

Why Do Some Countries Produce So Much Cargo? A View from Trade.

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Abstract:

The fit of the predicted trade flows given by the standard Heckscher-Ohlin-Vanek model to the observed trade in factor services improves if one allows the productivity of inputs to vary by factor and by country. In fact, Treffer (1993) showed that model can fit the data exactly when he allowed for productivity differences. The analog to these measures of productivity in the macroeconomics literature is total factor productivity or as Solow termed it "a measure of ignorance". The goal of this paper is to attempt to reduce trade theory's measure of ignorance by finding the variables that are associated with and may influence productivity. We find that the protection of property rights is highly correlated with labor and capital productivity. This is true even when we allow for labor to differ by skill levels and control for the potential endogeneity of property rights protection. Democracy does not seem to have a direct influence on productivity. However, it may influence productivity indirectly through property rights. The geographic characteristics of a country do not seem to exert any influence on productivity. In addition, we examine if the measure of ignorance that comes from trade theory is highly correlated with the measure of ignorance from macroeconomics. Clearly, we would be more comfortable with trade theory and macro theory if they were amiss in similar ways.