

## Summary of the 2023 Heckscher-Ohlin conference

The conference displayed strong support for its main premise – *the need for evidence-based trade policy*.

Trade liberalisation has *strong productivity effects* on the domestic industry, both via increased market access abroad and via reduced import barriers. These positive effects are stronger than we knew a generation ago. On the import side, access to intermediate goods in combination with technology spillovers (through imports or joint, cross-border innovation between buyers and suppliers) appear to be a big part of the story. No evidence was presented to support the notion that there are gains from trade via trade agreements without a market access agenda.

With respect to trade and equality, evidence suggests that *trade has a positive effect on between-country equality*. Developing countries generally benefit from opening up to trade and taking on WTO commitments. For *within-country equality* the picture is more complex. More research is needed to identify causal links between trade and the domestic, geographic impact of structural adjustment in response to trade liberalisation.

With respect to *strategic trade policy*, not much is different in the 21<sup>st</sup> century compared to earlier periods. Economic security, competitiveness and technological superiority are objectives that have been with us for a long time. Among means, sanctions, export controls, subsidies, export bans and localisation requirements are also well-researched. The good news is that this means that there is plenty of evidence to base current policy on.

There is strong evidence to support *a more tailored approach to special and differential treatment at the WTO*. South-south trade is growing, export structures are changing and developing countries are increasingly relevant for future global supply chains. The dichotomy between developed and developing countries therefore needs to be reviewed and heterogeneity accounted for. A data-driven, evidence-based approach will be beneficial in that process.

Overall, there are *four big challenges for rules-based trade policy*: domestic equality, sustainability, fair competition on market economy terms, and national security. Surgical strikes to support these objectives are not possible. Instead, measures can have indirect, long-lasting and unintended effects.

# 1 Research keynote address: Global Production and Innovation Networks – consequences for trade policy

*Marc Melitz, Professor of Political Economy at Harvard University*

Early 21<sup>st</sup> century trade research opened up the firm as the black box of international trade. According to Melitz, the next frontier is about how firms make joint decisions as part of production networks.

Research has established that firms that trade a lot are typically multinational enterprises (MNEs) that

- import and export to multiple destinations,
- import and export to/from affiliates *and* arm's length partners,
- generate most of the world's innovation, and
- display strong links between trade and technology spillovers, particularly for countries that are one step removed from the technological edge.

Another important result is the fact that innovation increasingly takes place jointly and across borders between buyers and suppliers.

One main consequence for trade policy is that trade measures intended for one “issue” or one sector will reverberate through the whole production network. This often occurs in unintended ways. Policies meant to protect domestic production could therefore have the opposite effect. As an example, Melitz discussed rules of origin. The ‘laffer curve’ of rules of origin means that, up to a certain point, stricter rules of origin can induce relocation of assembly *to* the home market. But beyond that point, the opposite is true.

# 2 Policy keynote address: Building trade policy on the shoulders of 21st century science

*Anabel González, Deputy Director-General at the World Trade Organization*

Anabel González made three key points in her policy key note address:

- Rigorous thinking is especially important in times of crises since crises are catalysts for profound change. The dramatic changes in the trade policy landscape witnessed over the past few years are no exception. Data, research and analysis are needed to inform the way forward and avoid decisions that, though well-intentioned, leave the world worse off.
- The research community can and must do more to shape the narrative of trade and economic integration, especially with respect to the potential for trade to address the big challenges of the 21st century, from tackling climate change to strengthening preparedness for future pandemics and from bolstering socio-economic inclusion to promoting peace and security.

- Economists need to think and act more like “plumbers”. The policymaking community need to get their hands dirty with the details and messiness of policymaking so that they can play a greater role in influencing policy outcomes.

### 3 The impact of trade liberalisation on productivity

*Claudia Steinwender, Professor of Economics at Ludwig Maximilian University, Munich and Julia Nielson, Deputy Director of the OECD Trade and Agriculture Directorate*

According to Steinwender, the traditional, ‘steady’ gains from trade are well known from earlier generations of research. During the past 10-15 years, however, dynamic perspectives have become more interesting for researchers. Steinwender discussed three main ways that trade liberalization affects productivity at the firm level.

1. Increased export opportunities due to expanded market access abroad,
2. Increased import competition in the domestic *output* market,
3. Increased access to imported intermediates in the domestic *input* market

While twelve surveyed studies found positive effects on firm productivity via the first channel (expanded market access abroad), two studies identified negative effects on the *range of products* offered by firms.

For the second channel (*import competition*) empirical evidence on firm productivity is more mixed. So called ‘Schumpeterian’ and ‘Escape competition effects’ could work in opposing directions. Steinwender suggested that the escape competition effect dominates in markets that are not yet very competitive. Empirically this conclusion is supported by the fact that no studies show negative productivity effects (via the import competition channel) as a result of trade liberalisation *in emerging economies*. Some negative effects are found in the US, but not in Europe.

