
The Economics of International Development

Trade and the Rise from Poverty

May 16, 2006

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Trade and Per-Capita Income

Conventional wisdom

Trade leads to a shift in wealth:

- from workers and consumers to multinational corporations, and
- from developing nations to developed nations

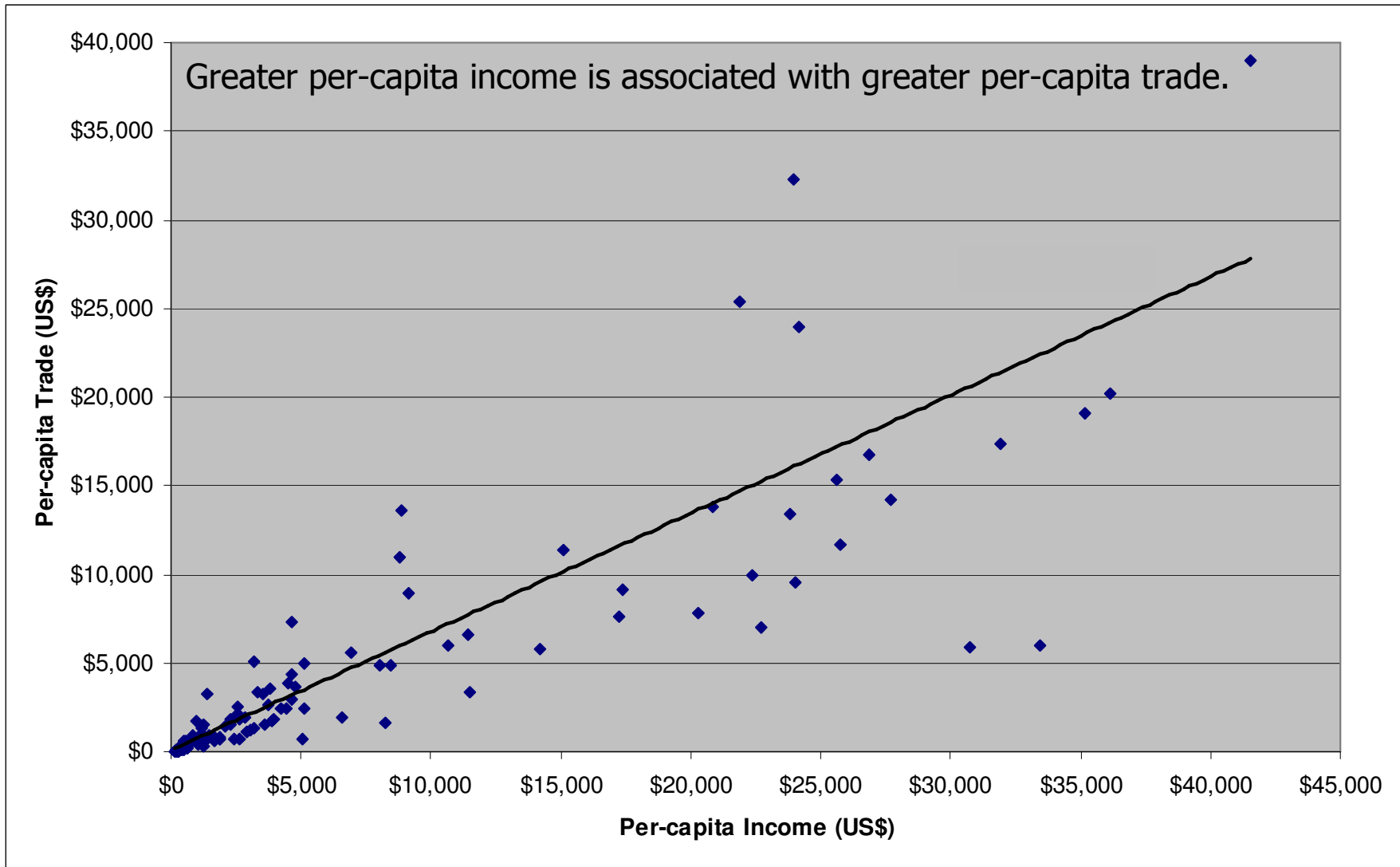
Rationale

- Workers in developed countries become unemployed as their jobs move abroad where labor is cheaper.
- Income generated in lesser developed countries accrues to developed countries because multinational corporations are owned by residents of developed countries.

