

Introduction

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Since humans began to move out of Africa to populate the globe, people living in different parts of the world have shared ideas, faiths, trade, finance and migration (Chanda 2007). But this volume focuses on the more recent wave of globalization which has engulfed the world since the 1980s. Its impact on everyday life is evident in developed and developing countries alike, whether through outsourcing, changing consumption patterns, illegal migration, transnational companies or other avenues. The aggregate statistics are no less compelling. The share of merchandise trade (exports and imports) in world GDP rose from 27.3 per cent in 1981–83 to 47.3 per cent in 2005, with all major regions contributing to the increase. In China the increase was even more extraordinary: from 16.7 per cent to a massive 63.6 per cent (World Bank 1997, 2007, Table 6.1). According to UNCTAD (2006, Table 1.1), inward flows of foreign direct investment (FDI) also show substantial increases, with developing countries increasing their share from 20.3 per cent during 1978–80 to 35.9 per cent during 2003–05. As a result, the total inward stock of FDI as a proportion of GDP in developing economies shot up from 9.8 per cent in 1990 to 27 per cent in 2005. Net migration from low- and middle-income countries rose from 13 million in 1990–95 to 16 million in 2000–2005, with net remittances from workers abroad to low- and middle-income countries rising considerably more rapidly, from \$25 billion in 1990 to \$155 billion in 2005 (World Bank 2007, Table 6.14). Even so, integration in international labor markets remains far behind the levels achieved in goods and capital markets.

Both the popular media and academic circles regularly debate the impact of globalization. For example, Hertel and Winters (2006) suggest that nearly 126.5 million people will no longer be extremely poor (income below \$1 a day) and 193.2 million will no longer be poor (income below \$2 a day) in 2015 in the 17 developing countries studied, if there is full trade liberalization and globalization's impact on both investment and productivity are taken into account. If the impacts of productivity are ignored, poverty reduction drops to 66.3 million and 103.9 million, respectively, if \$1 a day and \$2 a day poverty lines are used. Recent research on FDI indicates a positive impact on growth in

recipient GDP. As one example, Borensztein, De Gregorio and Lee (1998) find that an increase of 0.5 per cent in the FDI-to-GDP ratio increases growth on average by 0.3 percentage points, provided certain thresholds in terms of human capital are met. Even more remarkable, simulations exploring the impact of increased migration suggest that even a small increase in world migration (3 per cent) would increase world output more than a complete liberalization of trade (Walmsley and Winters 2005).

At best, however, such evidence can only be indicative for at least three reasons. First, data are often of poor quality, particularly regarding migration. Second, methodological issues abound. Commonly used techniques such as general equilibrium models and cross-country regressions are fraught with well-known weaknesses, with the equilibrium models invariably requiring strong assumptions about the functioning of various markets, and the cross-country regressions running into difficult issues of endogeneity, causation, omitted variables and so on. And third, it is not clear how much these estimates inform the policy debate in either the developed countries or the developing ones. The lack of country context is crucial here. For example, the design of migration policy in the United Kingdom should be informed by evidence on the impact of UK policies on developing countries and, of course, on the United Kingdom. Similarly, Argentina's negotiating stance at the World Trade Organization should be based on the economic impact of existing and proposed policies. A key argument of this volume is precisely the need for country-specific research on such matters. Before developing this point, however, it is worth briefly reviewing the actual history of policy interaction between the contemporary developed and developing worlds for trade in goods and services, investment and migration.

TRADE IN GOODS AND SERVICES

The longest and most extensive trade discussions, initially regarding trade in goods, have recently expanded to cover trade in services. A multilateral framework for periodic negotiations and implementation of the resulting agreements emerged from the General Agreement on Tariffs and Trade (GATT) in 1947 and its successor, the World Trade Organization (WTO), in 1995. GATT covered trade in goods, while a General Agreement on Trade in Services (GATS) was concluded in 1994. Although global interactions in investment and migration are also of long duration, no formal multilateral framework for negotiations and agreements has evolved.

The book begins with T.N. Srinivasan (Chapter 1) tracing the long history of interactions among peoples of the globe regarding ideas, religion, trade,

finance and migration. He also examines the post-World War II developments leading to the GATT and the failure to establish a formal International Trade Organization. Srinivasan also discusses the often ambivalent role played by the developing countries in the GATT, in the several rounds of multilateral negotiations under its auspices and in the unfinished Doha Development Round, initiated under the auspices of the WTO in 2001.

Chapter 1 shows how the origins of GATT and the WTO can be traced to the bilateral trade agreements negotiated among European countries in the mid-nineteenth century. The concept of 'most-favored nation' (MFN) treatment, that embodies the principle of non-discrimination among trading nations, originated in these early trade agreements. It became the cardinal principle of the GATT and was enshrined in its very first article. The agreement to establish the WTO was part of the many multilateral agreements concluded in the eighth round (Uruguay Round) of multilateral trade negotiations under the auspices of the GATT in 1986. According to Article III GATT (1994, 6):

The WTO shall provide 'the common institutional framework for the conduct of trade relations among its members in matters related to the agreements and associated legal instruments included in Annexes to this Agreement [that established the WTO]' (Article II), and 'the WTO shall facilitate the implementation, administration and operations, and furthers the objective of this Agreement and of the Multilateral Trade Agreements and shall also provide 'the framework for the implementation, administration and operation of the Plurilateral Agreements.

With the conclusion of GATT, the stage seemed set for significant progress in reducing trade barriers and opening markets. Indeed, up to 1986 the eight successful rounds of multilateral trade negotiations by the GATT contracting parties substantially reduced tariffs and other barriers to trade and accelerated the growth of world trade. Yet many developing countries did not participate in either process. Most developing states chose to remain effectively outside the GATT, either by not becoming contracting parties (Mexico did not join until 1986) or by choosing not to participate actively as contracting parties in multilateral trade negotiations until the Tokyo Round of 1973–79.

In large part because of their desire to pursue the then-dominant faith in import-substituting industrialization as a strategy of development, developing countries not only erected and maintained relatively high barriers to trade, but also failed to participate effectively in the bargaining over reciprocal tariff reductions. As a consequence of this failure, trade barriers in commodities of export interest to these countries were not reduced to the same extent as trade barriers in commodities mostly traded among developed countries. After each round of multilateral trade negotiations, developed countries retained higher

barriers against imports from developing countries than against imports from other developed countries. Agriculture, a sector of great interest to developing countries, largely remained outside the GATT framework until the Uruguay Round. Trade in textiles and apparel has been exempted from GATT rules since 1961. The Multi-Fiber Arrangement (MFA), that governed trade in textiles and apparel until it was finally phased out on 1 January 2005, was a particularly egregious exception to GATT rules. Apart from being an outright violation of Article I of the GATT, it also permitted the use of bilaterally negotiated trade quotas on an item-by-item basis between each importer and exporter.

