was propagated throughout the world, in particular to developing countries.

Global Trade Fell 12% in Real Terms in 2009

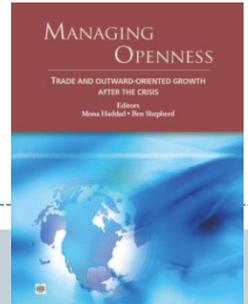


Import growth
(month over
same month
previous year)



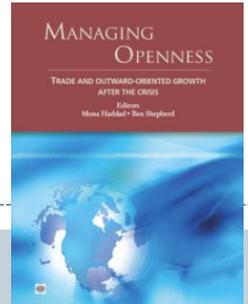
Source: Bown and Kee (chapter 6).

Why Was the Collapse of Trade So Dramatic?



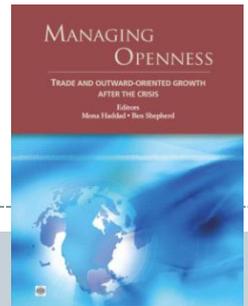
- Collapse in final consumption demand.
- Disruptions to the supply of trade credit.
- Postponement of consumer durables purchases fed through to a collapse in input markets, due to the importance of global production networks.

Protectionism was Contained

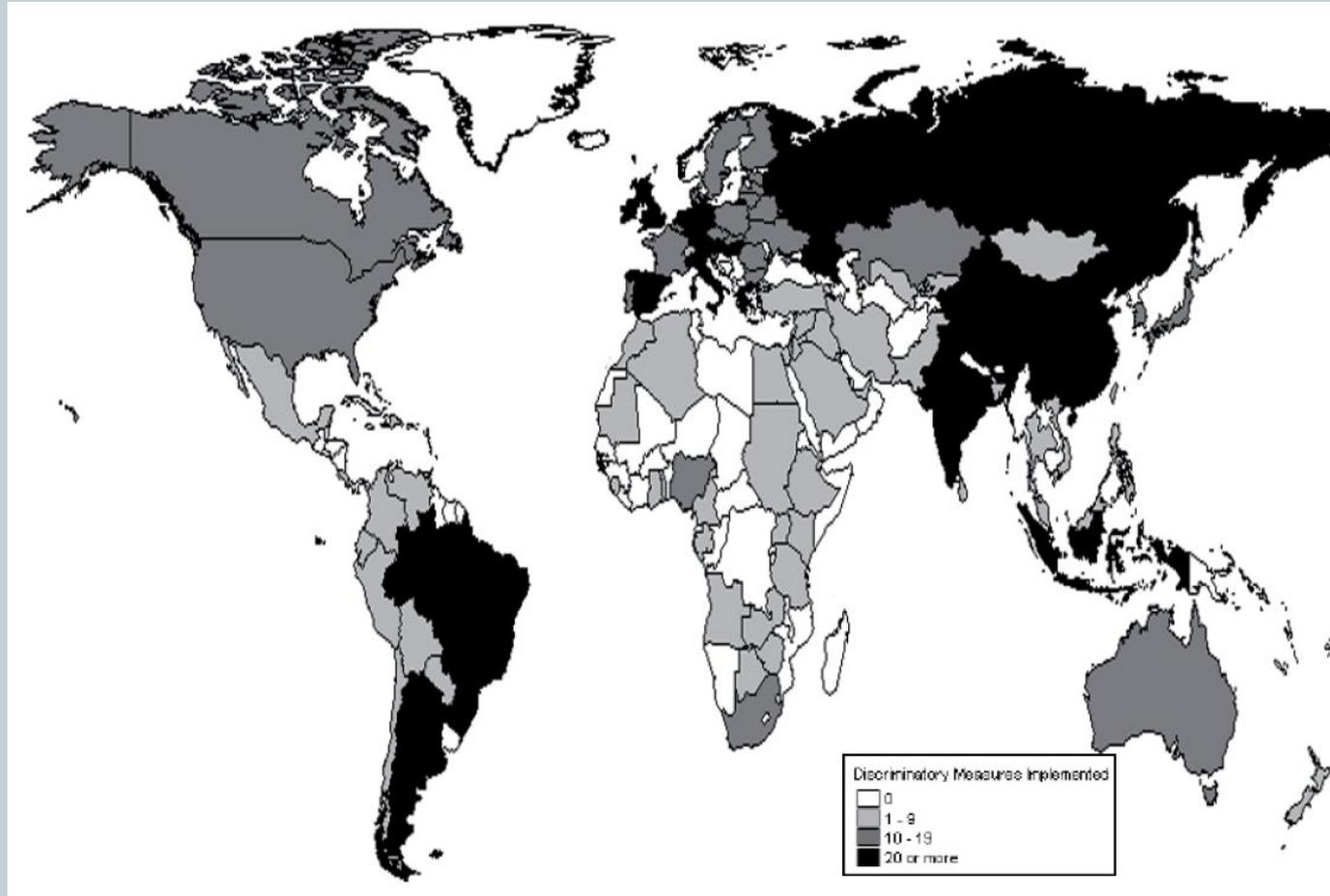


- Increases in WTO-compliant temporary trade barriers (TTBs) affect 0.5% - 1% of imports.
- Changes in the World Bank's *Overall Trade Restrictiveness Index* are generally small.
- However, the *Global Trade Alert* project has identified over 300 “murky” protectionist measures—so there is no cause for complacency.
- Newly implemented discriminatory measures tend to be relatively non-transparent.

Protectionism was Highest in Large Developing Countries and in Developed Countries

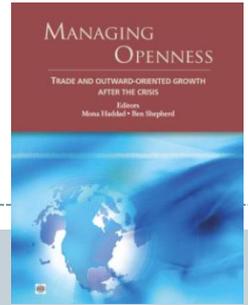


Number of Discriminatory Measures Implemented

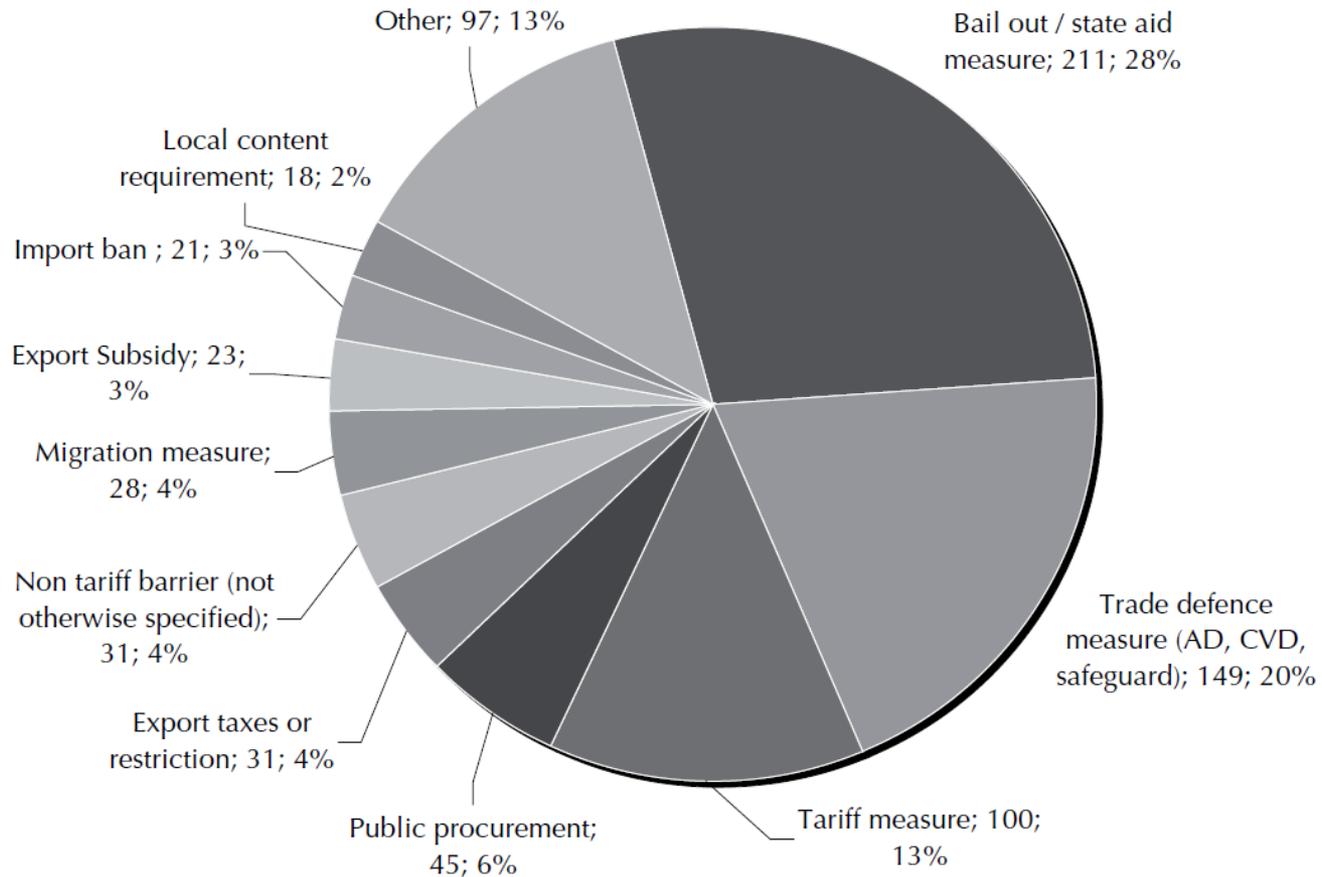


Source: Global Trade Alert, 8th Report.

Protectionist Measures Were Limited to Crisis Containment



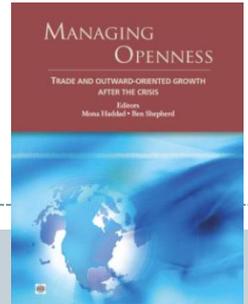
Top 10 Discriminatory Measures Implemented; By Type



Source: Global Trade Alert, 8th Report.