Example

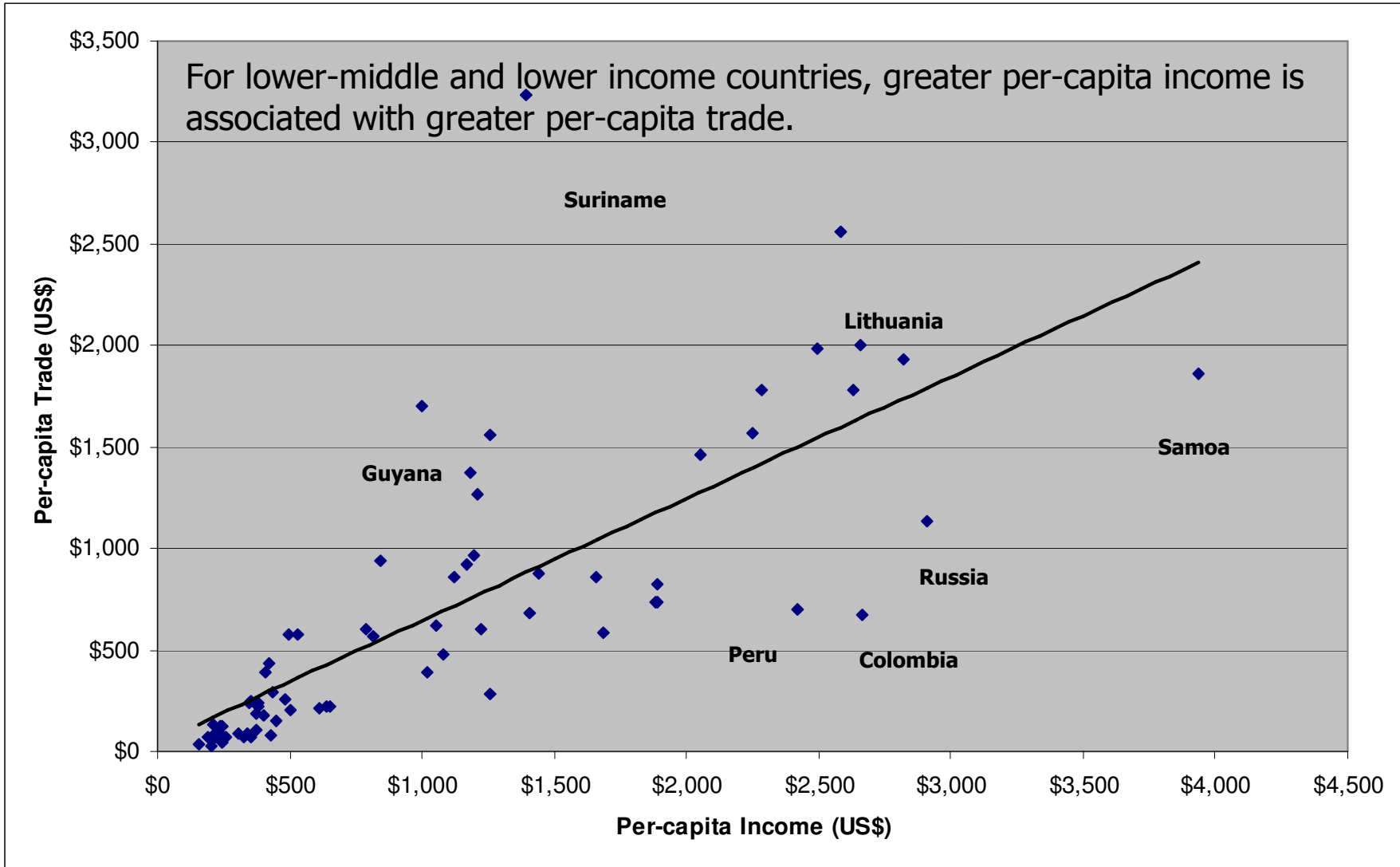
McDonald's is accused of preventing union formation and paying substandard wages in its restaurants abroad.

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Source: *International Financial Statistics*, International Monetary Fund, December 2001

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Source: *International Financial Statistics*, International Monetary Fund, December 2001

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Trade and Per-Capita Income

Data suggest

Higher levels of trade are associated with higher levels of per-capita income.

Supporting theory

Trade promotes specialization which results in

- More jobs as workers are hired to produce goods which leverage the country's human, environmental, geographic, and resource strengths,
- More available goods as currency earned via exports enables consumers to import more goods, and
- More infrastructure as foreigners see investment opportunities due to population's increasing purchasing power and productivity.

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Examples

Affiliates of US multinational firms pay a wage premium that ranges from 40% in high-income countries to 100% in low-income countries.

Workers in foreign-owned apparel and footwear factories in Vietnam rank in the top 20% of wage earners.

In 2000 at Nike factories abroad, annual wages were \$670 compared with an average minimum wage of \$134. In Indonesia, annual wages were \$720 compared with an average annual minimum wage of \$241.

In Mexico, firms that exported half of their product paid wages that were, at the low end, 11% higher than wages of non-export oriented firms. Firms that exported most or all of their product paid wages from 58% to 67% higher than wages of non-export oriented firms.

Source: Brown, Drusilla K., Alan V. Deardorff, and Robert M. Stern, "*The Effects of Multinational Production on Wages and Working Conditions in Developing Countries*," discussion paper no. 483, School of Public Policy, The University of Michigan, August 2002.

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Distribution of Income

Conventional wisdom

Trade results in a concentration of income so that the few benefit disproportionately to the many.

