

1 **Lecture Review: Prof. Nina Pavcnik's *Poor Workers in a Globalizing World: Evidence from***
2 ***an Emerging Economy***
3 **by Allie Collins-Anderson**

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5 How does international trade affect workers? This is the question that motivated Prof. Nina
6 Pavcnik's research that she shared recently in a lecture at Wellesley College. Pavcnik is the
7 Chair of the Economics department at Dartmouth College and among the top five percent of
8 cited economists in the world. Her recent lecture at Wellesley was highly attended by both
9 students and faculty.

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11 Pavcnik began by highlighting that the majority of people surveyed in both developed and
12 developing countries throughout the world believe that trade is beneficial to economies in
13 general. In the United States, however, fewer people agree with that statement and there is even
14 less agreement when considering how international trade impacts the livelihood of workers
15 specifically. Roughly 50 percent of those surveyed in the U.S. believe that trade lowers wages
16 and destroys jobs.

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18 Economists have historically found that trade generates aggregate gains and reduces poverty and
19 inequality. However, it creates losers in addition to winners in both developed and developing
20 countries.

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22 While her research spans many countries, Pavcnik narrowed in on Vietnam in this particular
23 lecture to provide evidence of the positive relationship that trade can have on workers. Her
24 research on Vietnam centers around the 2001 U.S.-Vietnam Bilateral Trade Agreement (BTA).
25 The BTA serves as a natural experiment, showing the causal effect of trade on the shift of
26 workers between the informal and formal sectors.

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28 Vietnam saw a large decrease in the share of workers in the informal sector between 1999 and
29 2009. Pavcnik highlights the BTA as being a critical influencing factor in decreasing export costs
30 from Vietnam to the United States as it lowered tariffs significantly. This change catapulted
31 workers into the formal sector where productivity and profitability were higher. As a result,
32 poverty declined in Vietnam following the BTA and workers who were employed in geographic
33 areas with high concentrations of exporting industries saw increases in wages.

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35 Coauthored with Brian McCaig, professor of Economics at Wilfrid Laurier University, Pavcnik's
36 research on Vietnam utilizes data from the Vietnam Household Living Standards Survey, an
37 extensive survey which provides data on every worker in the country. The survey identifies
38 workers by type of firm, either informal or formal, which allowed for Pavcnik and McCaig to
39 identify the effect of tariff reductions on the significant shift of workers from the informal to the
40 formal sector.

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42 International trade can help spur economic development and reduce poverty if it promotes the
43 redistribution of workers out of agriculture and microenterprises and into formal firms. Vietnam
44 defines microenterprises as household businesses or typically firms with fewer than ten
45 employees. International trade can shift workers from these smaller firms into larger ones

46 because there is greater economic potential for larger firms if they hire more workers and in turn
47 produce more products to be exported to other countries.

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49 While increased export opportunities can move workers from one firm to another, the overall
50 effects of trade on workers is complicated. Pavcnik's research shows that it is important to
51 consider several different characteristics of workers, most notably what type of firm a worker is
52 employed in and the level of education the worker has.

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54 It is important to note where a worker is employed as firms generate different levels of profit.
55 Better-performing firms are more likely to withstand and respond to competition from imports,
56 and to take advantage of exporting opportunities, thus typically able to pay higher wages.

57 International trade only heightens wage differences that already exist between firms.

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59 A worker's level of education is another important factor because exporting increases the wage
60 gap between more and less educated workers within firms. Consumers in high-income countries
61 demand high-quality products, and production and marketing of those high-quality products
62 requires skill that only a certain level of education can provide.

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64 Pavcnik showed that the effect of international trade on workers is contingent on factors such as
65 these. Although trade often generates aggregate gains, they are not equally distributed. In many
66 cases, increased export opportunities result in higher wages and job growth. However,
67 competition with imported goods can simultaneously result in job loss if workers lack adequate
68 education to produce higher quality goods.

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70 While it is evident that Pavcnik's research is extensive and highly refined, her lecture was
71 disorganized and difficult to follow due to the amount of information she packed into 45
72 minutes. The presentation required a relatively intimate knowledge of econometrics which many
73 students in the audience did not have. This made the lecture unnecessarily confusing and
74 inaccessible to much of her audience. Pavcnik could have simplified her presentation by giving a
75 big picture overview of her research and findings and eliminating the minute details of her
76 methodology.

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78 However, as disorganized and bogged down as it was, Pavcnik's lecture provided ample
79 evidence in support of international trade. Her research clearly discredits statements such as
80 "trade lowers wages and destroys jobs" that often reverberate throughout the United States. The
81 numbers don't lie and the sooner both policymakers and the public pay attention to them the
82 better.