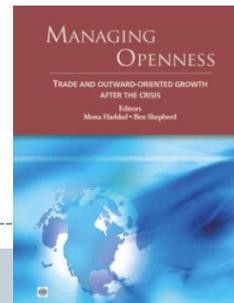
South-South Protectionism

Notable Feature of the Crisis

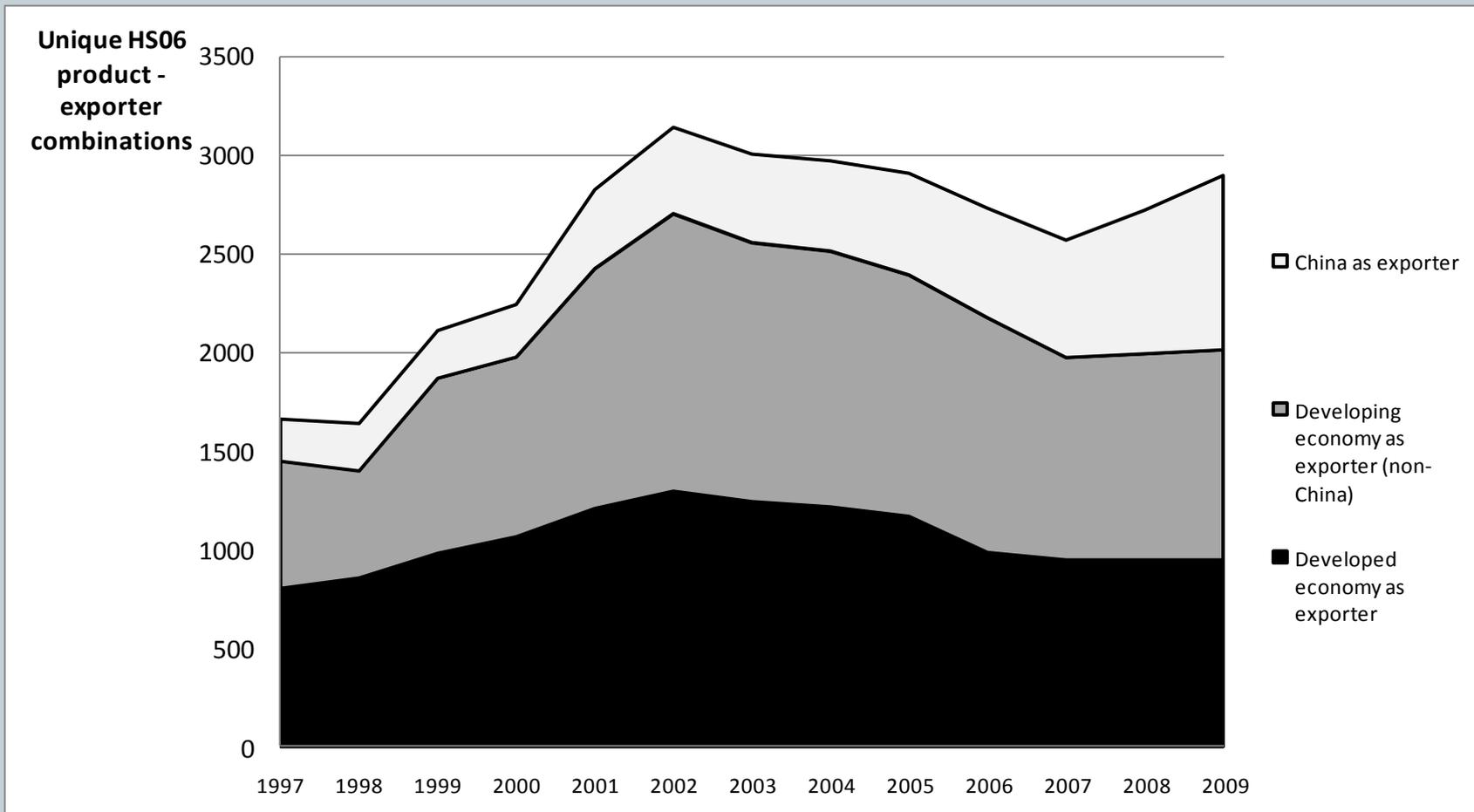


- China is the main target of TTBs imposed by developed and developing countries: it faces around four times more measures than the second-ranked country (EU).
- India, Indonesia, Thailand, and Vietnam have also been targeted by a range of measures.
- Argentina, India, Indonesia, and Turkey were responsible for the biggest increases in TTBs.
- 68% of the 2009 stock of TTBs imposed by developing economies affected the exports of other developing economies.

TTBs Were Targeted Against Specific Countries During the Crisis



Combined G-20 Use of Selected Temporary Trade Barriers by Import Source, 1997–2009

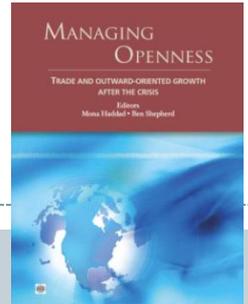


Source: Bown and Kee (chapter 6).

Towards Export-led Growth v2.0

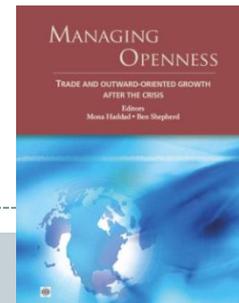


The Demise of Export-Led Growth Greatly Exaggerated



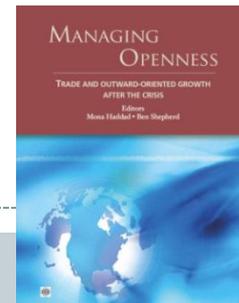
- No major economy has seriously moved to close its market.
- Policymakers remain generally convinced of the economic benefits openness can bring.
- Global rebalancing is unlikely to be as quick or as extreme as in some scenarios, so the major Northern markets are still a viable source of demand for Southern exports.

Link Between Outward-Orientation and Productivity Growth Strong



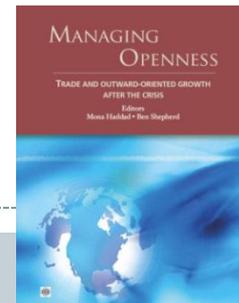
- Many examples of the links between outward-orientation and productivity growth at the level of individual firms and sectors:
 - A 1% increase in real exports raised TFP in Malaysian manufacturing firms by 0.3%-0.4% between 1999 and 2006 (Haddad et al., Chapter 12).
 - Exports are associated with higher levels of labor productivity in African manufacturing firms (Songwe and Winkler, Chapter 19).

Countries Are Committed to Openness



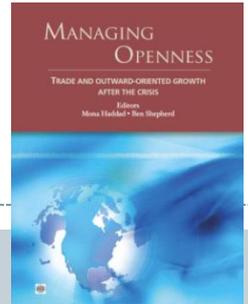
- The policy-level commitment to continuing to open markets reflects this:
 - Malaysia (Chapter 16) and Indonesia (Chapter 17) continue to pursue outward-oriented strategies, combined with policies to promote diversification and integration into production networks.
 - Although its domestic market potential is large, India (Chapter 18) continues to realize important export gains, particularly in services.

To Rebalance or Not to Rebalance

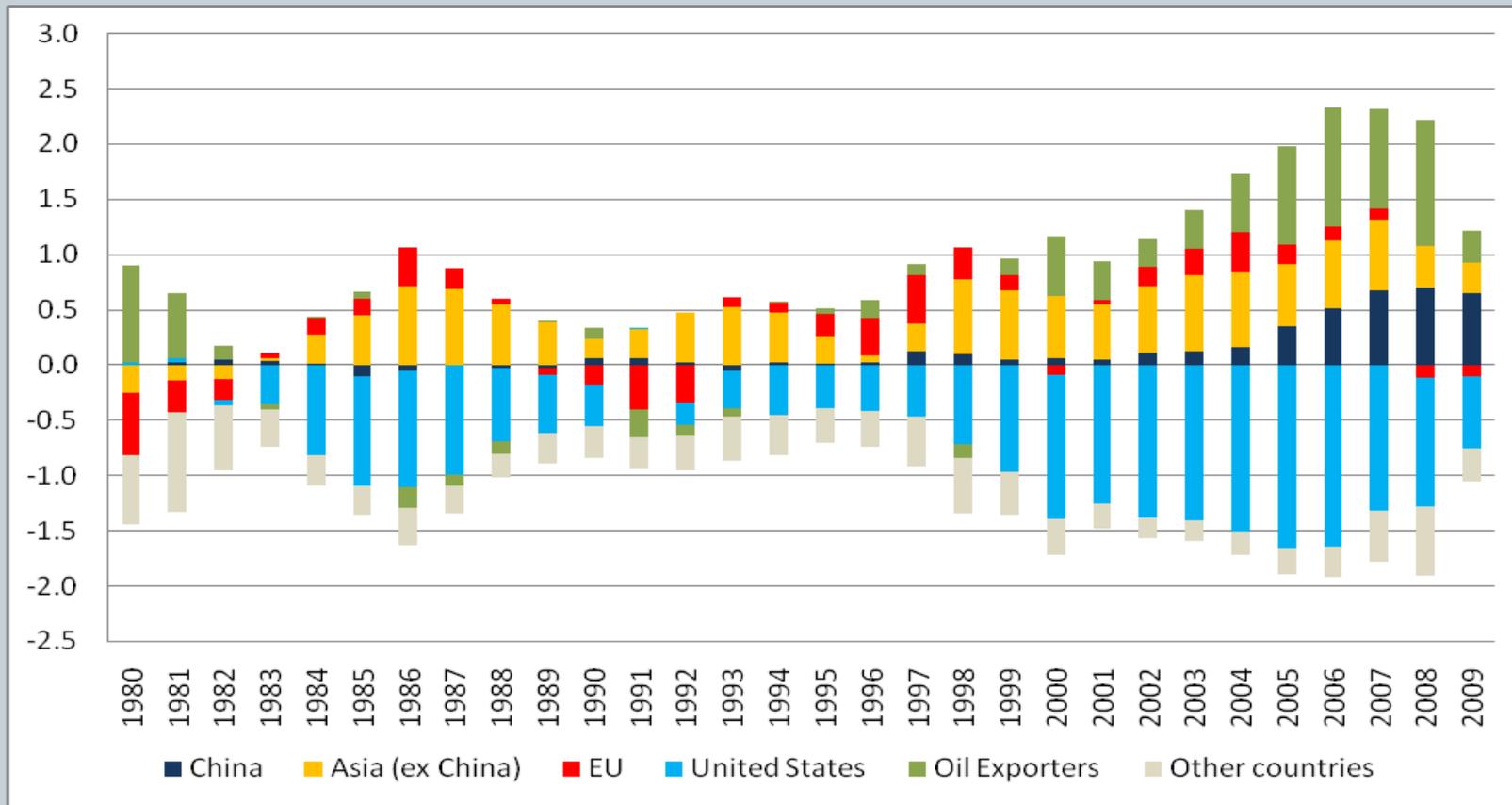


- Some degree of global rebalancing is likely to continue—with a corresponding realignment of trade flows
- But significant deficits and surpluses are likely to persist in the medium-term:
 - Relatively under-developed financial markets in emerging economies.
 - The “savings glut” in major developing economies, partly linked to weak social protections.
 - Continued ready availability of US financial assets.
 - Policy choices to accumulate foreign reserves as “insurance” in emerging markets.

