



XVIII CICLO DE JORNADAS ECONÓMICAS

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Globalization and Competitiveness

Caroline Freund
World Bank

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What is Globalization?

- Trade
 - Capital
 - Labor
-
- I'm going to restrict my comments to trade

What is Competitiveness?



Competitiveness is the inclination, desire or will to strive for an objective or be in rivalry.

Webster's

Competitiveness is a comparative concept of the ability and performance of a firm, sub-sector or country to sell and supply goods and/or services in a given market.

Wikipedia

But is Competitiveness meaningful?



A nation's prosperity depends on its competitiveness, which is based on the productivity with which it produces goods and services.

Michael Porter 1990

The idea that a country's economic fortunes are largely determined by its success on world markets...is flatly wrong.

Paul Krugman, 1996

What is needed is both a robust industrial policy targeted at new exportables, and a supportive exchange-rate policy that promotes production of tradables across the board.

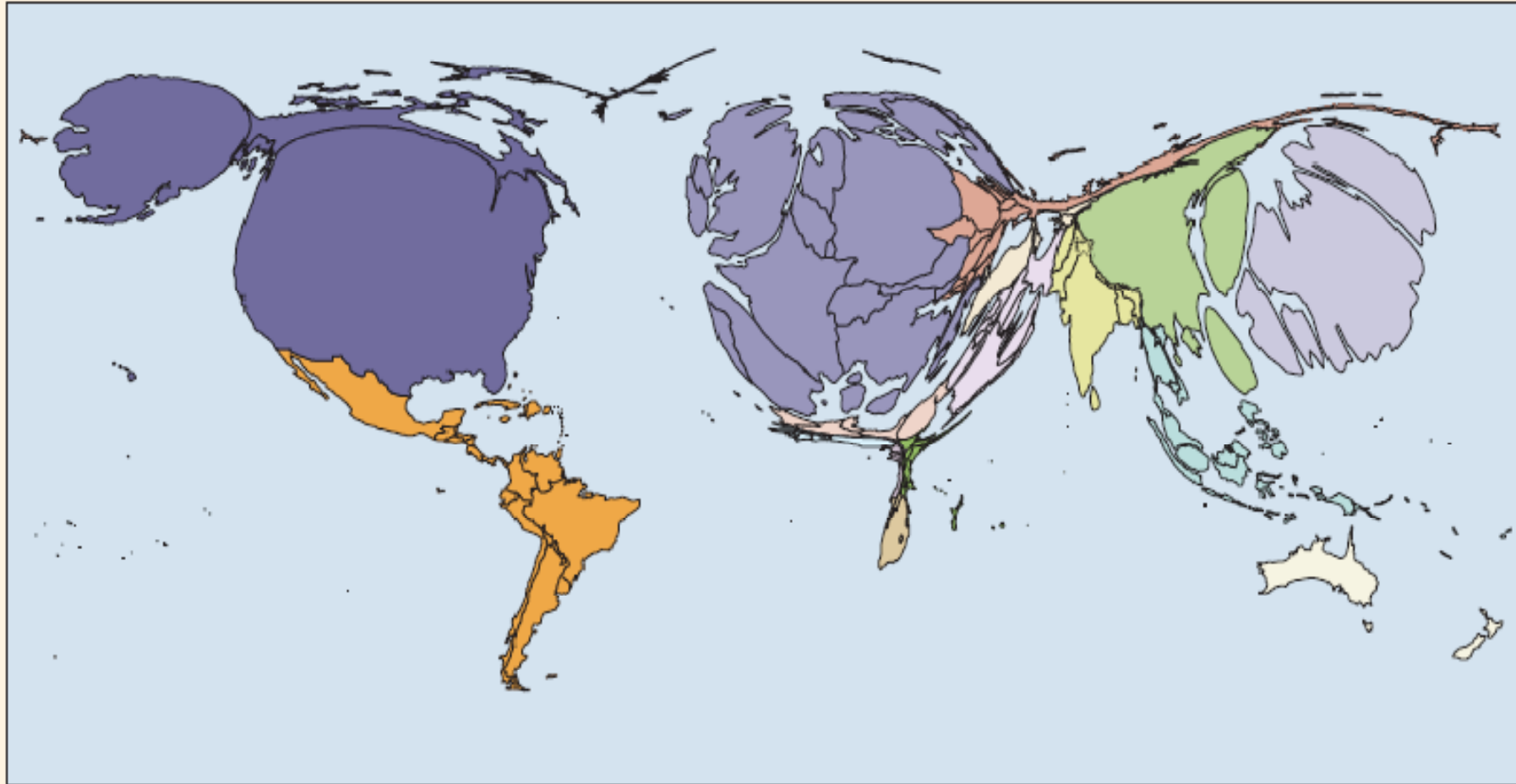
Dani Rodrik 2006

Why Do Exports Matter?

