

Trade and Development in an Age of Rising Uncertainty

Twelfth Malaysia plan kick-off conference
3 July 2019, Malaysia

Massimiliano Cali
Sr. Economist, East Asia and the Pacific



MEA 12MP Kick-Off Conference

OUTLINE

1. Why trade matters for growth, poverty reduction and inclusion
2. Trade tensions as risks to integration, growth, and poverty reduction
3. Policies to help trade drive growth through uncertain times

MEA 12MP Kick-Off Conference

OUTLINE

1. Why trade matters for growth, poverty reduction and inclusion
2. Trade tensions as risks to integration, growth, and poverty reduction
3. Policies to help trade drive growth through uncertain times

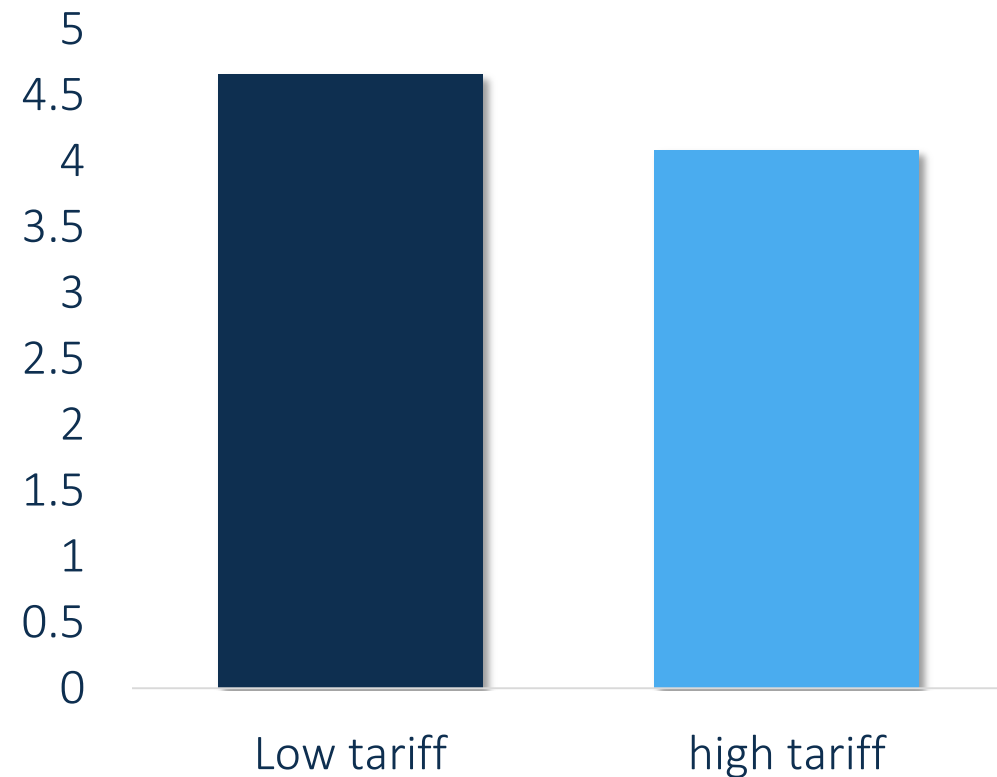
Trade and Growth Are Positively Correlated

Countries more open to trade grow faster:

- One percentage point increase in the trade/GDP increases income per person by at least one-half percent (Frankel and Romer 1999).

But, trade isn't the only factor—
complementary policies are needed

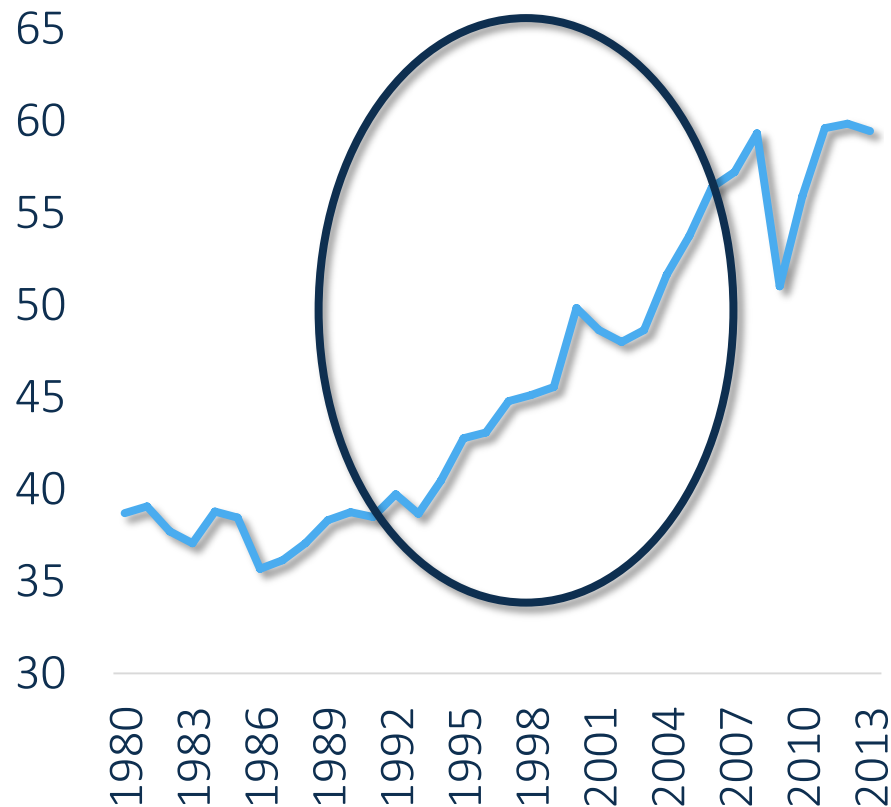
Average Annual Growth Since 1995
(Low and Middle Income Countries)



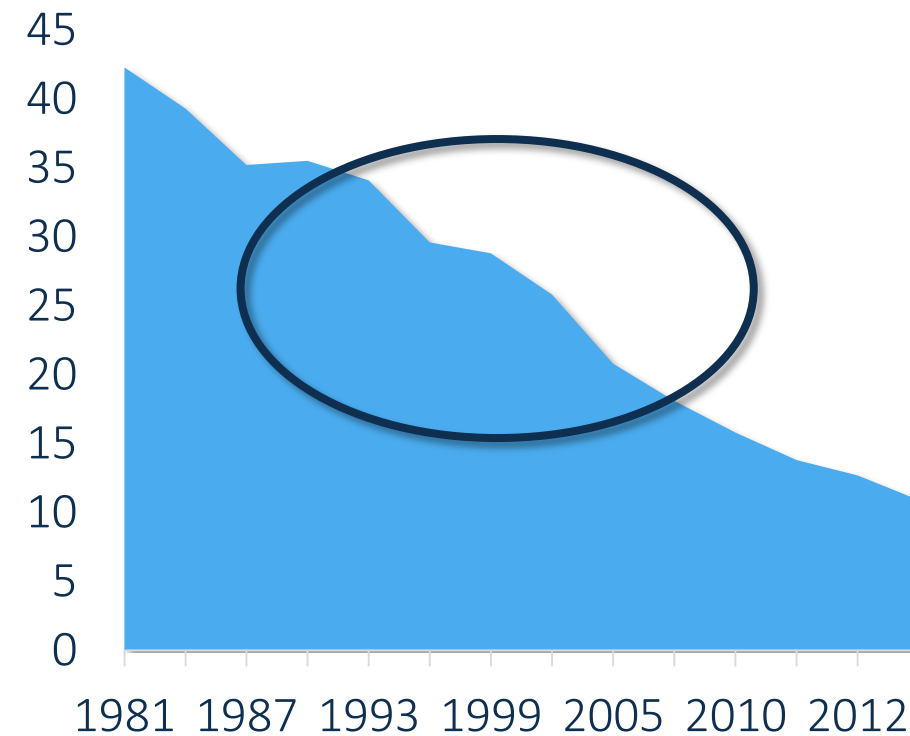
Source: WDI

Increased globalization rapidly expanded trade as a share of GDP, corresponding with a large drop in extreme poverty

Trade as share of GDP



Share of the World Population living on less than \$1.90 a day (2011 PPP)