Many developing countries resisted the start of the Uruguay Round in 1986 and the inclusion of new items such as services and intellectual property rights in its negotiating agenda. They failed to stop it from convening and the ultimate agreement (signed in Marrakech, Morocco) in 1994 included a General Agreement on Trade in Services (GATS), an agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and an ultra-legalistic dispute-settlement mechanism. For agreeing to these documents, that arguably were costly from their perspective, the developing countries got a back-loaded phase-out of MFA and an agreement on agriculture which, in fact, did not liberalize trade much. However, developed countries wanted future negotiations to include other issues – such as labor and environmental standards, investment and competition – which the developing countries perceived not to be in their interest. Indeed, the resistance of developing countries in large part prevented the start of another round at the Seattle Ministerial Conference in 1999. However, two years later, at the Doha Ministerial Conference in November 2001, they agreed to launch a new round with a more development-focused agenda. The good intentions implicit in this focus notwithstanding, the negotiation proceeded in fits and starts over the next seven years. Although considerable progress was made in addressing the concerns of developing countries, the gap in negotiating positions of major countries such as China, India and the United States, particularly with respect to liberalization of agricultural trade, could not be bridged. The informal ministerial meeting of the WTO in Geneva on 1–29 July 2008 collapsed with no agreement.

The above summary of the issues between developed and developing countries relating to the global trading system illustrates the limited influence and bargaining power of the developing countries. Their poverty, as well as their deliberate insulation from world markets, resulted in their having only a modest share in world trade. Consequently, they had little bargaining in the GATT over rules of the trading system and reductions in trade barriers. The weakness in bargaining power was compounded by the choice of many developing countries either to opt out of GATT or not to participate effectively in negotiations until the Tokyo Round of 1973–79. By the early 1970s,

developing countries constituted an increasing majority of the membership of GATT. The GATT had incorporated its Part IV on development in 1964 – the same year that the first meeting of the United Nations Conference on Trade and Development (UNCTAD) took place. The solidarity of developing countries in UNCTAD and elsewhere was at its height between 1965 and 1980. However, by demanding and receiving exemptions from GATT regulations, including not having to reciprocate the reductions in tariffs in developed countries, they further weakened their bargaining position. The net result was that after each round, barriers against imports from developing countries continued to be high in developed countries, and sectors of great interest to them, such as agriculture, remained outside GATT until the Uruguay Round. Clearly, the post-1980 trends in integration have improved the bargaining position of the developing countries. As a result, leading developing countries such as Brazil and India appear able to exert more influence, especially since China joined them in the Group of 20 (G-20) formed at the Cancún Ministerial in 2003. This promise for the future is further motivation for the research reported in this volume: developing countries need to be as well armed as possible with empirical evidence on the impact of policies governing trade, migration and FDI in order to strengthen their negotiating positions.

The charter for the stillborn International Trade Organization (ITO) of 1948 contained provisions on the treatment of foreign investment as part of its chapter on economic development. The GATT, concluded in 1947, covered only tariffs and trade. However in 1955, the GATT contracting parties adopted a resolution on international investment for economic development in which they, *inter alia*, urged countries to conclude bilateral agreements to provide protection and security for foreign investment. Prior to the Uruguay Round the most significant development regarding investment was a ruling by a panel in a dispute settlement proceeding between the United States and Canada. The ruling concerned local content and export-performance requirements imposed by Canada on foreign enterprises. The ruling confirmed that existing obligations under GATT were applicable to performance requirements in so far as they were trade distorting. By holding that export-performance requirements were not covered by the GATT, the court underscored the limited scope of GATT discipline with respect to trade-related performance requirements. Although the dispute involved Canada, it was applicable to many such performance requirements imposed by developing countries.¹

The Uruguay Round negotiation mandate included Trade-Related Investment Measures (TRIMS). These negotiations were marked by strong disagreements between developed countries which wanted to prohibit a wide range of measures such as local content requirements, and developing countries which opposed such blanket prohibitions. As the TRIMS agreement is essentially limited to

an interpretation and clarification of how GATT Article III applies to TRIMS, the eventual compromise did not cover export performance and technology transfer requirements which were discussed during the negotiation.² Thus in the GATT/WTO, the only multilateral agreement on investment is a very limited TRIMS.

With the field thus left open for bilateral and regional agreements, it is no surprise that international investment agreements (IIAs), ranging from trade agreements which include investment provisions to bilateral investment treaties (BITs) and double-taxation treaties (DTTs), have expanded enormously. Not only has the number of bilateral and regional agreements with investment provisions continued to rise, but an increasing number of them are South–South agreements between developing countries. According to UNCTAD:

A growing number of bilateral IIAs – BITs, DTTs, free trade agreements (FTAs) or other forms of IIAs – are concluded between developing economies. As of end 2005, more than 1,100 such South–South IIAs had been concluded ... By the end of 2005, the number of ‘South–South’ BITs had grown to 644 representing 26 per cent of the total number of BITs. In the top 50 economies that are signatories of BITs and DTTs concluded as of end 2005, there are many developing countries. China was second in BTTs with 177 and 13th in DTTs with 95. India was 27th in BTTs with 56 and 18th in DTTs with 83 (UNCTAD 2006, Table A1.10).

Fourteen IIAs other than BITs and DTTs were concluded in 2005, all of them involving a developing country, and almost 70 such agreements were under negotiation as of the end of 2005, all of them involving developing countries (UNCTAD 2006, Tables 1.15 and A1.16, the latest UNCTAD report in 2007 does not include this information).

Despite being the leading intergovernmental organization in the field of migration, the 120-member International Organization on Migration (IOM) has not sponsored multilateral negotiations for setting a global framework for migration. As with investment, migration was covered only to a very limited extent in the GATT/WTO and only in the GATS concluded in 1994. The limited provision relates to the so-called Mode 4 of trade in services covering ‘the movement of natural persons’, consisting of persons of one member country temporarily entering the territory of another to supply a service (e.g., accountants, doctors, teachers, software engineers). It does not relate to persons seeking citizenship, asylum, permanent employment or residence in a country, thus leaving out a large part of migration (voluntary, involuntary, legal or illegal). Although there is a large potential for beneficial migration under Mode 4 from developing to developed countries, the commitments scheduled in the GATS under Mode 4 were largely limited to two categories:

intra-company transferees regarded as 'essential personnel', such as managers and technical staff linked with a commercial presence in the host country, and business visitors, who are short-term visitors, generally not gainfully employed in the host country.³

Although international migration has the potential to affect global development significantly, there have been scant general multilateral discussions of migration and development. This is in large part because some members of the Organization for Economic Cooperation and Development (OECD) oppose such a discussion. The developing countries not only had little input in the unilateral migration policies of industrialized countries, but they also failed to cooperate among themselves in addressing South–South migration and its possible benefits. Discussions of immigration policy are the realm of the interior ministries; the development and trade ministries are rarely consulted. The result is that immigration policies are set with little regard for their implications abroad (with the possible exception of refugee policies). Indeed, relatively few states have ratified some of the key UN and ILO resolutions on migration. The High Level Dialogue on Migration and Development at the UN in 2006 represented a compromise, after proposals to convene an international conference on the issues had failed. Some of the European states have more recently shown a greater concern for the affects their migration policies have on development in the source countries, resulting in the Global Forum on International Migration and Development initiative in Belgium in July 2007. Meanwhile, a substantial range of bilateral agreements on migration has emerged, given the lack of a multilateral framework. However, very few of these bilateral arrangements involve the least-developed countries.