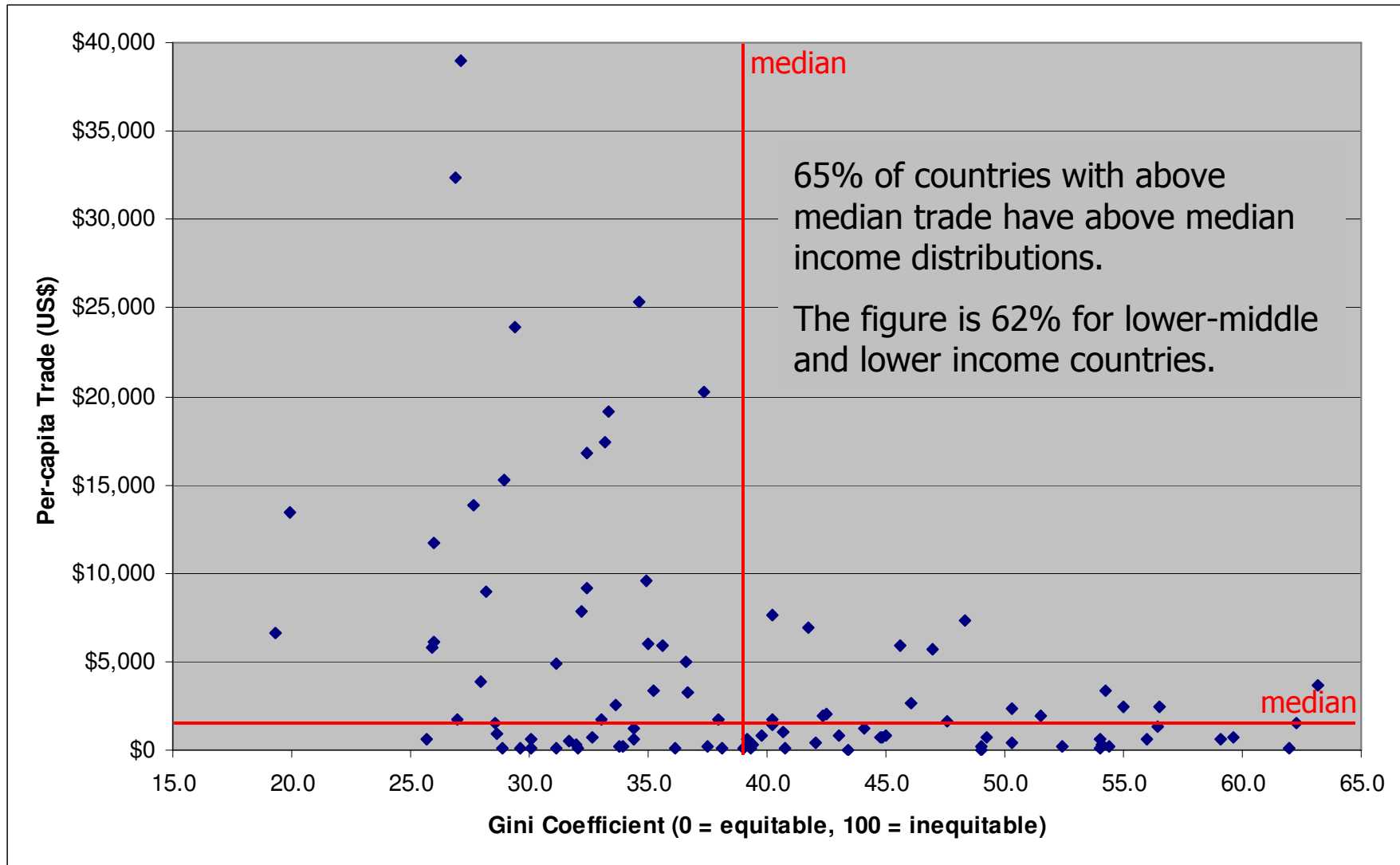
Rationale

The consolidation of economic power by the multinationals results in a concentration of more and more income in the hands of fewer and fewer individuals.

