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Bruce Edwards:

Over the past 30 years, the world has seen a dramatic opening up of markets to international trade. And for the most part, it's been a boon to many developing economies- but it has not benefited everyone.

Rhoda Metcalfe:

And is it fair to say that there are winners and losers?

Nina Pavcnik:

Yes, absolutely. They're winners and losers.

My name is Nina Pavcnik, and I'm a professor of economics at Dartmouth College.

Bruce Edwards:

Nina Pavcnik has become a leading researcher on the ways international trade has affected the poor for better and for worse.

Nina Pavcnik:

So those questions were always of interest to me because at the end of the day, we want trade not just to improve opportunities for companies, but ultimately we want to understand how it affects the lives of the people. The theory seems to suggest, oh, it's going to be great for everybody, but that doesn't turn out to be the case.

Rhoda Metcalfe:

Not always.

Nina Pavcnik:

Not always.

Bruce Edwards:

Journalist, Rhoda Metcalfe sat down with Nina Pavcnik to talk about her research and why she chose to make international trade and trade policy the focus of her work.

Rhoda Metcalfe:

You've done a lot of research that's really dug down into some of the most crucial social justice questions surrounding freer markets and international trade. After all this research that you've done, what have you come to believe... In developing nations, are the poor better off when their country opens up markets?

Nina Pavcnik:



There's no simple answer to that question. People always ask, is trade good for the poor? And we would love to have simple answers, but that's just not how it works. So when I was in college and people were thinking about how does trade between rich and poor countries affect poverty, the solutions were kind of easy, but they were all based on predictions of economic theory. So it would raise average incomes, reduce poverty and reduce income inequality.

Rhoda Metcalfe:

So it was going to be great for everybody.

Nina Pavcnik:

Yes. And what has been really exciting in economics research over the last 25 years is that we have actually been able to look into these questions with much more detailed data than was available in the past, and the answers to- is trade good to the poor? And how does trade effect inequality- is much, much more nuanced and depends on the context.

Rhoda Metcalfe:

Is it fair to say that they're winners and losers?

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Yes, absolutely. They're winners and losers.

Rhoda Metcalfe:

Give us an example. I mean, you spent a lot of time studying Vietnam, so who would be on the losing side in a country like Vietnam when markets started opening up?

Nina Pavcnik:

Vietnam was a very poor country in the nineties, and it started opening up and also started moving from a very command-controlled economy toward more market-based economy. And one of the key trade agreements that Vietnam signed as part of that process was that Vietnamese exports gained access to US markets. And the US is really, really important export destination because it's a really rich, large country. So definitely, people living in provinces that were more export-oriented industries were located that were closer to the larger ports in Vietnam benefited more. During this time period, Vietnam was actually growing really fast. So poverty was declining everywhere, but it was declining more in these particular areas. But it was declining, for example, less in areas where more minorities live. Like in more mountainous areas in the Northeast. But given that during this time period was such a fast-growing economy, it's harder to notice who are the people who are actually losing during this time. But once the growth's slowing down... that becomes more apparent.

Rhoda Metcalfe:

And so I guess it's also a question of inequality too. It's just that some people have really gained and other people haven't moved.

Nina Pavcnik:



Yes. And the one thing that worked in Vietnam's favor during this process is that it had a relatively young population. It was also a relatively well-educated population for a country at its level of income. And also geographically, it's a very narrow country. So all these factors contributed to the fact that it was much easier to move from more rural areas of Vietnam to more urban areas of Vietnam where these export opportunities were presenting themselves. So for all those reasons, we need to be careful not to extrapolate what happened in Vietnam to other contexts where countries are much more remote, their population is older and less educated.

Rhoda Metcalfe:

Right. Because as I understand it, I mean research has also shown that in some countries like India, opening up international trade has actually made some other people worse off, right?

Nina Pavcnik:

Yeah. So India had a very large trade liberalization in 1991. And what India's liberalization did is lowered tariffs on imports coming into India. And like Vietnam, during that time, during the period of trade liberalization, India was a growing country, so poverty in general was declining. But what research worked by Petia Topalova, who's actually at the IMF, found is that different districts in India, especially in rural areas were differentially affected by this trade liberalization. In particular, if you're an individual living in a district with a high concentration of industries that were competing with imports, poverty in those districts actually decreased less in those districts also, agricultural wages decreased relative to other parts of India, and industry wages decreased as well.

Rhoda Metcalfe:

Why would wages come down?

Nina Pavcnik:

Wages would come down because the demand for workers living in this local labor markets decreased because companies face more competition from abroad. And so there was less demand for work from the domestic companies that now had to lower their prices and reduce production. And so you might wonder, well, export opportunities were created in other parts of India, so why don't people move? And what's interesting is that what a lot of the empirical work has shown is that people just don't move as much, especially out of areas that were negatively hit by trade liberalizations. And that's the case both in a country like the United States, we have research now showing that areas that were negatively hit by Chinese competition in the nineties and early two thousands also stagnated and became more soft and people were not moving out of those areas. And you find similar evidence in India, and then also in a country like Brazil and not just India. So it seems to be a regularity. And then the reasons for why people are not moving, some of it is related to poverty, right? Moving is costly. So poor people cannot cover those costs of mobility.