One further finding from this review of the history of trade negotiations warrants mention. Although rich countries have been able to determine the negotiating agenda for the Uruguay Round and the ongoing Doha Round, they have not prevented developing countries, and more broadly in the design of the rules governing the global trading system, did not prevent the significant integration of the developing countries as a group into the world economy since the 1980s. Of course, not all developing countries shared in the growth in trade, FDI and migration. Nevertheless, the developing countries have achieved considerable levels of integration through changes in domestic policies and institutions in the presence of only limited liberalization of trade, investment and migration flows through international agreements (Srinivasan 2004). Further progress, however, may well depend largely, but not wholly, on policies of rich countries in general and, in the particular case of trade, progress in bringing the Doha Round to a successful conclusion. Unfortunately, the prospects for the latter do not seem bright as of 29 July 2008, with the collapse of the informal ministerial meeting of the WTO at Geneva 21–29 July 2008. There was no

date set to resume negotiations. This meeting was to have concluded with an agreement on modalities (numerical targets for commitments of members) for achieving the objectives of the round, the penultimate stage prior to the final agreement concluding the round. With political uncertainty arising from the forthcoming 2008 US presidential elections, parliamentary elections in India in April 2009 and scheduled expiry of the terms of the European Commission in early 2009, it is unlikely that negotiations will be resumed in the near future.

WHY THIS BOOK?

This volume arose out of a research project organized and funded by the Global Development Network, 'Impact of Rich Countries' Policies on Poverty: Perspectives from the Developing World' (hereafter, Impact Project). This book's primary goal is to contribute to an understanding of how policies implemented by rich countries affect development and poverty in developing and transition countries, while recognizing the complexities involved in such an exercise. By focusing on the perspectives from the developing world, efforts to assess the impact of rich countries' policies will be tailored specifically to the context of individual developing countries. The book will also contribute to the contemporary debate on policy coherence and coordination. This debate centers on the possibilities of making the policies of rich countries mutually consistent and coherent in each country as well as coordinated across countries, so that their combined impact is not only more beneficial, but also quantitatively more significant than the existing set of policies.

We believe that the type of specific studies reported in this volume, if replicated for an increasing number of pairs of policies and impacted developing countries, will help OECD countries design coherent approaches to development by embracing their entire arsenal of relevant policies. More broadly, such studies will also improve our understanding of how the benefits of globalization, in the shape of increased flows of trade and labor for development, can be enhanced while reducing any associated costs. The volume analyzes two main components of the many links in the chain connecting rich countries' policies at one end, and development and poverty in developing countries at the other end.

The first component examines the influence of select OECD policies upon trade, migration and foreign direct investment outcomes for developing regions. Examples reported in the volume include: the impact of non-tariff barriers in OECD countries on exports from Argentina; the effect of bilateral investment treaties on flows of foreign direct investment to the Commonwealth of Independent States and Eastern Europe; and the 'tightness' of migration

policies in Germany, Italy and Spain and their consequences for remittances to families in Romania. These studies should help bolster the negotiating position of developing countries by providing them with empirical evidence to make their arguments as effective and compelling as possible.

The second component relates trade, migration and foreign direct investment to measures of development and development-promoting activities, such as income, employment, poverty and skill acquisition, within developing countries. This reflects a determination to move away from the sweeping assessments of global impact described above and toward country- or region-specific investigations which fully allow for local context. Some of the channels explored in this volume include: the impact of foreign direct investment into Argentina on incomes, employment, skill acquisition, innovation and productivity; the degree of skill diffusion generated by migrants returning from Western Europe; and the impact of lower world agricultural prices on poverty in Colombia. Taken together, these two components help analysts understand not only the impact of existing OECD policies on development and the poor, but also the range of possible changes in these policies to make them more beneficial for development.

Although this book focuses on trade, migration and FDI, many other policies, especially external assistance (bilateral and multilateral), pursued by individual states or groups of rich countries, could potentially affect development and poverty. And even an analysis limited to the subset of external opportunities and constraints represented by the rich countries' policies on trade, investment and migration still runs into a number of problems. For example, the levels of trade barriers as specified in the laws of a country and in its trade agreements and their actually applied levels are often very different. Nevertheless, we believe that the studies reported in this volume and summarized in the remainder of this Introduction provide genuinely new insights regarding impacts in well-defined contexts and, moreover, demonstrate the type of research which is likely to be most illuminating and beneficial from the standpoint of developing countries.

TRADE POLICIES, DEVELOPMENT AND POVERTY

The theoretical and empirical literature on evaluating trade policy is vast. Methodologies used vary enormously, from rigorously grounded theoretical models of partial and general equilibrium⁴ to cross-country regressions. Two recent surveys, Goldberg and Pavcnik (2007) and Winters, McCulloch and McKay (2004), are particularly interesting and relevant. Taken together, this literature covers most of the issues relating to trade liberalization of all types (unilateral, preferential, regional and multilateral). The three studies on trade

liberalization in this volume, while they clearly belong to this large body of literature, have their own distinctive features stemming from their origin in the Impact Project.

The three studies that follow in Part One analyze the impacts of trade policies on development through different channels. Chapter 4 explores the effects of the liberalization of developing country trade, specifically Southeastern Europe, on a regional basis through regional free-trade agreements. Chapter 2 looks at the increased stringency of product quality standards in developed-country markets on exports and labor markets of Argentina. Finally, Chapter 3 focuses on domestic trade barriers which Colombia imposed on agricultural imports from developed countries, ostensibly to offset the export subsidies of the developed countries. All three case studies use micro-level data, from firms in Southeastern Europe and Argentina and households in Colombia. The Southeastern Europe case also uses time-series and cross-sectional data at country and sector levels. The Argentine case uses data on a cross-section of firms in 1991 and 2001 and a cross-section of households. The Colombia case uses data on a cross-section of households in 2003. All three use econometric methods, with the Colombian model supplementing econometric estimates at the household level with simulations at the aggregate level of the agricultural sector. Because trade policies affect development and in-country focus in multiple ways, the three studies in Part One illustrate the importance of context specificity when analyzing how policies (external and domestic) affect development.

Chapter 4, by Jozse Damijan, José de Sousa and Olivier Lamotte, relates to Southeastern Europe (SEE); specifically, the Eastern Balkans (Bulgaria and Romania) and Western Balkans (Albania, Bosnia–Herzegovina, Croatia, Macedonia, Serbia–Montenegro and Slovenia). All but Albania and Bulgaria were parts of the former Socialist Federative Republic of Yugoslavia (SFRY). All were members of the Council of Mutual Economic Assistance (CMEA), a Soviet-bloc trading group which collapsed in 1991 along with the Soviet Union and the SFRY. All but Bosnia–Herzegovina and Serbia–Montenegro had become members of the WTO by January 2007.

Chapter 4 focuses on regional trade agreements (RTAs). This channel is particularly relevant, since it is being pursued by many developing countries, although, as noted earlier, the costs of entering into preferential trade agreements with a developed country could be significant. According to the WTO:

The surge in RTAs has continued unabated since the early 1990s. Some 368 RTAs have been notified to the GATT/WTO until December 2006.... If we take into account RTAs which are in force but have not been notified, those signed but not yet in force, those currently being negotiated, and those in the proposal stage, we arrive

at a figure of close to 400 RTAs which are scheduled to be implemented by 2010. Of these RTAs, free trade agreements (FTAs) and partial scope agreements account for over 90 per cent, while customs unions account for less than 10 per cent.⁵

Of these 400, as of 1 March 2007, 194 have already been notified to GATT/WTO and are in force. Sixty RTAs involve a developed country and a developing country; the number drops to 50 if Singapore is classified as a developed country. The fact that an RTA has been notified to the GATT/WTO or is in force does not necessarily mean that it has been found consistent with Article XXIV of the GATT, relating to customs unions and free-trade areas. Quite the contrary. Although the Treaty of Rome which established the European Community was ratified on 24 April 1957, the GATT Working Party which was to examine its compatibility with Article XXIV never completed the examination. Whether likely to be pronounced compatible or not, there is a rising trend in concluding and notifying RTAs.

