

# IMF Trade Research: A Brief Overview

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# Current areas of IMF trade research

1. Trade Spillovers and Rebalancing
2. Macro Implications of Global Value Chains
3. Inclusive Growth
4. Services Trade
5. Trade Policy and Integration

# Trade Interconnectedness

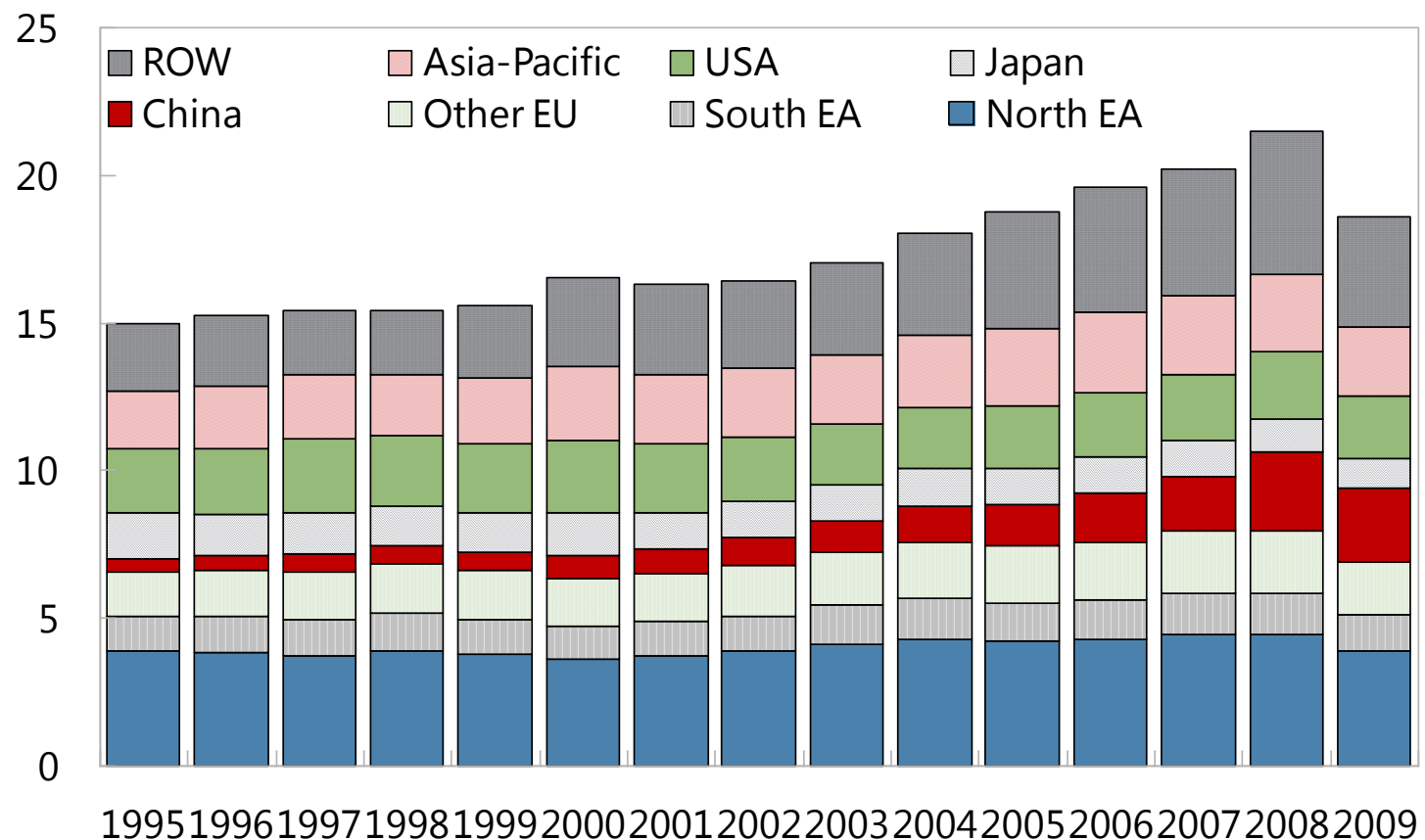
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This forthcoming IMF Policy Paper look at the implications of Global Value Chains (GVCs) especially for macroeconomic policy making: in particular on (i) growth, (ii) measures of competitiveness, and (iii) trade policy and beyond.