- To buy imports
- Generates income when domestic demand lags
- Exporting firms pay higher wages
- Generates efficient production structure
- Help prevent against BOP crisis

Look to global economy for demand

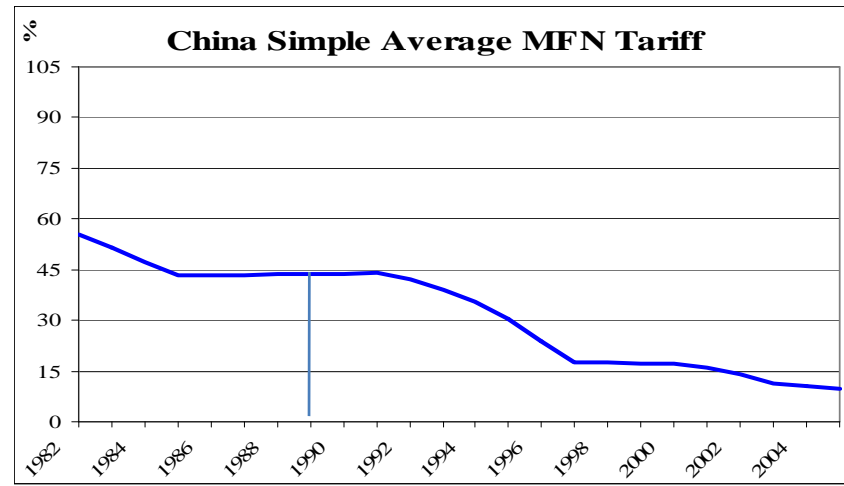
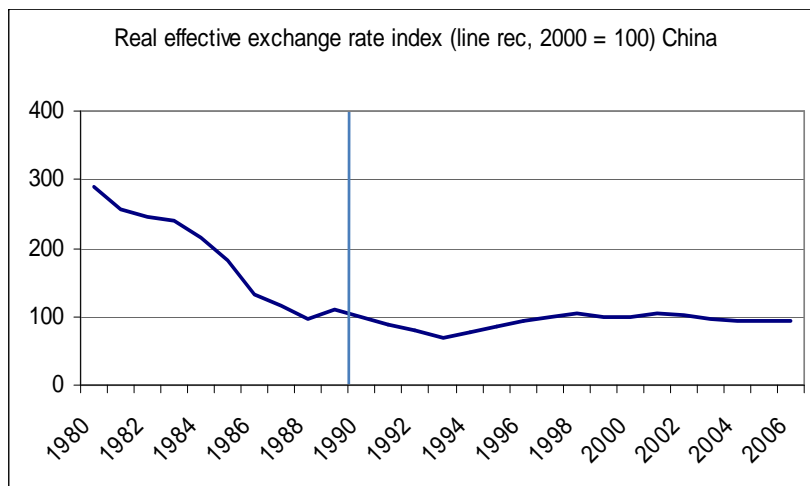
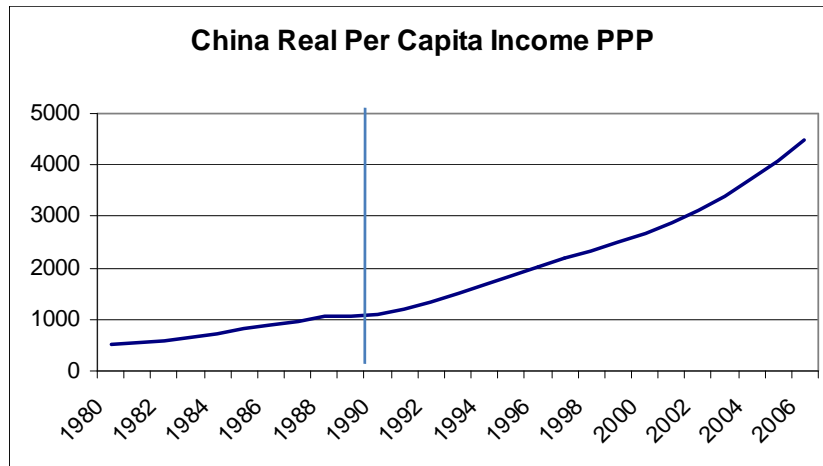
A country's size shows the proportion of global gross domestic product found there



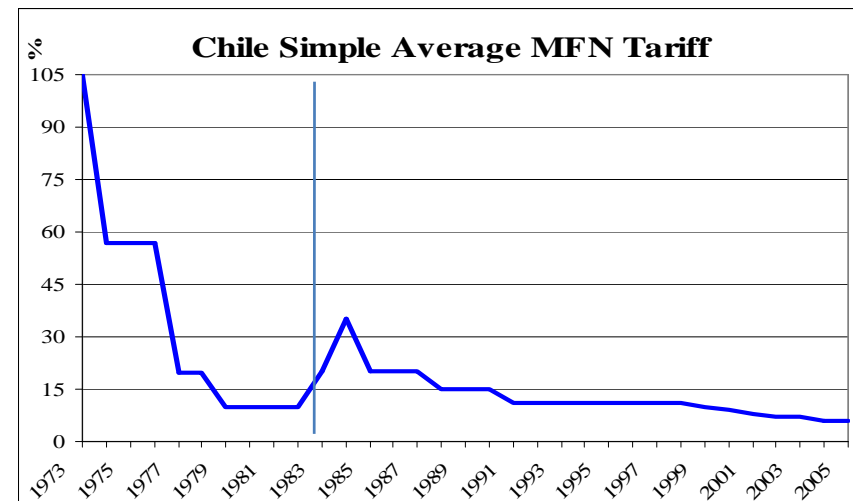
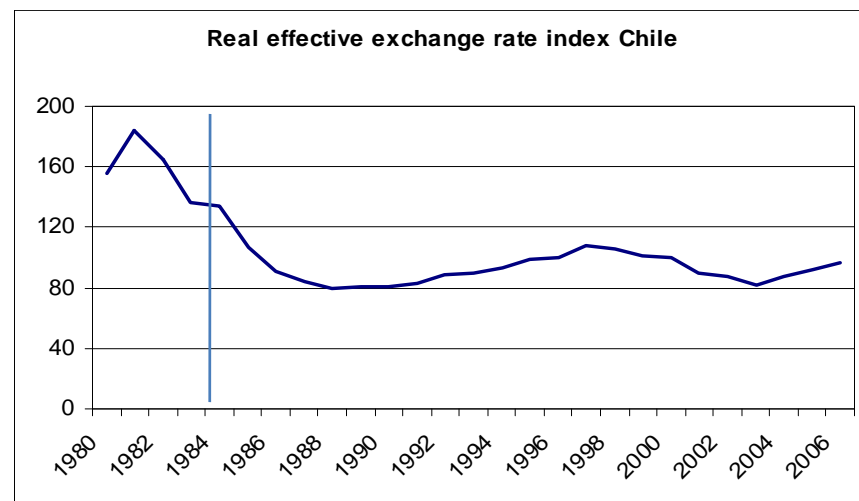
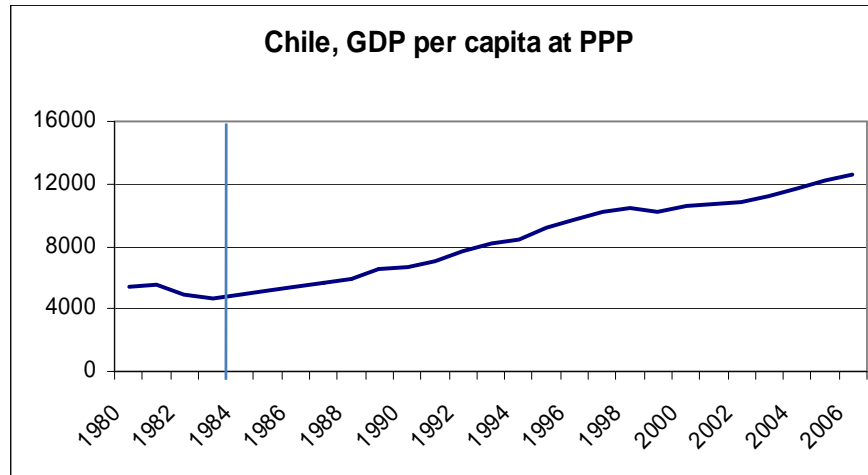
Source: WDR 2009 team using 2005 GDP (constant U.S. dollars).

