

U. S. International Trade Commission Report to the GTAP Advisory Board

for

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The United States International Trade Commission (USITC) uses the GTAP database and model to analyze and assess the potential impacts of trade and FDI policies, in response to requests from the United States Trade Representative (USTR) and Congress.

In collaboration with Peter Dixon and Maureen Rimmer from the Center of Policy Studies (CoPS), Victoria University, the USITC continues work on the highly detailed dynamic USAGE-ITC model. The USAGE-ITC model is currently fitted to the latest available input-output table for the United States. The USAGE-ITC model is easily linkable to the GTAP model, and offers interested parties a U.S. model with powerful capabilities. In June 2016, Peter Dixon and Maureen Rimmer will give a short course at the USITC on the use of the model.

The following USITC public studies or papers by USITC economists completed since May 2015:

Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors, Investigation No. TPA-105-001, USITC Publication 4607, May 2016.

In accordance with section 105(c) of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015, this report, by the U.S. International Trade Commission (Commission or USITC), assesses the likely effects of the Trans-Pacific Partnership Agreement (TPP, TPP Agreement, or the agreement) on the U.S. economy as a whole and on specific industry sectors. It encompasses TPP's impact on the United States' gross domestic product (GDP), exports, and imports; U.S. aggregate employment and employment opportunities; the production, employment, and competitive position of U.S. industries likely to be significantly affected by TPP; and the interests of U.S. consumers. The report also reviews other assessments of TPP's economic effects available in the literature, and discusses areas of consensus and divergence between the Commission's analyses and conclusions and those in the literature reviewed. The report uses a dynamic version of the GTAP model with a projection to 2047 as well as the GTAP-FDI model developed at the Commission.

Overview of Cuban Imports of Goods and Services and Effects of U.S. Restrictions, Investigation No. 332-552, USITC Publication 4597, March 2016.

This report examines Cuban imports of goods and services from 2005 to the present; the effects of U.S. restrictions on trade with and travel to Cuba; and Cuban nontariff measures, institutional and infrastructural factors, and other barriers that may inhibit or otherwise affect the ability of firms to conduct business in and with Cuba. It also presents a qualitative and quantitative sectoral analysis of potential U.S. exports of goods and services to Cuba in the event that U.S. restrictions are lifted and Cuban import barriers are reduced.

Obstacles to International Trade in Natural Gas, Publication No. ID-043, Andre Barbe and David Riker, December 2015.

Abstract: Obstacles to international trade in natural gas include factors such as transportation costs, non-competitive pricing, thin markets, risk, restrictive contracts, and government trade restraints. These obstacles are currently quite substantial, however, there is evidence that they are loosening. This paper estimates the impact that these obstacles have on trade and what the effect of eliminating them would be. This is accomplished by comparing actual natural gas trade to an econometrically-estimated counterfactual case where there are no obstacles to trade. Our model estimates that the volume of international trade in natural gas would slightly more than double if these obstacles did not exist. Current natural gas net exporting countries would greatly reduce domestic consumption. By contrast consumption would increase slightly in countries with no current natural gas consumption. However, the bulk of the consumption increases would occur in large economies that currently have to import most of their natural gas.

Services Trade Restrictions and Company Profits: Telecommunications, Publication No. ID-042, Tamar Khachaturian Office of Industries, USITC, November 2015.

Abstract: This paper examines the effect of trade barriers on telecommunications companies' profit margins using both one-step and two-step estimation methods. The main finding of this paper is that barriers to entry inflate the profits of incumbent companies, a result which is fairly robust across estimation methods. Additionally, there is some evidence that the effect of trade policies on firm profits is related to firm characteristics. However, further research is necessary to improve modeling of profits in the telecommunications industry.

A Survey of Empirical Models of Labor Transitions Following Trade Liberalization, Publication No. 2015-09-A, David Riker, Office of Economics, USITC, William Swanson, Office of Economics, USITC and University of California Davis, September 2015.

Abstract: In this article, we survey recent empirical studies that explain why labor markets adjust slowly after a country reduces its barriers to trade. The models that we cover are technically complex: they simulate the economy-wide transitions that result from the employment decisions of individual workers who face costs of moving between sectors, loss of the usefulness of their sector-specific experience, and many types of uncertainty. The adjustment costs in the models vary across types of workers, and the speed of adjustment varies across the countries studied and the modeling assumptions adopted. We present these technical models in a relatively non-technical way. We summarize the similarities and differences in the assumptions and findings of the different studies.

The Exports of U.S. Cities: Measurement and Economic Impact, Publication No. 2015-09B, Jennifer Ferris, Office of Economics, USITC, and Duke University, David Riker, Office of Economics, USITC, September 2015.

Abstract: This research note examines data on the value of U.S. exports that are attributed to specific metropolitan areas. We discuss how metropolitan area exports are measured and summarize patterns in the data. Then we turn to the question of economic impact, specifically whether the amount that a city exports has a positive impact on wages in the local labor market. We estimate an econometric model of the average weekly earnings of individual U.S. workers using data from the Current Population

Survey in 2014. The model indicates that workers in relatively export-intensive metropolitan areas have significantly higher earnings, even after controlling for the human capital and demographic characteristics of the individual workers. The estimated magnitude of the impact on wages varies across the metropolitan areas and depends on the measure of metropolitan area exports in the econometric model.

The Impact of Educated Labor on Technology Adoption and Comparative Advantage, Publication No. 2015-08-A, Serge Shikher Office of Economics, USITC, August 2015.

Abstract: Productivity differences across countries and industries play a major role in explaining international trade. But, what is behind these productivity differences? This paper finds that labor with post-secondary education and especially labor with an equivalent of an Associate's degree is the main determinant of productivity because it enables technology adoption. I use a variant of the principal component analysis called Singular Value Decomposition to break down productivity differences into country- and industry-specific components. This approach turns out to be successful empirically, in contrast to the previous evidence on the Heckscher-Ohlin model. I consider several candidates to match principal country- industry-specific components of productivity: physical capital, labor with various levels of education, and institutions. I find that labor with tertiary education is the best match. Analysis of the data on foreign technology licensing also leads to the conclusion that it is educated labor rather than institutions that is the main cause of productivity differences. Evidence on occupations and technology licensing shows that the main function of labor with tertiary education is to enable technology adoption. Based on this evidence, I develop a model in which comparative advantage is endogenous and technology adoption is driven by highly educated labor. I show that this model does a good job explaining comparative advantages.