# Macroeconomic implications of GVCs

## World Value-Added Exports

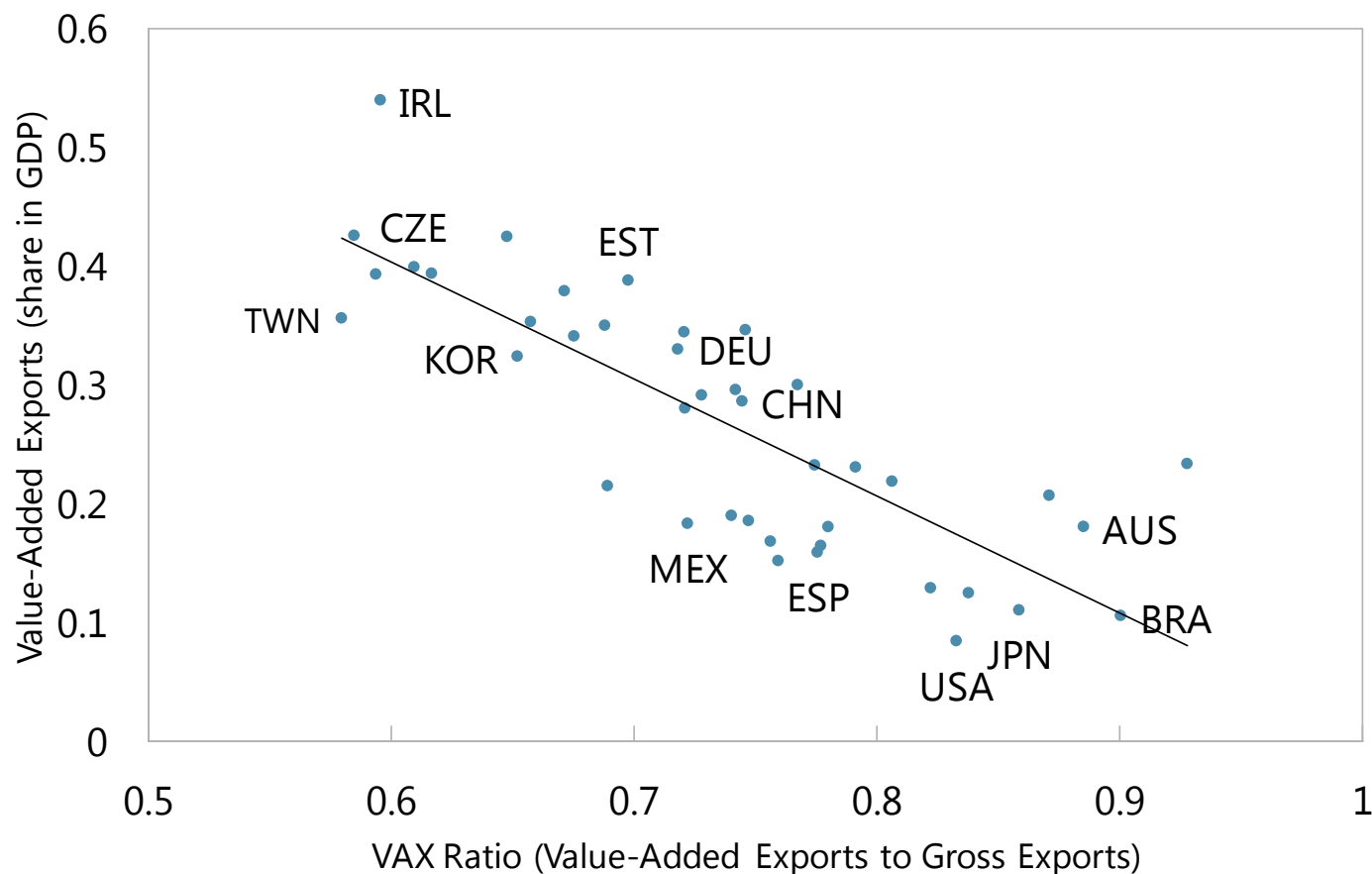
(percent of world output)



Sources: WIOD, Fund staff estimates.