Global Imbalances Are Not Just a Problem of US vs China

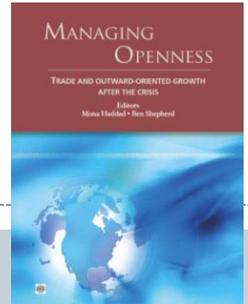


Current Account Imbalances as % World GDP; Selected Economies; 1980-2009.



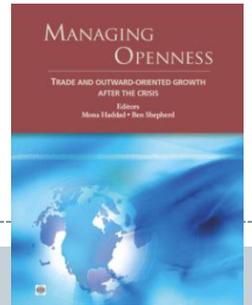
Source: Servén and Nguyen (Chapter 3).

South-South Trade is Increasing in Importance (Even Before the Crisis)

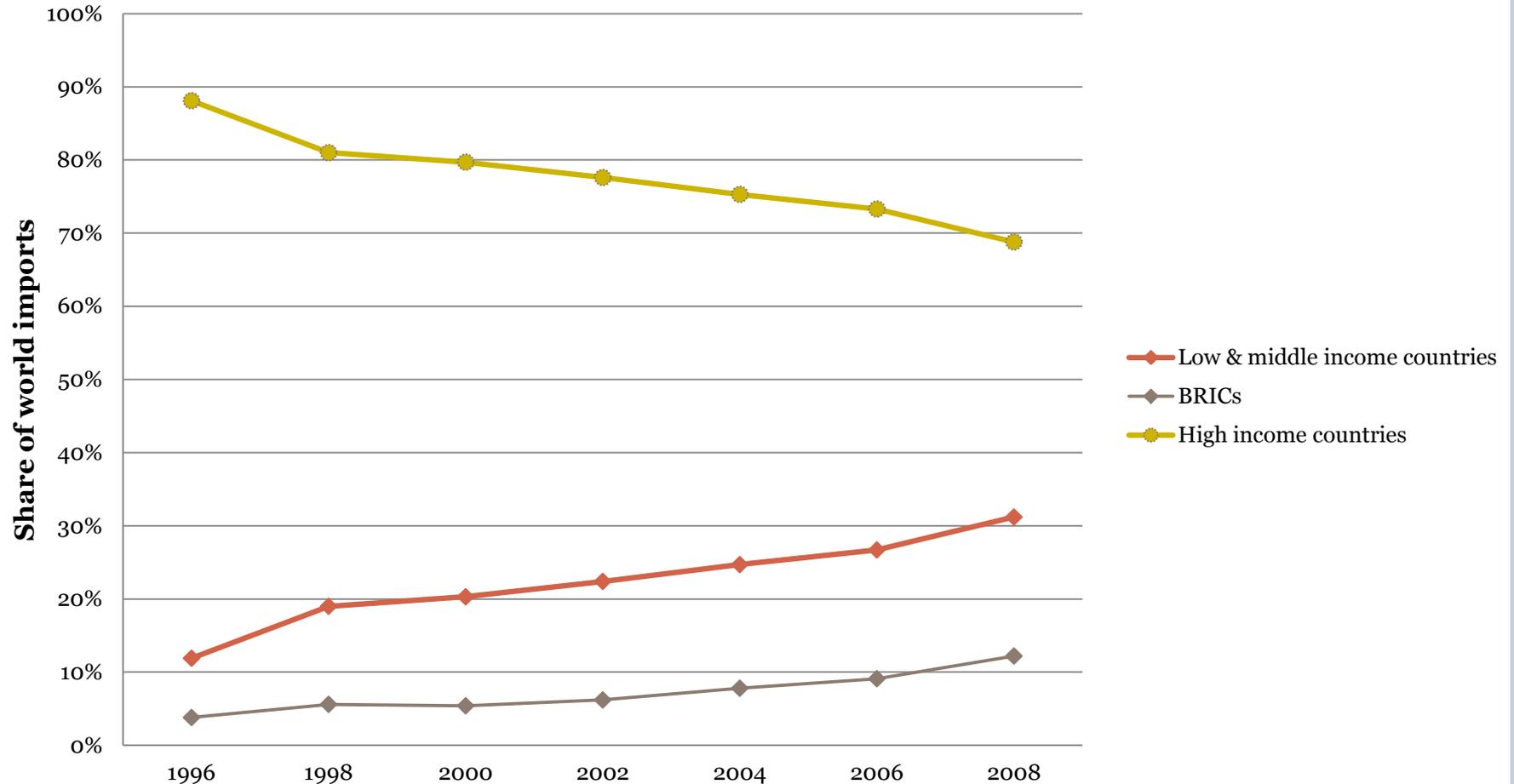


- Fundamentally driven by growth and rising incomes in the larger Southern markets.
- Development of regional and global production networks.
- Significant improvements in competitiveness among Southern exporters.

The Share of Developing Countries Trade Is Rising

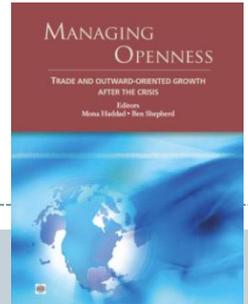


Share of World Imports by Country Group



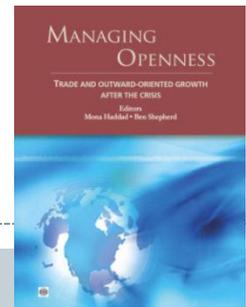
Source: Hanson (chapter 8).

Large Emerging Markets Demand for Imports Helped During the Crisis



- The crisis and recovery periods are intensifying the trend.
- The large Southern markets—Brazil, China, India, and Indonesia—helped stabilize global demand during the crisis by importing more strongly than the rest of the world.

Emerging Markets Rebounded Quickly

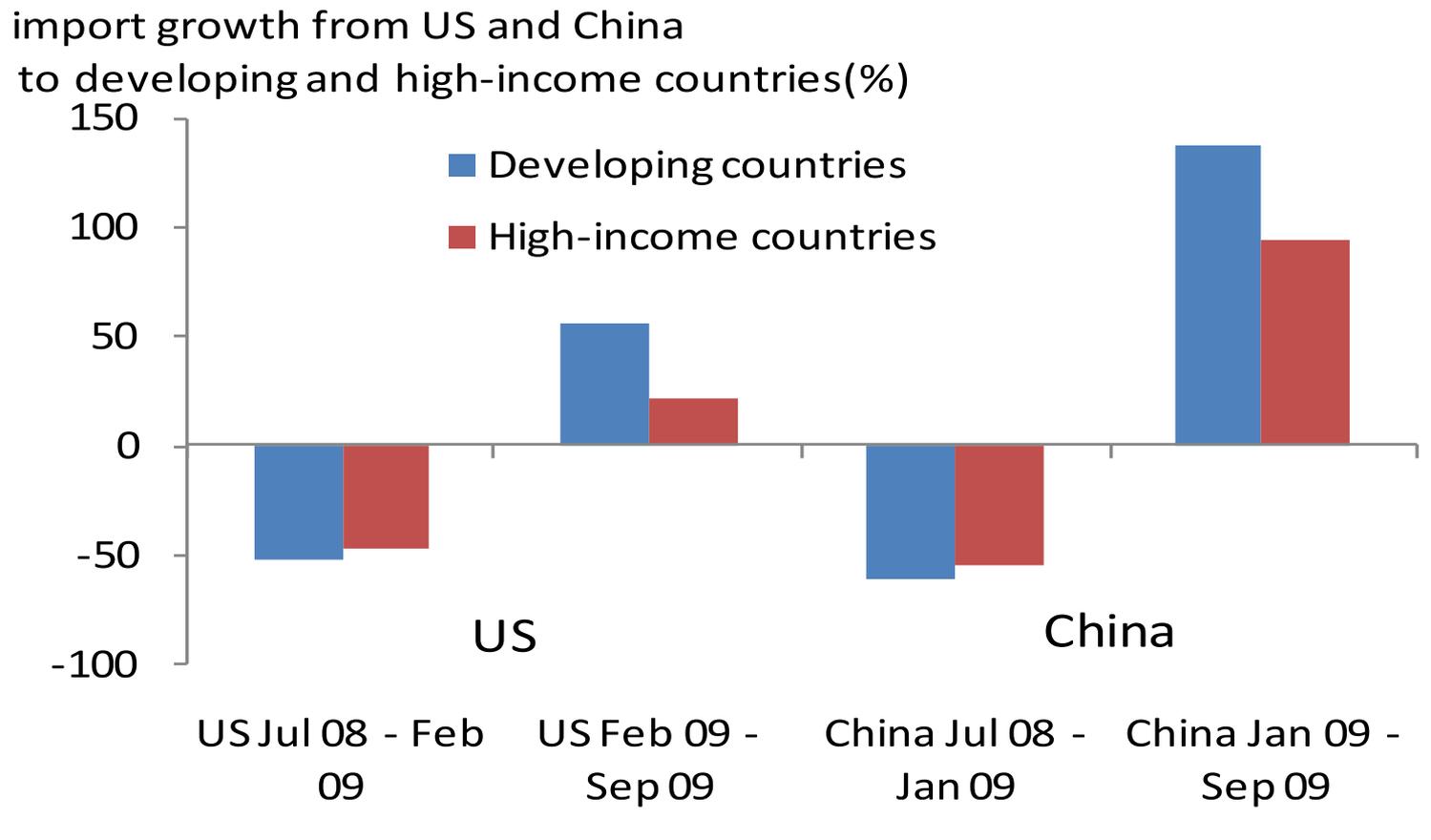
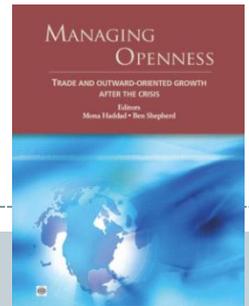


Import Growth in Selected Markets; 2006-2010; Logarithms, 2006=0.