Rhoda Metcalfe:

Because you can imagine, especially in a developing country, and also if you're poor in North America, the fact that you survive is based on the fact that you live in a family and there's a collective resources there. You have somewhere to eat, you have somewhere to sleep, and you move away and suddenly you're on your own. Who's going to help you when you move to this new region?



Nina Pavcnik:

Yep. That's exactly the case because people rely on informal social networks, including castes to receive social insurance. So for example, if you're sick or if you need childcare, you rely on caste and your family and that, if you move away, you lose these important social networks and you might not cope as well with negative events in your life. That's why in countries that have better-developed social insurance systems moving is easier because you don't rely as much on your family or your local community to provide these sort of services.

Rhoda Metcalfe:

Is there any a gender divide in terms of the way that global trade affects countries? I mean, do men and women, are they equally affected by the changes in their economy based on these more open markets?

Nina Pavcnik:

That's an excellent question. And it's also a question that hasn't been explored as much in the past, but there's a lot of exciting ongoing work. One of them, actually my own ongoing projects is again, I'm looking in Vietnam where we are trying to see where exactly these companies arrive and how many jobs they created across different areas of Vietnam. And then we are trying to link that to employment opportunities of young individuals, especially women, and then also trying to link that to decisions about schooling and marriage and childbearing. And it's still very much a work in progress, but what we have found is that the arrival of these jobs doesn't actually change whether or not a woman in Vietnam is employed. However, it changes the type of job that she has.

And in particular, women are less likely to work in agriculture and they are more likely to work in manufacturing. And what we are in the process of trying to do now is see how is this affecting the marriage decisions and having children. And some of the preliminary results suggest it's delaying both of these, and that seems to be consistent with the work that some other researchers have been doing in China where they're also finding delays in marriage and delays in childcare.

Rhoda Metcalfe:

So I'm interested... I mean a lot of economists look at questions of international trade, globalization, but you seem to have really focused a lot on the more vulnerable people in society, the poor, the children. What brought you to that focus, and did you always want to be an economist?

Nina Pavcnik:

No, I only realized I wanted to be an economist in college. So I grew up in Yugoslavia in the part that's now Slovenia and right on the border with Italy. So subconsciously I was always affected by international economics because growing up it was pretty obvious that the life of people right across the border was very different from the life that I experienced in Yugoslavia. However, I didn't really know how to understand that. Why is the country poorer? Why are other countries richer, and how does international trade affect that? I went to the United States in 1989 to spend a year with my relatives in Minnesota. And up to then I really didn't take any social science classes, because if you're a good student in Yugoslavia, basically they tracked you into natural science and math high schools.



In Minnesota, I actually had to take a course in social sciences, and I discovered economics as part of that course, and I had a really inspiring teacher, Mr. Munich (sp?). And because of that, I then ended up taking a course in college in economics and then really realized, wow, economics enables me to better understand what's happening in the society at large, including why my life in Yugoslavia was different from a life of a child in Italy at that time.

Rhoda Metcalfe:

On the other side of the border.

Nina Pavcnik:

On the other side of the border, yes. So when I was in college, large changes were happening. Berlin Wall fell. Right before that Yugoslavia was disintegrating. So, through my life, I became more interested in social science questions and economics provided a way to do that.

Rhoda Metcalfe:

Sure. But why this focus that you have on international trade and poverty, international trade and inequality? What has steered you in that direction?

Nina Pavcnik:

I think in part because when I was taking classes, everybody was emphasizing the benefits of international trade. And I also believe that there are a lot of benefits to international trade. When I started doing my research, I started focusing on how does international trade make companies more efficient? And one of the channels was, well, inefficient companies go bankrupt. But then I kept wondering, well, what happens to people that lose jobs? So my next papers were then looking at how does international trade and opening up of the economies affect workers? You then start wondering, well, if people lose jobs, how does that... Or if trade creates jobs for parents, well, how does that affect decisions that families make in investing in their children? So those questions were always of interest to me because at the end of the day, we want trade not just to improve opportunities for companies, but ultimately we want to understand how it affects the lives of the people. The theory seemed to suggest, oh, it's going to be great for everybody, but that doesn't turn out to be the case.

Rhoda Metcalfe:

Not always.

Nina Pavcnik:

Not always. Yeah.

Rhoda Metcalfe:

So you were just mentioning something, you're talking about parents and decisions for children. And another area that you've focused on has been child labor, which I think is a very interesting topic. It's also a very emotional topic for a lot of people. Why did you want to dive into that question?