Obviously, developing countries entering into or negotiating entry into such agreements must be expecting gains which they cannot get from the non-discriminatory multilateral agreements. Since the latter category covers mainly trade in goods and services, the expected gains must relate to areas not covered by multilateral agreements such as investment, technology transfer and better governance practices. Although the case study does not attempt a cost-benefit analysis of RTAs in which SEE countries are members, it does address the likely benefits from preferential, as well as broader, trade liberalization, including productivity gains for domestic firms.

Chapter 4 consists of three parts. The first evaluates the degree of trade integration among SEE countries between 1994 and 2002 and assesses their trade potential with their main trade partners, namely, themselves and the European Union (EU). The second part evaluates the impact of trade liberalization on exports by studying the evolution of trade barriers faced by SEE countries between 1995 and 2000 and their impact on manufactured trade. The third section investigates the impact of trade liberalization on firm performance, by evaluating the contribution of foreign trade and investment to improved firm performance between 1994 and 2002. In all three parts, the policies of rich countries (i.e., the EU) are exogenous and implicit.

The findings of the study are interesting. First, history matters, in the sense that SEE trade flows are still geographically concentrated, both among themselves and with their former CMEA partners in Eastern Europe. Furthermore, their trade with their 'neighbors', namely the EU, is no greater than their trade with the rest of the world, *ceteris paribus*. Put another way, their actual trade with the EU is far below its potential.

Second, trade liberalization has only a limited effect on SEE exports to the rest of the world. However, liberalization of trade with the EU shows larger effects on their exports. This suggests that their exports to the EU would rise were the EU to open its markets further to imports from SEE.

Third, firm-level analysis shows that liberalization of bilateral trade within the SEE region or with other regions does not have any uniformly significant impact on an individual firm's performance. In Romania and Slovenia, firms exporting more to the 15 oldest members of the European Union (EU-15) have a higher total factor productivity (TFP) growth than those exporting to less-advanced countries. The role of imports also follows a similar pattern, although the cases of firms in Romania and Macedonia importing from former Yugoslav republics provides a dominating learning effect. The authors found no regional learning effects for other countries.

Fourth, foreign ownership has some differential effects. In three countries – Bosnia, Croatia and Slovenia – foreign-owned firms experienced faster TFP growth, while in Romania domestic-owned firms experienced faster TFP growth. In Bulgaria there was no significant difference in TFP growth between the two types of firms.

Chapter 4 clearly demonstrates that it is not meaningful to talk about the effects of trade liberalization or of rich countries' policies on any aspect of development and poverty as if they are context free. Ignoring initial conditions and historical antecedents in the analysis can lead to misleading conclusions.

The GATT concluded in 1947 had only one article (Article XX) related to standards. It was more in the nature of an enabling provision with an important preamble or chapeau:

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures (GATT 1994).

The chapeau was applicable to all ten types of measures covered by Article XX, Section (b) related to measures necessary to protect human, animal or plant life or health, although it did not define such measures.

The Uruguay Round Agreement of 1994 included agreements on two specific measures with a definition of the measures included in the agreement itself. The first agreement was on the application of sanitary and phytosanitary (SPS) measures. It covered measures applied to protect animal or plant life or health: (1) from entry of pests, disease, disease-carrying organisms and disease-causing organisms; (2) from additives, contaminants, toxins or disease-causing

organisms in food, beverages and feedstuffs; and (3) from diseases carried by animals, plants and products thereof. The second agreement, on technical barriers to trade (TBT), covered technical regulations laying down product characteristics or their related processes and production methods, including the applicable administrative provisions with which compliance is mandatory. The preambles of both agreements repeat the explicit requirement expressed in Article XX of the GATT, namely that any measure covered by the agreements should not be applied in an arbitrary manner or as a disguised means of protection. To reinforce this requirement the agreements require scientific evidence that a proposed measure is necessary to protect human life, while permitting members to use such measures provisionally in a precautionary manner even without sufficient scientific evidence, provided 'they seek to obtain' additional evidence within a reasonable amount of time. The United States argued that the European ban on the import of genetically modified food was not based on scientific evidence and took the ban to the WTO's dispute-settlement mechanism. The potential for purely protectionist use of sanitary and phytosanitary standards and product standards is large. It is also asymmetric, in the sense that the cost of establishing the mechanism necessary to ensure that products exported meet the standards set by the importing country is likely to be much higher for developing country exporters. For example, the high cost of meeting such standards prevents developing countries from exploiting the potentially large markets in rich countries for fresh fruit, vegetables and flowers.

In this context, Chapter 2, on technical barriers to trade in Argentine exports and labor markets, is particularly relevant and interesting. Gabriel Sánchez, María Laura Alzua and Inés Butler recognize that it is not easy to point to a specific year during which the stringency of product standards faced by Argentine exporters in the EU and United States increased significantly. Using data on claims of TBT and SPS violations and also the notification of TBT and SPS measures to the WTO, the authors find a spike around 1995. They then attempt to assess the impact of increasingly stringent standards by comparing the pre- and post-1995 situation appropriately.

The authors conclude that increasingly stringent import standards in developed countries reduced the shares of Argentine exports to these countries, raised the share of skilled workers in employment and reduced the average wages in the exporting firms. The overall effect of an increase in the stringency of product quality standards is to lower producer prices due to the higher cost of standard compliance, that is passed on to workers through a lower average wage. This conclusion has to be interpreted cautiously. If industry wages are set by a competitive labor market outside of that industry, employers in that industry would be extremely limited in their power to pass on their higher costs to their workers. There could also be general equilibrium effects arising from

the fact that wages for skilled and unskilled workers would be simultaneously determined in equilibrium. This is not to deny that costs of compliance with higher quality standards could have an adverse impact on export shares and that compliance could often involve hiring relatively more skilled workers. Such adverse impacts do arise in the chapter's empirical analysis. Further research is needed to confirm them by modeling the labor market in greater detail.

Perhaps the most serious stumbling block holding up the conclusion of the Doha Round, as noted earlier, is export subsidies and domestic support for agriculture in the EU and United States. Such subsidies could significantly lower the world market prices for agriculture and adversely affect other exporters. The EU has decided to phase out its export subsidies by 2013, while Washington is yet to commit firmly to the elimination of its export subsidies, particularly on cotton, a crop of vital interest to some poor West African countries. Almost all countries, developed and developing, intervene in agriculture; some protect domestic agriculture from import competition either wholly or in large part. Clearly, raising domestic prices above import prices benefits producers of protected crops and hurts consumers, while generating tariff revenues. It does not matter if import prices are lower than the rate without export subsidies or if small developing countries were to cancel domestic protection measures in a way which would not affect their import prices; such moves would still have domestic distributional consequences: hurting producers of protected crops, benefiting consumers and eliminating tariff revenues.