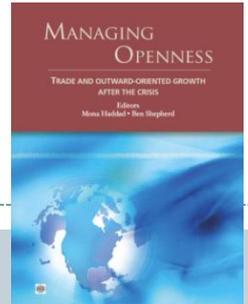


Source: Freund (Chapter 4).

China's Import Demand Helped

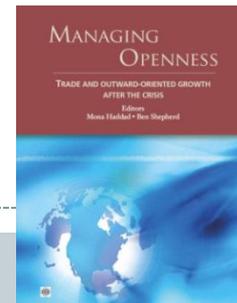


Developing Countries Competitiveness Is Rising

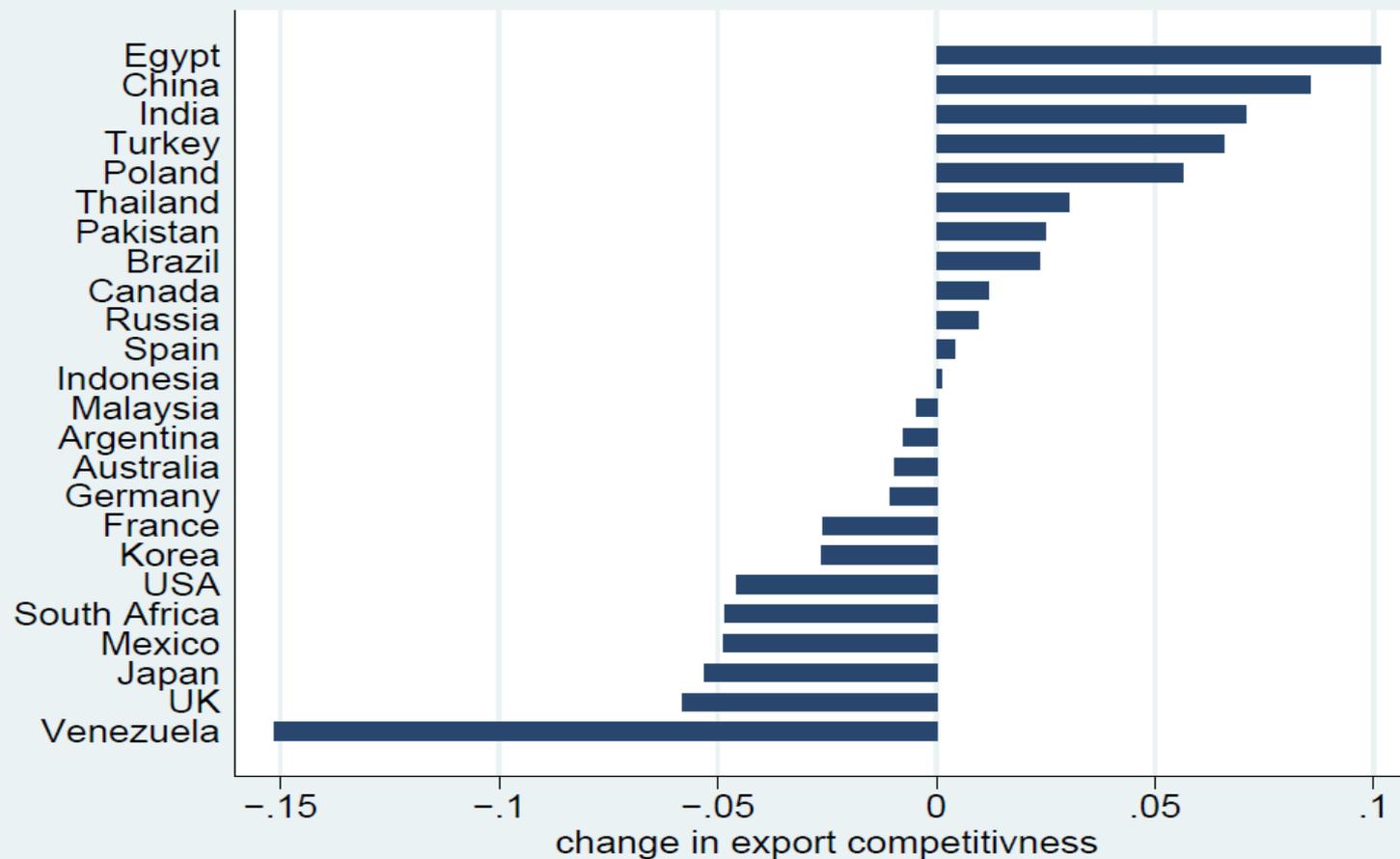


- The shift towards increased South-South trade is being accompanied by greater export diversification, particularly among low-income countries.
 - But some countries, especially LDCs, remain dependent on a small number of traditional exports
- There is evidence that low-income countries are starting to move up the export value chain in important areas.
- Improvements in export competitiveness have been occurring across the board in developing economies, including in non-traditional and capital intensive sectors.
- This process needs to intensify and become more broad-based, in particular to include the LDCs.

Towards Export-Led Growth v2.0

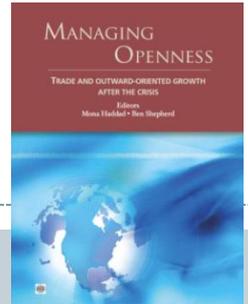


Changes in Export Competitiveness in Chemicals; 2000-2007.

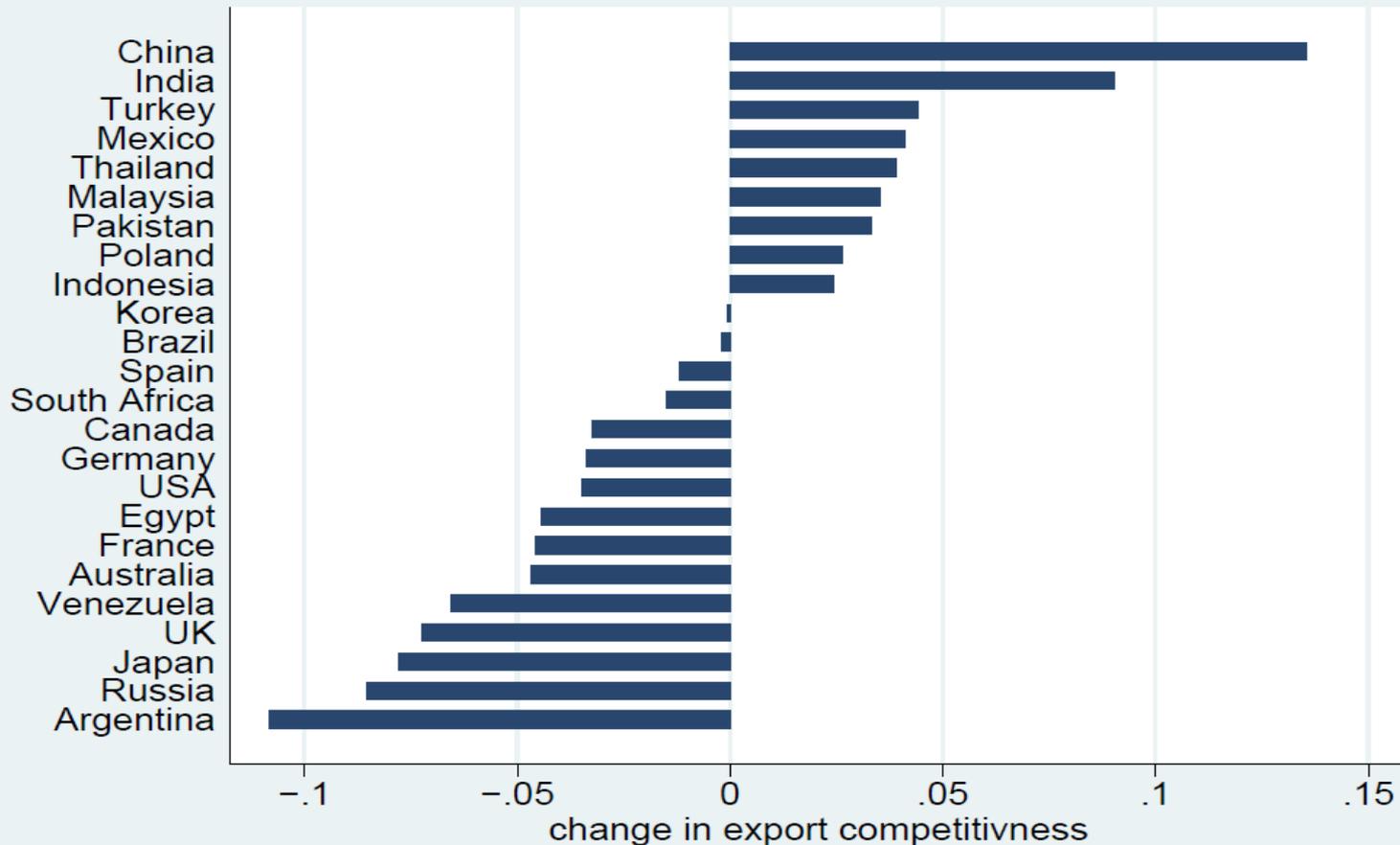


Source: Hanson (Chapter 9).

