Global Imbalances: Structural Reform to Support Rebalancing of Global Growth

Bernard Hoekman
World Bank

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Industrial production
Global PMI

Sources: World Bank DEC Prospects Group and JPMorgan.
Trade recovery, 3m/3m SAAR
Import growth post-crisis: China vs. G7

Indexed export growth for products originated from G7 countries and directed to China and OECD (Q1 2006=100)
Trend decoupling—starting in early 90s

World Growth 1965 - 2011

- High Income
- High Income Trend
- Developing Countries
- Developing Countries Trend
Retail sales growth (GDP weighted, 3m SAAR)
Current account imbalances down as imports of deficit countries contracted
... but are projected to widen again

Current account balances (% of world GDP)

Source: IMF – WEO data/MAP projections
Structural Drivers of Imbalances

• Large savings-investment imbalances not per se problem
  – Reflect differences in economic development across countries
• But also reflects structural policies and distortions
• External sector (trade, FDI, portfolio capital, exchange rate policies)
  – Self insurance; export-driven development strategy
• Regulation of product and factor markets
  – Reduces competition and raises costs (entry; operations), lowering investment in surplus countries
• Lack of financial market development/weak governance generates excessive corporate savings
• Weak (strong) social protection (safety nets; health insurance; pension systems) induces large scale (inadequate) precautionary savings by households
Structural reform and competitiveness

- Overlap with the OECD Going for Growth Agenda’s emphasis on elements of the “competitiveness agenda”:
  - Product market regulation (reduce barriers to competition in services sectors, including network industries; foreign ownership; trade/FDI)
  - Labor market regulations (unemployment insurance, restrictions on labor mobility, etc.)
  - Fiscal distortions (e.g., energy subsidies; biofuels)
  - Human capital (educational efficiency, outcomes, and achievement)
  - R&D and innovation incentives, quality of infrastructure
  - Social protection/safety nets; Health sector; Pension reforms

- Enhance incentives for investment/reduce incentives for saving in surplus countries
- Enhance incentives for saving in high-income deficit nations
Taking stock:
Where are we?
Extensive protectionism has been resisted—but the trend is upward

Trade measures implemented worldwide and by G20, November 2008-November 2010

- Trade liberalizing measures
- Measures that may discriminate
- Measures that are discriminatory

Source: Global Trade Alert database

New WTO report: in past 6 months trade restrictions up 100% relative to previous 6 months; non-OECD increasing prevalence of export restrictions
Longer-term, tariffs have fallen greatly ...

Source: Mattoo and Neagu (2011).
... but less progress on non-tariff measures

- Overall transaction costs (NTMs + transport + other) have fallen but remain very substantial in international trade:

![Figure 1. APEC trade costs vis-à-vis the world in per cent ad valorem equivalent terms, simple and GDP weighted averages](image)

40-50% range: strikingly high but consistent with recent literature

*Note: Vertical lines indicate the period of the “5 per cent in five years” goal in the Shanghai Declaration.*

Source: Shepherd, 2010
... and services policies are highly restrictive in many countries

Implications of asymmetries in policies

• Share of goods traded >>> services
• Services: higher barriers in general (FDI, mode 4)
• Goods: higher barriers in BRICS, but nothing like in 1980s; increasing use of export restrictions
• Investment entry barriers: higher restrictions for services
• Map these stylized facts to the pattern of current account imbalances...
  – US/EU: strong RCA in services as well as manufactures
  – BRICs: higher barriers to trade and investment
Structural reform as part of the solution

- Rebalancing must involve changes in economic structure/sectoral performance
- Drivers of unsustainable imbalances also impede long-run sustainable growth
- Traditional trade policies not very relevant
- Changing pattern of trade pre- and post-crisis reduces incentives to use protection
  - Global value chains, cross-hauling of FDI, etc.
  - Sharp collapse/rapid recovery supports argument
Growth agenda revolves around raising productivity

Source: OECD Going for Growth 2011
Productivity growth mostly a services/investment agenda

• Services
  – Health; Education; Financial services (pension systems)
  – Backbone infrastructure

• Investment
  – Policy barriers – product market regulation (NTMs)

• Labor market

• OECD: structural reforms could reduce global imbalances by 20% (as % of global GDP)
Serious policy challenges.....

• Developing countries face significant difficulties in designing reforms, in part because of concerns about the realization of regulatory objectives
• Multiple players with different objectives within governments/countries
• Provision of services often involves a cluster of activities: e.g. logistics services or tourism
• Absence of information on extant regulations, their purpose and impact
• Limited knowledge of alternative regulatory options
OECD countries/BRIICS

• Lot of analysis on potential payoffs of structural reforms
  – OECD Secretariat products/reports
  – IMF
• Much of what needs to be done can/should be done unilaterally
• Some of it is being done in deficit countries
• But much more is needed, especially if account is taken of positive spillovers
Case for international cooperation ... = problème(s)...

• Fora in which states (can) make binding commitments on policies are not working very well
  – WTO? Doha is stuck – apparently on 2\textsuperscript{nd} order issues that will not make much of a contribution to growth/rebalancing
  – Agenda may not be seen as relevant given crisis experience
  – No movement on services; export restrictions
  – EU? Large internal structural reform agenda that can help internal rebalancing, but major asymmetries in incentives to act

• More voluntary, “focal point” type cooperation?
  – G20? Focus is finance; resisting protectionism and MAP – NOT on structural reform/liberalization
  – OECD/APEC? More of a focus on structural reform

• Trade agreements? TPP (but, ex-Japan and ex-China); bilaterals between EU and Asia may incentivize US?
Conclusion

• WTO/TPP/Deep FTA-type processes unlikely to bear fruit on structural reform agenda based on current approaches
• Bolster voluntary mechanisms to focus on structural reforms along OECD/APEC lines to span developing countries
• More emphasis on the importance of the services reform agenda from a national self-interest perspective
• Prepare ground for possible enforceable agreements on policy commitments
• De-emphasize “market access” – focus more on rules of the game that are welfare improving (and seen to be so)