Chapter 3, by Felipe Barrera-Osorio and Marcela Meléndez, analyzes the implications of lifting protection for crops in Colombia. The authors look at eight protected crops, including corn and rice, the two most important in terms of percentage of cropland occupied. Out of the 31 departments in Colombia, the percentage share of protected crops in cropland varies from a low of 1.64 per cent in Quindío to a high of 94.80 per cent in Casanare. The authors use a household income simulation approach based on an earnings regression and an occupational choice model estimated from household survey data. To be able to estimate the effects of removing protection, they consider agricultural workers located in 21 departments in which protected crops covered at least 30 per cent of the area. They had to take this indirect approach since the household survey data do not have information on which crops provide agricultural worker incomes. The authors recognize that this procedure, while including a majority of households which produce or live in areas in which the protected crops are grown, necessarily excludes workers who could be potentially affected by removal of protection but live in areas where more than 70 per cent of the land is occupied by non-protected crops.

An occupational-choice model (i.e., working for wages, self-employment or inactivity) and an earnings regression are econometrically estimated from

household survey data. In both regressions the prices agricultural households face for protected crops are some of the explanatory variables. The simulation exercise consists of four steps. First, using the estimated parameters relating to crop prices of the earnings regression and the crop prices without protection, the authors estimate a vector of predicted earnings from the removal of protection. Second, the vector of predicted earnings and crop prices without protection is used to predict the probability of each of the three occupational choices. Third, the predicted probabilities are used to randomly assign an occupational category. Fourth and finally, they combine the results for individuals in each household to obtain household income and distribution.

Barrera-Osorio and Meléndez find that eliminating protection and subjecting farmers to world prices, that presumably are at least partly the outcomes of export subsidies in rich countries, will increase the proportion of poor (from 27 per cent to 35 per cent), income inequality (from a Gini of 0.53 to 0.57) and the severity of poverty (from a poverty gap of 14.8 per cent to 18.8 per cent). These outcomes are generated by an occupational shift toward inactivity as well as toward self-employment after liberalization. Since self-employed income is below wage income for most workers, except in the top decile of the income distribution, liberalization leads to deterioration in household welfare.

The authors are aware of the limitations of their findings, because their analysis ignores three possible responses to the removal of protection, namely: (1) a switch away from protected crops to ones which become more profitable, (2) a switch away from agricultural occupations to other productive activities and (3) a change consumption pattern toward cheaper crops. For this reason, the authors view their results as providing an upper bound to the potential costs (or loss in welfare) to households from removing protection.

Taken together these three chapters provide empirical support for the underlying hypothesis of the Impact Project, namely, that policies of rich countries do have an impact on poverty-relevant outcomes in developing countries either directly, as in the case of stringent product standards for Argentine exports and firm ownership and productivity in some SEE countries, or indirectly, through lowering world market prices for Colombian crops.

MIGRATION

From 1960 to 2000 the volume of global exports grew at about 6.3 per cent per year. Meanwhile, the UN Population Division estimates that the stock of international migrants grew only 2.1 per cent annually, barely keeping pace with world population growth. The recent decades of globalization have witnessed substantial, international integration of markets for capital, goods and services,

but far less integration of labor markets. Data on international migration present many difficulties, including differences in whether countries report the stock of foreign-born or foreign nationals, and distinguishing migrants from tourists and other sojourners. Nonetheless, using the best available data, the UN estimates that by 2005 about 190 million persons were living in a country other than their country of birth, representing less than 3 per cent of the world population.

Two sets of factors limit the growth of international migration, despite growing income gaps between the least-developed and industrialized regions. First, most states attempt to restrict the volume and composition of entry. Second, people have a limited desire and capacity to uproot and move permanently to a new country. Even temporary migrations, particularly when they involve family separation, risks in transit, exploitation by smugglers and agents or isolation in an alien society, tempt relatively few. Most people are reluctant to leave their own country unless incomes or security at home are quite dire, or educational opportunities are lacking. Given the magnitude and prevalence of irregular migration, the efficacy of immigration controls may well be questioned: with enough money migrants apparently can evade or avoid border controls (Hanson 2006). Nonetheless, the two sets of forces generally interact to shape migration patterns.

Although international migration may have grown comparatively slowly, this movement of people is attracting considerable attention, for at least three reasons. First, while the stock of global migrants relative to population has remained constant over time, the proportion of migrants in the developed regions has not. In 1960 42.3 per cent of the world's migrant stock lived in the more developed regions; by 2005 this fraction had reached 60.5 per cent (UN 2006). As a proportion of population in the developed regions this represented a growth from 3.4 per cent in 1960 to 9.5 per cent in 2005. Some of this increase in the migrant stock in the developed regions resulted from the break-up of the USSR, which meant redefining internal migrants as international migrants. Yet, even excluding the former USSR, migrants in the remaining developed regions represented over 8 per cent of the population by 2000. This growing concentration of migration to the industrialized regions has captured considerable attention in the host countries. Second, reported remittances to the developed regions have grown very rapidly in recent years. These flows now exceed short-term capital flows and official development assistance, and they are now second only to direct investment as a source of financial inflows to the developing regions (World Bank 2005). Third, simulations suggest that even a small increase in world migration has the potential to generate quite massive increases in global production. For example, Walmsley and Winters (2005) estimate that a 3 per cent increase in migration from the developing to

the industrialized regions would increase world output more than a complete liberalization of all trade.

In these simulations, migrants receive most of the gains. The gap in earnings between the developing regions and OECD countries is so huge that massive economic gains inevitably accrue to those able to move. Recruiting agents, smugglers and remittance intermediaries tax these gains to the migrants, yet the net gains from moving remain very large. To the extent that migrants are from the developing world, these gains are a form of development in their own right, in the sense that they raise incomes of developing-country nationals. In addition, however, emigration can have significant effects on economic development for those remaining at home, at least within the relatively few developing and transition countries with high rates of outmigration. Part Two of this volume focuses on the effects on migration.

Emigrants have important economic impacts on their home country through remittances. The recent surge in reported remittances has led to some euphoria about the potential of migration and remittances as a source of salvation. Skeptics maintain that remittances lead to little investment and argue that the poorest rarely migrate, so poverty alleviation from remittances may be limited. The theoretical and empirical foundations of both viewpoints remain weak and unpersuasive. Extant studies of spending remittances are commonly cited to invoke a belief in a limited investment stimulus from these transfers. Given the fungible nature of financial resources, such evidence is hardly relevant. In any case, the question is surely improperly posed; although a state may wish for higher aggregate rates of investment, it is not clear why remittance recipients should be the ones required to undertake these investments. In contrast, the poverty-alleviating effects of remittances are clearly relevant.

In Chapter 5 Ella Kallai and Mircea Maniu offer interesting insights into these poverty-alleviating effects of remittances. Official Romanian data show a surge in emigration following the collapse of the Ceausescu regime in 1989 and the establishment of the communist-dominated government of Ion Iliescu. This exodus was followed by significant return migration after the election of a more centrist government in 1996. The official data, however, probably substantially underestimate the extent of departure from Romania since 1990. Kallai and Maniu therefore conducted a nationally representative, household survey across Romania in April 2006 to obtain a fresh perspective on the state of migration. Romania did not join the EU until January 2007. However, visa requirements for travel within the Schengen zone of Europe were removed in 2002, leading to a further surge in departures.