Towards Export-Led Growth v2.0

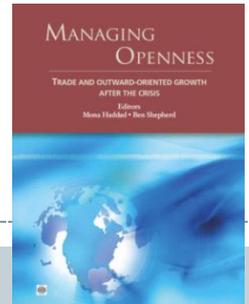


Changes in Export Competitiveness in Iron & Steel; 2000-2007.

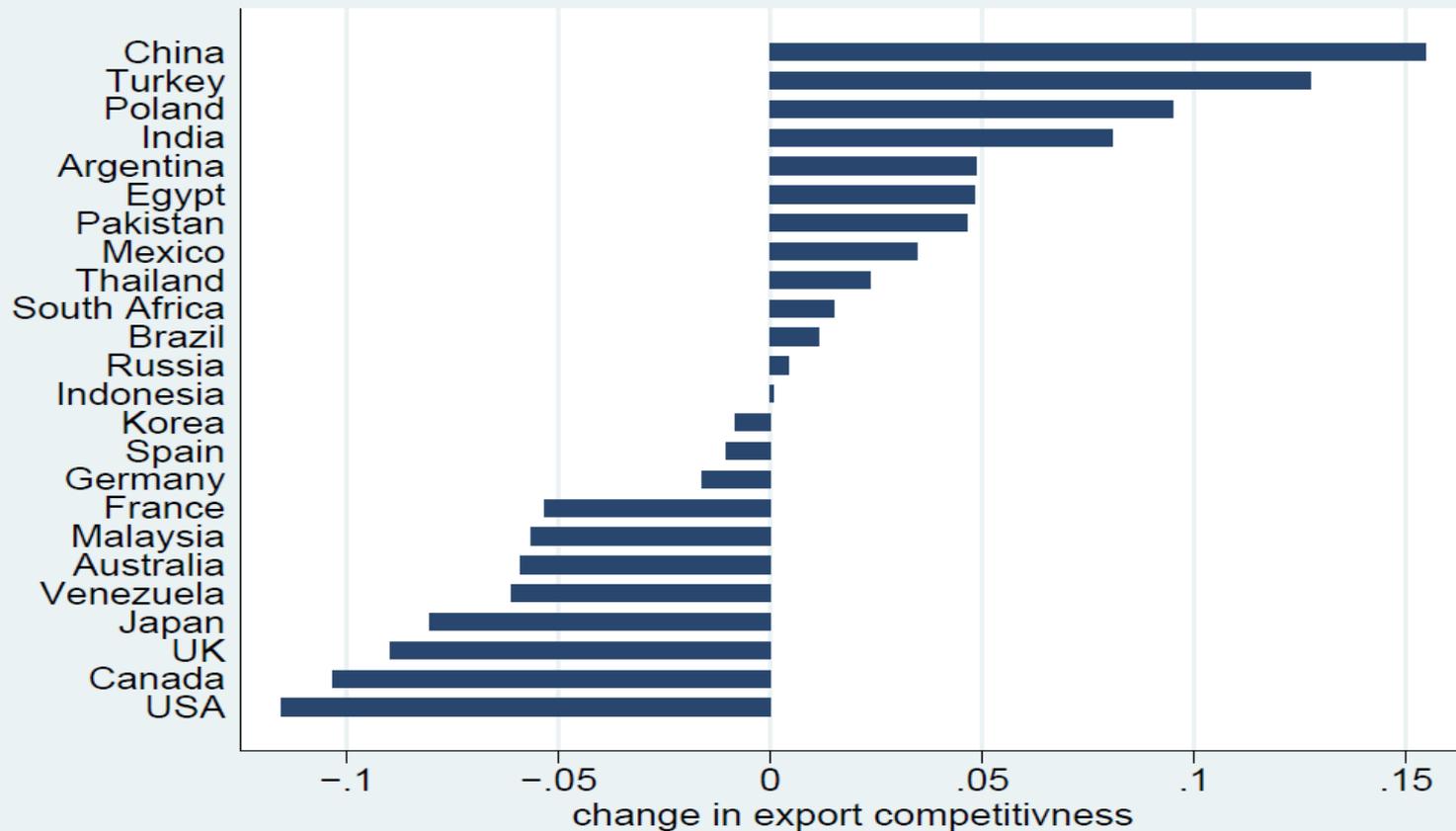


Source: Hanson (Chapter 9).

Towards Export-Led Growth v2.0



Changes in Export Competitiveness in Machinery, Electronics, and Transport Equipment; 2000-2007.

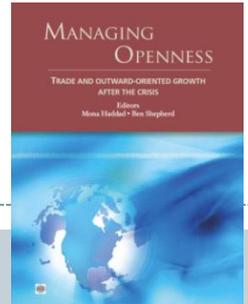


Source: Hanson (Chapter 9).

Managing Openness in the Post-Crisis Environment

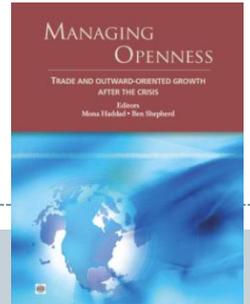


Managing Openness in the Post-Crisis Environment



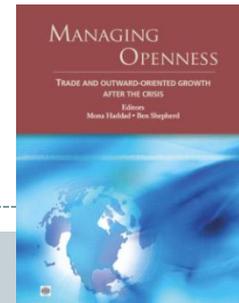
- Policymakers remain convinced of the benefits that come with openness...
- But they are also more aware than ever of the associated risks.
- More open economies generally had a tougher crisis, but some (e.g., Chile) have weathered the storm well.
- What policies are available to help maximize the net benefits of openness?

Sound Macroeconomic Fundamentals Are Crucial

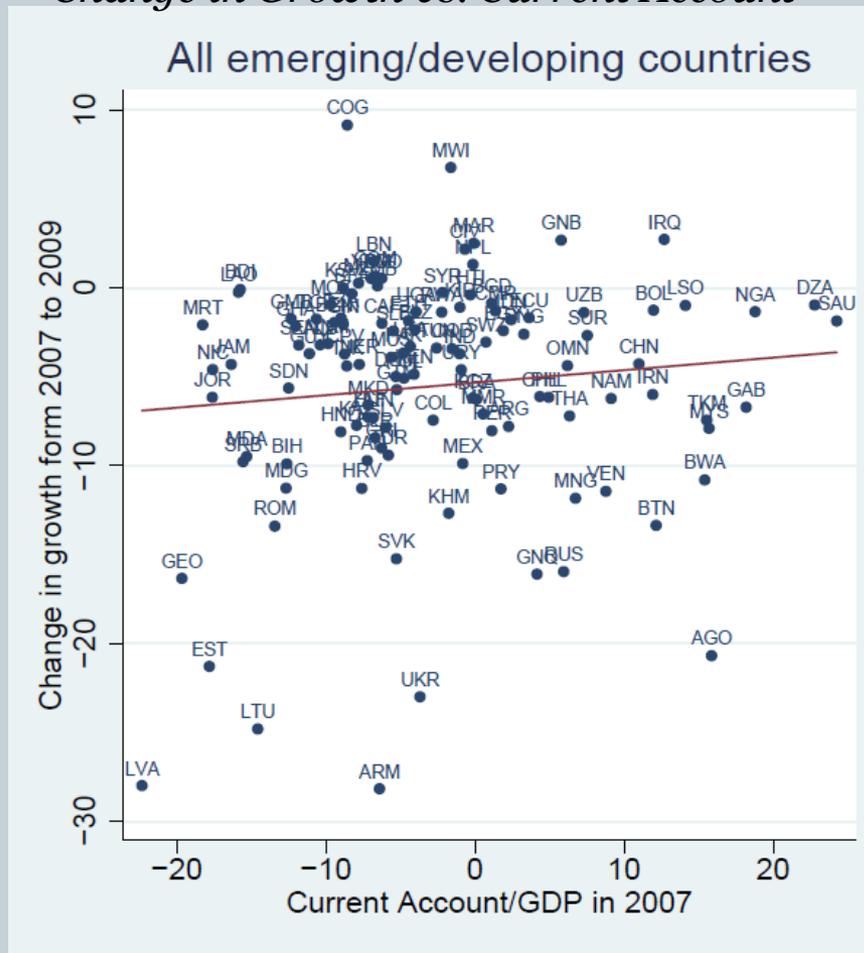


- A stronger government balance sheet did not necessarily make for a better crisis, but governments that aggressively used their fiscal space (e.g. Chile, Malaysia) experienced quicker rebounds. The fiscal policy response was more timid in other countries (e.g., Mexico).
- Countries with large current account deficits generally did worse.
- Countries with relatively flexible exchange rates generally did better.
- Accumulating foreign exchange reserves helped, but only up to a point.

Countries with Higher Current Account Did Better

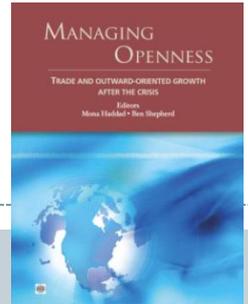


Change in Growth vs. Current Account



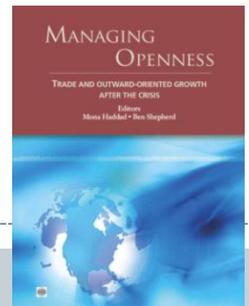
Source: Eichengreen (Chapter 2).

Is Real Undervaluation of Exchange Rate Effective to Boost Export?

