SUMMARY RECORD

2010 OECD GLOBAL FORUM ON TRADE: GLOBALISATION, COMPARATIVE ADVANTAGE AND TRADE POLICY

14-15 October 2010, Chengdu, Peoples' Republic of China

This document will serve as background to the Report on the 2010 Global Forum on Trade that will be given under the item on Activity reports and work in progress.

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A Summary of Major Themes discussed at the 2010 OECD Global Forum on Trade

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The opening Session of the Forum began with a welcome from Vice Minister of Commerce JIANG Yaoping, Deputy Secretary-General Richard BOUCHER, Deputy Director of Trade and Agriculture Raed SAFADI, and the Director General of the Sichuan Commerce Department XIE Kaihua. The speakers expressed the relevance of the Forum in providing room for dialogue on important trade and trade-related policy issues for various global stakeholders, as well as a visible and vibrant example of deepening cooperation and closer relations between the PRC and the OECD.

The paper presentations, policy perspectives, and interventions from the floor covered a wide range of topics related to the overarching theme of “Globalisation, Comparative Advance and Trade Policy” and offered insightful analysis and commentary from a wide-variety of perspectives. It also gave the participants much food for thought regarding the critical importance of trade as the global economy recovers from its worst recession in seven decades. In this Summary, we highlight some of the key issues that were raised during the Forum’s sessions.

Session 1. The Comparative Advantage of Nations: Shifting Trends and Policy Implications

1. The two presentations of this session, made by the OECD (Drs. Przemek Kowalski and Ricardo Cavazos), opened the substantive part of the Forum by presenting a summary of the results of the first three studies included in the OECD project on *The Effects of Globalisation: Openness and Shifting Patterns of Comparative Advantage*. They gave an overview of changes in production, consumption, and trade over time and analysed how export specialization has evolved over the past few decades, with an emphasis on the dynamism of production structures in Selected Emerging Markets (SEMs). In addition, analysis of the patterns of factor content in traded goods and their impact on wages suggested that trade patterns in both OECD and SEMs are broadly in line with resource abundance, but as the relative resource bases are changing rapidly--particularly in SEMs--this may signal continuing changes in trade patterns in the future. The study did not find any indication of convergence of wages or global labour markets, suggesting *inter alia* that labour market outcomes are more dependent on domestic policies than trade.

2. In discussing these papers, Ambassador Geoff Raby stressed that comparative advantage is increasingly visible in trade in intermediate goods (rather than trade in final goods). He also noted the impact of demographics. Rapidly aging populations in much of Asia will have a significant impact on East Asia and will affect trade patterns. For example, because of demographic changes, China will trade less labour-intensive goods and will be increasingly in competition with OECD countries. This change in trade patterns will in turn affect trade tensions notably between China and the United States. However, these changes will take time to materialize.

3. Nak Gyoon Choi, of the Korean Institute for Economic Policy (KIEP), added that in light of the increasing share of SEMs in world trade, the world’s economies need to be vigilant to guard against disguised protectionism and to strengthen the political leadership of Brazil, Russia, India and China (BRICs).

Session 2. Turning Trade Opportunities into Trade: Facilitating Structural Change

4. The OECD (Dr. Jean-Jacques Hallaert) opened this session with a presentation of our findings on the salient “binding constraints” to export success and how Aid for Trade might be mobilised in order to address these constraints. Trade liberalization might be thought of as a debt-free stimulus for the global
economy, but it may be a necessary but not sufficient condition for developing countries to be able to benefit from increased trade opportunities given the myriad of bottlenecks they face. He highlighted the importance of prioritisation of key policy areas and careful sequencing of Aid for Trade programs. Preliminary analysis undertaken by the OECD and WTO suggests that the most critical binding supply side constraints for developing countries are road infrastructure and supply of electricity.

5. Complementing this analysis, Dr. Zhang Xiaoji of the State Development Research Center of the PRC discussed how trade has been—and will continue to be—a vehicle in making progress towards achieving the Millennium Development Goals (MDGs). He offered a detailed account of the highly-successful PRC experience in this regard, highlighting the PRC’s goals of creating a harmonious society through reducing poverty and increasing living standards. He stressed that, in order to allow developing countries to take full advantage of the benefits of openness, a successful and rapid conclusion to the WTO-led Doha Development Agenda (DDA) was important, and developing countries themselves need to embrace trade policy reform and capacity building.

6. Dr. Ponciano Intal of the Economic and Research Institute for ASEAN and East Asia (ERIA) extended this analysis by emphasising the relevance of domestic policy reforms for trade capacity. He emphasized the importance of investment facilitation and liberalisation, trade facilitation, transport and logistics as key policy areas for improving ASEAN international competitiveness. He stressed that these supply side interventions are central to improving the capability of developing countries to benefit from deeper engagement with the international economy.

