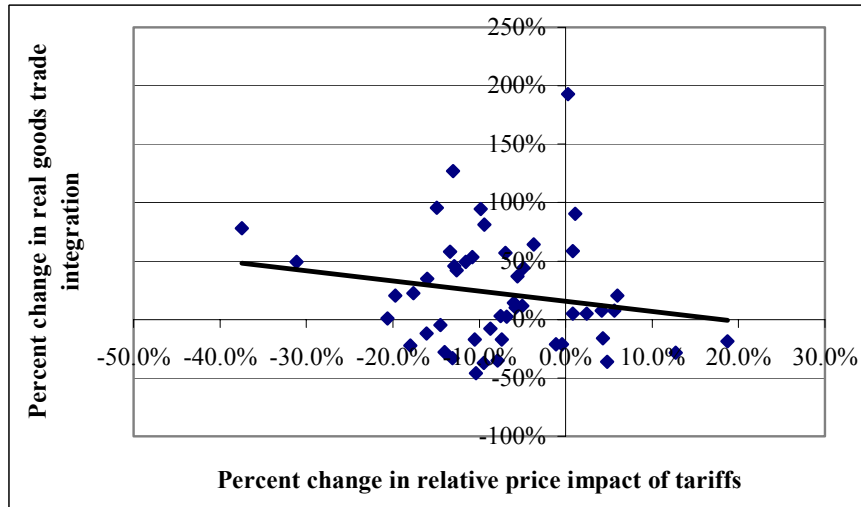


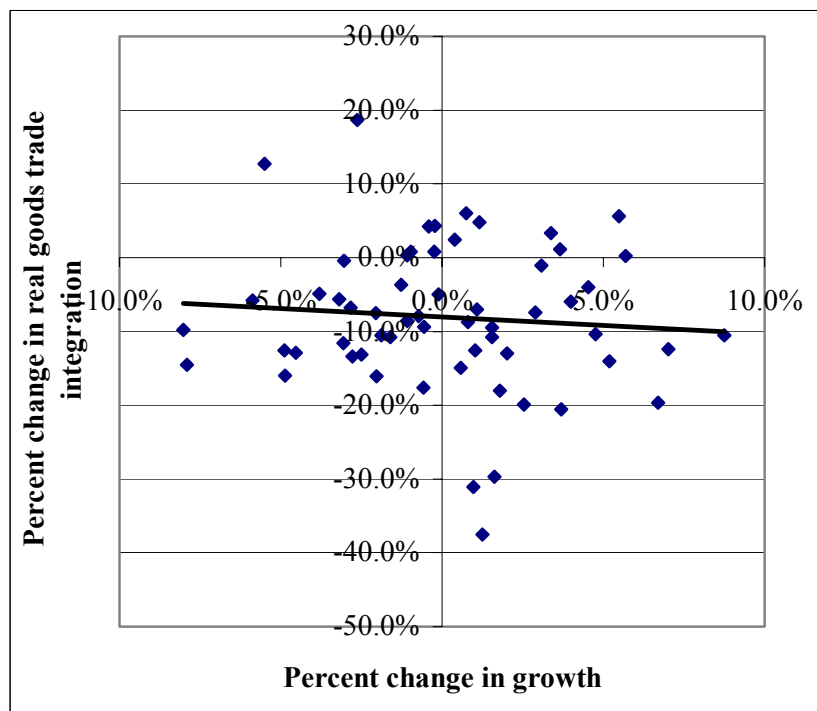
Notes for Lecture 26

Figure 1. Real goods trade integration and tariffs, 1990-2000



Note: the changes are for the 10-year period 1990-2000, not per annum.

Figure 3. Tariffs and income, 1990-2000



Annex 2. Cross country empirical analysis of determinants of real export growth in the 1990s

A host of potential explanatory variables were regressed on real export growth of developing countries for the period 1990-2000 to identify the determinants of export performance in the 1990s. The explanatory variables are, or reflect:

- (i) macroeconomic stability, including the volatility of the real effective exchange rate (REER), as expressed by the standard deviation of the REER; the spread of the REER (maximum less minimum REER); and average inflation, interchangeably;
- (ii) percentage change in statutory tariff rates between the early 1990s and the late 1990s;
- (iii) the extent of financial sector development (average M2/GDP over 1990-2000);
- (iv) FDI as a share of GDP (average for 1990-2000);
- (v) transport cost as a percent of the value of exports (proxied by the ratio of CIF to FOB imports into the U.S., based on data from the U.S. Census);
- (vi) landlockedness;
- (vii) infrastructure development, including the number of telephone main lines per 1000 people, average in 1990-92; and paved roads as a percent of total roads;
- (viii) perceptions of governance including voice and accountability, political stability, regulatory quality, rule of law, control of corruption, and government effectiveness.

Of the above list of explanatory variables, three were found to be consistently significant in the many regressions ran. These were: macroeconomic stability (all three indicators); percentage change in statutory tariff rates; and perceptions of government effectiveness. Annex Table 1 below presents the regressions with the significant explanatory variables.

Annex Table 1. Determinants of real export growth, 1990-2000

	(1)	(3)
Average inflation		-0.001 (-3.09)***
Std deviation of REER	-0.026 (-2.56)**	
Spread of REER		
Relative price change arising from tariff changes	-3.241 (-3.04)***	-3.223 (-2.70)***
Government Effectiveness		0.504 (1.90)*
R-squared	0.13	0.15
No. of observations	49	48

Notes: t-statistics in parenthesis; ***, ** and * represent 99%, 95% and 90% confidence levels, respectively.