

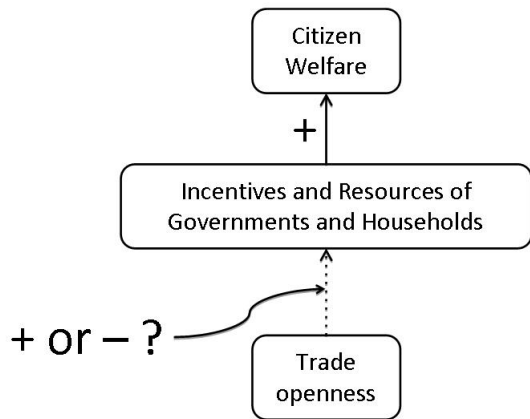
# TRADE AND HUMAN DEVELOPMENT: A RACE TO THE BOTTOM OR THE TOP?

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## WHAT IS THE REALITY?



# HAS GLOBALIZATION GONE TOO FAR?

[E.G., STIGLITZ, RODRIK]

- Trade openness might DECREASE resources and incentives of households and governments:
  - ▶ Increases capital mobility  $\Rightarrow$  limits the ability of governments to tax capital
  - ▶ Erodes revenue from taxes on trade (on which many developing countries depend)
  - ▶ Limits industrial policy  $\Rightarrow$  Locks in existing comparative advantages
  - ▶ Increases wage instability and decreases labor power

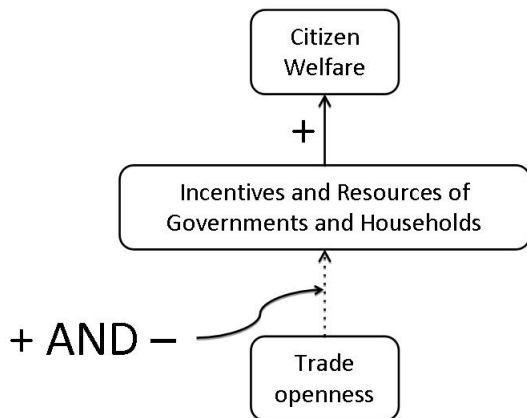
# HAS GLOBALIZATION GONE FAR ENOUGH?

[E.G., FRIEDMAN, WOLF]

- Trade openness might INCREASE resources and incentives of households and governments:
  - ▶ Trade increases aggregate welfare
  - ▶ Trade flows to countries with productive workforces
  - ▶ More open governments often provide more social protection

# WHAT IS THE REALITY?

BOTH CAN BE TRUE



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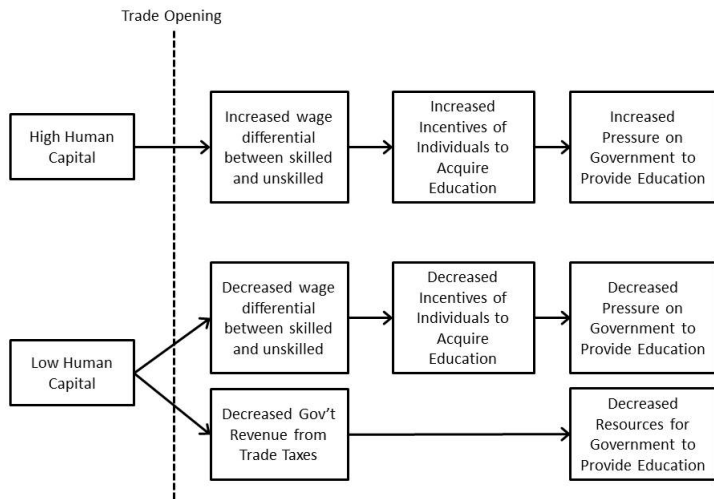
- The key is a country's existing level of human capital.
  - ▶ In countries with high levels of human capital:
    - Openness attracts the sort of international capital that seeks productive and capable workers.
    - Trade reinforces human development, increasing both the resources and the rationale for further human development
  - ▶ In countries with low levels of human capital:
    - Openness erodes government resources and the incentives to invest in human capacity, as the capital that might make use of it flows to places where it is more easily accessible.
    - Trade undermines the incentives and the ability of governments to invest in citizens and citizens to invest in themselves.