Example

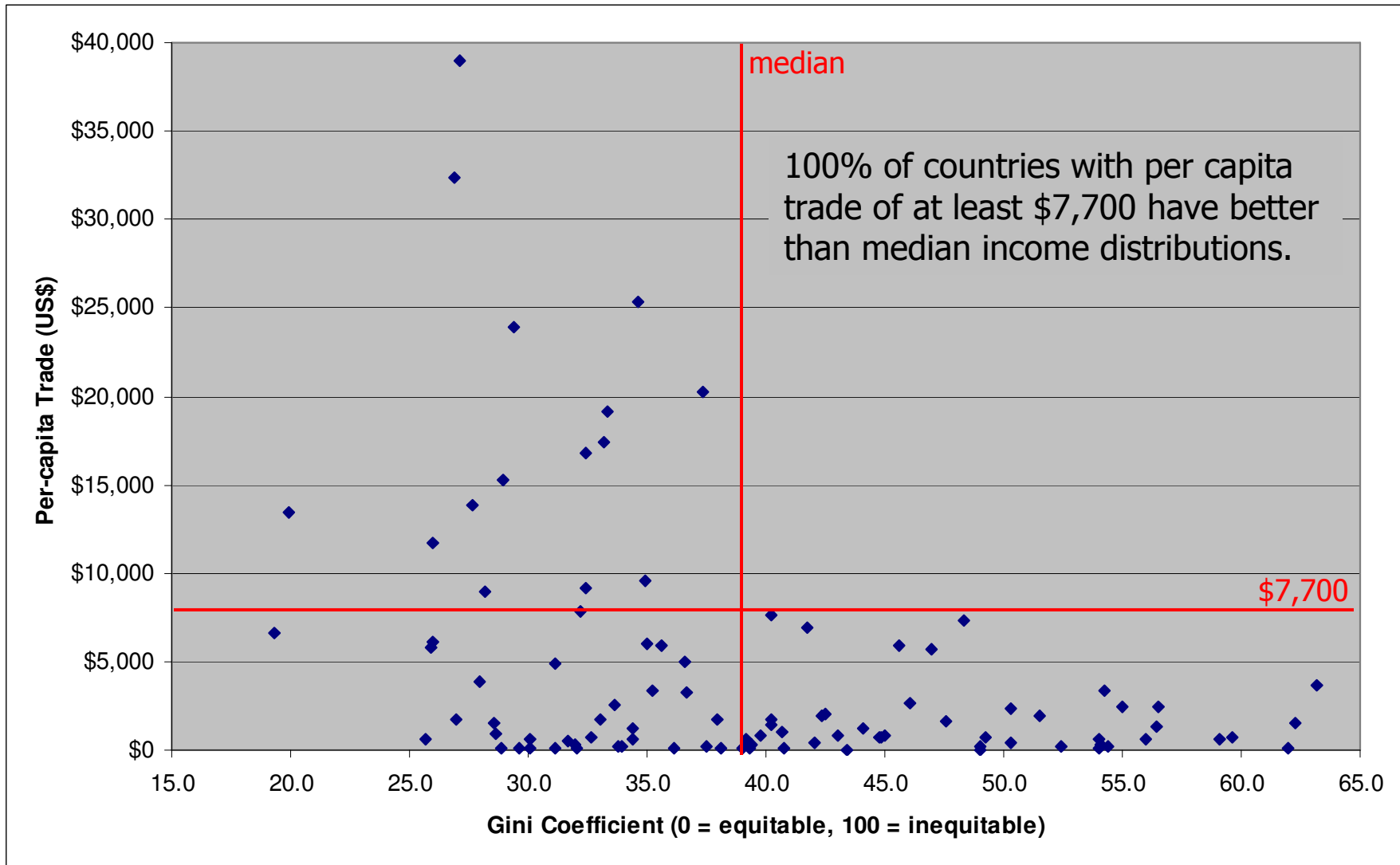
Bill Gates (\$41 billion). Sam Walton (\$25 billion in 1992).

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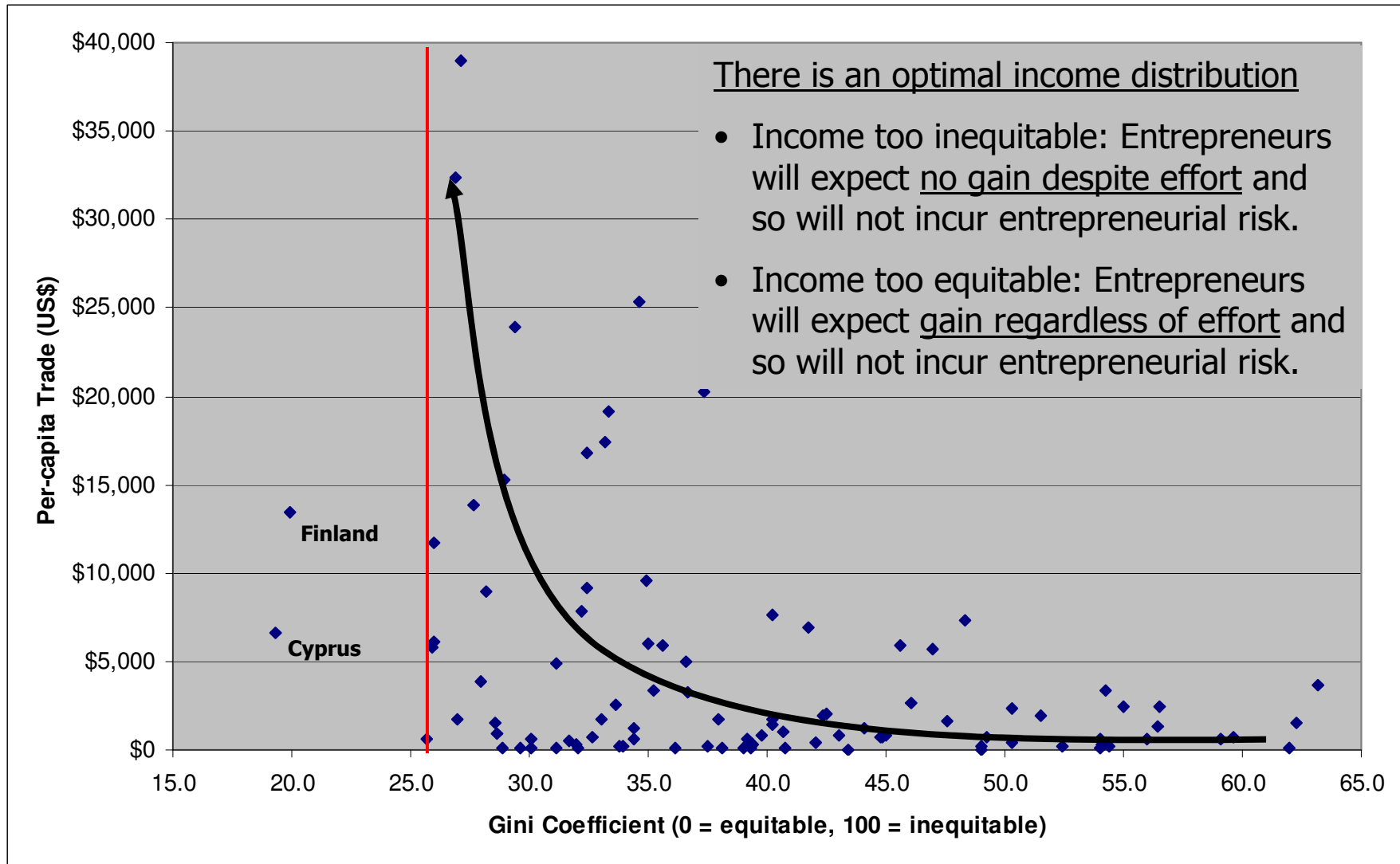
Source: *International Financial Statistics*, International Monetary Fund, December 2001, and *Measuring Income Inequality: A New Database*, Deininger, Klaus, and Lyn Squire, World Bank, 2002