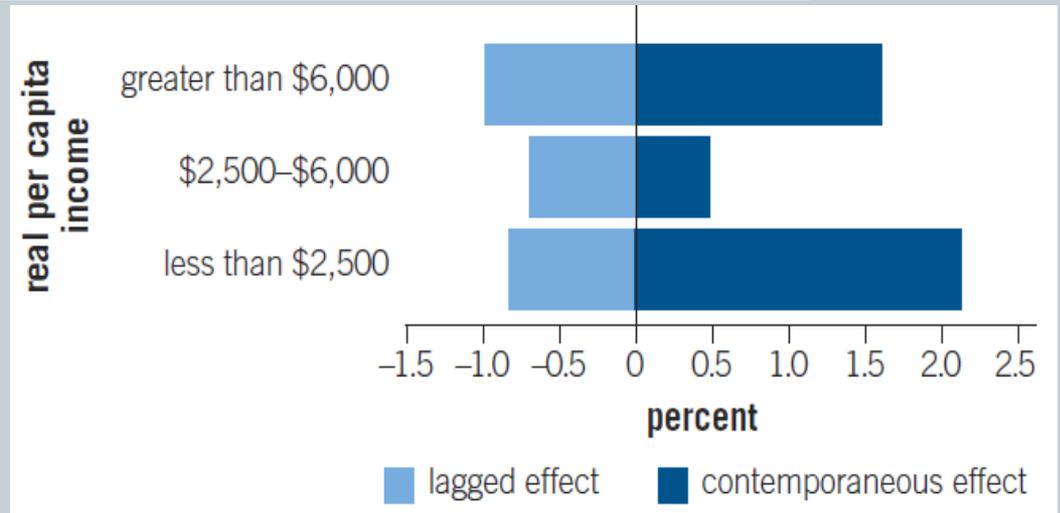
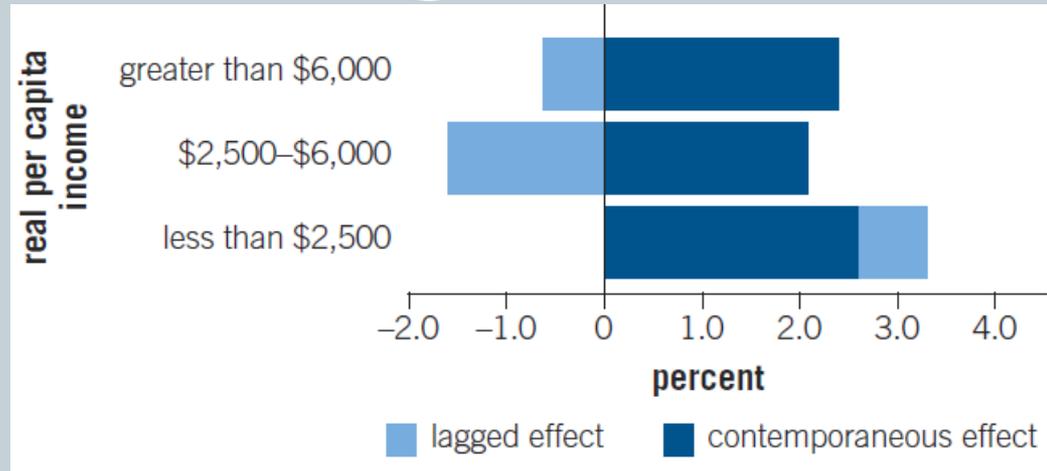


- Against the background of global rebalancing, the trade effects of a devalued exchange rate are becoming prominent.
- In the short term, an undervalued real exchange rate can be beneficial for low income countries...
- But it is not a sustainable policy over the medium-term:
 - Over-accumulation of foreign reserves.
 - Liquidity growth and inflationary pressures.
 - Constraints on using monetary policy to promote domestic economic objectives.
 - Effectively a tax on consumers, who lose purchasing power.
 - Difficult to exit.

Managing Openness in the Post-Crisis Environment

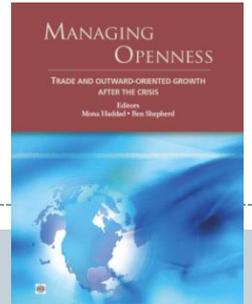


*Impact of 50% RER Undervaluation on
1) Exports/GDP and
2) GDPPC Growth*



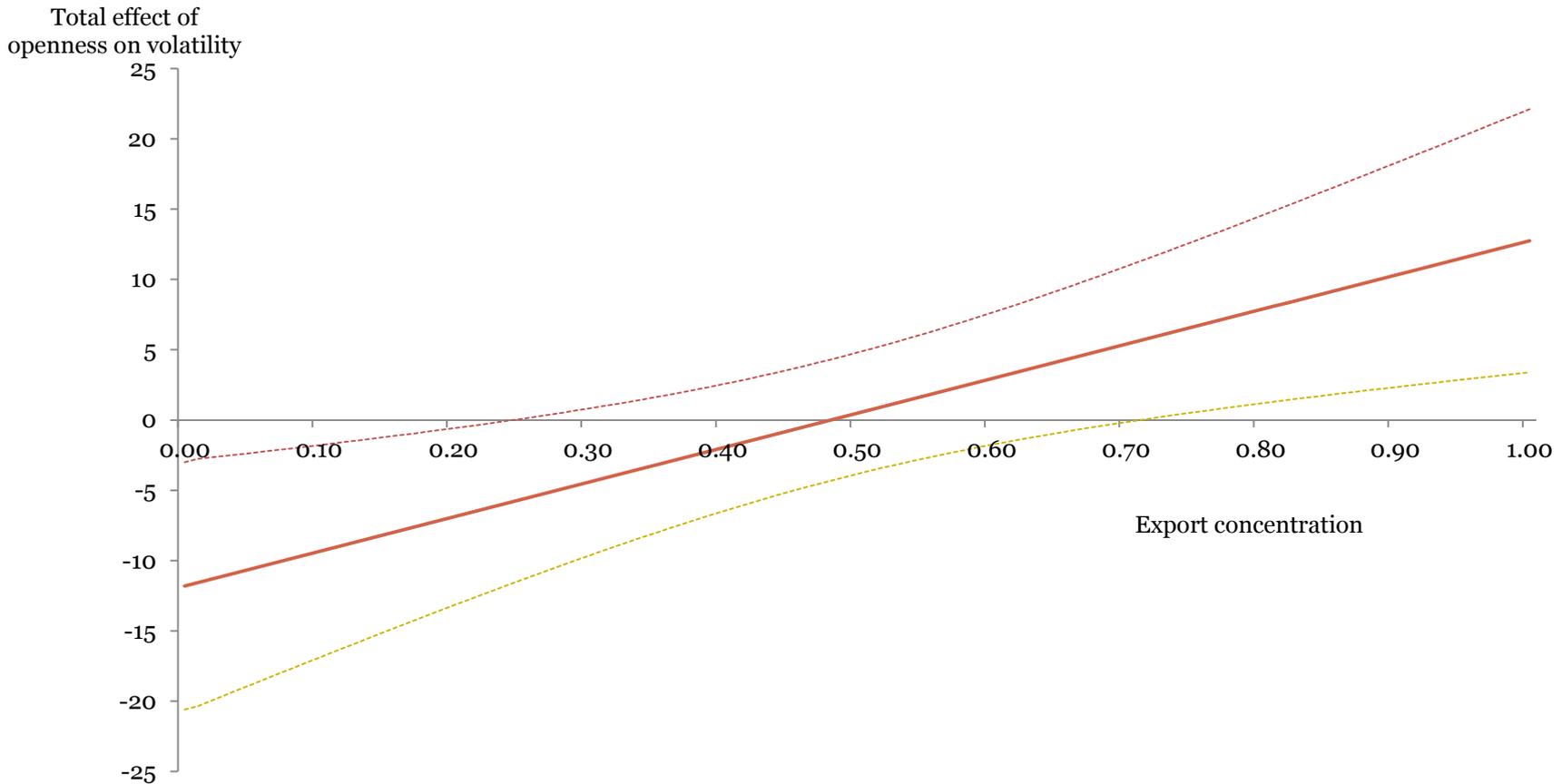
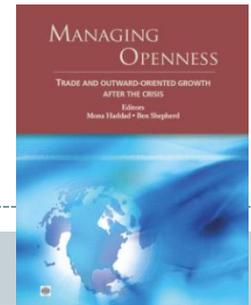
Source: Haddad and Pancaro (2010).

Export Diversification Remains a Priority

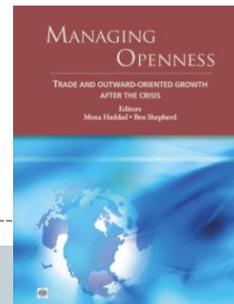


- Export diversification should remain a policy priority, because it weakens the link between openness and volatility.
- What kinds of policies can help promote export diversification?
 - Trade facilitation.
 - Reducing domestic barriers to entry, i.e. improving the investment climate and making it easier to do business.
 - In some cases, sector-specific interventions to strengthen supply chains and support competitiveness...
 - But caution is required to avoid distorting incentives across sectors and “picking winners”.
- Many countries, including low-income countries, have been making significant progress on diversification, but much still remains to be done.