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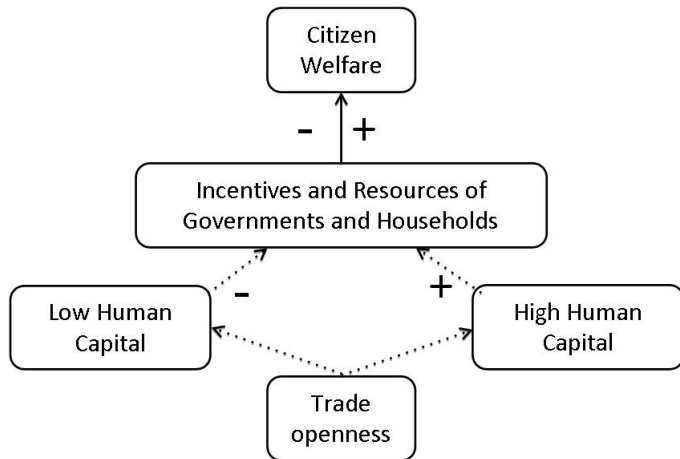
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# MECHANISM





# HYPOTHESIS



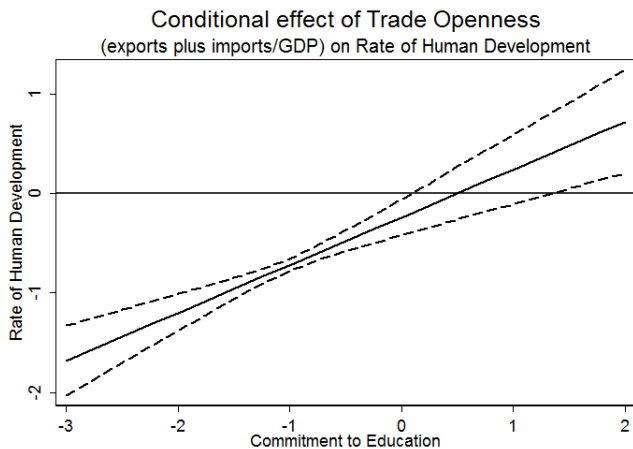
# MEASURING WELFARE

- Previous Studies:
  - ▶ Government spending
    - Misses household efforts to improve welfare
    - Total government spending is not a good proxy for commitment and capacity
  - ▶ Social spending
    - Does not necessarily benefit the average citizen
    - Can underestimate government commitment
- We Use:
  - ▶ Human Development Index
    - Covers more countries over longer time period
    - Directly measures welfare

# RESEARCH DESIGN

- Panel data for 136 countries, 1980-2010 (5-year periods)
- Dependent Variable
  - ▶ Change in HDI
- Explanatory Variable:
  - ▶ Trade Openness
    - Ratio of exports plus imports to GDP
    - WTO membership
    - Trade Freedom
  - ▶ Commitment to Education
    - Mean years of schooling
    - Expected years of schooling
- Control Variables
- FGLS (PCSEs, AR1)
- Time dummies and linear time trend

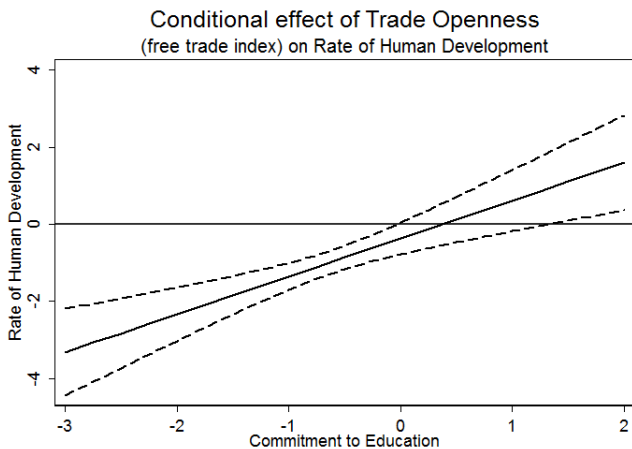
# EMPIRICAL FINDINGS



## EMPIRICAL FINDINGS

Conditional Effect of Trade Openness (WTO Membership) on Rate of Human Development		
Predicted Change in HDI-Rate	WTO Membership	Commitment to Education
4.36	Y	1 Std. Dev
6.09	N	Below the mean
2.82	Y	1 Std. Dev
3.66	N	Above the mean

# EMPIRICAL FINDINGS



# CONCLUSIONS

- In countries with high human capital, the pace of development is faster in those countries that are most open to trade
  - ▶ In a country whose Commitment to Education Index is 1-standard deviation above the mean, the average citizen is *better* off with open borders.
- In countries with low human capital, the pace of development is slower in those countries that are most open to trade
  - ▶ In a country whose Human Development Index is 1-standard deviation below the mean, the average citizen is *worse* off with open borders.

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