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Distribution of Income

Data suggest

Higher levels of trade are associated with greater income equality within countries.

Supporting theory

More trade implies more economic opportunities:

- Producers see more opportunity to sell on new export markets, and
- Buyers are able to purchase at lower prices on new import markets.
- More economic opportunities implies more entrepreneurship.

More entrepreneurship leads to greater income equality:

- Entrepreneur creates jobs providing income for workers.
- Entrepreneur creates investment opportunities providing income for investors.

Example

Microsoft, Wal-Mart, Intel, Oracle, eBay, Dell

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The Environment

Conventional wisdom

Trade is bad for the environment.

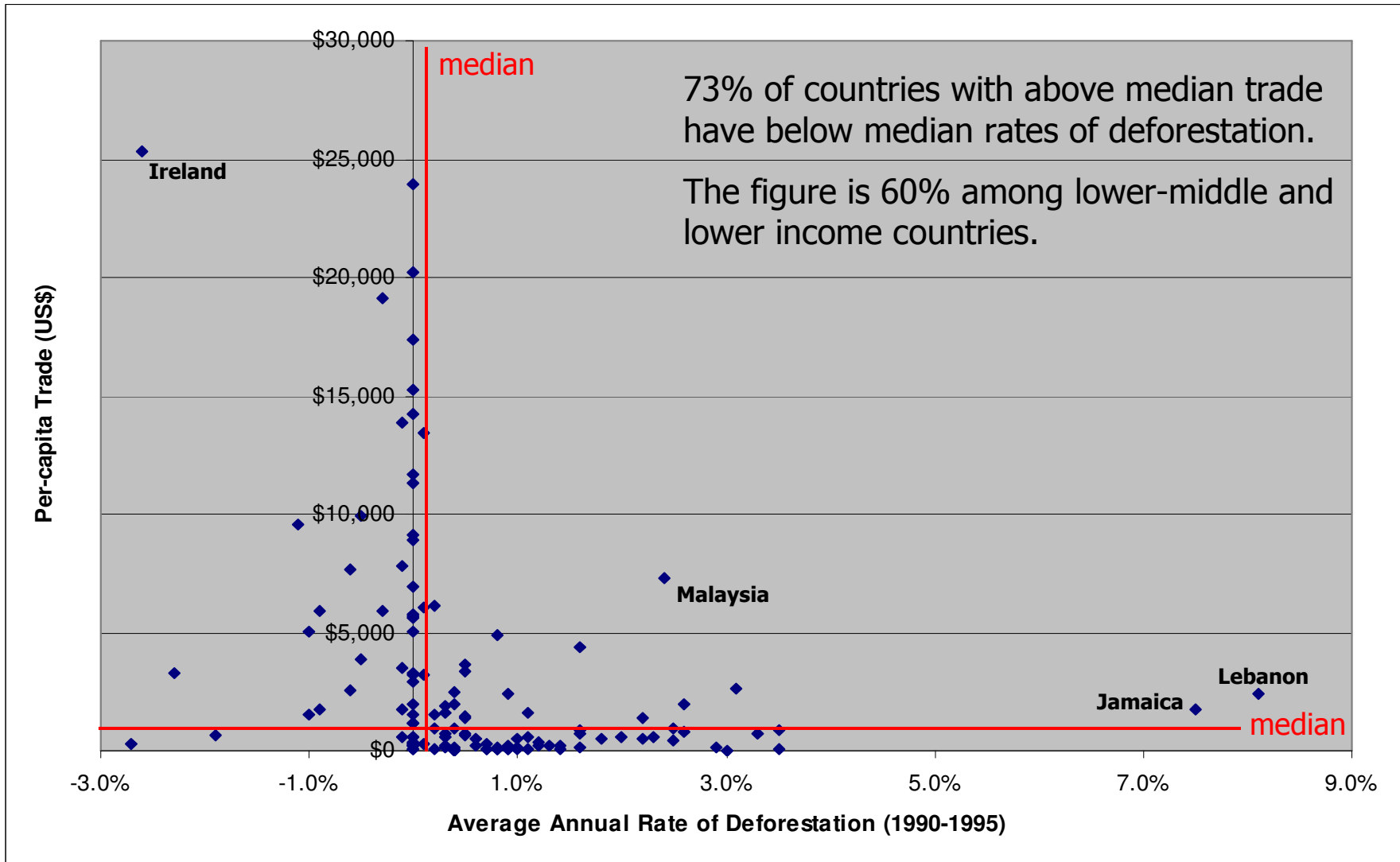
Rationale

Trade encourages firms in developed countries to exploit the environment in lesser developed countries.