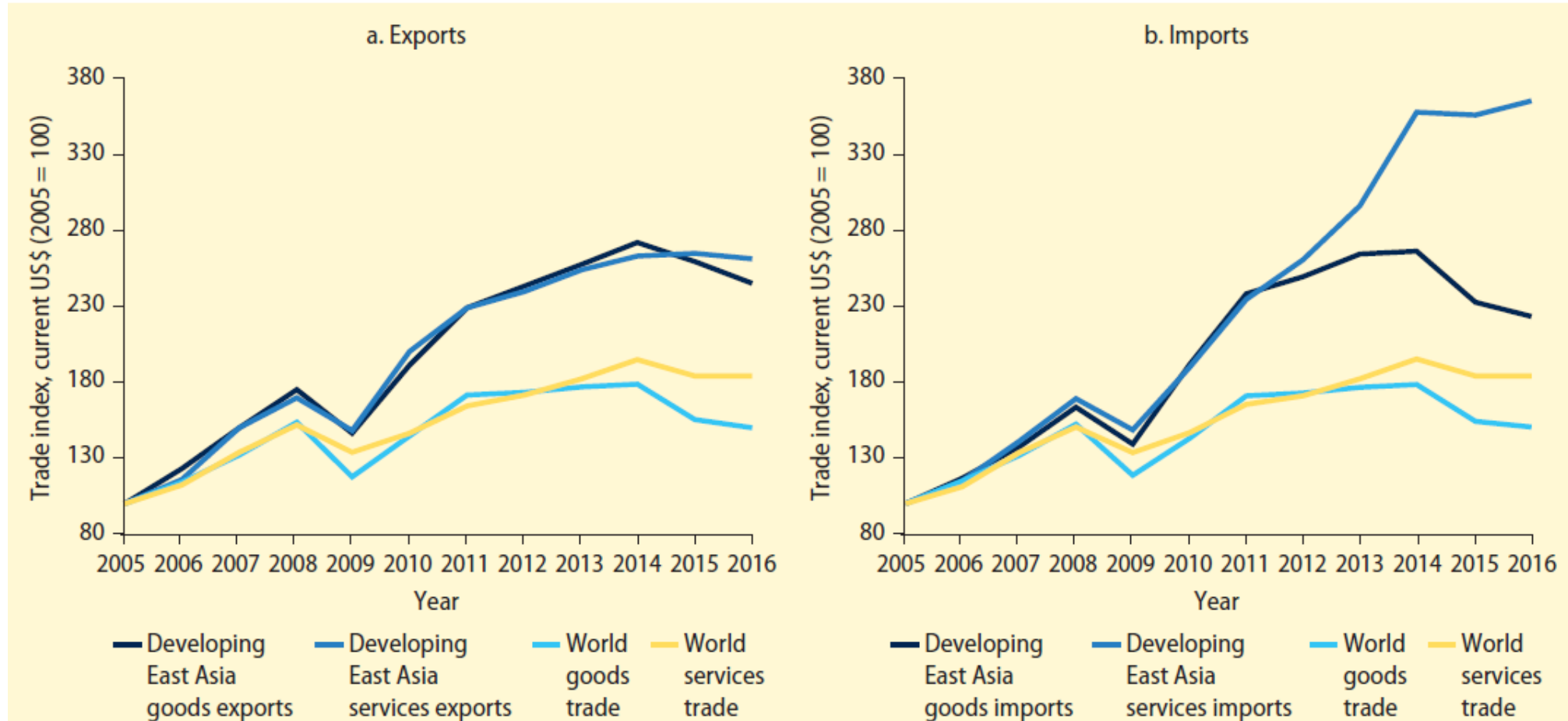
MEA 12MP Kick-Off Conference

TRADE AND DEVELOPMENT IN AN AGE OF RISING UNCERTAINTY



East Asia has been at the center of the export-led development story...

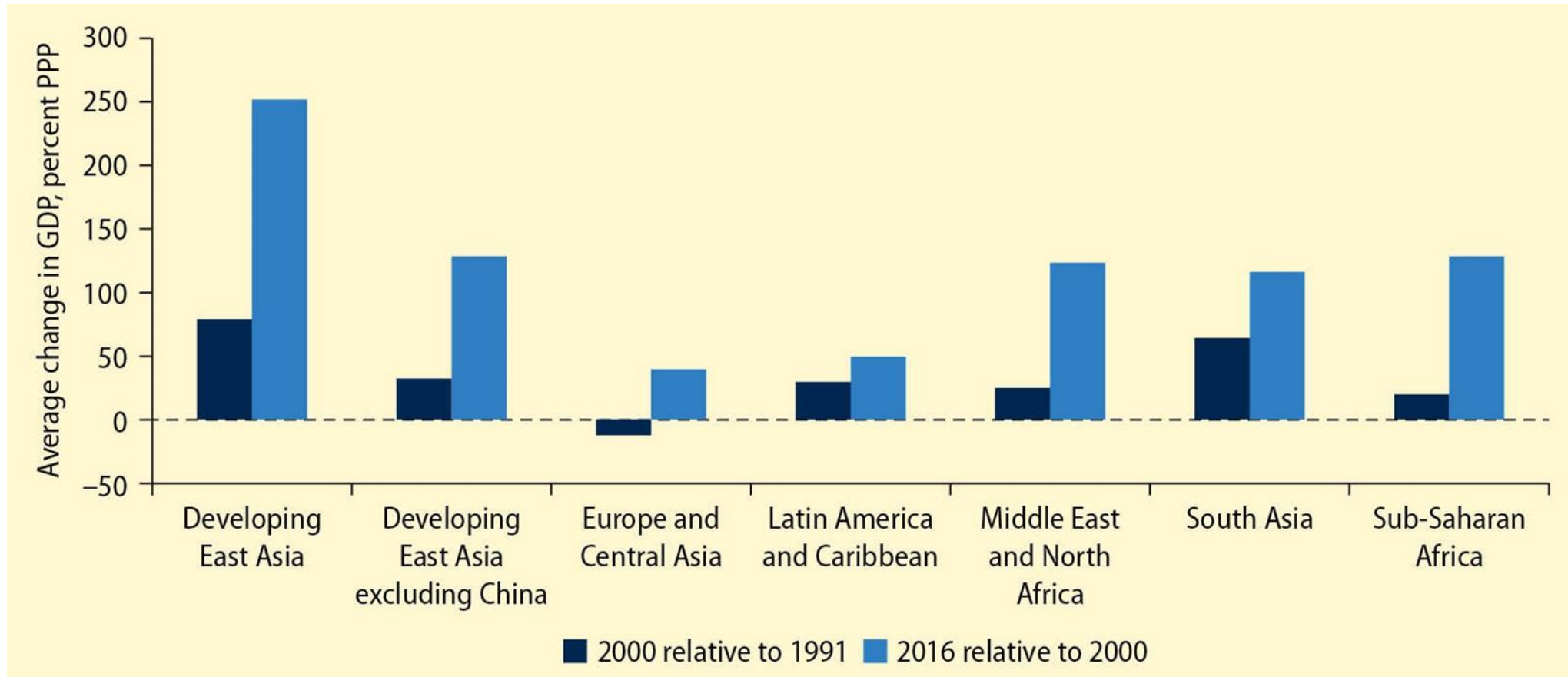
Index of trade performance in goods and services, global and developing East Asia



Source: Constantinescu, Mattoo, and Ruta (2018), from World Trade Organization (WTO) and World Bank calculations.

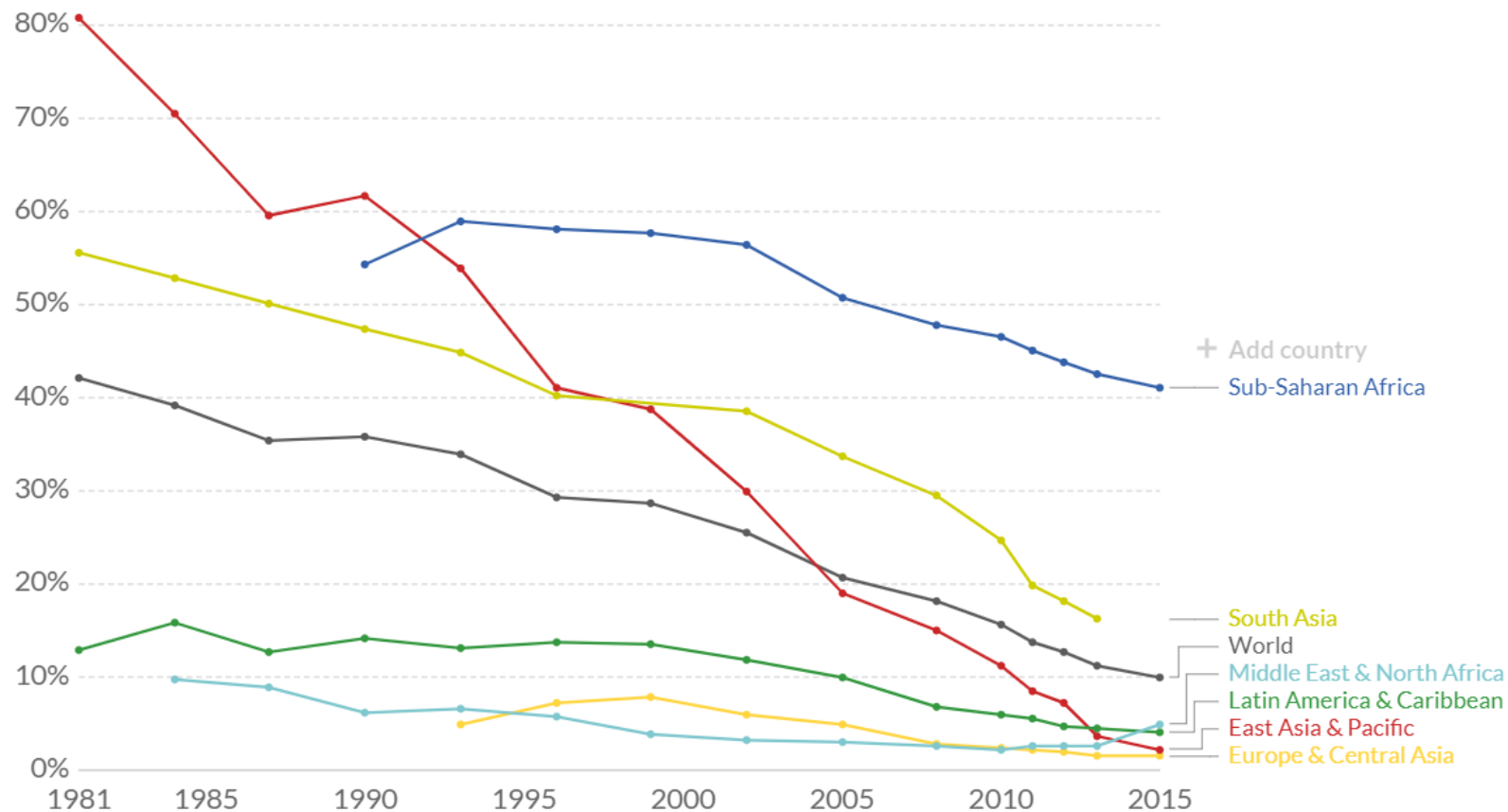
Note: World trade is represented by the average of exports and imports. "Developing East Asia" includes the following: Cambodia, China, Indonesia, Lao PDR, Malaysia, Mongolia, Myanmar, the Philippines, Thailand, and Vietnam.