Kallai and Maniu found that nearly 14 per cent of households in Romania have at least one member working abroad, a fraction in line with other unofficial sources but substantially greater than indicated in the 2002

census. The survey also documents the substantial extent to which Romania's migration has become circular – 4.5 per cent of households are found to have a returned migrant who had been abroad working within the previous two years. Although migrants are not necessarily drawn from Romanian counties with lower incomes, they are drawn from counties with particularly high rates of unemployed persons no longer eligible for unemployment compensation.

The principal destinations are, in descending order, Italy, Spain, Germany and the United States. The profiles of Romanians migrating to these destinations are, however, quite different, and these differences – partly due to the variation among immigration regulations and self-selection – play a key part in the story. Specifically, 63 per cent of Romanian émigrés in the United States have a university degree, compared with 22 per cent in Germany, 13 per cent in Italy and only 7 per cent in Spain. To a large extent these differences reflect contrasting labor demands and migrant-screening criteria applied in the various host countries. From a Romanian perspective, the contrasts are important. Kallai and Maniu go on to demonstrate that the lower-skilled migration to Spain results in remittances to lower-income families in Romania. The direct effect of remittances upon poverty alleviation in Romania is thus greater from migration to Spain than from migrations to Germany and the United States. The immigration strategies of the various host countries thus have a direct effect upon the extent of poverty alleviation which results in the country of origin.

Kallai and Maniu's chapter is a useful contribution to a growing body of empirical literature demonstrating that remittances indeed reach at least some of the world's poor (Adams and Page 2005). However, there are complex methodological questions involved, such as how to define the income class of recipient households when this category may depend upon the incidence of migration and prior remittances (Adams 1991). Nonetheless, the basic message seems clear; remittances to developing and transition economies do serve to reduce poverty. Kallai and Maniu bring a new focus to this issue, showing that the extent of poverty reduction is quite closely tied to the admission strategies of the OECD countries.

Another substantial body of literature analyzes the microeconomic determinants of remittance flows: why some families receive more than others. However, these micro studies offer little insight into how macroeconomic policies affect remittance flows. The few existing macroeconomic analyses of remittance determinants which might inform policy tend to fall into two camps. Some analysts have viewed remittances as an element in the migrant's investment portfolio, whereby returns on remitted funds are compared with savings kept abroad (Katseli and Glytsos 1989). Others have emphasized the importance of altruism in the decision to remit, and hence the cost of providing income to those at home versus the migrant's own needs (Faini 1994). The two

views offer contrasting predictions regarding whether remittances are likely to prove counter-cyclical or pro-cyclical. As an investment, remittances are likely to move pro-cyclically, rising as the home economy improves. If these transfers are invested in liquid assets, then a subsequent outflow would tend to follow an economic downturn. However, altruistically motivated remittances should rise when times are worse at home. The World Bank (2005) suggests that the latter is more common, imbuing remittances with a particularly important feature in moving counter-cyclically. However, the evidence in support of one view or the other remains thin, and it is far from clear that one version should be universally correct.

In Chapter 7 Serdar Sayan and Ayça Tekin-Koru offer some of the first systematic evidence on whether remittances move counter-cyclically. Specifically, the authors, deploying sophisticated time-series analysis techniques, look at reported, quarterly remittance data for Turkish and Mexican migrant workers.

The results prove very interesting. The US and Mexican economies tend to move strongly together, with incomes rising and falling simultaneously. In itself this means that Mexican migrants in the United States are able to save more, because they are earning more there when both economies are doing well, in the sense of being in the upswing of simultaneous cycles. However, once Sayan and Tekin-Koru control for the state of the US economy, remittances to Mexico indeed prove to move counter-cyclically with the Mexican economy. In other words, Mexican migrants remit more, given the state of their US earnings, at times when the folks at home are doing less well. The altruism factor is important.

In contrast, the Turkish and German economies are far less strongly correlated, and remittances by Turkish workers in Germany respond far less to the state of the German economy. However, Sayan and Tekin-Koru find a break in whether these remittances move counter-cyclically with the Turkish economy. Prior to 1992, the movement was counter-cyclical, as in the Mexican case. But the pattern reversed in 1992 and is now pro-cyclical, behaving more like an investment strategy than an altruistic concern. The authors note that 1992 was the year in which the new German immigration law came into effect, essentially making citizenship, family accompaniment and permanent settlement in Germany far more feasible.

Thus the evidence in Chapter 7 seems eminently sensible. Where migration is temporary and involves family separation, altruism is likely to be a key factor in driving transfers to family members left behind. Once the migration regime involves greater permanence in settlement and permits family accompaniment, remittances acquire more of an investment-like character. This is not the effect of a shift in preferences toward altruism, but the consequence of the change in immigration laws. Such investment still tends to be disproportionate toward

the home country, rather than dispersing more globally, perhaps because of better information about investment opportunities open to the diaspora, or because of access to kith and kin at home who can monitor these investments.

Sayan and Tekin-Koru's findings suggest that one story does not fit all contexts, confirming that remittance stories, like trade liberalization stories, are specific to spatial and temporal contexts. Remittances do not move counter-cyclically in all settings. Whether the flows are indeed counter-cyclical – and hence offer insurance to the home country – is shaped in part by the nature of the migration regime in the host country. Moreover, where temporary migration is the norm, the results suggest that improvements in the host-country's economy help the country of origin by stimulating remittances. It has long been the position of the US Agency for International Development (USAID) that the most effective way to increase foreign aid is to improve the US economy. It is, however, rather ironic that this should prove to be the case through the graces of irregular migrants.

Although remittances have received the lion's share of attention in the international community, they are not the only route through which migration may spur the home economy. Another potential contributor is the role of migrants who return with newly acquired skills. However, critics express doubts about the usefulness of many skills freshly acquired in economies with very different technologies than those available at home (Tan 1993). Systematic analyses of whether returned migrants are more productive, and hence earn more, than those who never migrated are difficult. Any meaningful study clearly requires a comparison of returned migrants and non-migrants with similar characteristics, such as their levels of education. However, researchers cannot observe all relevant characteristics. Returned migrants may earn more than non-migrants simply because the returned migrants were more enterprising in the first place. In Chapter 6 Ann Iara adds to a very small set of studies which undertake careful analyses using statistical techniques to eliminate any differences due to the initial selection of who migrates (Cox, Gang and Yun 2000; de Coulon and Piracha 2002).

Specifically, Iara looks at earnings of returned, young, male migrants in 13 countries of Central and Eastern Europe, using a little-analyzed dataset. The results demonstrate a substantial gain in earnings among those who migrated to Western Europe. Given the controls for selection of who migrates, Iara's interpretation that this represents an increase in productivity, caused by the advent of circular migration in the region after 1990, seems entirely reasonable. However, Iara also notes that circular migrants tend to be selected from among the relatively privileged in the home country population. Since her estimates of the rewards to migrating are substantial, the relatively well off are made even wealthier by this process, exacerbating earnings inequalities within the

domestic labor force. Rising inequality may be a concern, but is clearly not a reason to restrict emigration, particularly when return migration leads to substantial gains to migrants and no clear losses to the non-migrants. Rather, the policy implication is presumably that ways of reducing inequality need to be sought which, in turn, will help address the self-selection elements which concentrate migration among the wealthy.