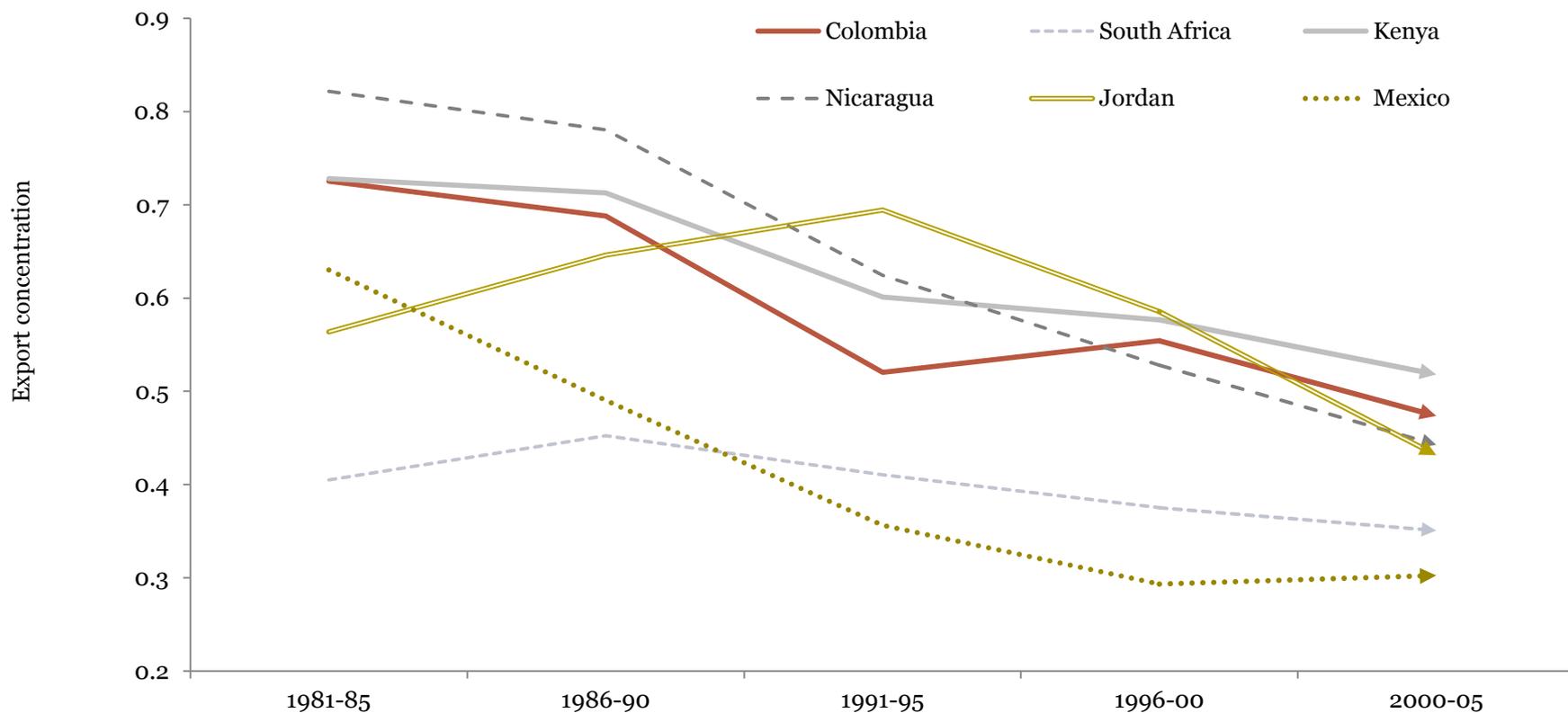
Diversification Threshold Weakens the Effect of Openness on Volatility



More Developing Countries are Diversifying Exports



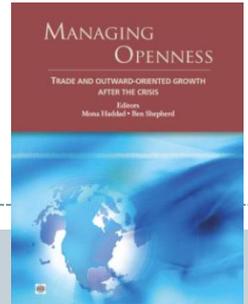
Export Concentration Indices; Selected Economies; 1981-2005.



The Emerging Trade Policy Agenda

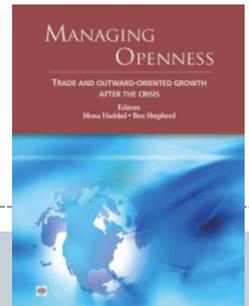


The Emerging Trade Policy Agenda

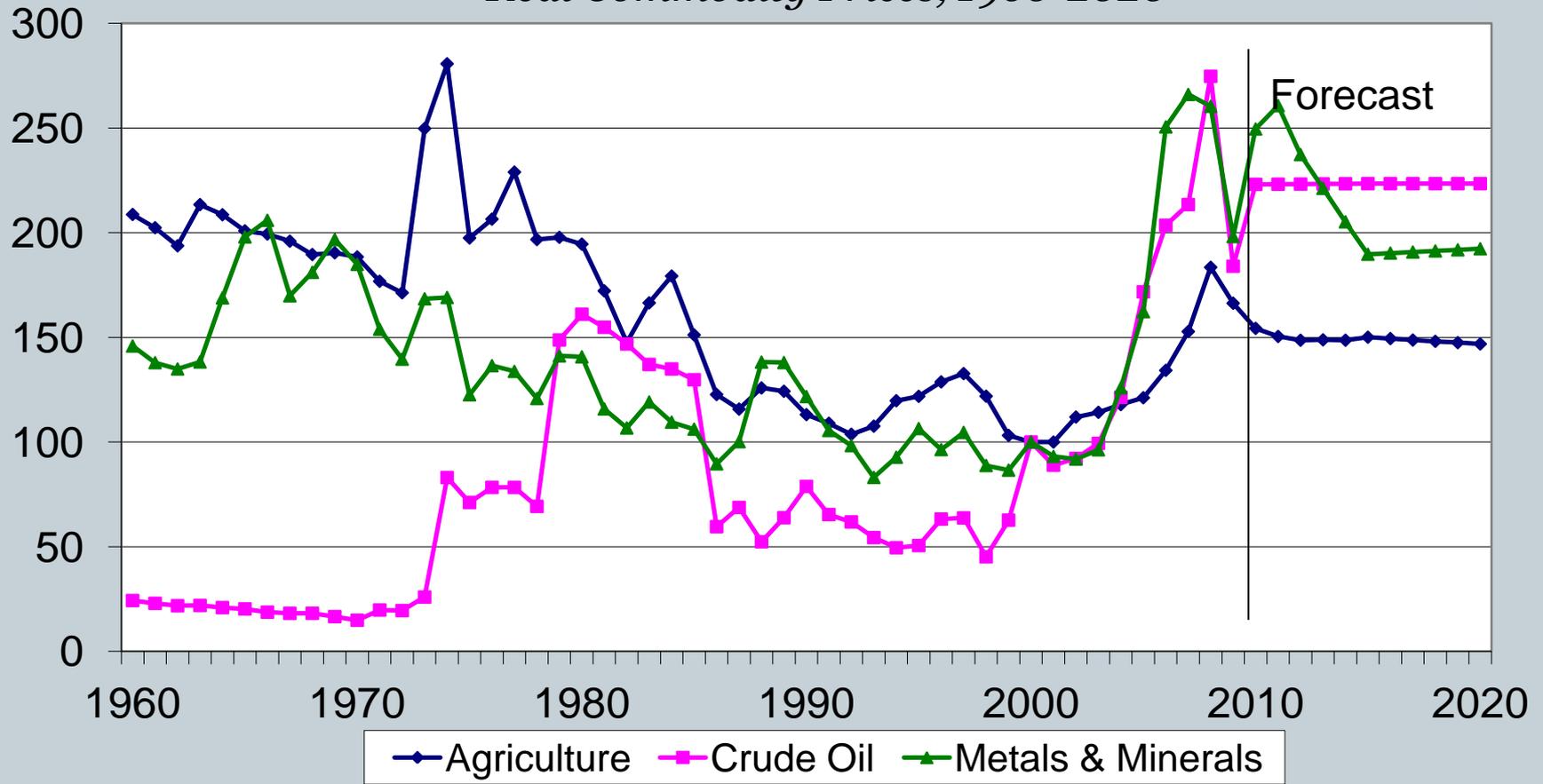


- Commodities remain a major issue for many low-income countries.
- China is playing an ever-larger role as a source of demand in commodities markets.
- Relatively high price forecasts for at least the next decade.
- Need to pay attention to measures such as export restrictions, in addition to traditional trade policy instruments such as tariffs and quotas.
- Key part of the South-South trade agenda.

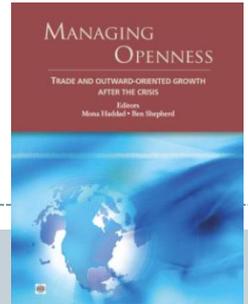
The Role of Commodities



Real Commodity Prices, 1960-2020

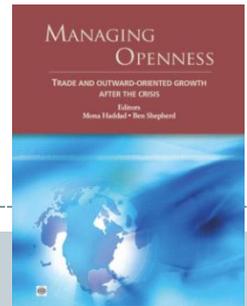


The New Model of Production: Global Production Networks

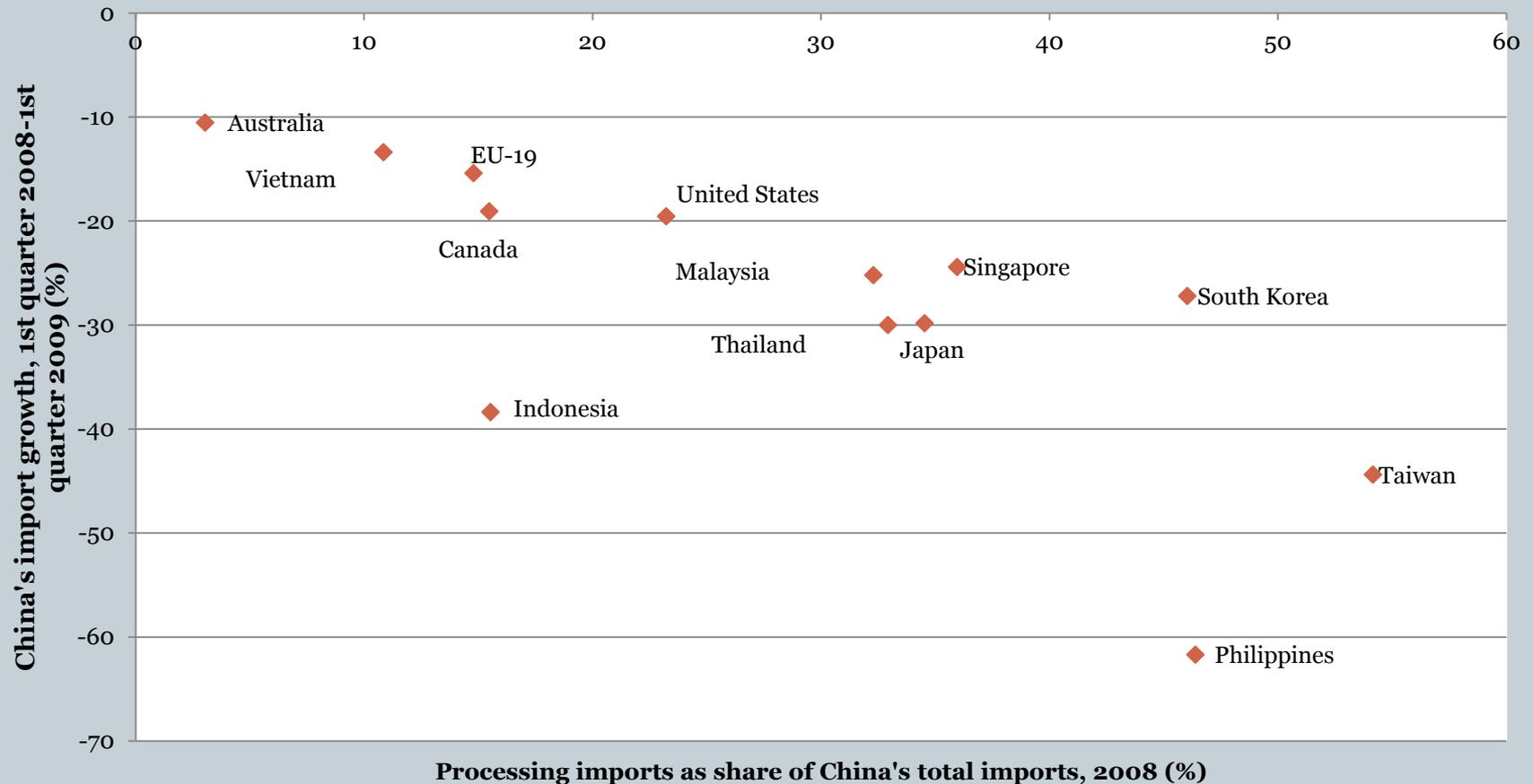


- Production is increasingly being split across countries through global and regional production networks.
- China is playing a key role, as are a number of other developing countries.
- Policies such as trade facilitation and development of the logistics sector can help support the development of production networks.
- However, the “bullwhip” effect linked to GPNs was a major factor in the great trade collapse.