Example

Rainforests.

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Source: *International Financial Statistics*, International Monetary Fund, December 2001, and *World Development Indicators*, World Bank, 2002

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The Environment

Data suggest

Higher levels of trade are associated with better environmental conditions.

Supporting theory

There is some optimal level of environmental “use.” Under utilization of the environment can be as bad (i.e. living without power, transportation, etc.) as over utilization (i.e. dead oceans, barren land, etc.).

Examples

Cows and elephants. Christmas tree farms.

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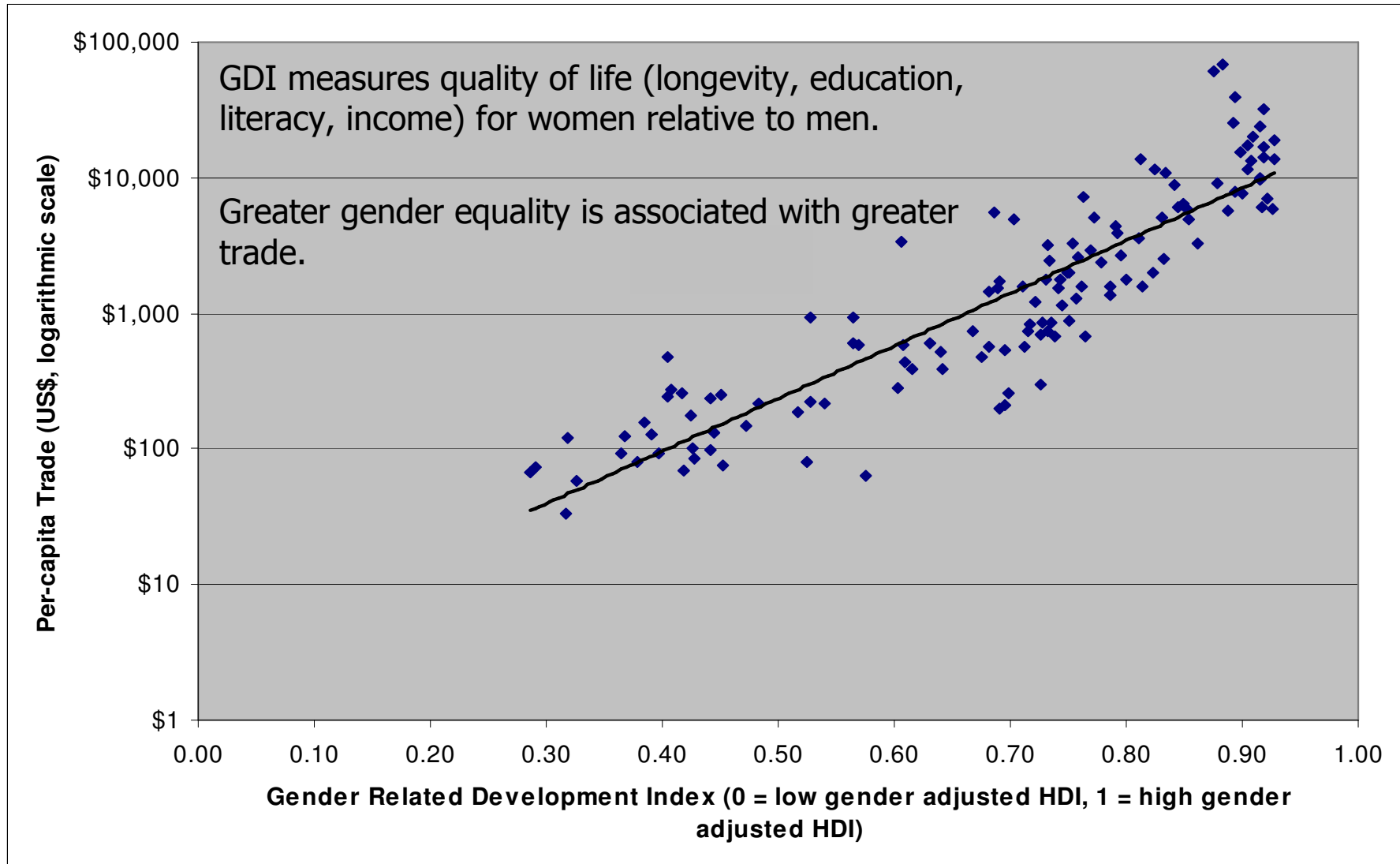
Gender Equality and Child Labor

Conventional wisdom

Because trade is founded on the premise of exploitation, gender inequality and child labor will worsen in the presence of trade.

