

Trade and Development

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Outline

- Twenty years ago, most of the literature focused on international trade and FDI.
 - empirical literature showed that trade induces large productivity gains but those are not always widely distributed.
- Recent work focuses on within-country trade and spatial frictions.
 - trying to understand which frictions prevent gains from trade to reach a wide share of the population in developing countries
 - specially in regions with a comparative advantage in agriculture such as Africa and Latin America

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 - 2 exogenous changes in market size generated by trade liberalization episodes
- Consensus view: international trade leads to productivity gains
 - 1 reallocates market shares towards more productive firms (exporters)
Tybout 2000, Pavcnik 2002, McCaig and Pavcnik 2018
 - 2 export opportunities induce firms to upgrade technology, quality, and skills
Verhoogen 2008, Bustos 2011, Aw, Roberts and Xu 2011
 - 3 imports of new varieties of intermediate goods induce product innovation
Goldberg, Khandelwal, Pavcnik, Topalova 2010
 - 4 but also increased markups
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- A natural question at this point is to what extent these mechanisms documented at the firm level had positive effects on workers in developing countries.

Trade and worker welfare

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 - However, this approach missed GE effects, as wages are not determined at the sector-level when workers reallocate across sectors.

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- Variation in tariffs across local labor markets with different specialization
 - Topalova (2010) found that trade had negative effects on employment and income for rural workers in India.
 - Dix-Carneiro and Kovak (2017) found negative effects of trade on wages and employment in Brazil.

Aside on methods

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- Variation in trade policy across countries and time
 - Goldberg and Reed (2023) show that integration into world markets is positively related to sustained poverty reduction in the last 40 years.
 - sustained poverty reduction episodes are often preceded by fast export growth, but not by agricultural productivity growth.

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 - Closed-economy models of structural change: fast productivity growth in agriculture can generate demand for manufacturing and services (Murphy, Shleifer, and Vishny (1989)).

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 - Closed-economy models of structural change: fast productivity growth in agriculture can generate demand for manufacturing and services (Murphy, Shleifer, and Vishny (1989)).
 - However, in open economies a comparative advantage in agriculture leads to specialization in this sector and imports of manufacturing goods (Heckscher-Ohlin).

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- Lower growth
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- Higher inequality

- if markups imply that most of the gains from trade go to intermediaries, specially in less competitive remote markets (Ethiopia and Nigeria)

(Atkin and Donaldson 2015)

- if new agricultural technologies are labor-saving, thus income gains tend to be concentrated in the hands of land owners (Brazil)

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→ Demand-side policies:

→ Redistribution of the gains from primary sectors can generate a middle class that can sustain a transition to manufacturing and services.

→ Some Latin American countries have implemented policies in this direction, when were they successful?

Aside on methods

- Well known limitations to the local labor market approach
 - missing intercept
 - spillovers
- Still, useful to get a sense of size of effects
 - variation in employment across CZ estimated by Autor, Dorn and Hanson (2013) 10 times larger than implied by state of the art quantitative spatial model (Caliendo and Parro 2019)
- Spillovers can be included in the analysis as long as we have a measure of spatial links
 - Donaldson and Hornbeck (2016); Adao, Arkolakis and Esposito (2023); Borusyak, Dix-Carneiro, and Kovak (2023)
- Missing intercept only an issue if some effects are completely symmetric across regions or we can not measure them
 - Consumption gains were one typical example, however recent work has highlighted heterogeneous effects across the income distribution.
Fajelbaum and Khandelwal (2016).