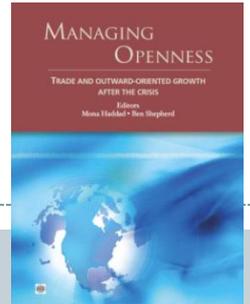
A View of GPNs



China's Processing Imports (2008) versus China's Import Growth by Economy of Origin, Q1 2008–Q1 2009

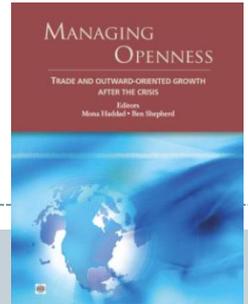


Migration is an Important Source of Foreign Exchange



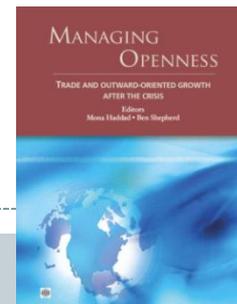
- Migration is an additional aspect of outward-orientation that will become more important over time.
- Demographic changes in the North and the South.
- South-South migration is also increasingly becoming an issue.
- Temporary people movements linked to the trade policy agenda through GATS Mode IV.

Trade and Climate Change

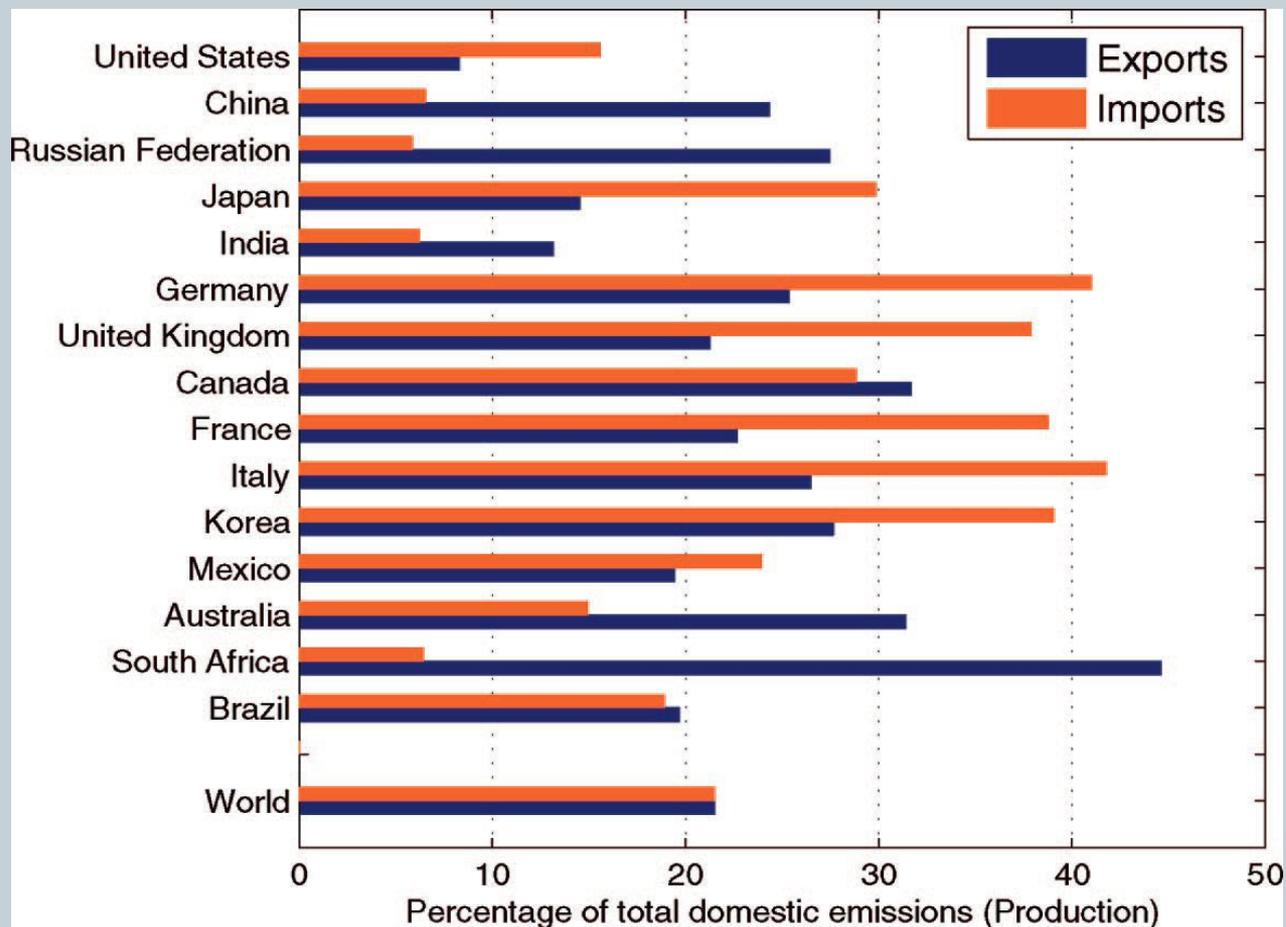


- Climate change looms large as a development issue, so the intersections with trade policy need to be carefully considered.
- Balance the need to adopt appropriate climate policies against the desirability of maintaining open markets.
- Implications of climate policy for migration of industries and development of new ones.
- Learn from historical experience with the GATT/WTO system—a General Agreement to Reduce Emissions?

Trade and Climate Change

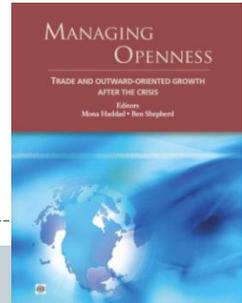


Embodied CO₂ Emissions in Imports and Exports for Selected Countries, 2001



Source: De Melo and Mathys (chapter 23).

Main Conclusions



1. The crisis and great trade collapse have not led to any serious undermining of the outward-oriented growth model at a policy level.
2. Most governments have generally resisted pressure to engage in major protectionism during and following the crisis. policy surveillance remains important, but initial fears of “beggar-thy-neighbor” policies were overstated.
3. Developing countries should continue to concentrate on strengthening macroeconomic fundamentals and diversifying their export bundles in order to better weather global storms.
4. The era of export-led growth is not over, but the model is changing to rely more on south-south trade. liberalization by and vis-à-vis developing countries is a crucial policy priority.
5. The “trade and...” agenda is likely to expand in the post-crisis environment, in particular to include issues like commodities, migration, global production networks, and climate change.

Turkey After the Crisis



Macro Fundamentals



- Overall good fundamentals but several signs of warning
 - Low budget deficit...but relatively high short-term government debt
 - Large current account deficit...financed primarily through short-term inflows
- Inflation targeting monetary policy seems to work
 - Reduce inflation while at the same time ensure financial stability by discouraging short-term capital flows
 - Moderate exchange rate pressures and decouple the lira from other emerging market currencies

Does the Current Account Matter?



- CAD deteriorated after the crisis, building on already large deficits in 2010: cause for concern?
- Does the CA matter? Different views:
 - Current account deficits crowd out domestic savings
 - Large current account deficits not a cause of concern if fiscal accounts are balanced (Lawson)
 - A country can run a CAD for a limited period, but no deficit is sustainable indefinitely (Corden)
 - A CAD that results from a shift in private sector behavior (rise in I or fall in S) should not be a matter of concern (Corden)
 - Close attention should be paid to any $CAD > 5\%$ of GDP, particularly if financed in a way that could lead to rapid reversals (Summers)

Expenditure-Switching Policy to Improve the CA Balance?



- Large fuel imports—with prices likely to remain high
- High dependence of domestic production on foreign intermediate goods
- High import content of exports

Export Diversification and Performance

(preliminary results of the Export Competitiveness Toolkit)



- Major change in sectoral composition in past decade, with machinery (esp. vehicles and auto parts) replacing garments as the main export sector
- Diversification in export market destinations—less reliance on US and Germany, more export to MENA and non-EU European countries
- Export sophistication rose with more medium technology exports—increasing high-tech exports remains a challenge (low export survival rate)
- Diversification also into services (esp. travel and transport)

Does Export Sophistication Generate Enough Jobs?



- Simple Heckscher-Ohlin model: wage inequality will fall as production shifts towards unskilled labor-intensive industries (where developing countries have comparative advantage), raising demand for unskilled workers.
- Within-industry wage dispersion: more productive firms increase exports, produce greater share of higher-quality goods, and raise wages relative to less productive firms in the same industry (Verhoogen).
- Skill-bias in export destinations: firms that export to high-income destinations hire more skilled labor and pay higher wages than firms that export to middle or low-income countries or that sell domestically (Brambilla, Lederman, Porto).

Thank You



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