... and export-led development has been critical to East Asia's rapid economic growth ...



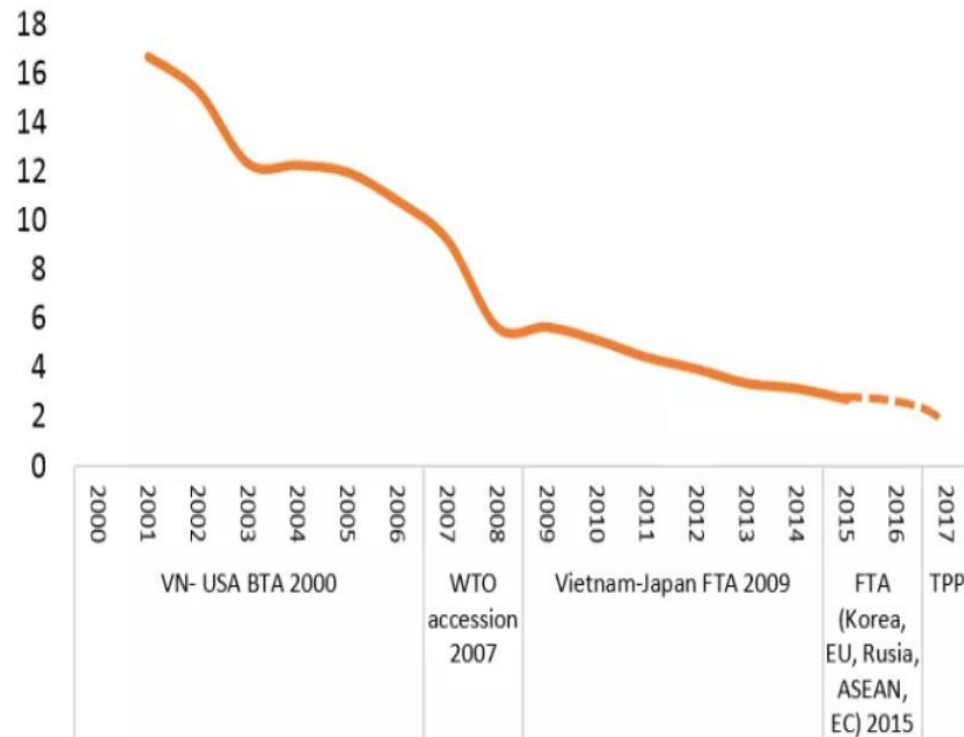
... and to its dramatic reductions in extreme poverty

Share of population living in extreme poverty (\$1.90 per day) by region (East Asia in red)

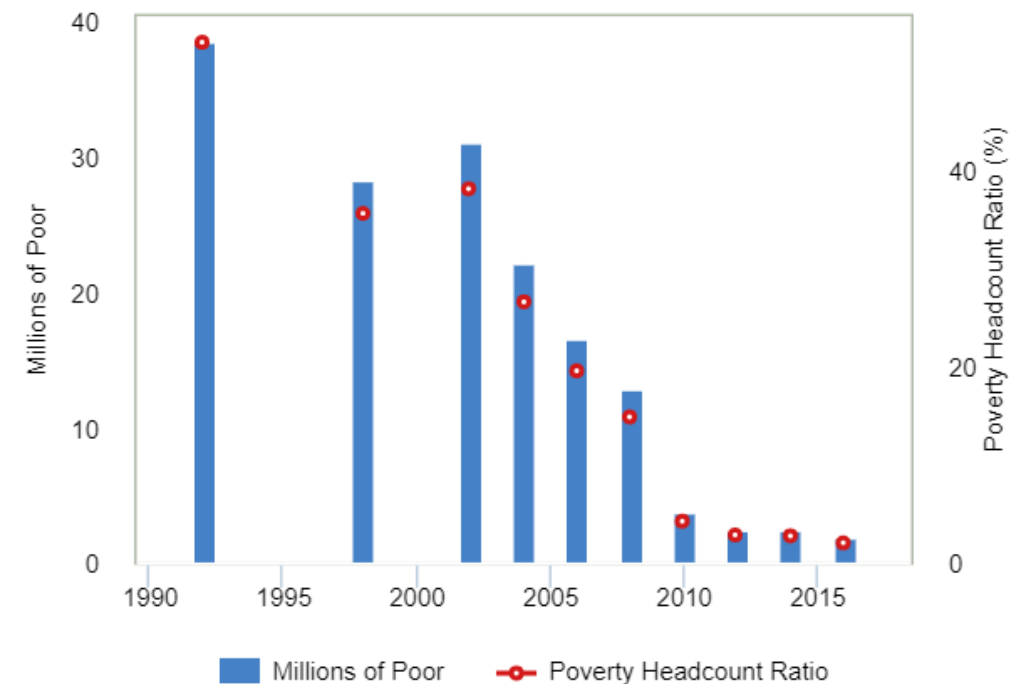


Trade and GVC participation have been drivers of growth and poverty reduction in East Asia and Pacific: Case study Vietnam

Applied tariff rate-Vietnam



Extreme poverty (\$1.90 p/d) - Vietnam



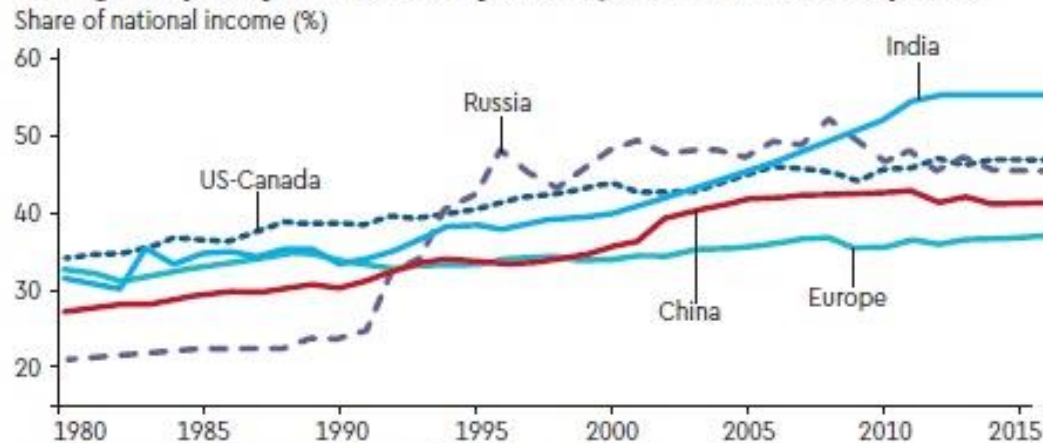
Source: Poverty & Equity Databank and PovcalNet

But the gains from trade are not automatic...

Increased trade has tended to benefit disproportionately higher-skilled workers and entrepreneurs.

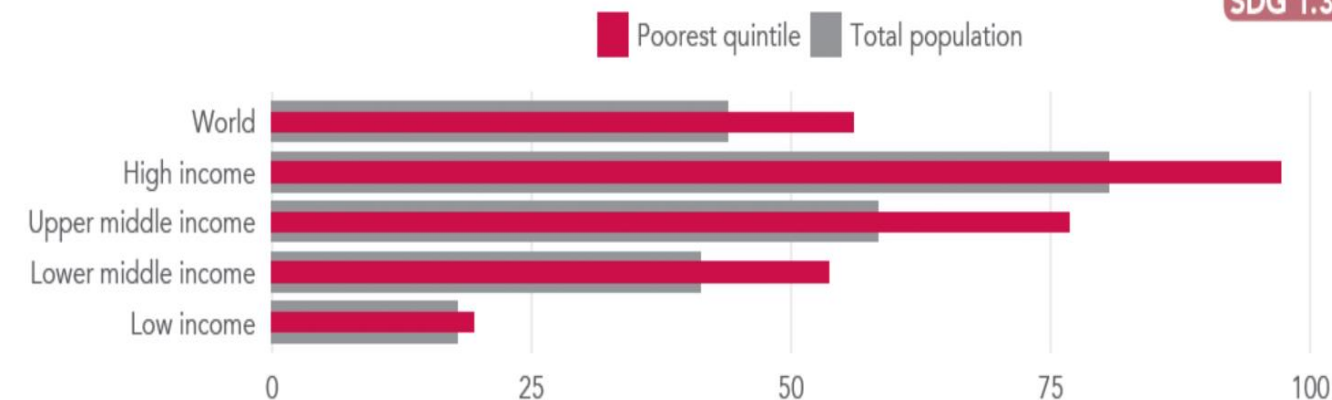
Countries – especially low income - need to strengthen social protection policies, such as training and job search assistance, and policies to promote worker mobility across jobs and locations.

Top 10% income shares across the world, 1980-2016: Rising inequality almost everywhere, but at different speeds



Source: WID, world (2017). See wir2018.world for data series and notes.