Note: The cartogram was created using the method developed by Gastner and Newman (2004). This map shows the countries that have the most wealth when GDP is compared using currency exchange rates. This indicates international purchasing power—what someone's money is worth if spent in another country.

Export-Led Growth in China



Export-Led Growth in Chile



Source: Prasad (2004), Corbo (1997), Trains Tariff data, WEO

Commonalities and Differences

Both Experienced:

Trade Liberalization

Large Real Depreciation

Differences:

Chile: Small country, population 16 million

Extreme and rapid move to market economy. Now 33 out of 178 in ease of doing business.

Little industrial policy.

China: Large country, population 1.3 billion

Gradual move to market economy. Now 83 out of 178 in ease of doing business.

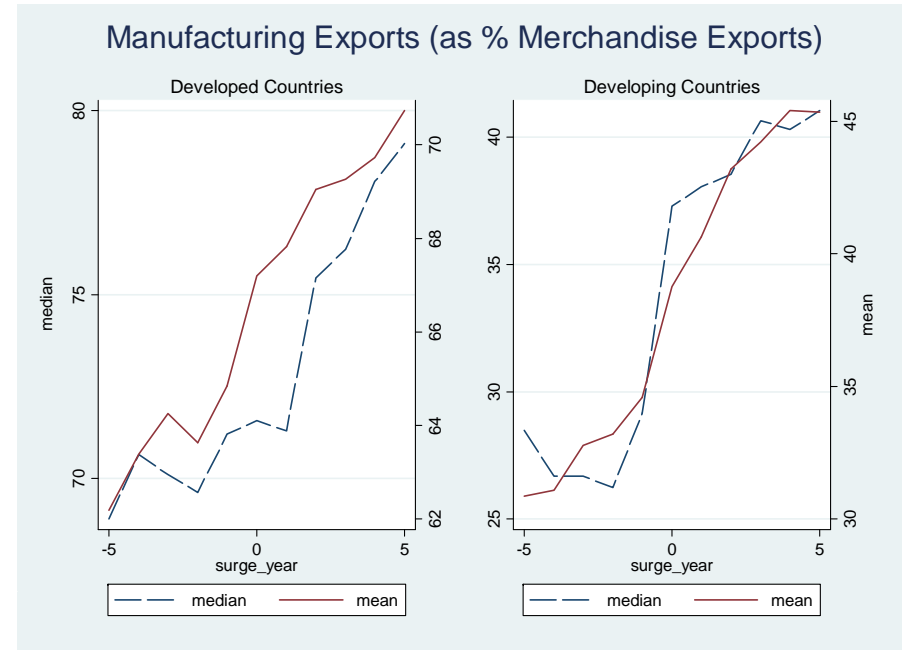
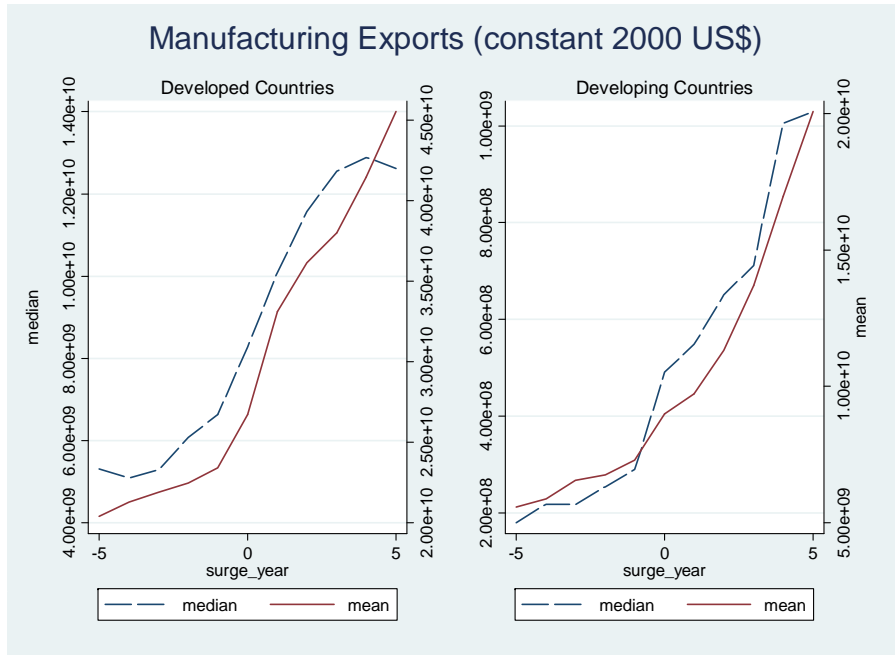
Significant industrial policy.