Keynote Address by Alan Deardorff

7. Professor Deardorff of the University of Michigan focused his comments on the concept of Revealed Comparative Advantage. He examined to what extent the RCA measure captures Comparative Advantage and concluded that it can be a useful guide to examining what drives trade patterns and identifying sectors that gain or lose from trade. However, its utility is contingent on the assumption that trade distortions are not in place, which may not be realistic. For policy purposes, he disapproved of using RCAs for justifying export subsidies which can only lower welfare. He did, however, think RCAs could be useful in policy analysis in specific circumstances. For instance, if trade volumes are low and motivated by a ‘Fear Factor’ based on irrational perceived costs or uncertainties. In this case, RCAs could be useful in identifying which sectors would benefit most from policy intervention.

Session 3. Green Growth and Comparative Advantage: Strengthening the Link from Developed and Developing Country Perspectives

8. Dr. Raed Safadi started this session with a presentation of the OECD Interim Report on Green Growth, in which he stressed the importance of environmental considerations as structural change continues and as the world emerges from the global crisis. If we are to attain the goal of creating a stronger, fairer, and cleaner world economy in the years ahead, we need to recognise environmental constraints and focus on “green opportunities”. As these constraints will become increasingly binding, it is essential to consider “green growth” scenarios sooner rather than later. He stressed the need for a mix of policy instruments to tackle key environmental challenges. Dr. Safadi underscored the importance of market-based approaches, but complemented by regulations & standards, R&D investment, labelling, and the need to ensure coherence in policy design and implementation. Green growth must be fundamentally integrated into economic growth accounting, hence it is important for the green growth indicators to identify gaps and measure progress. He also noted that internalising environmental externalities is necessary for green growth, but insufficient: we need to ensure a smooth transition (sectoral shifts, employment, skills) and incentivise eco-innovation (internalising positive knowledge spill-overs). Dr.
Safadi noted finally that the Report was preliminary and actively courted suggestions regarding the best means to adopt green-growth strategies.

9. Professor Zou Ji of Remin University considered at length the linkages between development and green technologies. He focused on how these technologies can be financed, a difficult issue given the fiscal problems in OECD countries and spending constraints in developing countries. Ultimately, while government should be willing to subsidise these technologies, it will be necessary to entice the private sector to get on board. In the case of the PRC, abatement and other related costs will be incremental due to the application of stipulated targets. He stressed that the Government will have to be innovative with respect to financial mechanisms in order to achieve its long-run environmental goals. As is the case for most countries, mechanisms in place are currently insufficient to address “global public good” problems in the environmental area and meet the costs of abatement. He considered various multilateral and bilateral technology funds with these objectives in mind.

10. Focusing on trade-related environmental issues, Dr. Daniela Marconi of the Bank of Italy noted that environmental quality matters to the world economy and trade is an important part of the equation. She explored the impact of environmental regulation on comparative advantage in the context of EU-China trade patterns. Using regression analysis, she tested for a pollution haven effect and found that, in fact, there is no evidence that changes in European regulation have significantly affected revealed comparative advantage (RCA). For example, EU countries have kept or improved their RCA with respect to water pollution technologies and actually lost RCA in relatively clean sectors such as telecommunications.

11. In commenting on these papers, Dr. Chia Siow Yue of the Singapore Institute for International Affairs addressed some of the discussion regarding who should “pay” for global environmental protection, particularly in the context of global-warming related issues. Major countries of focus were the two largest countries responsible for carbon emissions, the United States and the PRC.

Session IV: Post crisis Patterns of Trade in Goods and Services: Implications for Trade Policy

12. Dr. Michael Plummer, Head of the Development Division of the OECD, presented a paper on global rebalancing in the post-crisis era. Global imbalances that amassed prior to the crisis were widely believed to have been unsustainable, and the crisis itself bore this out. The presentation explored many vehicles to reduce global imbalances as the world recovers from the global recession. In addition to the oft-cited means to achieve this through macroeconomic measures (e.g., exchange-rate and interest rates changes), he stressed the potential of services trade liberalisation in surplus countries in fostering domestic growth and addressing global rebalancing. Similarly, governments would be well-served to implement policies that enhance the investment climate, for the current account surpluses may indeed reflect a lack of domestic investment opportunities, including long-term infrastructure investments in developing Asia. Microeconomic adjustment policies include eliminating subsidies and factor-price distortions that favour exporters and tend to suppress labour’s share of income. He noted that, while some circles are seeking misguided protectionist policies to help rebalance, such an approach could be disastrous. On the other hand, lowering barriers to trade, which is possible through the DDA, holds much promise.