Share of population covered by any social protection and labor program, most recent survey in 2008–16 (%)

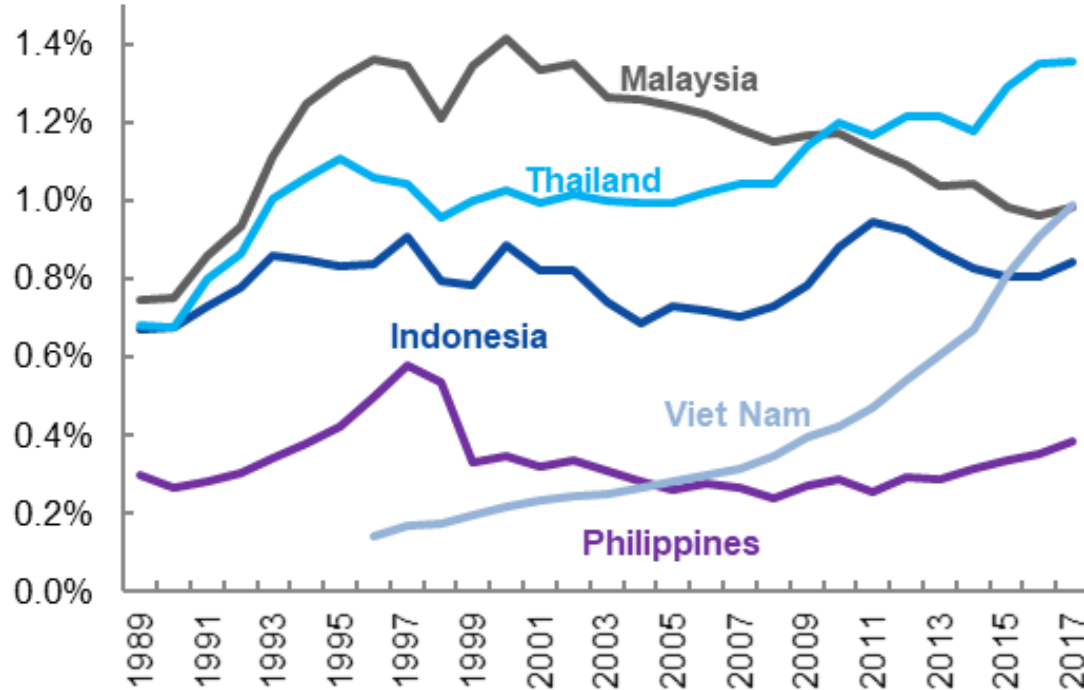


Note: Calculated using simple averages of country-level coverage rates across income groups. Actual coverage may be higher as not all programs are captured by household surveys in some countries. Poorest quintile is calculated using pre-transfer welfare (income or consumption) per capita.

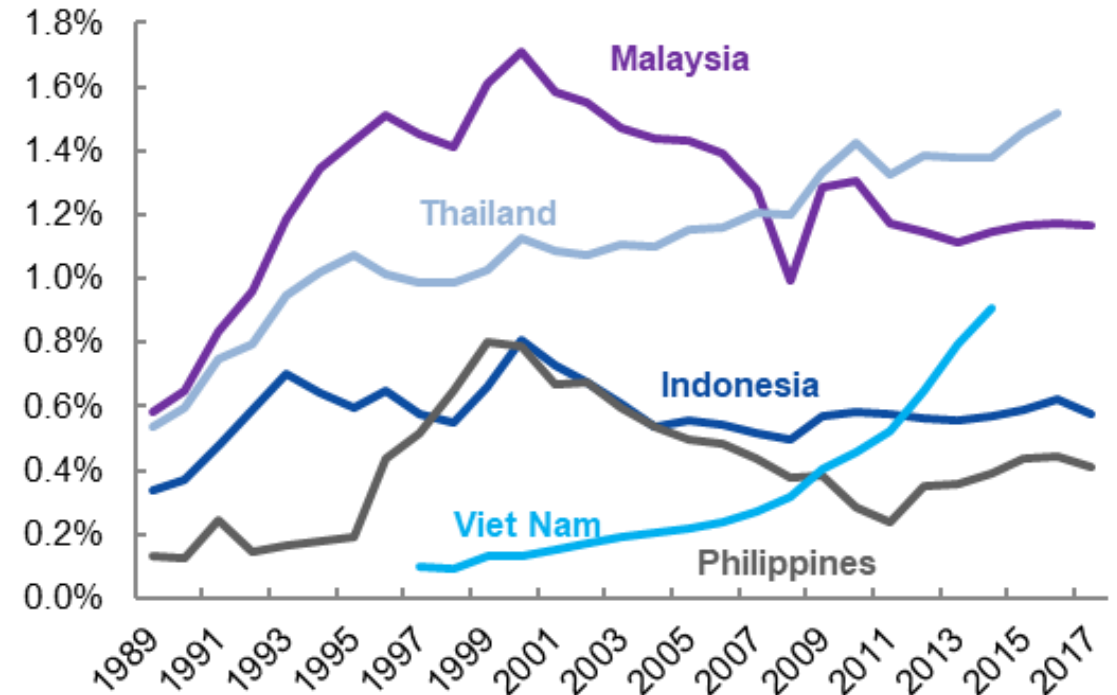
Source: World Bank ASPIRE: Atlas of Social Protection Indicators of Resilience and Equity 2018. <http://hdl.handle.net/10986/29115>

...and Malaysia has struggled in the past decades to maintain a high level of export competitiveness

Share in world's exports of goods and services



Share in world's exports of manufacturing



MEA 12MP Kick-Off Conference

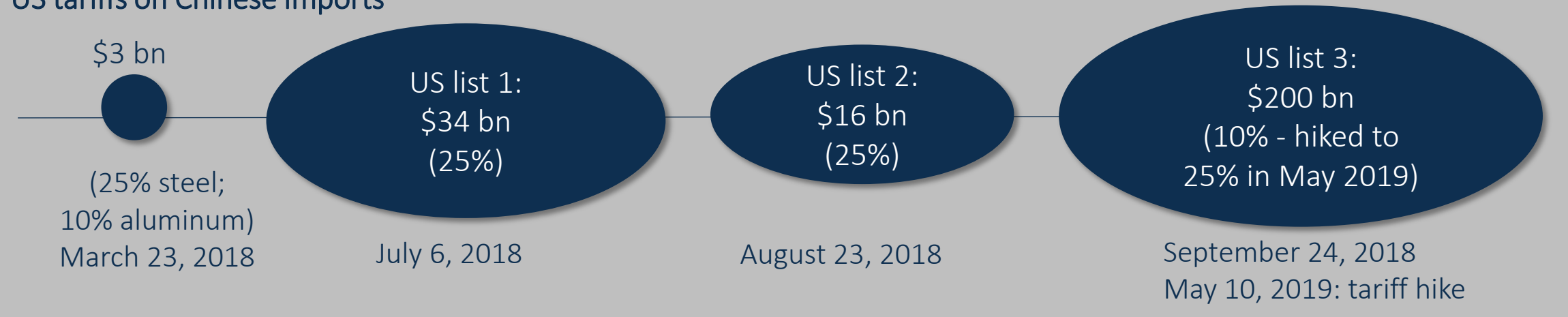
OUTLINE

1. Why trade matters for growth, poverty reduction and inclusion
- 2. Trade tensions as risks to integration, growth, and poverty reduction**
3. Policies to help trade drive growth through uncertain times

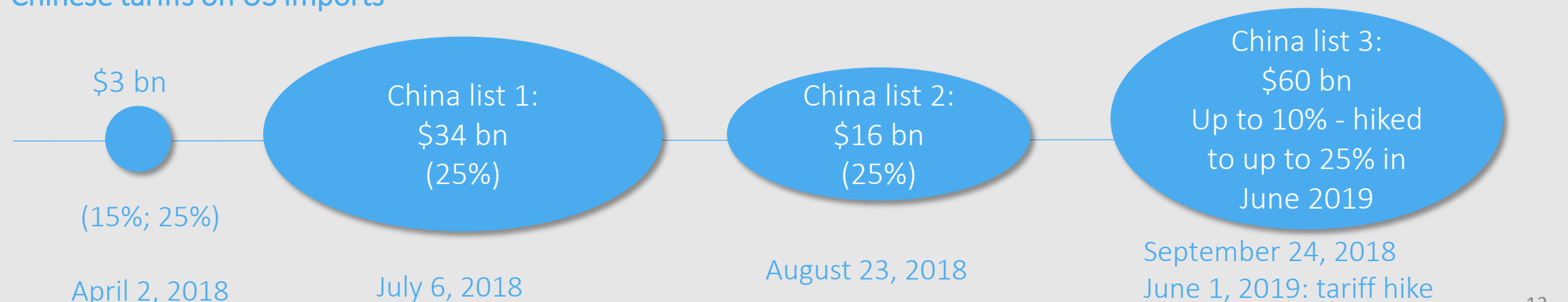
The US-China trade tensions risks reversing trade integration

The US-China Trade War Timeline:

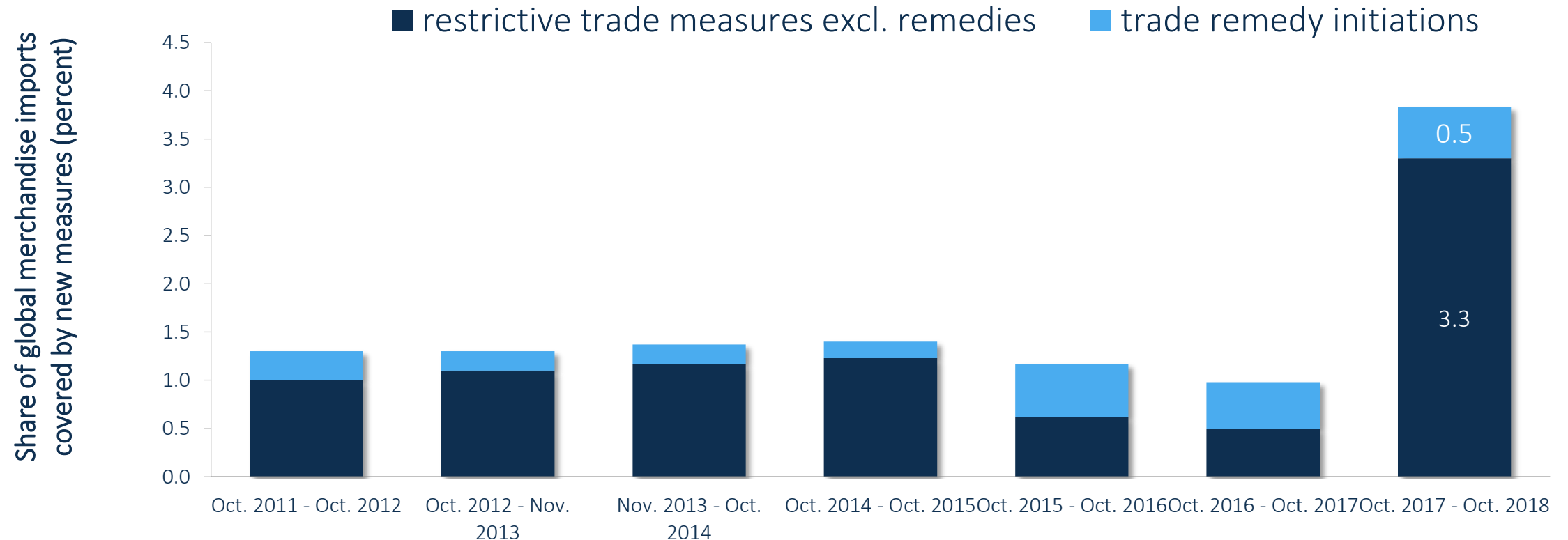
US tariffs on Chinese imports



Chinese tariffs on US imports



With protectionism on the rise



Sources: World Trade Organization, various issues of the “Overview of development in international trading environment”. Notes: Restrictive trade measures excluding remedies include import measures (e.g., tariffs, customs procedures, tax, quantitative restrictions), export measures (e.g., duties, quantitative restrictions), and other measures (e.g., local content measures, other than local content measures). Trade remedy measures include anti-dumping measures, countervailing duties, and safeguard measures.

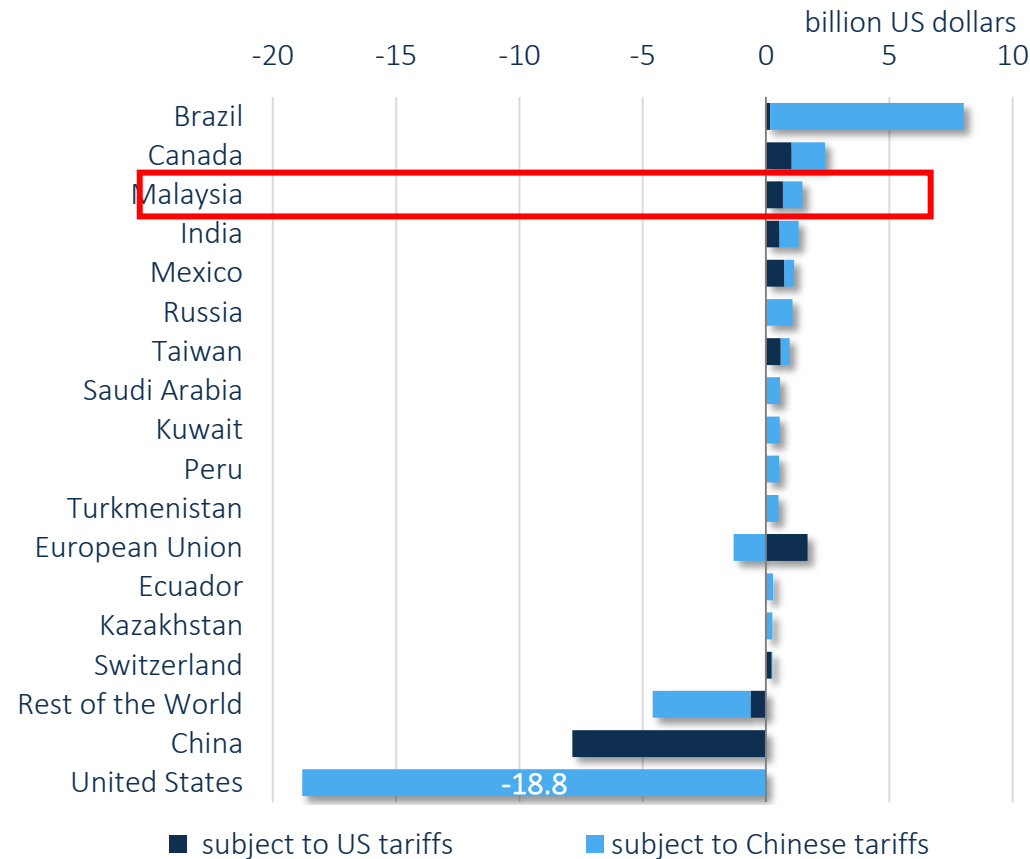
MEA 12MP Kick-Off Conference

TRADE AND DEVELOPMENT IN AN AGE OF RISING UNCERTAINTY

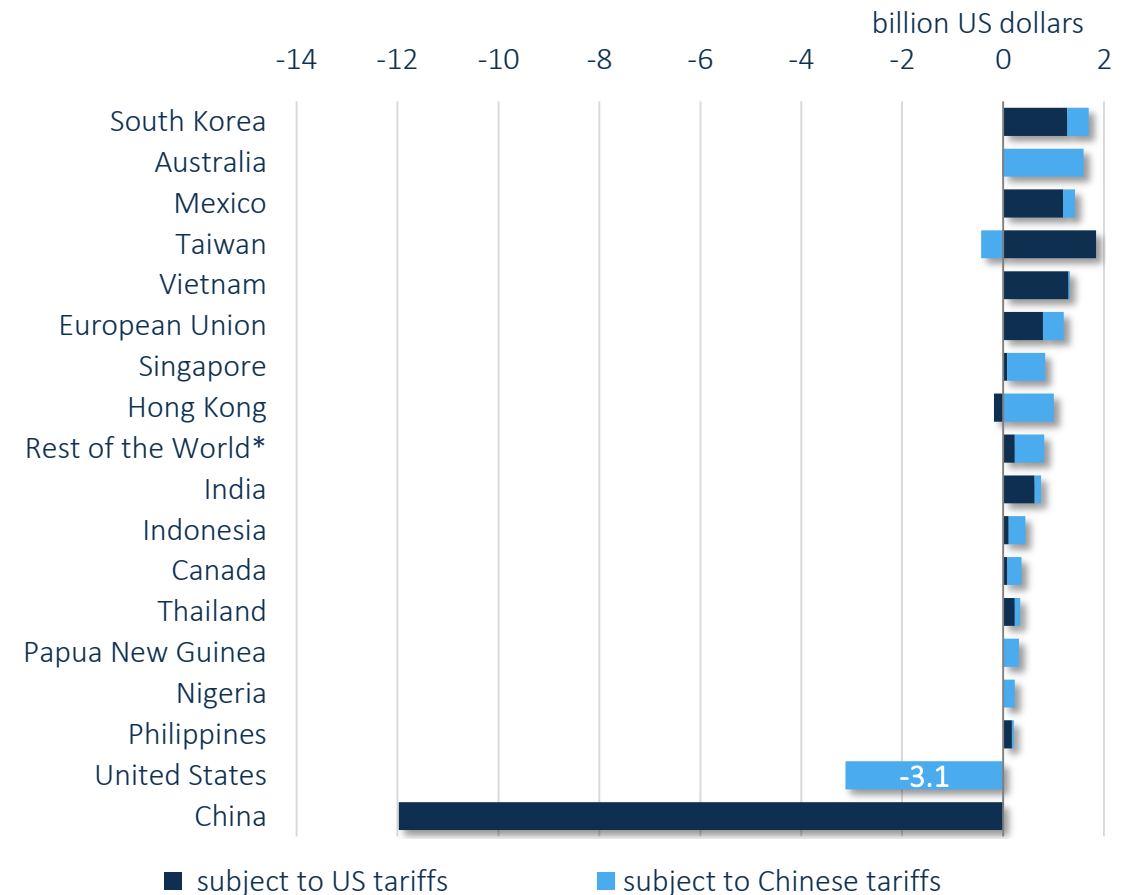


US/China tensions have created winners and losers (in the short term)

a. Change in exports of products on U.S. and Chinese lists 1 and 2 (Aug 2018-Mar 2019 vs Aug 2017-Mar 2018)



b. Change in exports of products on U.S. and Chinese lists 3 (Jan-Mar 2019 vs Jan-Mar 2018)