What Makes Exports Boom?

Recent work by Freund and Pierola (2008)

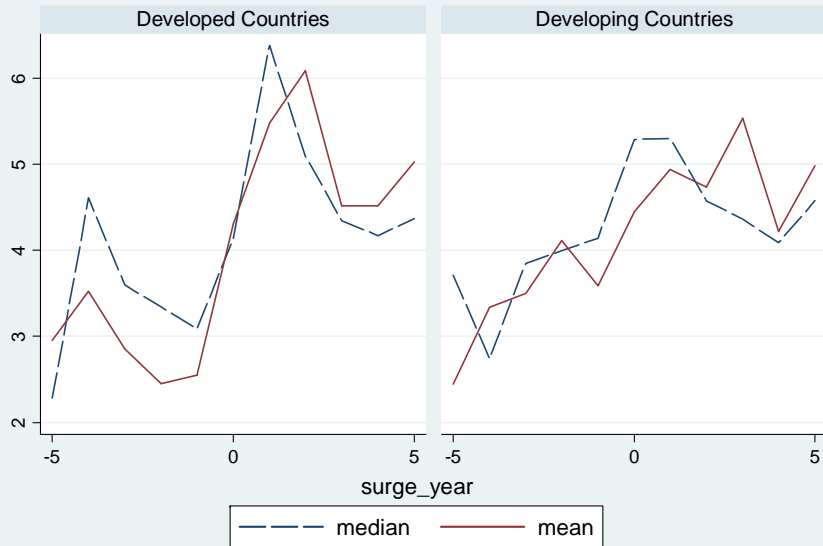
- We examined 92 episodes of sustained export growth in manufactures.
 - Characterized by growth $> 6\%$.
 - more than 1/3 higher (and 3 ppt) than old rate.
 - lasting for at least seven years.

What do the surges look like?

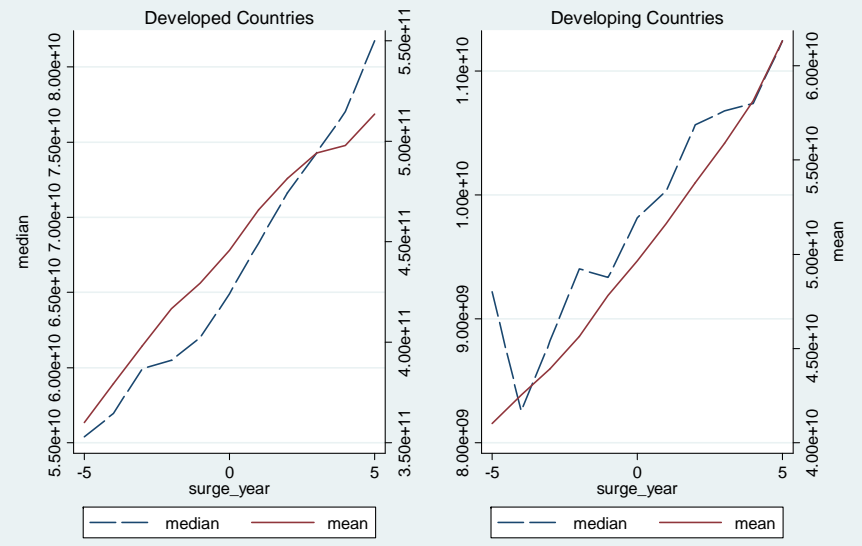


How is welfare affected?

GDP Growth (Annual %)



Private Consum. Expenditure (constant 2000 US\$)



Characterizing the environment before the surge

- Is openness important?
- What happens to various macro-variables: exchange rate, savings, and investment?
- Disaggregated trade: how are export patterns changing?