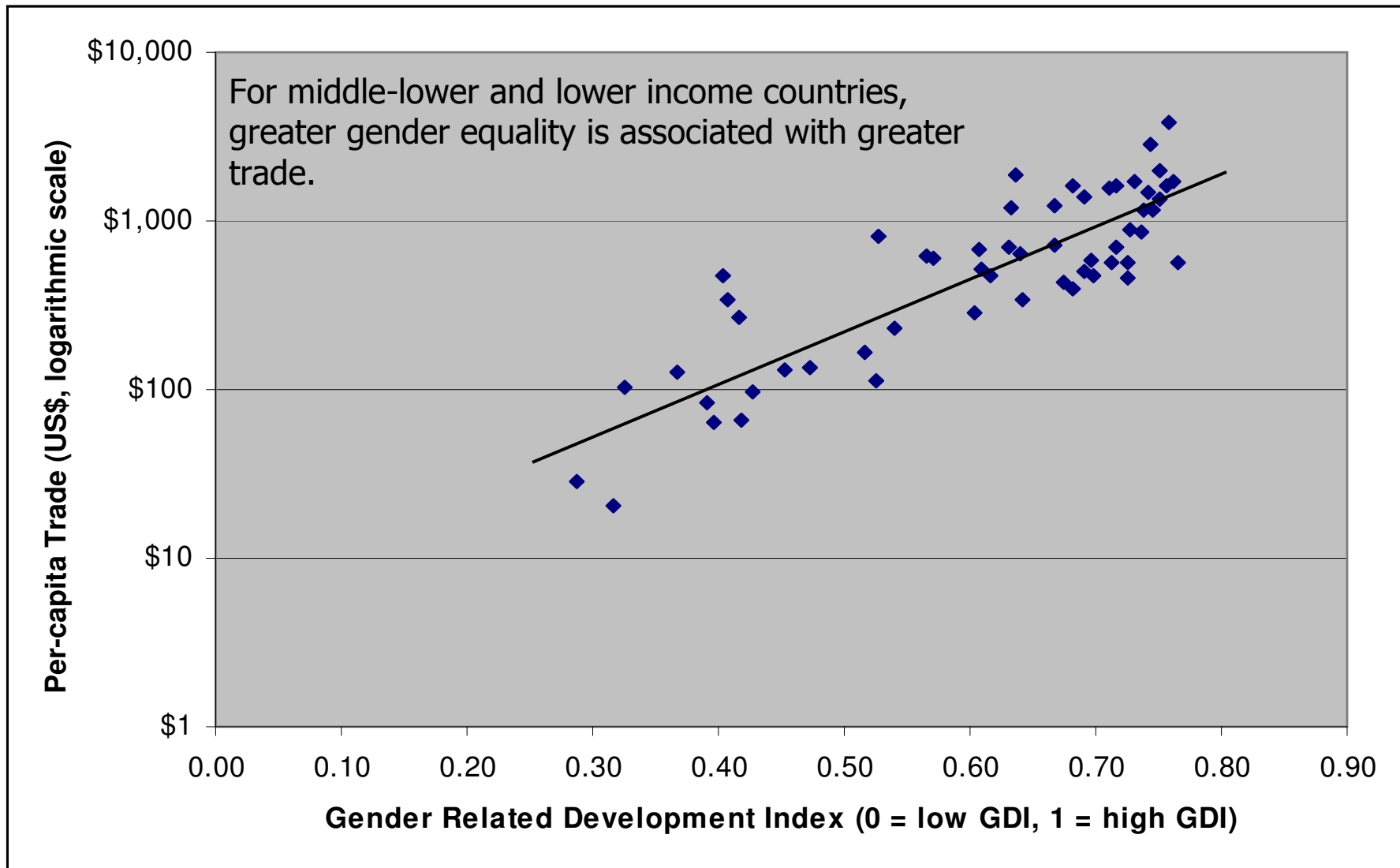
Rationale

Politically and economically weak demographic groups are least able to resist the consolidation of power that accompanies increased trade.