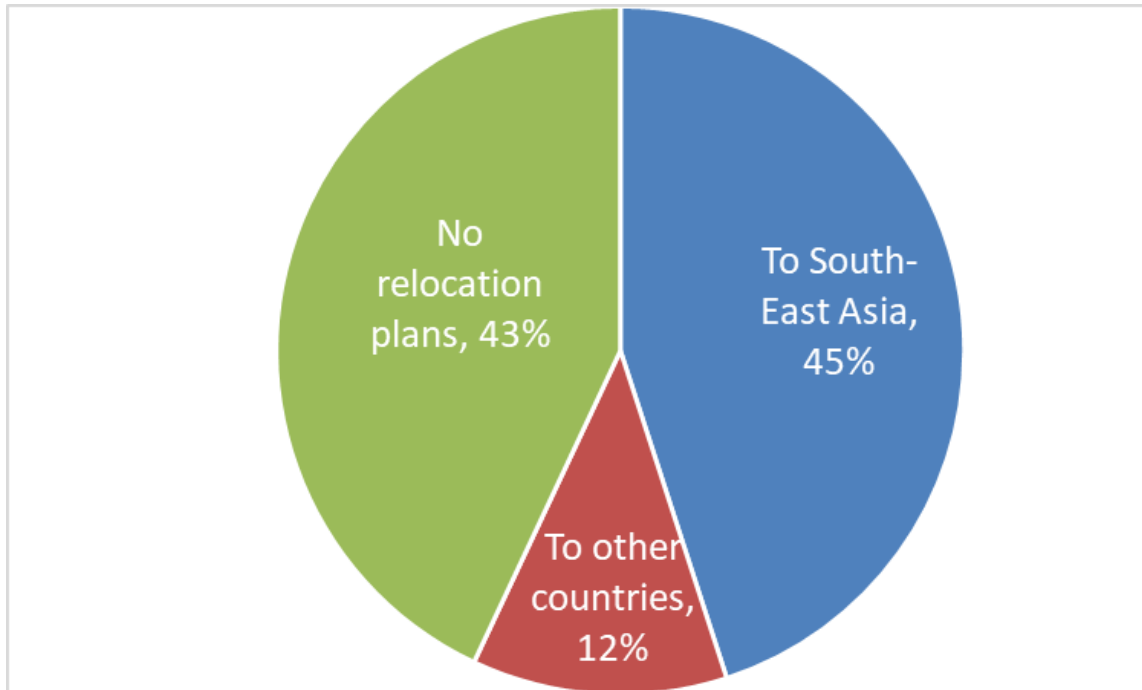
Sources: U.S. Census Bureau, China Customs Statistics, UN Comtrade, and authors' calculations.

Notes: Blue (red) bars refer to products on the U.S. (Chinese) lists of goods affected by new tariffs. Products for which Chinese (U.S.) shares in U.S. (Chinese) imports are less than 5 percent were excluded.

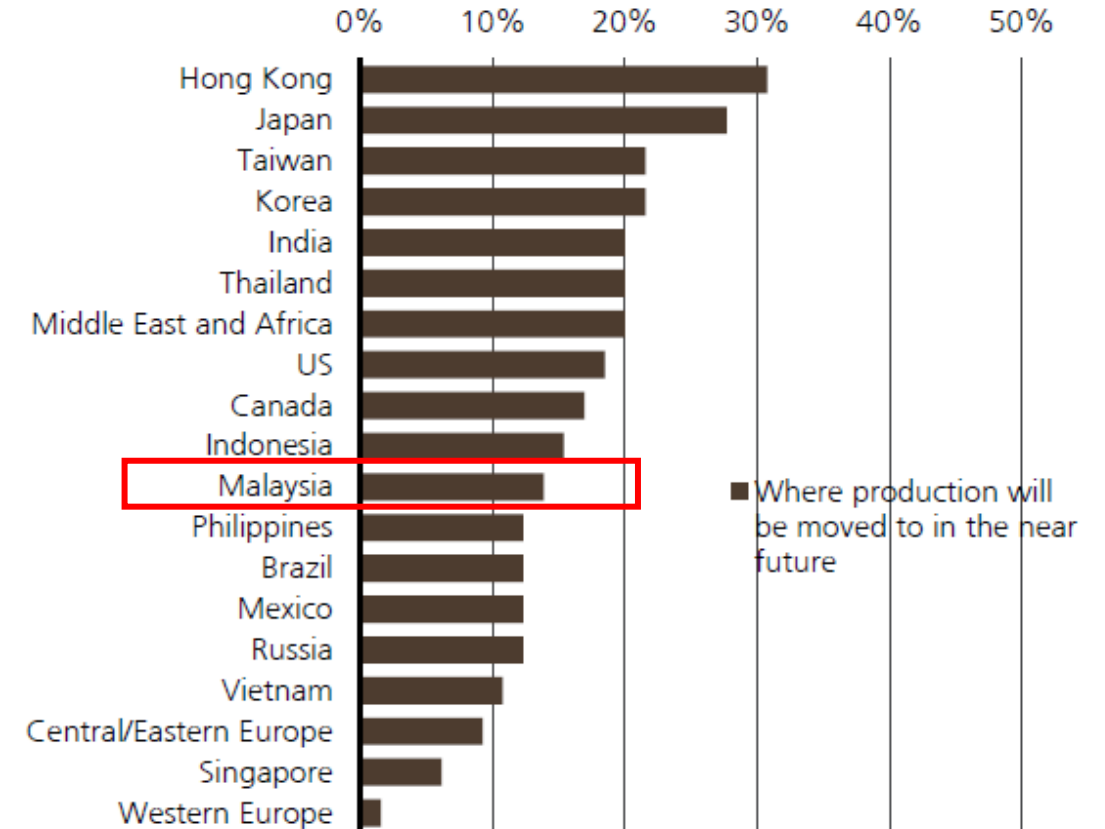
* Chinese imports of gold (HS 710812) from Switzerland removed because of large decline (~\$5 billion).

East Asia is well placed to lure investors searching for production destinations alternative to China

a. Are you planning to relocate all of your manufacturing out of Southern China in the next 12 months? Answers by US companies (October 2018)



b. Where production will be moved to in the near future? Answers by companies which are planning to move production out of China

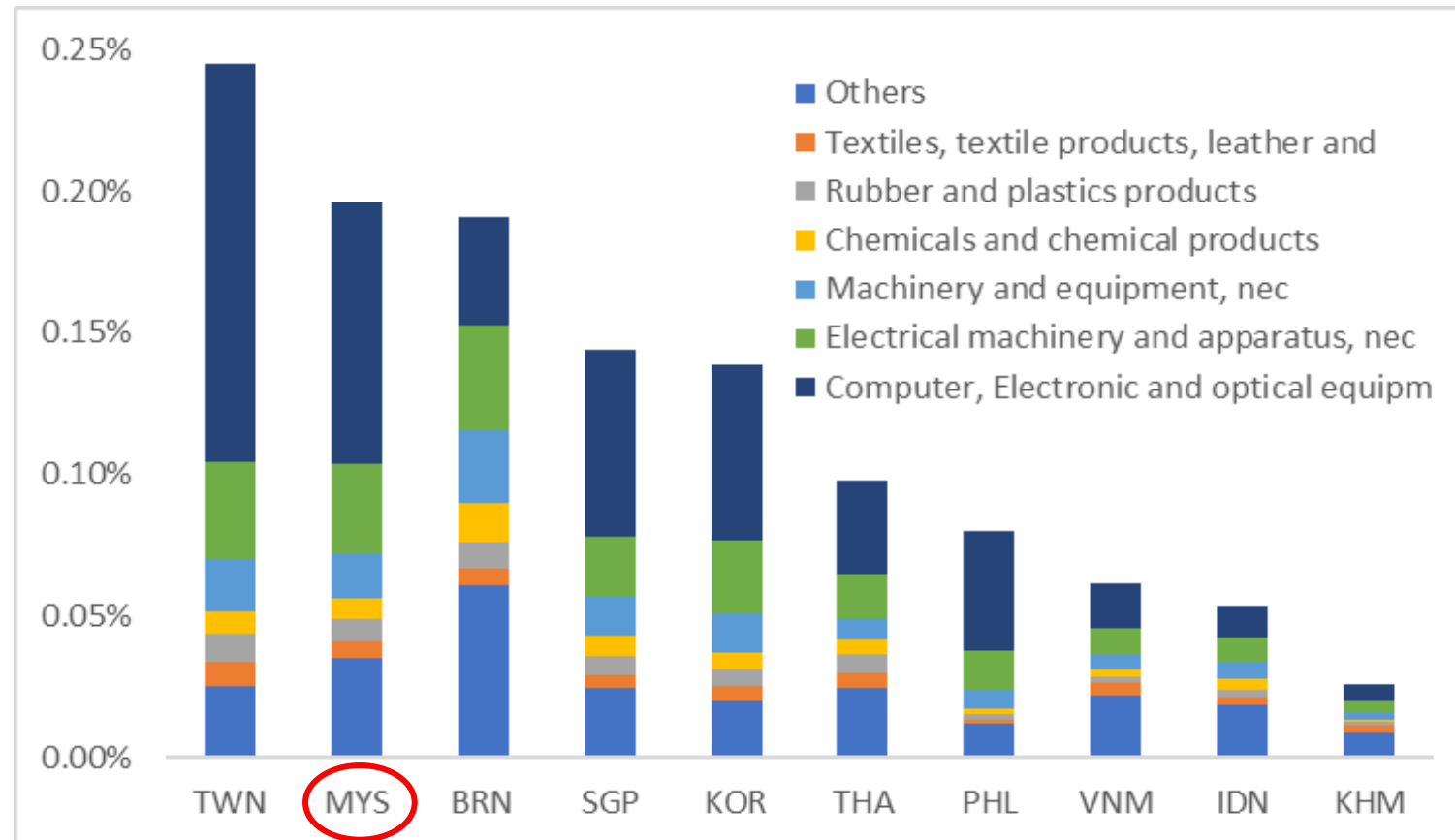


Source: "Special report on the impact of US and Chinese tariffs" - American Chamber of Commerce in South China (October 2018)

Source: UBS Evidence Lab (January 2019)