The third channel (*improved access to imported intermediate goods*) has an unambiguously positive effect on the productivity of domestic firms in response to trade liberalisation.

*Julia Nielson* went on to ask why we have problems communicating the strong empirical evidence presented by Steinwender? The main reason, she suggested, is that public expectations on interventionist policies have increased due to multiple crises. The big four challenges for rules-based trade policy are the following, according to Nielson:

#### 1. Distribution = “the one that never went away”

We need to show the gains for developing countries. Trade economist and labour economists also need to link up.

#### 2. Sustainability = “new”

What precisely are the market failures involved? What are the carbon footprints of different economic activities? Trade disseminates environmental technologies. But what if it concentrates in the wrong countries?

### **3. Competitiveness = “how do I compete against deep pockets of other states?”**

Industrial policies need to be examined. We know that the most productive firms are not receiving government support. Lack of transparency and waste of public money creates a domestic case for subsidy reform.

### **4. National security concerns – “a black box and a trump card”**

How do we make the internationalist case for national security? Security rests on interconnectedness. We need to show who actually gets hurt by some of the measures that are contemplated. As we heard from Melitz, surgical strikes are not possible, effects can be indirect, long-lasting and unintended.

## **4 The social dimension: trade and inequality in the light of 21st century theory and evidence**

*Pinelopi Koujianou Goldberg, Professor of Economics at Yale University*

*Cecilia Malmström, Senior Fellow at the Petersen Institute for International Economics*

There is an evidence-based consensus that trade liberalization has played an important role in reducing between-country inequality in the last two decades. At the same time, there is an increasing impression, particularly in the US, that this has happened at the expense of within-country equality. The latest generation of research typically highlights *spatial and geographical aspects of inequality*.

According to Cecilia Malmström, there is a risk that the new policy environment creates a fragmented world that is likely to have adverse implications for developing countries as well as long term negative effects on equality. Factors to enhance equality includes different aspects of sustainable development in trade agreements, sustainable impact assessments, platforms to discuss carbon taxation, the global agreement on corporate taxation just negotiated, as well as improved partnerships with businesses.

## **5 This time it is different? Strategic trade policy in the new era**

*Patrik Tingvall, Chief Economist at the National Board of Trade Sweden*

*Simon Evenett, Professor of International Trade and Economic Development at the University of St Gallen*

Patrik Tingvall emphasized that we should make use of available evidence on the effects of government subsidies on trade, productivity and welfare. Evidence from China suggests a substantial negative return to its subsidy program (minus 20 percent

according to Jianhuan et al. 2023). The evidence from Europe and the US is mixed with significant differences across studies.

Tingvall also argued that we have underestimated the productivity effects of trade liberalization and overestimated structural change in the labour market associated with that liberalization.

Simon Evenett discussed whether strategic trade policy is different in the 21st century from earlier epochs. With respect to *ends* not much is different, according to Evenett. Security of supply considerations, industrial policy and technological superiority considerations are all old, for example. Among *means*, sanctions, export controls, subsidies, export bans and localisation requirements are not new either. Digital laws and tolls are new compared to earlier periods, however. We have also seen similar contexts before with periods of globalisation that turn into an era of intense geopolitical rivalry. Evenett therefore concludes that “while some aspects of strategic trade policy may be new, much of it is old”. The good news is that this means that we can learn from history.

Evenett then went on to discuss newly published Global Trade Alert new market access database that was launched on the same day. According to that data from that database, almost 50 percent of world trade is now covered by harmful subsidies, up from about ten percent in 2009.

## **6 Trade and geography in an interconnected world: the globalisation and localisation of production networks in the 21st century**

*Henry Yeung, Distinguished Professor at the Department of Geography at the National University of Singapore*

Henry Yeung highlighted the link between international trade and location theory. Yeung showed how the semiconductor industry, as a knowledge-intensive industry, has evolved over 30-40 years from a largely nationally based industry to a globally integrated production system. Yeung concluded his presentation by highlighting how geopolitical shifts and increased uncertainties are causal drivers of an intra-firm supply shift from cost minimisation to risk resilient supply chains.

## **7 An evidence-based approach to trade and development**

*Inu Manak, Fellow for Trade Policy at the Council on Foreign Relations, Washington, DC*

According to Manak, there are reasons to re-evaluate and reform special and differential treatment at the WTO into a more tailored approach. The global economy has changed substantially and led to advancements for developing countries to the point that they cannot be considered as a single block within the WTO. Intra-regional

trade is growing in the global South, export structures are changing and developing countries are increasingly relevant for future global supply chains. The dichotomy between developed and developing countries therefore needs to be reviewed and heterogeneity accounted for. A data-driven, evidence-based approach will be beneficial in negotiation processes. It could also encourage developing countries to meet their obligations and take full advantage of the global trading system instead of being kept in a permanent position outside the confidence created by the rules-based system.