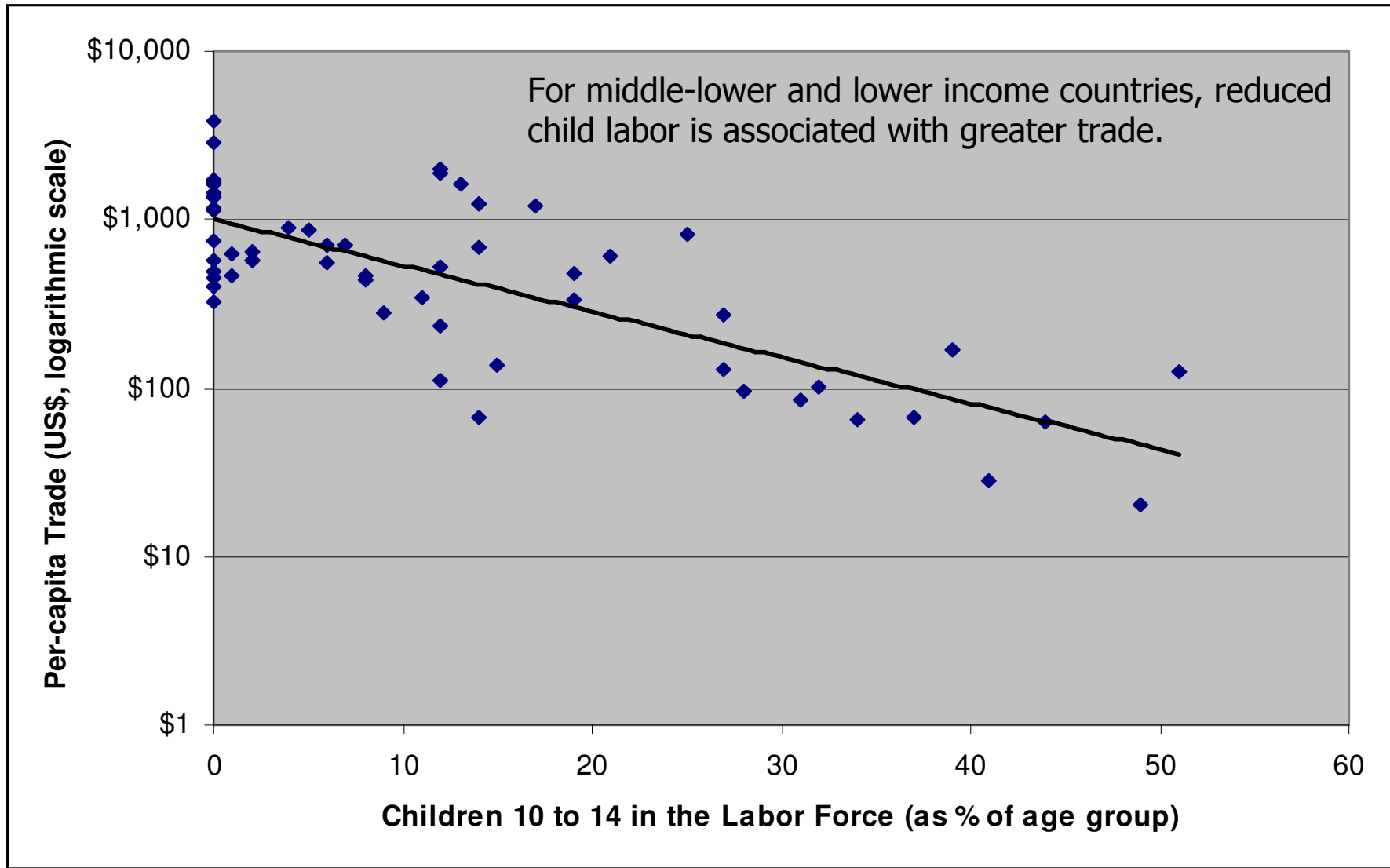
Source: *International Financial Statistics*, International Monetary Fund, December 2001, and *Human Development Report*, United Nations Development Programme, 2002

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Gender Equality and Child Labor

Data suggest

Higher levels of trade are associated with greater gender equality.

Supporting theory

Because trade decentralizes power and augments competition, demographic groups that would seek to dominate others are disempowered. Economic and political power accrue to those who provide the innovation, goods, and services that others desire.

Example

Historically, oppressed demographic groups have gained greater freedoms coincident with general economic gains: slavery in the US ends as industrial revolution waxes; women in the US attain suffrage as technological advances from industrial revolution reach into the home; the most repressive Islamic countries today are also among the poorest.

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Summary

Premise behind Anti-Trade Position

Trade encourages the consolidation of economic and political power in the hands of a few. This consolidation of power results in the exploitation of the weak by the strong.

Premise behind Pro-Trade Position

Trade encourages the dissemination of economic and political power as entrepreneurs are freed to leverage their countries' human, environmental, geographic, and resource strengths.

Data Suggest

Higher levels of trade are associated with a clear decentralization of economic and political power, both across and within countries.

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Summary

Example

The number of multinational firms (currently 40,000) is growing at twice the rate of the global economy → over time, multinational firms are becoming less, not more, economically powerful.

The number of democracies has doubled in the last 10 years and quadrupled in the last 30 years → over time, individuals are becoming more, not less, politically empowered.

Conclusion

In exercising political power, individuals vote by casting ballots. In exercising economic power, individuals vote by casting dollars.

Democracy puts political power in the hands of individuals so that they can pull themselves out of political poverty.

Trade puts economic power in the hands of individuals so that they can pull themselves out of economic poverty.

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