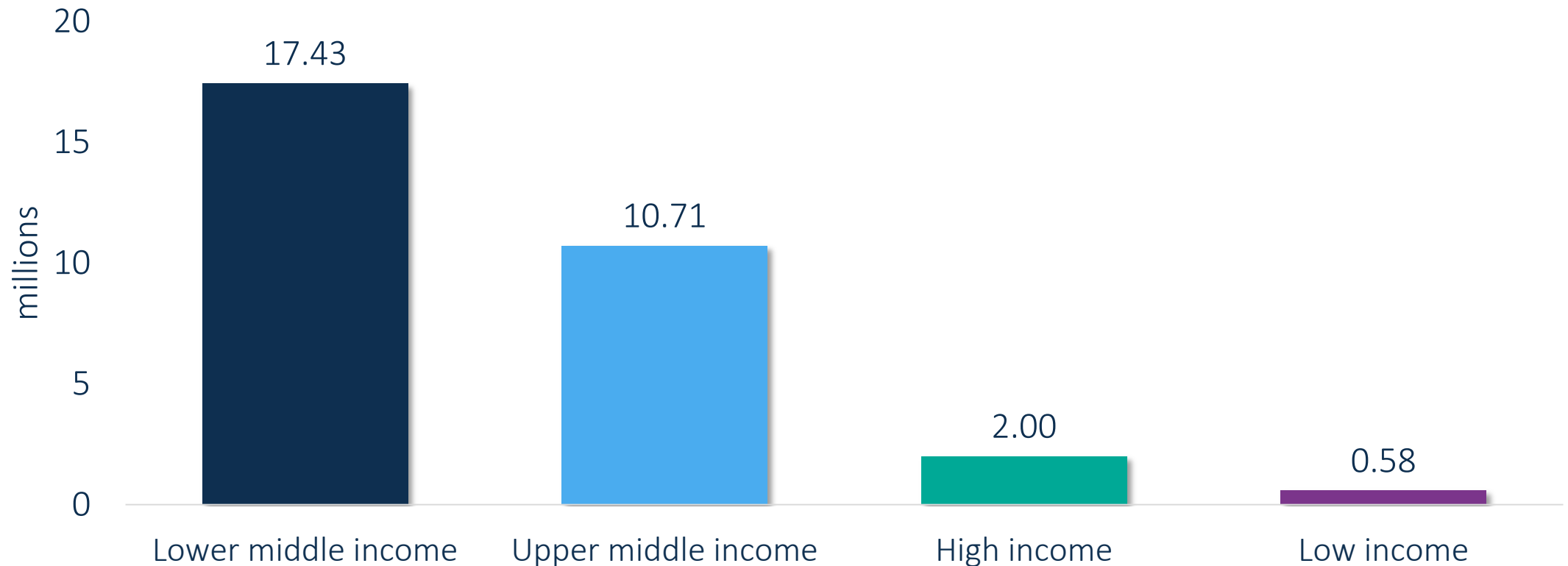
...but it is particularly vulnerable to the disruption of global value chains from the trade tensions

Estimated drop in domestic value added in EAP exports to China due to US tariffs on Chinese goods (% of GDP)



Full-scale US/China trade conflict could increase global poverty by 30.7 million

Poverty at purchasing power parity \$5.50 a day, change from base



Source: World Bank staff simulation results based on Freund et al. (2019), PovcalNet, and Global Micro Database.

MEA 12MP Kick-Off Conference

OUTLINE

1. Why trade matters for growth, poverty reduction and inclusion
2. Trade tensions as risks to integration, growth, and poverty reduction
- 3.** Policies to help trade drive growth through uncertain times

What can countries in East Asia and the Pacific do in response?

- Continue opening to investment and to trade;
- Attract the right types of investments (e.g. with high spillovers)
- deepen regional integration;

Continue addressing potential market distortions, such as:

- market access in services;
- public procurement; and
- Restrictions to competition including in SOE dominated markets.

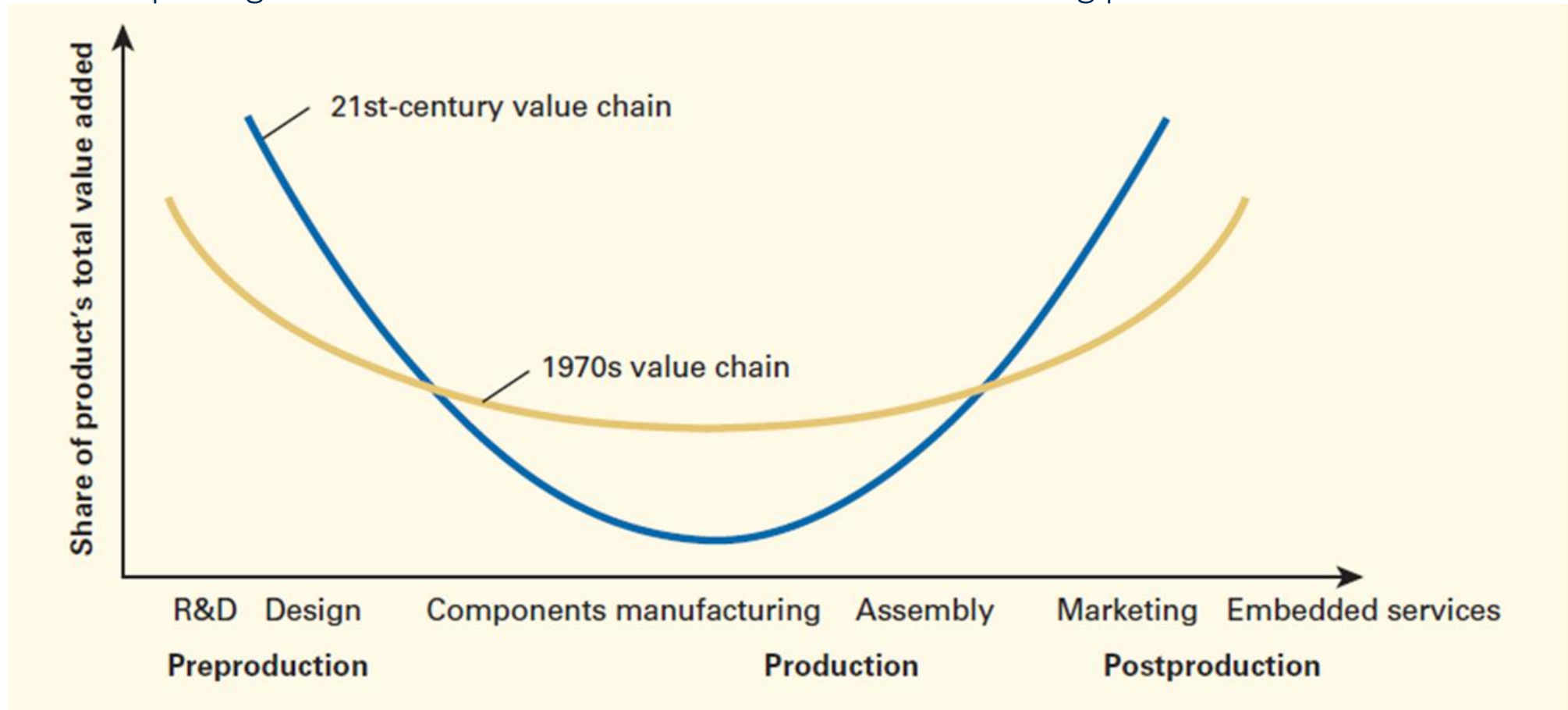
Enhance competitiveness through:

- trade facilitation;
- Invest in a healthy and productive workforce;
- availability of trade finance;
- promoting innovation.

Strengthen macroeconomic resilience by maintaining responsive monetary policy and exchange rate flexibility and rebuilding buffers.

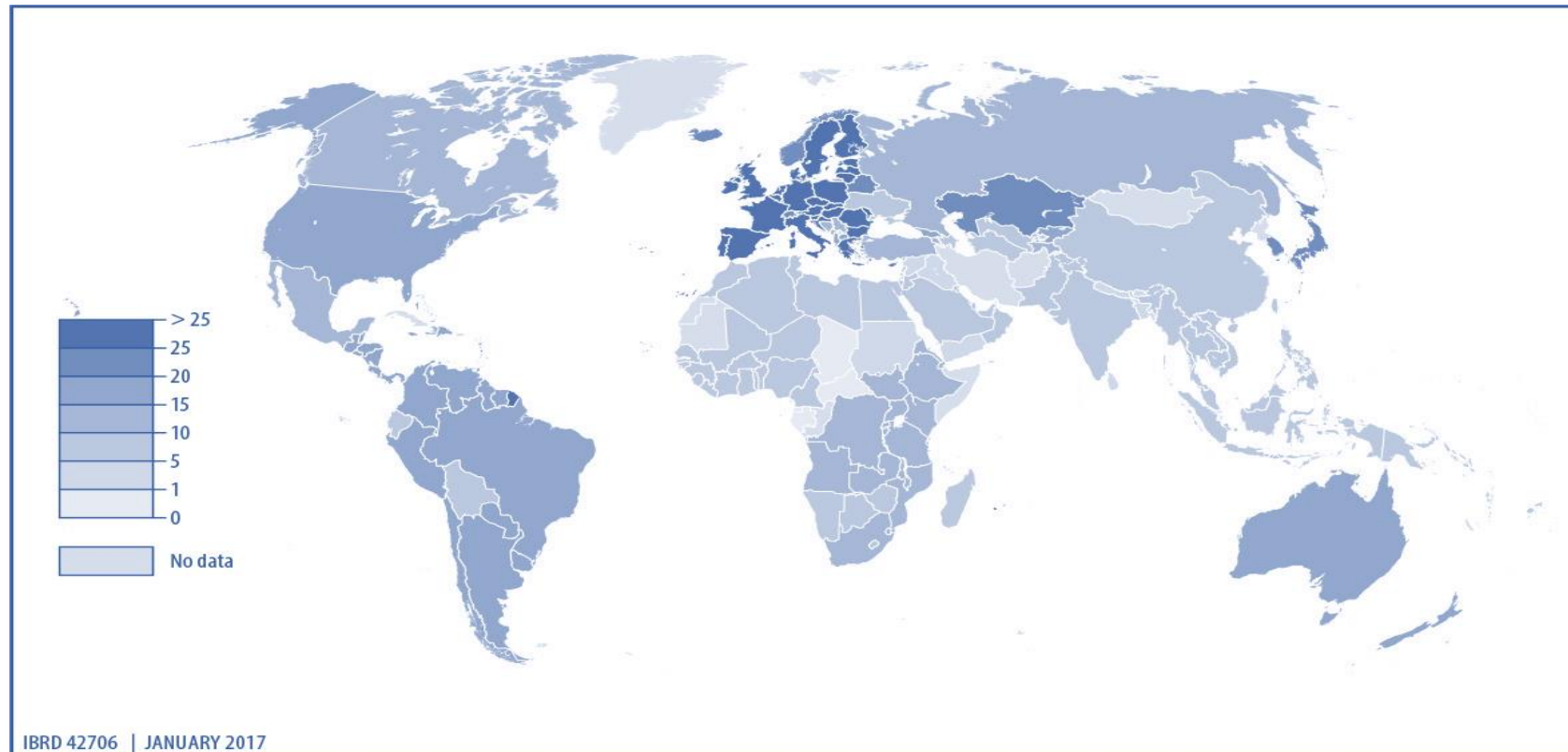
...which is increasingly a problem for the competitiveness of the economy