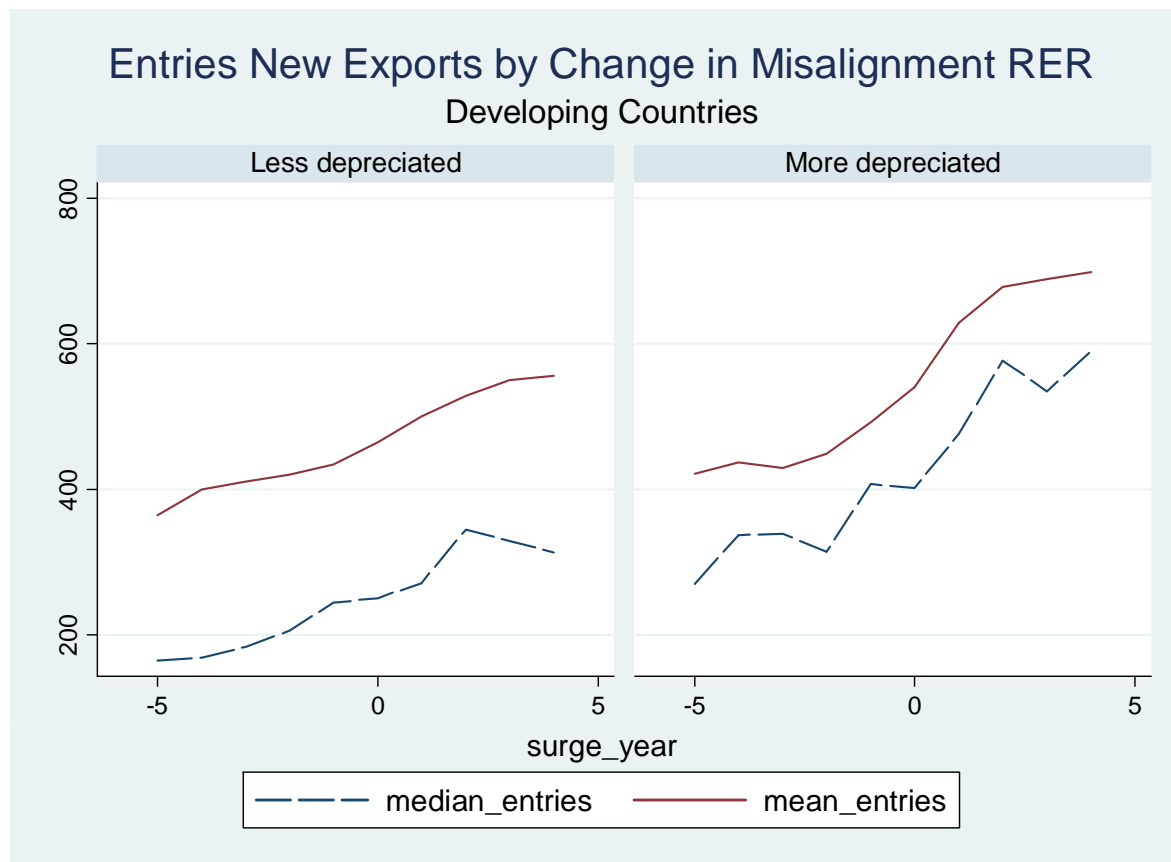
Characterizing the environment before the surge

- Is openness important?
 - A little.
- What happens to various macro-variables: exchange rate, savings, and investment?
 - The exchange rate matters a lot!
- Disaggregated trade: how are export patterns changing?
 - More Entry and lower failure rates, related to depreciation.

The Real Exchange Rate



Undervaluation Stimulates Entry into Exporting New Products & New Markets



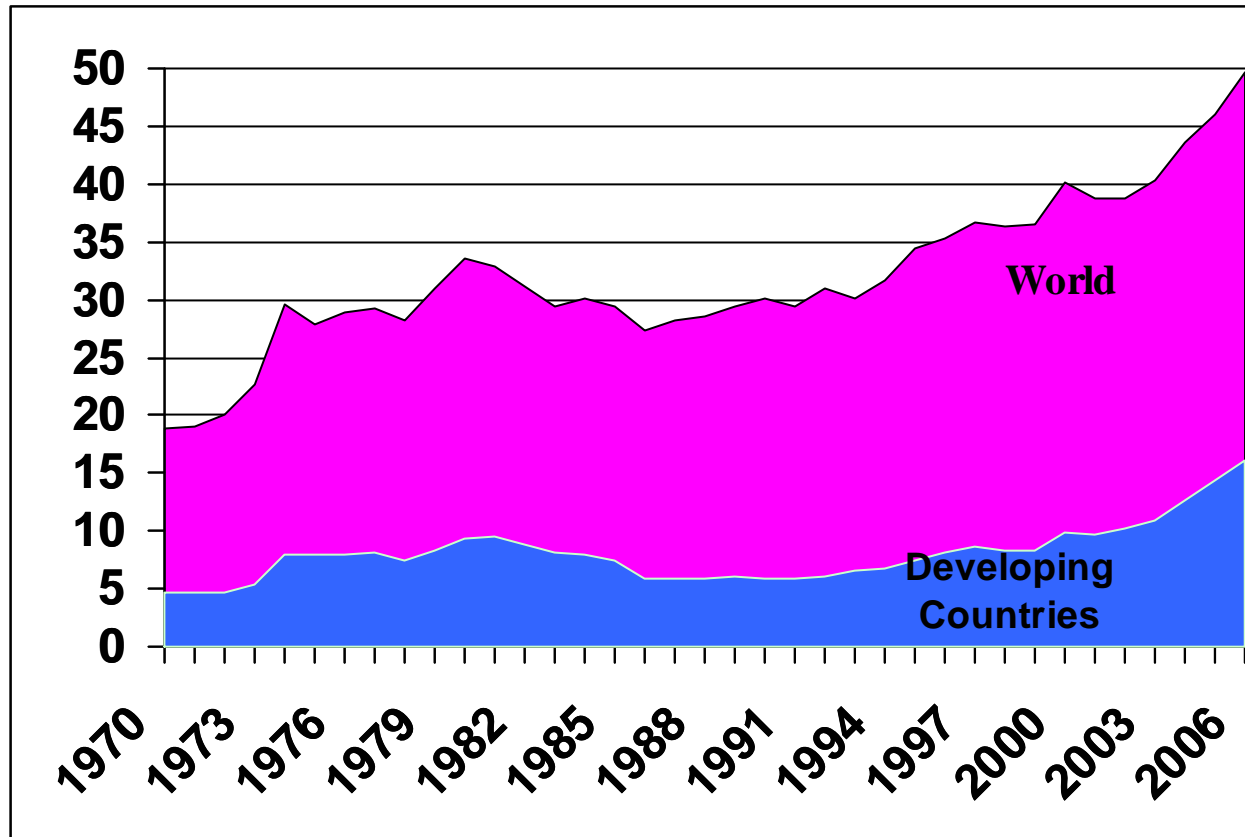
Findings on the Exchange Rate

- Export surges are good for growth and consumption.
- Surges are characterized by real exchange rate depreciation (about 30 percent in developing countries) and reduced volatility.
- Undervaluation—a competitive currency—is important in developing countries.
- Depreciation encourages more entries into new products and leads to a lower failure rate.