A key theme unites the three migration chapters in this volume, namely the role played by return migration. The circular migration of Romanian workers, documented by Kallai and Maniu, plays a significant part in explaining the magnitude of remittances now enjoyed by Romania. The low-skill, circular migration from Romania to Spain is particularly effective in diminishing poverty at home. Sayan and Tekin-Koru demonstrate how circularity and family accompaniment in the Mexican and Turkish cases and, even more compellingly, the switch in the degree of permanence of migration to Germany all affect the nature of remittance flows. Temporary migration without family accompaniment results in counter-cyclical remittances, offering alleviation in times of greater poverty. Finally, Iara looks explicitly at the importance of circular migration in the form of enhanced productivity of returned workers.

This unifying theme is important, given the current emphasis on temporary migration schemes. Examples include the proposed guest-worker program and expansion in H-1 visas during the 1990s in the United States; the massive, temporary, contract-worker regime in the Persian Gulf states; and the renewed reliance on an array of contract work schemes in Europe. Temporary migration schemes are notoriously difficult to manage. They may also pose a conflict among the rights of migrants and the interests of the host state and of those remaining at home. Yet it may be in the interests of all to ease the ability to recirculate. As Iara notes, the propensity to return home to Eastern and Central Europe has apparently increased alongside an increased possibility of migrating again to EU member states. It seems promising that Portugal, for example, has recently instituted a flexible visa, permitting re-entry within a three-year period. The United States is flirting with similar, more flexible programs, although with some strong limitations.

FOREIGN DIRECT INVESTMENT

Despite the extensive empirical research, there have been few robust policy conclusions on the impact of foreign direct investment (FDI) on development. There are many reasons for this state of affairs, especially data inadequacies and methodological hurdles. Both Gorg and Greenaway (2004) and Lipsey and Sjöholm (2005) question the tendency of researchers to focus, at least initially,

of FDI's impact on growth and to rely on cross-country data (see for example, Borensztein, De Gregorio and Lee 1998). Apart from issues of quality and consistency, the use of cross-sectional data to detect a dynamic relationship is questionable, as is the presumption that the relationship is the same for all countries. Moreover, the obvious association between rapidly developing countries and large inflows of FDI immediately raises the specter of omitted variables and the question of the direction of causation – from FDI to growth, from growth to FDI or from each to the other.

Recent efforts to resolve some of these difficulties using time-series data point to a two-directional relationship. In a three-country study, Chowdhury and Mavrotas (2006) find a two-directional relationship in two of the countries, while Hansen and Rand (2006) also find a two-directional relationship in a sample of 31 developing countries. Such results are perhaps not surprising. A country's development policies, institutions, human capital, and so on can be expected to influence overall growth and FDI inflows in the same direction. These time-series results, however, will surely be subject to further testing and may be rejected or confirmed. But, even if we have well-substantiated evidence of the magnitude and direction of the relationship between FDI and growth, how useful is such knowledge? To be sure, characterizing the broad relationship is a valuable first step, but it says nothing about key questions: How does FDI affect development within a particular country? Which FDI channels may affect development? Which policies might strengthen positive effects and offset negative ones?

Thus we need research which complements the analysis of aggregate relationships and deepens and enriches it by exploring the phenomenon in particular country contexts, by investigating possible channels through which FDI may influence variables of interest, and by examining the role of specific policies in promoting or modifying FDI flows. Part Three of the book includes three chapters which illustrate the potential of this more focused approach. Chapter 8, by Chudnovsky, López and Orlicki, demonstrates how research focused on a single country – Argentina – reveals more transparently the nature of FDI's affects on different dimensions of development and presents a more comprehensive picture. In Chapter 9, Coupé, Orlova and Skiba turn their attention to policy instruments which could influence the flow of FDI. They examine the impact on FDI inflows of two instruments – double taxation treaties and bilateral investment treaties. Then, in Chapter 10, Oryshchenko narrowly focuses on the accumulation of human capital, one of the most frequently cited vehicles for the transmission of FDI impacts.

The sharper focus of these studies yields results which are more useful and insightful. Furthermore, they are more rigorous in three important respects. First, data are selected with a specific purpose in mind and are therefore more

appropriate to the task at hand. Second, the narrower focus of these studies allows the researchers to deal more thoroughly with the methodological issues. Finally, the research in these studies has been carried out by researchers from the country or region being investigated. This, a hallmark of all GDN-supported research, brings local knowledge and insight to bear on the issue under investigation. The findings of the three FDI chapters illustrate the benefits of a more focused approach.

Numerous channels of potential FDI impact have been explored to varying degrees in the literature, such as improvements in productivity, increases in employment, changes in skill composition, expansion of trade, wage effects and higher rates of innovation. In studying these effects, the literature makes an important distinction between direct ones, those observed within foreign-owned firms, and indirect ones, those spilling over to domestically owned firms. The latter are of considerable importance since, if they exist, they would indicate a more general, economy-wide impact, but the empirical evidence has not been overwhelmingly supportive.

Chudnovsky, López and Orlicki investigate a broad range of direct and indirect effects in the specific context of Argentina during the period 1992–2001, when the country received more than \$70 billion in FDI. Their chapter presents one of the most comprehensive, country-specific assessments of FDI to date. The authors adopt the basic approach of impact evaluation in that they conduct a difference-in-differences analysis. That is, they estimate the changes experienced by firms subject to foreign takeover during a particular period and compare them with the changes experienced by similar domestically owned firms in the same period. The difference in the two sets of experiences measures the effect of the foreign takeover. The logic behind this procedure is that if shocks to firms in the control and treatment groups can be assumed to be similar, the change in the control group represents what would have happened to firms in the treatment group had they not been taken over, provided spillover effects are insignificant or else controlled for in some appropriate fashion.

Using data from two firm-level surveys in the manufacturing sector, the authors report a series of robust results indicating strong direct effects. The largest changes are with respect to trade, a result inline with that reported for other country-specific research. Thus, exports are estimated to increase by over 200 per cent and imports by over 100 per cent following foreign takeover, with the effect gradually building with the passage of time. Turning to labor-related effects, the authors detect no impact on overall levels of employment but find that the composition of employment changes, with the share of skilled labor increasing by about 20 per cent. They do not detect any effect on wages in general but do find that the skill premium increases. This latter result, together

with their finding of an increase in the share of skilled employment, suggests a worsening of the wage distribution, an outcome confirmed by their results.

Some of the most interesting results relate to productivity and innovation, since impacts here would imply current or future increases in output. These results are also positive, with current labor productivity increasing by almost 20 per cent and the probability of introducing new or improved products or processes also increasing after foreign acquisition. These results are consistent with a positive relationship between FDI and growth but, since they are confined to firms which have been taken over by foreign owners, their aggregate impact depends on the relative size of such firms in the economy and the extent of spillovers to domestic firms. In the case of Argentina, transnational corporations account for over half of the 500 leading firms and about 80 per cent of total production value. So the direct effect could be expected to show up in aggregate growth. And of course the effect would be stronger if there are spillovers to domestic firms.

The authors explore both horizontal spillovers, those occurring among competitors as they respond to the presence of foreign-owned firms, and vertical spillovers through backward linkages occurring in firms that supply foreign-owned firms. The results are easily summarized. The authors find no evidence for spillovers, either horizontal or backward, for trade, employment or productivity. They do however find some evidence of spillovers with respect to innovation for supplier firms. Apart from this, the authors conclude that the impacts of FDI are largely confined to foreign-owned firms with little carry-over to domestically owned ones.