The deepening 'Smile Curve' of service content of manufacturing production



Deepening trade agreements, also a priority, can extend value chains and increase exports' value added

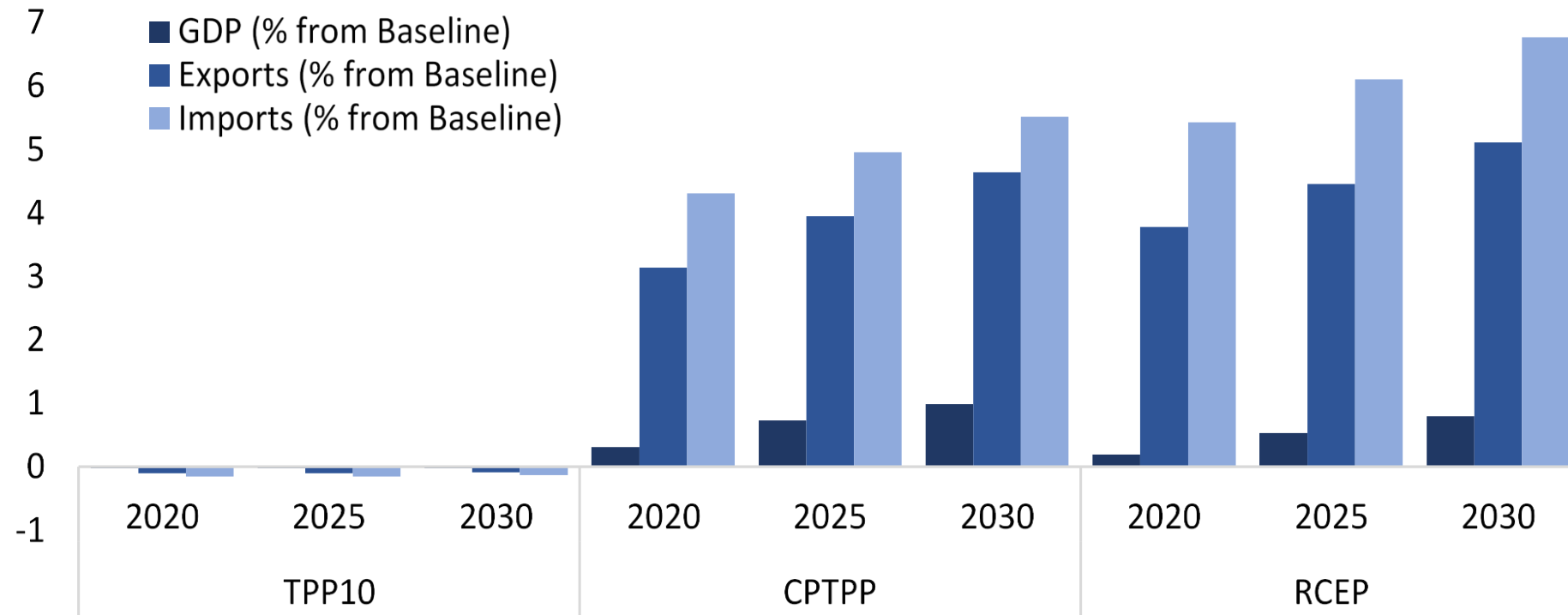
Trade Agreements remain shallow in East Asia and the Pacific



New deeper agreements could be a step in the right direction

Estimated net gains/losses of the CPTPP, TPP10 and RCEP for Malaysia

Cumulative percentage changes to GDP, exports and imports in 2020, 2025 and 2030



Source: World Bank staff estimates

And trade is happening more quickly and easily, thanks to the WTO Trade Facilitation Agreement (TFA)

A 1% decline in trade delays is estimated to stimulate trade by 1%.

The TFA entered into force on 22 Feb 2017, following its ratification by two-thirds of the WTO membership (135 ratifications out of the 164 members have been received to date).

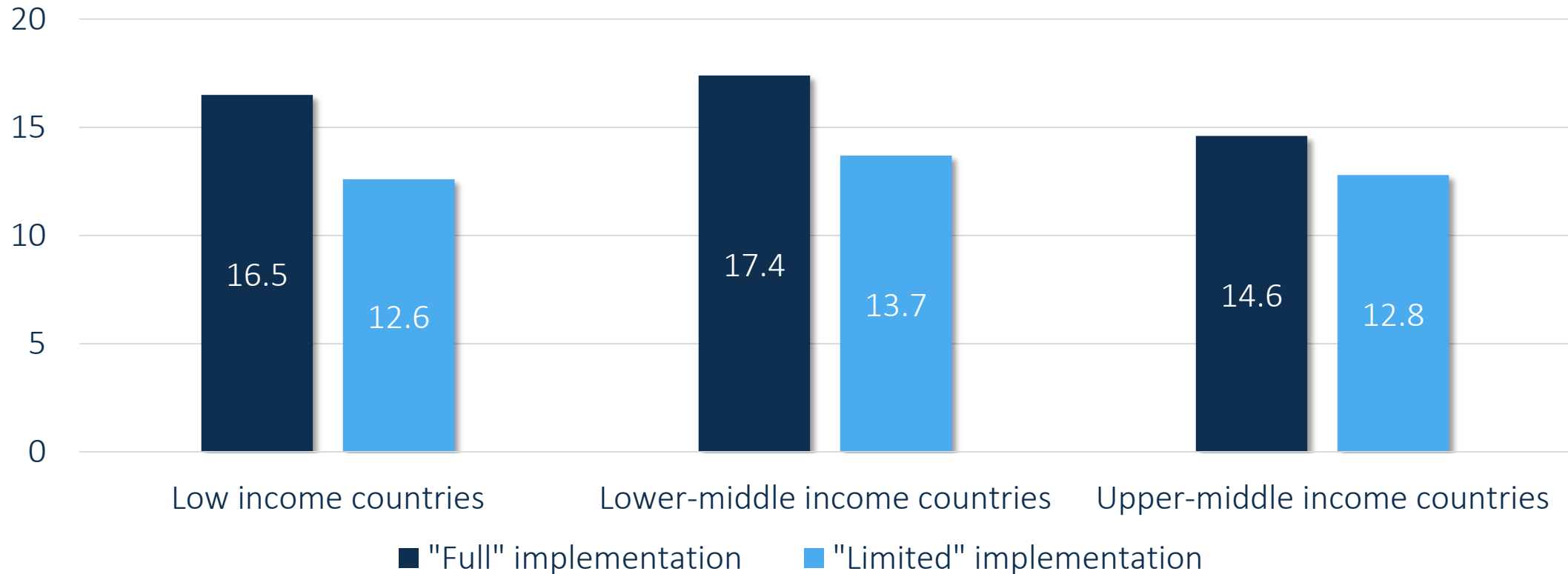
Source: WTO

WTO Members agreed on:

- expediting the movement, release and clearance of goods, including goods in transit.
 - measures for effective cooperation between customs and other authorities on trade facilitation and customs compliance.
 - technical assistance and capacity building regarding trade facilitation.
-

Potential Gains: Implementation of the TFA

Overall potential trade cost reductions by income group



Amidst trade tensions, the World Bank continues to promote trade through research and evidence

WBG supports developing countries through research and evidence whether trade barriers go up or down:

- Liberalization: FTAs such as CPTPP, RCEP, AfCFTA, para-tariff reforms in South Asia etc.
- Protectionism: How high tariffs affect business? How current trade disputes affect developing countries (e.g. South East Asia, India, Western Balkans, Brazil)?

By analyzing the impacts of trade policy on growth, trade, poverty and income inequality the WBG informs governments' policy responses.



MEA 12MP Kick-Off Conference

Thank you!



WORLD BANK GROUP
Macroeconomics, Trade & Investment

www.worldbank.org