Does Trade Always Promote Income Growth?

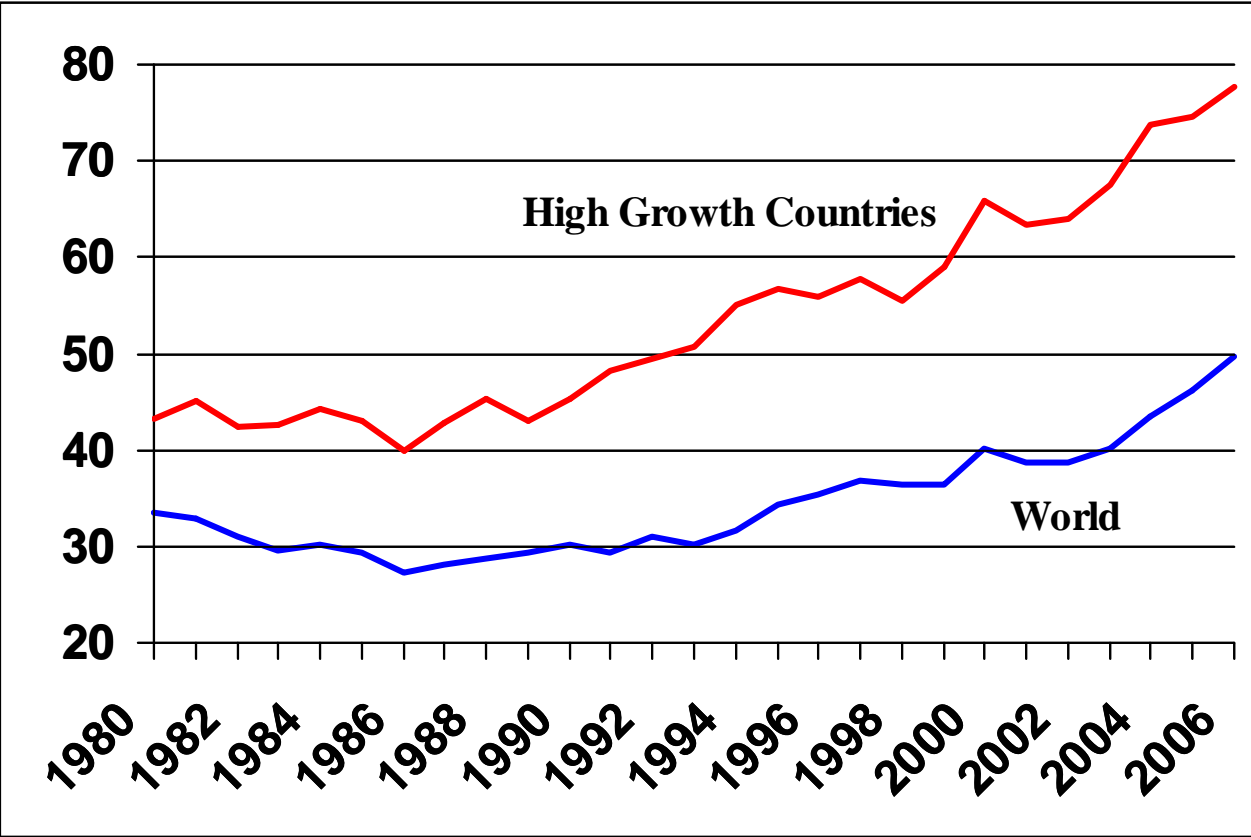
- Trade aligns resources with most productive uses, raising the level of income (and potentially growth).
 - Sectors
 - Firms
- Trade raises return on investment enhancing income growth.

Trade/GDP Ratio: World and Developing Economies



Source: WEO

Trade/GDP World and High Growth Countries



Source: WEO

Note: High growth economies = avg. GDP growth >7% 1980~2006

Not Everyone Agrees that Trade is Good:



A number of countries in Africa, Asia, and Latin America liberalized dramatically in the 1980s and 1990s will little gain.

What happened?

Trade is not Enough

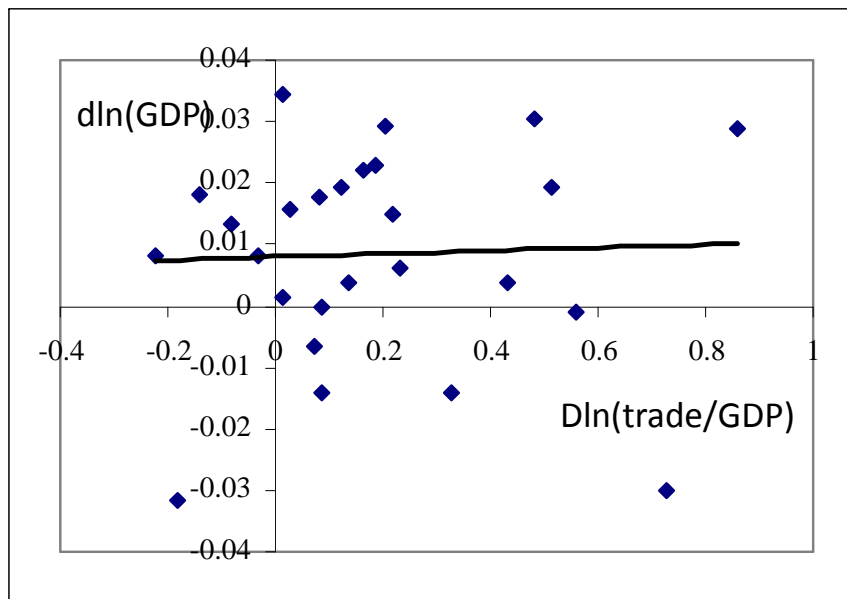
- Gains from trade require resources move to most productive uses.
- What would prevent that?