The results presented thus far suggest that FDI's impact on poverty may materialize in the long run through increases in overall growth, but its short-run impact is likely to be limited for two reasons. First, any impacts seem to be confined to the foreign-owned firms, whereas the bulk of the poor are almost certainly engaged outside this enclave. And second, even among foreign-owned firms, the effects documented for the case of Argentina work mainly to the benefit of skilled labor both through the share of skilled labor in total employment and the skill premium. In an interesting extension of their research reported in a longer version of the chapter presented here, the authors use a simulation model to assess FDI's impact on poverty via its effect on wages and employment. The impact on the poor is virtually zero. Thus, if FDI is to have any effect on poverty, it will have to come through the indirect effect of higher growth in the economy rather than through a direct and immediate effect in the labor market. This and the other results from this analysis demonstrate the value of an in-depth case study, especially one drawing on such a rich, hitherto unexploited dataset.

Chudnovsky, López and Orlicki examine several possible effects of FDI in the case of Argentina. Demonstrating the likely effects of FDI in a specific country allows us to assess FDI's probable impact on poverty in the short run, and this is tremendously useful. At the same time, this approach cannot tell us – nor is it designed to tell us – how these effects are manifested. What do foreign firms do differently which could result in some of these effects? For example, Chudnovsky, López and Orlicki find that FDI increases the share of skilled labor in total employment. How is this brought about? Perhaps recruitment policy plays a role. If so, this would draw scarce human capital from other parts of the economy. Or, perhaps it is through training, in which case foreign firms would create new human capital. Chapter 10 by Oryshchenko focuses directly on the extent to which foreign ownership of firms results in more training.

Relying on the Business Environment and Enterprise Performance (BEEP) surveys, that cover 27 countries in Eastern Europe, the former Soviet Union and Turkey, Oryshchenko concludes that foreign ownership is not associated with additional training for skilled, unskilled and support workers and may even have a negative impact on the quantity of training. His evidence suggests that, if foreign firms acquire more skilled labor, they do so through external recruitment rather than internal training.

The methodological route to this conclusion, however, twists and turns and attests to the importance of careful, issue-focused research. In an initial attempt, Oryshchenko used one cross-section from the BEEP surveys, that for 2002 containing 6,667 observations. The ordinary least squares estimator suggests that foreign ownership increases the amount of training provided, especially for managers. Thus, a 1 per cent increase in foreign ownership of a firm increases training for managers by 0.14 per cent but falling to 0.04 per cent for unskilled workers. The author notes, however, that training and foreign ownership may be influenced by common factors. He therefore switches to a fixed-effects model to control for at least some of the unobserved factors influencing a firm's decision to both attract more foreign investment and to increase training. The pseudo panel analysis using data from the 2002 and 2005 surveys suggests that the impact of foreign ownership is either negative or insignificant.

While all three chapters dealing with FDI in this volume have implications for policy, Chapter 9, by Coupé, Orlova and Skiba, focuses directly on selected policy instruments. In this respect, efforts to improve infrastructure, governance and human capital in recipient countries are frequently mentioned. All are surely important, but all take time. Attention has therefore shifted to policy measures which, even if they cannot be implemented at a stroke of a pen, may be implemented in a matter of years rather than decades. Prime

among these are bilateral treaties dealing with issues of double taxation and the protection of foreign investment.

The general presumption that such treaties do in fact encourage FDI has not been subject to much empirical testing, and the little research that has been undertaken has not universally confirmed this relationship. Bilateral investment treaties are specifically intended to promote and protect investments from one country located in another country and have proliferated in recent years, increasing fivefold between 1990 and 2004. Research which looks at the impact of an agreement between one developed and one developing country on the flows of FDI from the former to the latter usually finds no effect, whereas research which looks at the impact of the same agreement on flows of FDI to the developing country from all developed countries, presumably because of a signaling effect, typically finds a positive effect. The even smaller quantity of research on tax treaties provides little support for a positive impact on FDI. This result, however, is less surprising, because tax treaties could promote investment by reducing uncertainty about tax treatment or reduce it by eliminating opportunities for transfer pricing or other forms of tax evasion.

The chapter by Coupé, Orlova and Skiba presents perhaps the most comprehensive testing of the impact of investment and tax treaties on FDI. Among other improvements over past work, they investigate both types of treaty simultaneously, and they deal explicitly with the issue of endogeneity. The authors estimate a traditional gravity model adapted to the analysis of FDI and conduct three sets of regressions: pooled ordinary least squares, panel estimation and instrumental variables estimation. The last deals with the issue of endogeneity – the concern that countries with larger FDI flows may also be more likely to enter bilateral agreements. The authors use as their instrument the number of treaties the FDI-receiving partner to a bilateral agreement has entered into with countries other than the FDI-sending partner to the agreement, plus the number of treaties the latter has entered with countries other than the former, on the grounds that the resulting measure of propensity to enter agreements should reflect willingness to enter a new agreement but should not affect FDI flows between the two partners to the new agreement.

The authors analyze FDI flows from 17 OECD countries to nine countries of Eastern Europe and the former Soviet Union for the period 1990–2001, a very busy period for agreements. Their results, robust across all specifications, indicate that bilateral tax treaties do not have a positive impact on FDI flows, whereas investment treaties have a significant and quantitatively large positive impact. Indeed, some specifications indicate an increase in FDI flows between the two contracting parties in excess of 40 per cent. Moreover, using an interaction term involving the investment treaty dummy and a measure of the host country's institutional strength, the authors show that an agreement

can serve as a substitute for local institutional capacity in that the effect of an agreement is stronger in counties with weak institutional capacity. Finally, the results show that the impact of the agreement occurs only once it is ratified; signing is not sufficient. These are persuasive results which, even if they hold only partially in other parts of the developing world, provide a strong signal to governments as to where they should focus their efforts.

AN AGENDA FOR FUTURE RESEARCH

The research reported in the volume is too limited to draw any general conclusions. Each chapter, however, provides valuable insight into the impact of specific policies (bilateral investments agreements, non-tariff barriers and so on) implemented in the OECD countries on development in other parts of the world, insight into the channels (training, in the case of FDI) through which the impact occurs, and insight into various measures of development impacts (productivity, consumption, human capital accumulation and so on). Each is valuable in its own context precisely because each deals specifically with a local context. The message of the volume is that this type of locally driven research is the most fruitful way to generate new knowledge about the impact of rich countries' policies on development. Moreover, such research is the proper path to generalization. Through the accumulation of such studies for different pairs of OECD policies and affected counties, knowledge can be built up from the bottom, where context is given due weight, to arrive at new and better-informed generalizations about the aggregate impact of OECD policies on development. Thus, such research informs the local policymaker immediately and the compilation of such studies informs the OECD policymaker over time.

NOTES

1. WTO, 'Investment, Competition, Procurement, Simpler Procedures', at http://www.wto.org/english/thewto_e/whatis_e/tif_e/bey3_e.htm.
2. Ibid.
3. WTO, 'Movement of Natural Persons', at http://www.wto.org/english/tratop_e/serv_e/movement_persons_e/movement_persons_e.htm.
4. See, e.g., Anderson and Neary (1996, 2005) and their empirical counterparts under the rubric of applied general equilibrium models, Whalley and Thomas (1998), Kehoe (2005) and Hertel and Winters (2005).
5. WTO, 'Regional Trade Agreements', at http://www.wto.org/english/tratop_e/region_e/region_e.htm.

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