

What Have We Learned in 20 Years?

Trade and Development

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Trade and Development's Long History

- “Perhaps the issue central to the analysis of trade policies and development is the extent to which **special circumstances** in developing countries vitiate the usual free trade dicta.” – Krueger 1984
 1. “dynamic factors” (externalities)
 2. commodity prices and terms-of-trade
 3. distortions
- In economies with distortions, anything can happen
 - distortions can amplify or reduce gains from trade if activity reallocates to/from distorted transactions
- trade-dev research played an important in reversing import substitution policies adopted by LICs
 - eg, ranking of policy instruments in developing countries
- “Ideas with regard to trade policy and economic development are among those that have changed radically”
 - Krueger 1997 AEA Presidential Address, “Trade Policy and Economic Development: How We Learn”

Liberalization Episodes

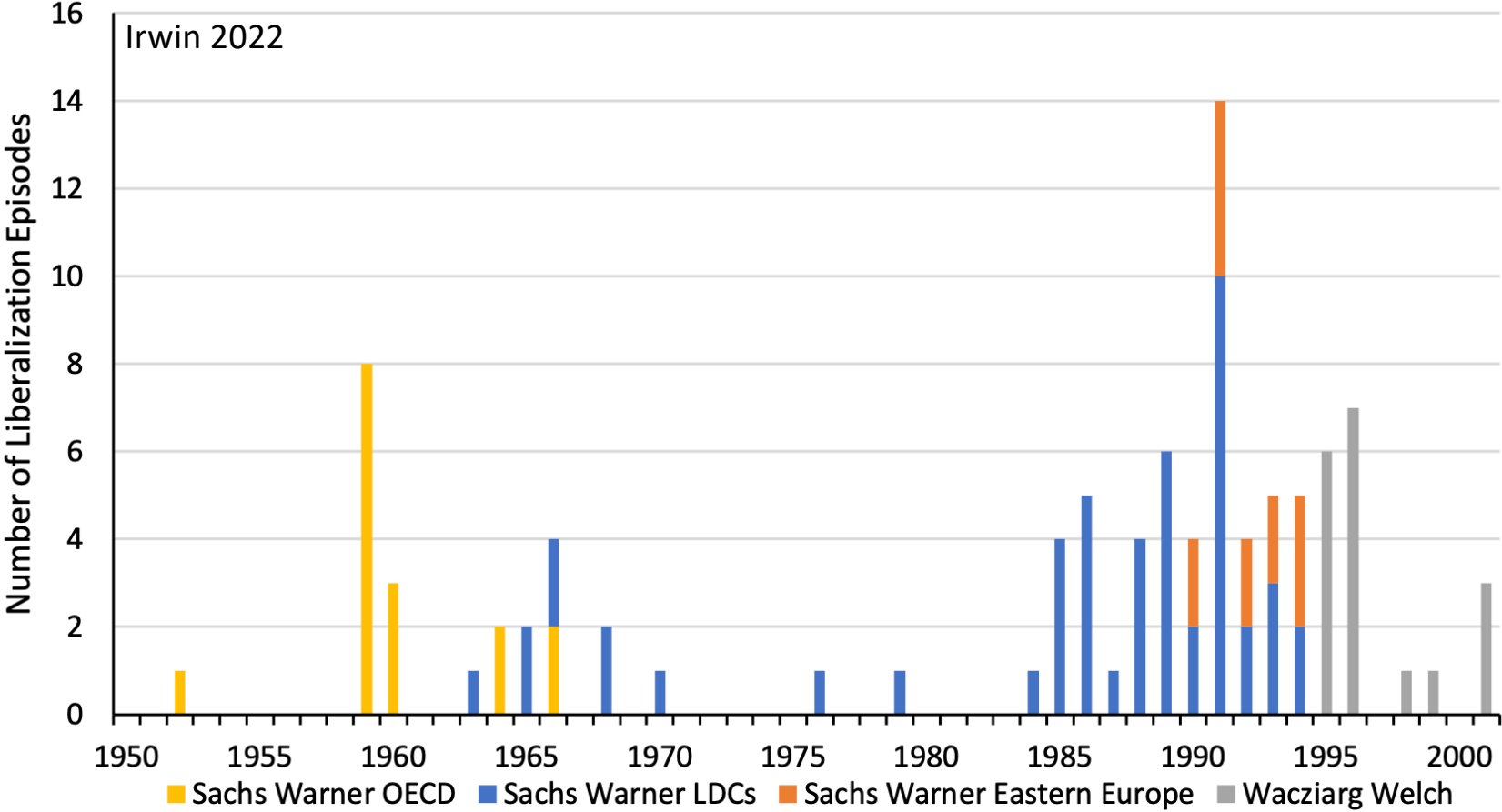


FIGURE 2. NUMBER OF COUNTRIES BECOMING OPEN, 1950-2000

Research in 1990s/2000s/early 2010s

- trade research in the 1990s/2000s embraces the empirical revolution
 - trade liberalization episodes
 - household and firm-level data
 - theoretical advances particularly suited to guide empirical work

- Intense focus on two areas
 - firm performance
 - wage inequality

- some (very) broad takeaways:
 - widening of income inequality **Goldberg & Pavcnik 16**
 - improvements in firm performance **Verhoogen 22**
 - export market access is critical
 - inputs access is critical
 - measurement challenges become clear

But, “special circumstances” somewhat under-emphasized


some notable exceptions:

- early work on markups
- informality
- labor mobility
- child labor

Research mid-2010s to present

- Recent work emphasizes interactions of trade with distortions through a diverse set of data and methods
 - administrative data (firm, customs, firm-to-firm transactions, employer-employee)
 - tailored surveys
 - causal inference designs
 - quantitative models
- How does trade **interact** with distortions? *Atkin & Khandelwal 20, Atkin & Donaldson 22*

tariff evasion
contracting
regulatory enforcement




weak institutions

labor markets
capital markets
material markets
land markets



factor market distortions

size-dependent distortions
political connections



firm distortions

Research mid-2010s to present

- Recent work emphasizes interactions of trade with distortions through a diverse set of data and methods
 - administrative data (firm, customs, firm-to-firm transactions, employer-employee)
 - tailored surveys
 - causal inference designs
 - quantitative models
- How does trade **change** distortions? *Atkin & Khandelwal 20, Atkin & Donaldson 22*



Future Work

- Trade-development research coming full circle, re-emphasizing those **special circumstances**
- with particular attention to:
 - measurement
 - identifying specific distortions
 - current issues in international trade
 - re-emergence of industrial policy
 - global value chains
 - structural change