Too Much Regulation

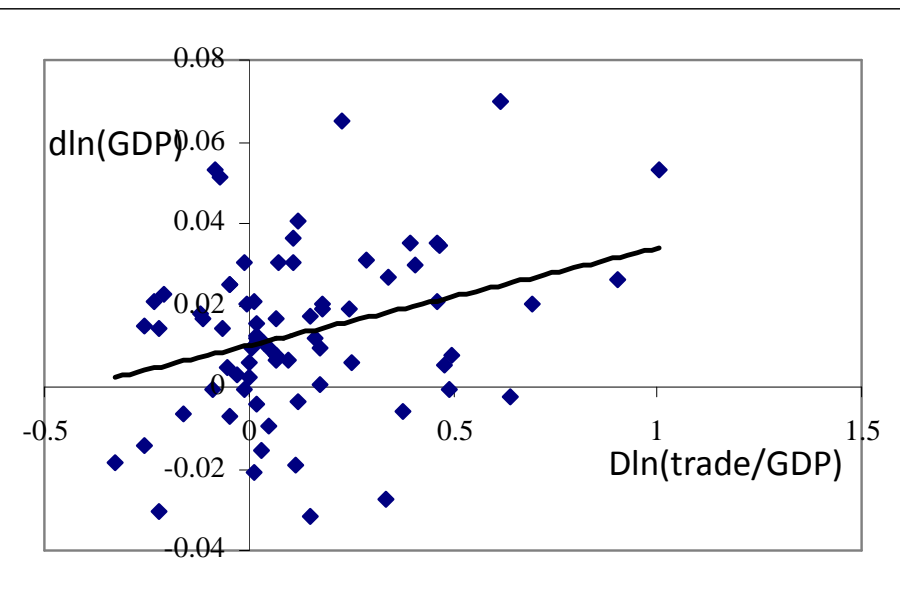
- Regulation on starting a business
- Regulation on hiring and firing workers
- Regulation on importing inputs
- Regulation on FDI
- High Trade Costs.

Business Environment Enhances Gains from Trade

Bad Climate



Good Climate



Source: Bolaky and Freund (2006)

Trade and Complementary Policies

- For trade to generate growth resources must move to productive sectors
- Excessive regulation prevents adjustment
- Existing industry obliterated, without growth elsewhere

Trade Costs

- Trade costs matter
 - Obstfeld and Rogoff (2000)
 - Trade costs explain 6 major empirical puzzles
 - Feenstra (JEP 1998)
 - \$10 Barbie doll
 - \$1 labor and materials
 - Design US, production China, materials other Asia.
 - Transportation more important than production costs.
 - Anderson and van Wincoop (2004)
 - Trade Costs twice as large as production costs and are an important source of comparative advantage