13. Dr. Hu Jingyan of MOFCOM agreed that services will be crucial in the post-crisis trade architecture both in the OECD and emerging economies. He emphasised the complementary links between goods and services trade. Services innovation was also noted as essential to developing a services economy. Dr. Hu highlighted the main developments in PRC trade in services and underscored the potential benefits that the country might reap from a greater focus on development of the services sector.

14. Dr. Alicia Garcia-Herrero from BBVA discussed the post-crisis situation in trade finance and its implications for South-South trade. The world has seen a recovery of trade post-crisis but financing of
trade has not really caught up with that trend. She noted that the data on trade finance are not particularly good, and that the nature of trade financing has changed. Nevertheless, she stressed that the open trade account form of trade financing has decreased dramatically and there has been a move back to securitisation of debt. She advocated for a policy focus on developing trade finance in the post-crisis era. In particular, this needs to be reflected in Basel III, which at present risks to disadvantage trade finance.

15. Professor Robert Scollay of the University of Auckland stressed the need to avoid protectionist pressures as the global economy rebalances. He noted that, while governments did manage to avoid significant increases in protectionism during the crisis, the Global Trade Alert (GTA) revealed that some protection did, indeed, rise during this period. The GTA reported discriminatory measures in several areas. Up to 10% of world imports are said to be affected, though some disputed this figure during the discussion. He emphasised that further trade liberalisation would be helpful but first measures introduced during the crisis need to be rolled back. He also pointed out that rebalancing will ultimately require internally-focused measures if they are to succeed.

16. Finally, Dr. Fan Zhai reported evidence that undervalued exchange rates tend to help countries during their economic development process. He reviewed strategies that countries could theoretically pursue to maintain undervalued real exchange rates, should that be the country’s chosen means to attain its development objectives. Nevertheless, he noted the political difficulties in doing this.

**Session V: Going Forward: Policy Reform in the Era of Globalisation**

17. The first paper of this session, presented by Dr. Kowalski (OECD), uses the principle of comparative advantage but interprets it broadly as an advantage resulting from an interaction of sectors’ or products’ dependence on certain endowments (or policies) and the actual endowments (policies) in a given economy. Focusing on relative factor endowments and a selected number of policies as sources of comparative advantage, the paper showed that both endowments and broad policies are important in shaping export specialisation patterns. For example, differences in policy performance in the areas of education and access to energy across a group of 55 OECD and selected emerging economies have been estimated to be as important for determining the pattern and quantity of exports as differences in capital to labour ratios between these countries. This suggests that it is important for policy makers to think comprehensively about the whole range of ‘horizontal’ policies in place, not just targeted sectoral policies, when strategies to improve trade performance are considered.

18. The second paper presented by Dr. Michael Ferrantino (US ITC) focused on studying the process of diffusion and downstreaming of technology-intensive products in international trade. The paper built on the product-life-cycle theory of dynamic comparative advantage and applied it to trade of broadly defined selected technology-intensive products of more than 15 OECD and advanced emerging market economies. The findings presented suggest that when products are more sophisticated and difficult to produce, as in the case of technology-intensive products, their location of production often sticks to the place where they were first commercialised. But when comparative advantage changes new patterns of trade emerge. Some factors that preserve initial patterns of comparative advantage identified in the paper include slowly changing relative factor abundance, agglomeration economies, nation-specific economies of scale and nation-specific learning-by-doing. Diffusion and downstreaming on the other hand tend to be triggered by quickly changing factor abundance, global spillovers, FDI, as well as fragmentation and vertical disintegration.

19. The third paper presented by Dr. L. Alan Winters (University of Sussex and DFID) investigated the impact of the emergence of China on manufacturing plants in Mexico, concentrating on their survival and sales domestically and in a key third market (i.e., the United States). The findings of the paper suggested that the effect of emerging China was strong but highly unequal across firms and across products with
different market shares. Larger plants were found to be less affected and core products (with high market shares) were less impacted than marginal ones. The author argued that these findings suggest that there should be no policy response to such a competitive shock because the emergence of China resulted in the crowding out of the less productive Mexican firms from the market and their replacement by more productive firms. Generally speaking, the increased competition from China favoured the performance of Mexican firms that are both large and skill intensive.

20. Dr. Ganeshan Wignaraja from the Asian Development Bank underscored the importance of links to global production networks and the utility of free-trade areas (FTAs) in locking in vital reforms. Global production networks have spread widely across Asia and half of East Asia’s trade is now with itself. In order to gain access to these networks, policy makers need to focus on supply side policies such as using FDI to support domestic spillovers, encouraging R&D, and establishing technology-focused institutions.