Nina Pavcnik:



As a consumer in the nineties and the early 2000s, one thing that we all had in mind is, if I'm buying Nike shoes or a cheap t-shirt from Bangladesh or China, is it being produced by a child that a lot of the anti-sweatshop groups were showing on TV or ads and so on, that affects you, right? Am I actually causing that child labor when I buy a t-shirt from a lower-income country that doesn't have the same labor market regulation that we do in United States? So again, I was interested in this question and we started digging in the data. And the most important thing to realize is when you look at what are the children that are working doing, most of them are actually working in unpaid work, hand in hand with their parents. So either on a family farm or in a small family business.

Rhoda Metcalfe:

So it's not so much the predominance of child labor is not in factories, but is in some kind of a home operation.

Nina Pavcnik:

Yes, absolutely. So why do parents want to send their children to work? It's an unfortunate consequence of poverty. Most parents want their children to do well, and that means they want to send them to school. But unfortunately, when you're a poor family, you sometimes have to make really, really difficult choices. And sometimes you cannot afford to send children to school either because you need to rely on their paid or unpaid work, or you can't pay schooling fees. So what the research has found is in low-income countries, when you're thinking about how could international trade affect child labor, it really will depend a lot on how does it affect the incomes of families where these children live?

Rhoda Metcalfe:

So things like sanctions, I mean people, there have been groups, organizations that have called for sanctions against countries that allow child labor. What is your sense from your research as to whether it is a useful thing? And would sanctions bring down child labor?

Nina Pavcnik:

Based on what we know about child labor, most situations, sanctions will not necessarily reduce child labor. In fact, they might actually lead to increases in child labor if they cut off a primary income source for parents. And even if you sanction child labor and don't allow it in the most visible forms of child labor, for example, like manufacturing firms, you need to ask yourself, what will these children be doing in the absence of ability to work in manufacturing plants, let's say? And sometimes what would end up happening is they might actually end up going to worse forms of child labor that might be less visible to international consumers. And if the reason for a child's work is poverty, they're not going to be going to school.

Rhoda Metcalfe:

Because that's a big question, it's that if they're not working, what are they doing? Does that mean that they've now been put into school by their parents?

Nina Pavcnik:

Absolutely. Even though images of child labor are really difficult to observe, we do need to think about why are these children working? And oftentimes these children are working because they unfortunately live in



poor families. That is not to say though that there is no need for sanctions. And in some areas where there is actually child exploitation and worst forms of child labor, those are the places where the role of sanctions is actually more important. Because even though sometimes that is associated with poverty, there are other forces at play that could be dealt with sanctions.

Rhoda Metcalfe:

Do you have any sense that there are solutions out there? Are there ways to encourage poor families to allow their kids to work less and be able to get an education? I mean, are there examples of that?

Nina Pavcnik:

Yeah. So in some of the work I've done with co-authors in India, what we have actually found is that the reason why children were being held back from school when families face these declines in income and increases in poverty as a result of import competition were schooling costs. Because what we found is that when poverty increased in these families, children did not go to school, but they also did not work in market work that generated income. They were either helping with family chores at home or they were idle, neither going to school nor working as a primary activity, because families couldn't afford the schooling costs. And what we found is that in areas where schooling costs were lower, perhaps because the government was offering free midday meals, which reduced the cost of going to school, these negative consequences of import competition on schooling were actually smaller. And the cost of a sort of direct subsidy to a family is potentially easier to finance than some larger scale project.

Rhoda Metcalfe:

So perhaps instead of putting in sanctions, you put in some kind of a motivating factor that makes it more economically viable for parents to send a kids to school.

Nina Pavcnik:

Yeah, exactly. What research gets at, what's the main reason why children are not going to school? Here, it was poverty combined with schooling costs. So then you know how to address that problem.

Rhoda Metcalfe:

That's interesting. So coming back to the original question, which is how do you feel now about buying products? Does child labor come into your mind at all when you buy stuff?

Nina Pavcnik:

I will admit, I buy a lot of fair trade products, in part because I believe in social justice issues. But we do not have good evidence that they actually provide a large-scale solution to addressing issues such as child labor.

Rhoda Metcalfe:

But do you think that buying products, shoes, or clothes from these countries where there is child labor, do you think that somehow feeds into more child labor?

Nina Pavcnik:



I do not think so, because the main channel through which child labor is affected through international trade is family income. And to the extent that families are benefiting as a result of increased export opportunities in a country like Bangladesh or Vietnam, that will trickle down to less child labor and more schooling for their children.

Rhoda Metcalfe:

Yeah. It's very interesting. So Nina Pavcnik, I really appreciate you coming on. This is a fascinating conversation that we've had, and I look forward to hearing more about the work that you do in the future.

Nina Pavcnik:

Thank you very much for having me.

Bruce Edwards:

That was Rhoda Metcalfe speaking with Nina Pavcnik, Professor of Economics and International Studies at Dartmouth College.

The June 2023 edition of Finance and Development Magazine is all about trade and the impact of international trade policies. Check it out at imf.org/fnd.

And go to imf.org/podcasts or wherever you listen to hear more of these podcasts.

I'm Bruce Edwards.

Rhoda Metcalfe:

And I'm Rhoda Metcalfe. Thanks for listening.