Containerization Around the World



Newark ,New Jersey



Shanghai, China



Puerto Barrios, Guatemala



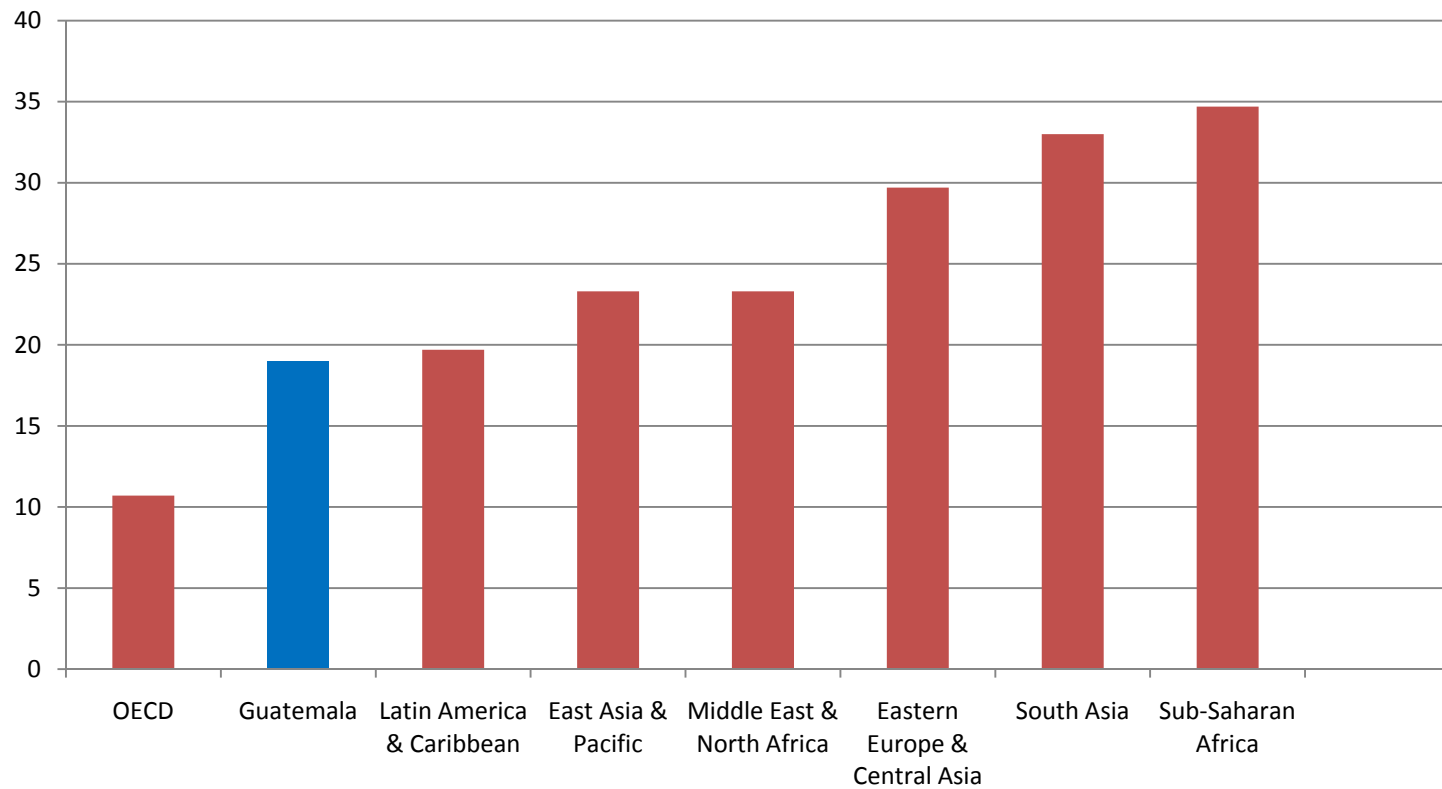
Tblisis, Georgia



Conakry, Guinea

Trade Costs

Time for Export (Days)



Source: Doing Business 2009

Time Costs of Trade

- Each day saved worth 0.8 ad valorem tariff (Hummels 2001).
- a day is equal to 1 percent of trade or 70 km Djankov, Freund and Pham (2006)

Elements of Competitiveness

- Business climate
 - Property rights
 - Labor mobility
 - Business regulations
- Trade costs
 - Tariffs
 - Real exchange rate
 - Documentation, transport, ports, and customs

Elements of Competitiveness

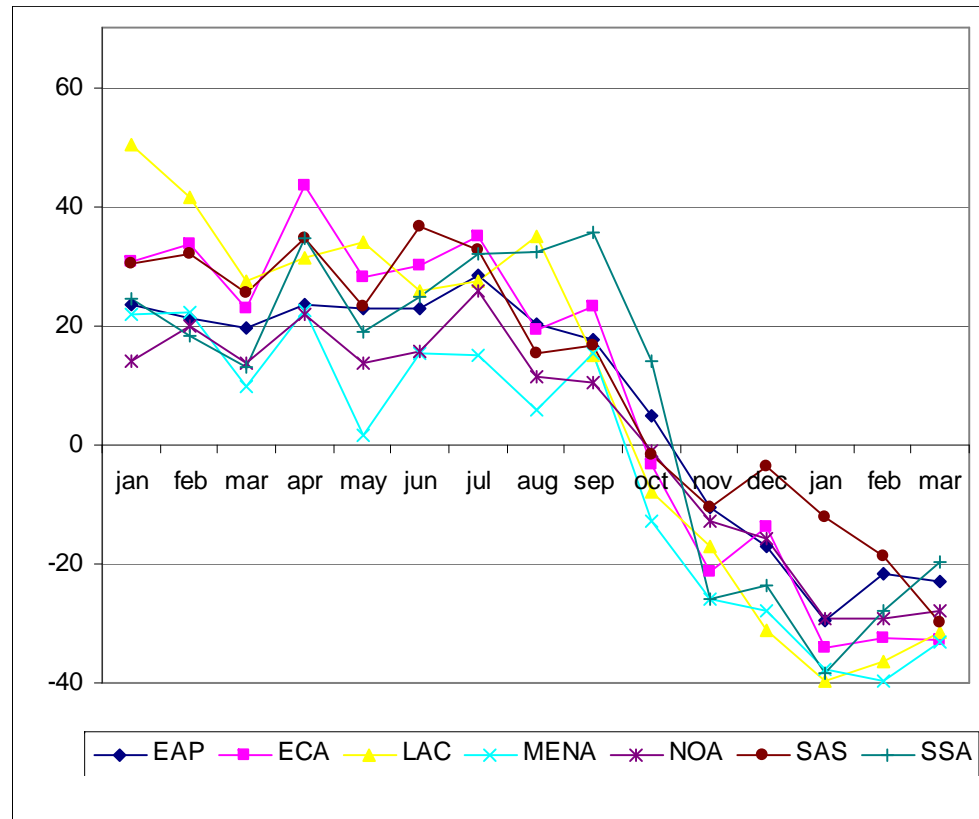
- Business climate
 - Property rights
 - Labor mobility
 - Business regulations
- Trade costs
 - Tariffs
 - Real exchange rate
 - Other behind the border costs: documentation, transport, ports, and customs

Conclusions

- Competitiveness is about providing opportunity to entrepreneurs.
 - Flexible entry and exit in business
 - Flexible labor
 - Competitive real exchange rate
 - Low trade costs
- Of course other things matter
 - Property rights, taxes, restrictions on foreign investment, trade policy

Does the Crisis Change Anything?

Export Growth 2008-2009:
(Relative to Same Month Last Year)



Temporary Measures

- Avoid protectionism
- Avoid real exchange rate overvaluation/consider undervaluation in small developing countries
- Shore up finance to small firms



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