Rising income inequality within countries is a widespread concern that poses one of the greatest
challenges to economic policy makers in many countries.

Income inequality is defining challenge of our time.’
- Barack Obama, December 4, 2013

We are the 99% slogans’
-OcOcupy Wall Street Movement

Not just in rich/advanced economies, rising income inequality is also experienced in emerging
and developing countries in Eastern Europe, Asia, Latin America and Africa.

IMF is today embracing redistribution policies as pro-growth, arguing that raising income
inequality is damaging to economic growth (Ostry, et al, 2014).

World Bank’s goal of promoting ‘shared prosperity’, i.e. growth in average incomes of
those in bottom 40% (Dollar, et al, 2014).

This has occurred at the height of, that with entry of China and the former Soviet bloc into the
global economy, most countries have unprecedentedly integrated into the global trading system,
hoping to advance their economic growth, raising their real per capita income and reduce
poverty. While the channels through which trade(exports) affect economic growth and the
empirical evidence behind them are well established, what is less clear and still fiercely debated
are their distributional effects.

### Results

**Table 1: Baseline and Linear Interaction (Contingent) Effects Specifications**

<table>
<thead>
<tr>
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<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
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</thead>
<tbody>
<tr>
<td>LGPOY</td>
<td>-0.640***</td>
<td>-0.571***</td>
<td>-0.617***</td>
<td>-0.551***</td>
</tr>
<tr>
<td>LGPOY/POP</td>
<td>-0.640***</td>
<td>-0.571***</td>
<td>-0.617***</td>
<td>-0.551***</td>
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<tr>
<td>SEC</td>
<td>0.042***</td>
<td>0.042***</td>
<td>0.042***</td>
<td>0.042***</td>
</tr>
<tr>
<td>INVD</td>
<td>0.022***</td>
<td>0.022***</td>
<td>0.022***</td>
<td>0.022***</td>
</tr>
<tr>
<td>GINI</td>
<td>-0.419***</td>
<td>-0.419***</td>
<td>-0.419***</td>
<td>-0.419***</td>
</tr>
<tr>
<td>GINO</td>
<td>-0.419***</td>
<td>-0.419***</td>
<td>-0.419***</td>
<td>-0.419***</td>
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</tbody>
</table>

**Table 2: Non-Linear Interaction (Threshold) Effects Specifications**

<table>
<thead>
<tr>
<th></th>
<th>GINI&lt;γ, % percentile</th>
<th>GINI&gt;γ, % percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>LGPOY</td>
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<td>-0.513***</td>
</tr>
<tr>
<td>LGPOY/POP</td>
<td>-0.525***</td>
<td>-0.513***</td>
</tr>
<tr>
<td>SEC</td>
<td>0.093**</td>
<td>0.093**</td>
</tr>
<tr>
<td>INVD</td>
<td>0.057***</td>
<td>0.057***</td>
</tr>
<tr>
<td>GINI</td>
<td>-0.486***</td>
<td>-0.486***</td>
</tr>
<tr>
<td>GINO</td>
<td>-0.486***</td>
<td>-0.486***</td>
</tr>
</tbody>
</table>

**Figure 1:** 95% confidence interval for the inequality as threshold variable: Exports

### Key Findings and Implications

- Though within countries income inequality has been rising in most
countries, in other countries it has remained stable or even decline
slightly since the mid-20th century. Trade openness and economic
growth has increased significantly for most developing countries.

- The study finds that in general trade openness advances economic
growth and income inequality reduces economic growth.

- When we identify an income inequality threshold we find that
inequality is positively associated with growth if below the threshold
(low inequality) but negatively above the threshold when trade has
a positive impact once the threshold is allowed for (i.e. above
and below).

- Thus, trade generally promotes economic growth and relatively high
inequality retards growth.

- Implications: as what found in other studies (e.g. the IMF study)
addressing income inequality both in advanced and developing
countries is key to achieving sustainable and inclusive economic
growth that is poverty reducing, and attaining social-cohesion and
political stability.

### References

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