21. FTAs are also growing in importance in the region. These agreements go beyond the goods and services negotiations at the WTO and lock in important reforms that influence comparative advantage. A recent ADB survey showed that 28% of firms in East Asia directly benefitted from FTAs. In the future the costs of the ‘noodle bowls’ may become excessive and regional FTA consolidation seems to be the way forward.

22. Louis Kuijs (World Bank) emphasized some of the unique characteristics of emerging markets in the context of comparative advantage. He highlighted the abundance of underemployed factors as a major differentiating element from developed economies. Emerging markets also seem to occupy a middle range of export specialisation between the labour-intensive and capital-intensive products characteristic of developing and developed countries, respectively. This less established pattern of comparative advantage provides a greater role for government in shaping it. In this regard, domestic policies for trade are crucial particularly in the areas of education, macroeconomic stability, and creating a suitable business climate. Mr. Kuijs proposed a variety of policy options, which need to be customized to the specific country needs and circumstances. He suggested that government financing and preferential taxes may be useful in some cases. In addition, targeted FDI to support technology transfer is a further policy option, and may create capacity building opportunities.

Session VI: Learning from the Crisis: How to keep markets open and strengthen the global economy

23. This final session brought together Drs. Deardorff and Winters, Deputy Secretary-General Richard Boucher, Director-General of the PRC Bureau of Fair Trade for Imports and Exports, Zhou Xiaoyan, and Vice President of Legal Affairs for Qualcomm China, Yan Xuan, to share their views on what lessons have been learnt from the crisis and insights on how to strengthen the global economy.

24. Dr. Raed Safadi, the session’s chair opened the discussion by delineating the causes of the recent trade collapse, which stemmed from the fall in aggregate demand, the factor composition of trades, and the drying up of trade finance. In response, the G-20 introduced fiscal stimulus and monetary easing along with support for short term trade finance to provide help to spur world growth and trade. Despite improvements in trade flows, employment has remained stagnant. This outcome encourages us to reconsider some pertinent questions. What is the relationship between trade and employment? Why is employment lagging behind?

25. Dr. Deardorff drew two main lessons from the crisis. He noted first the success of the GATT/WTO in preventing countries from raising barriers to trade. On the other hand, he also noted the failure of the IMF to deter beggar thy neighbour policies in certain instances. While there were some protectionist responses on the part of the G-20, this did not seem to have had a substantial impact on trade.
26. Dr. Winters expressed broad agreement with Dr. Deardorff. He emphasized that the Keynesian demand-support policies served to arrest the deepening of the crisis, and that should be recognised and applauded. If they had not been taken then the crisis would have been deeper and lasted longer. Following the crisis of the 1930s, we learnt that we do not play around with trade and trade policy as instruments of stimulus. One of the explanations for the differences in policy responses may have been linked to the fiscal situation. Before the recent crisis, most countries were fiscally unconstrained, unlike leading up to the previous crisis. This is relevant because fiscal conservatism will raise pressure to control trade and may lead to a jobless recovery. This time around, the IMF responded to the crisis by liberalizing short term lending. Nevertheless, the situation remains somewhat uncertain as global imbalances, rising food prices and volatility could create problems for trade in years to come.

27. Deputy Secretary Richard Boucher commented on what the crisis has taught us about weak points in the multilateral trading system, with a particular focus on strengthening commitments regarding the WTO plurilateral Agreement on Government Procurement. He also called for exit strategies from distorting instruments, including finance, when the timing is propitious. He underscored the role of the G-20 in coordinating exit from these crisis measures and noted the importance of continued cooperation, timing and sequencing.

28. Ms. ZHOU Xiaoyan emphasized the importance of international monitoring and coordination in maintaining market openness as domestic political pressures could undermine the efforts undertaken thus far. Ms. ZHOU asserted that China understands the benefits of openness. However, in order for trade to be mutually beneficial, there must be coordination as harmful protectionism can disadvantage the system at large.

29. Mr. YAN Xuan advised participants that more supporting actions need to be taken in order to sustain economic growth as well as social cohesion. These include the need to strengthen global cooperation and conclude the Doha Development Agenda. Furthermore, NTBs should be avoided and the focus should be shifted away from industrial policy towards consumer demand. The promotion of capacity building, protection of intellectual property rights, and increasing incentives for knowledge transfer are also important strategies to keep in mind in strengthening the global economy. All of these measures call for increased cooperation and it will require an international effort to keep markets open and strengthen the recovery.