# Being part of GVCs is not the only source of VA exports but seems an important part

## Vertical Specialization and Value Added Exports: 2009



Sources: WIOD, Fund staff estimates.

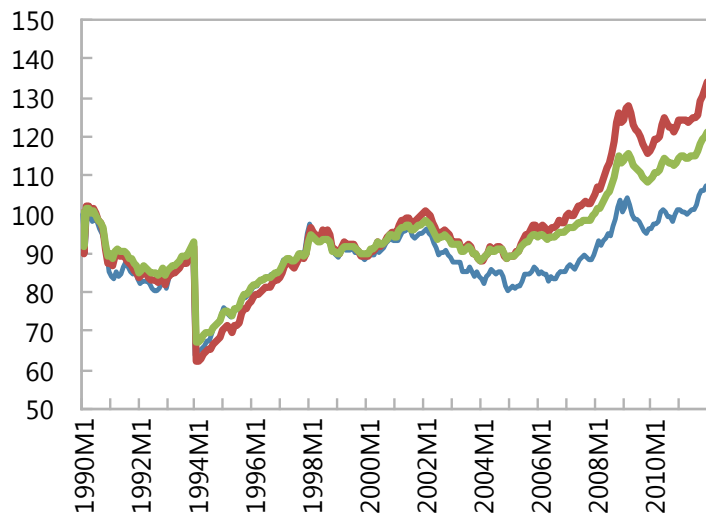
# Measuring competitiveness

- GVCs have important implications for measures of competitiveness, namely the real effective exchange rate (REER).
  - The standard REER computed at the Fund is based on the assumption that goods traded are *final* goods only.
- Given that trade in *intermediate* goods is now more than two thirds of total trade, this may be problematic.
  - Changes in exchange rate are more complex.
  - e.g., a nominal appreciation makes goods more expensive to export, but also intermediate inputs cheaper to import.

# A Comparison between Standard REER and Two Alternatives

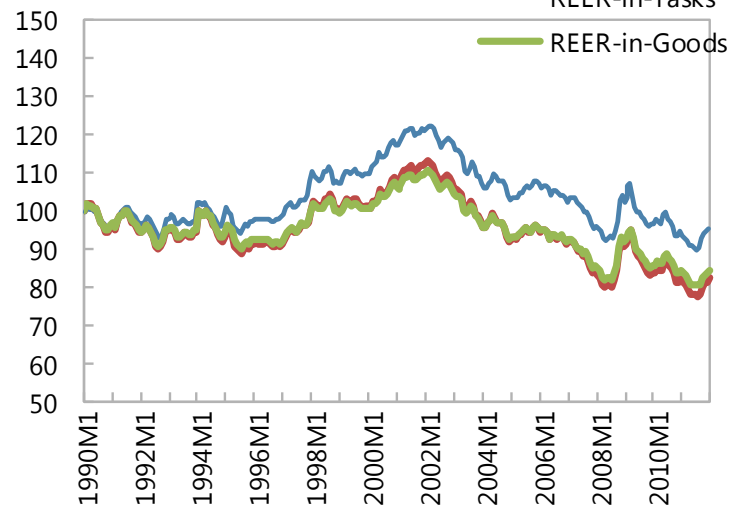
## China

(Index, 1990M1 = 100)



