selection and international trade

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discussion of

The selection effect of international trade

by

Finicelli, Pagano, and Sbracia

Bas Straathof
CPB Netherlands Bureau for Economic Policy Analysis

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features

- based on Eaton and Kortum 2002
- productivity is a function of
  - state of technology
  - trade cost
- international competition raises productivity

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domain

- state-of-the-art technology is given
  for each country
- productivity gains from lower trade cost
  - cheaper intermediate inputs (direct effect)
  - reallocation of production (selection effect)
- perfect competition
  - no increasing product variety (Paul Krugman)

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measuring TFP using trade flows

the authors come up with a gravity-like specification:

X(trade, production) = f(TFP, trade cost, wages)

TFP can be identified through a two-step estimation strategy:

1. estimate trade cost using country dummies
2. compute TFP using wage data

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application to the Internal Market

Did the EU raise productivity through stimulating international competition?

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EU effect in cross section

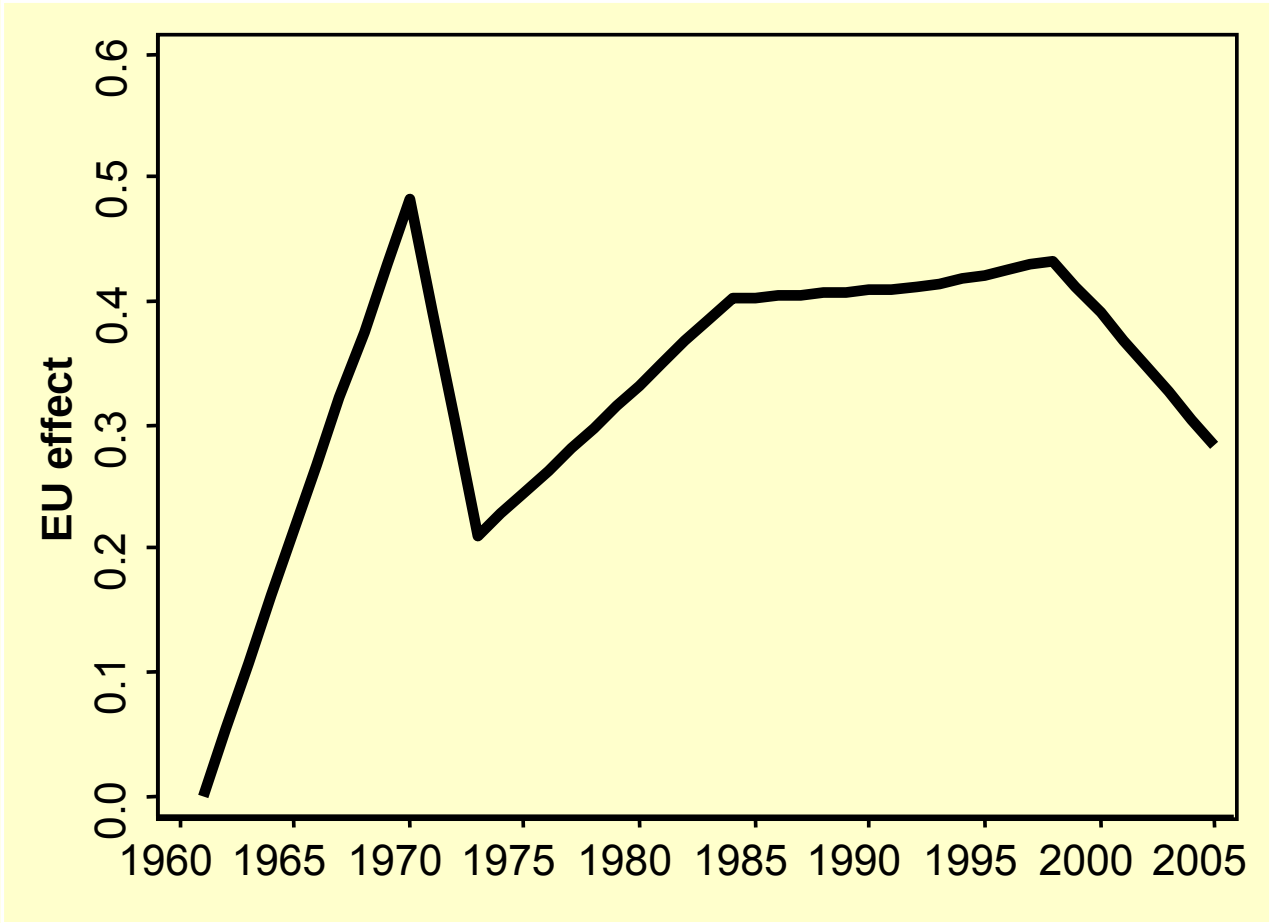
coefficients on EU dummy

	1985	1990	2002
Finicelli, Pagano & Sbracia	-0.22 (0.13)	0.11 (0.12)	0.12 (0.17)
Eaton & Kortum		0.04 (0.13)	

coefficient on EU dummy is very volatile!

EU effect with panel data

estimation results using linear spline:



(for details see Chapter 3 of Straathof, Gert-Jan Linders, Arjan Lejour, and Jan Möhlmann, The Internal Market and the Dutch economy: implications for trade and economic growth, CPB Document 168.)

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open issues

effect international competition on:

- innovation
- offshoring and intra-firm trade