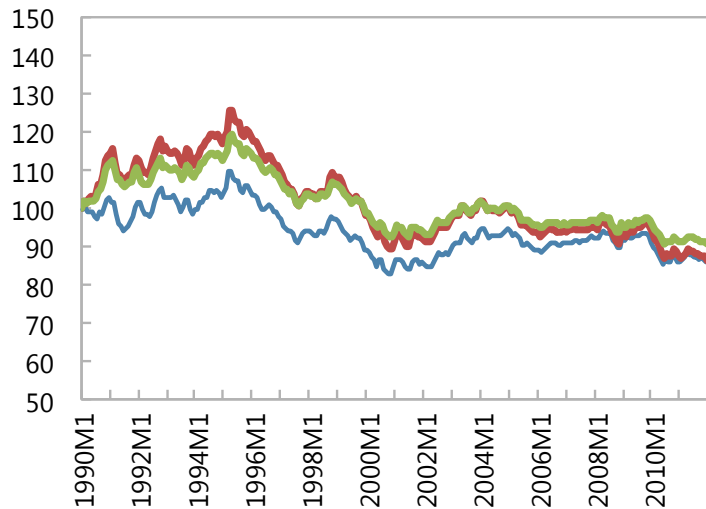
## United States

(Index, 1990M1 = 100)



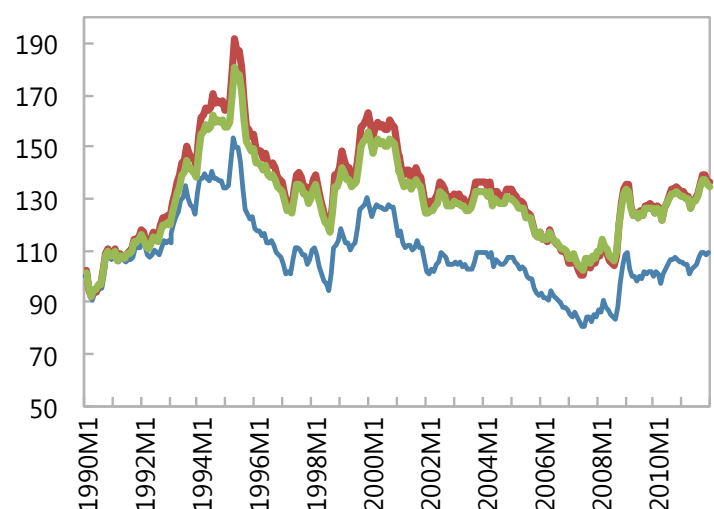
## Germany

(Index, 1990M1 = 100)



## Japan

(Index, 1990M1 = 100)



# “Deep” Disciplines and GVCs

- The rise of GVCs creates a strong *trade-investment nexus*.
  - This nexus affects the boundary between trade and domestic policy
- “Deep” disciplines are often included in new FTAs, creating a two-way relationship with GVCs
  - Core deep disciplines cover IPR, investment, competition policy, capital movements, ... (WTO, 2011).
- Digging deeper into this relationship is important to understand the co-evolution of trade policy and integration
  - Ongoing research (joint with WTO) finds new evidence on the association of deep agreements and vertical FDI.



# Economic Diversifications in LICs

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This Staff Discussion Note examined the role of diversification in the macroeconomic performance of LICs by considering diversification not just in trade, but also in the broader domestic economy. Evidence points to diversification as a crucial aspect of the development process, involving significant changes in both the type and quality of goods produced and exported, with a large variations across regions and countries.

# Diversification and Structural Transformation in Low Income Countries

- LICs have historically been heavily dependent on a narrow range of traditional primary products and on few export markets.
- While diversification has been a longstanding ambition for many LICs, we have limited experience of what aspects of diversification are important.
- On going IMF project has three objectives:
  - Take a comprehensive look at the facts on trade and domestic diversification and link to structural transformation.
  - Show that diversification is an integral part of development process.
  - Inform the policy debate on diversification and transformation.

# Diversification and Structural Transformation in LICs: Some Findings

- Greater diversification and transformation has been associated with improved macroeconomic performance in LICs especially after the 1990s.
- Output volatility diminishes after major diversification episodes
- In addition to diversification, quality improvements (to existing products) can underpin development.

