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DÉSIRÉE NILSSON

Essays on Trade Flows, Demand Structure and Income Distribution

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It was not obvious that I would continue within academia after my masters degree. After completing a master of science in economics the question was which door to open next. During a year and a half of working as a research assistant at the Economics Department at Jönköping International Business School, the door into postgraduate studies in economics opened up gradually. I was fortunate to start my postgraduate studies together with many of my fellow graduate students, Martin Anderson, Helena Bohman, Charlotta Mellander and Pär Sjölander. They, together with all my colleagues at the Economics Department, have made the challenge of writing a dissertation thesis and taking courses much more enjoyable.

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Désirée Nilsson
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Chapter I

Essays on Trade Flows,
Demand Structure and
Income Distribution

Désirée Nilsson

1 Introduction

Extensive empirical research on international trade in recent decades has focused on the capacity of countries to supply markets with goods and services. The supply perspective has dealt with relative factor content of trade, technology intensity in trade, skilled and unskilled labour in production, innovation-induced trade and much more. The purpose of this thesis is to analyse international trade flows focusing on the role of demand structures. It incorporates the size and the heterogeneity of consumer demand as factors which influence international trade flows. The four following chapters (Chapters 2-5) include four empirical studies analysing the following research questions:

- Does income inequality within a country affect trade flows between countries?
- Does income inequality affect the likelihood of firms selecting a particular destination for their exports?
- To what extent does a small open economy take advantage of the distribution of potential demand across the globe?
- To what extent are countries extending export market shares on the international market by taking advantage of variations in income elasticity of demand across various products?

In several of the chapters in the thesis, non-homothetic preferences recur as a central factor in the analysis. The non-homothetic preferences situation is that in which consumer demands for different types of goods change relative
to each other as the income level changes. The opposite situation, the existence of homothetic preferences implies that consumers assign the same share of their budget to different types of products, irrespective of the size of their budget. This means that Ingvar Kamprad (founder of IKEA and the fourth wealthiest man in the world according to Forbes special report, 2007) would assign the same share of his income to food as a nurse working at the local hospital. That amount of money could buy considerable amounts of food. Non-homothetic preferences, on the other hand, can take into account that that someone with a low level of income allocates a larger share of income to food than what a rich person would do. Mr Kamprad would, perhaps, still buy much food, but its share of his income would not be as large as for that of the nurse. The latter example seems somewhat more reasonable.

Non-homothetic preferences arise if human needs are ranked and ordered with regard to degree of necessity. The ranking of needs has a long history dating back as far as to the Greek philosopher Plato. He writes in his famous book *Politeia* (The Republic) that food is the absolute basic need that should be satisfied, and after food come housing and clothes (Platon, 360 BC). In the 18th century, Adam Smith (1776) also claimed that food, housing and clothes are the needs that have to be met before any other wants. The notion of non-homothetic preferences was systematically introduced in the 19th century by Ernst Engel (1857 and 1881) in what came to be known as the Engel curve. He found that food budget shares decrease with income level. In empirical consumption studies (Clark, 1940, Houthakker, 1957 and for some recent studies see Hausman et al., 1995, Banks et al., 1997 and Blundell et al., 2003) the correlation between budget shares for particular product categories and the income level is consistently found.

The role of demand in international trade theory dates back to the arguments of Adam Smith in the 18th century. The concept of “vent for surplus” is that countries should look for foreign-country demand in order to employ any idle resources. The concept was also discussed by Mill (1874) and later on by Williams (1929) and it was developed further by Myint (1958). The demand side perspective came into fashion again in the 1960s and 1970s with the theories of Nicolas Kaldor and Staffan Burenstam Linder. Burenstam Linder (1961) argued that countries will trade more intensively with one another the more similar their demand structures are. Kaldor (1970) suggested that countries should aspire to become responsive to demand changes in the world market. The more reactive countries are to foreign demand, the easier it will be for them to exploit any increasing returns to scale.

Regardless of the strong empirical evidence of non-homothetic preferences in consumption studies, models of international trade have for
the most part continued to presume homotheticity in demand. With homotheticity, consumption by a representative consumer can easily be aggregated to provide the total consumption of goods in an economy. The assumption of homotheticity also allows the theoretical framework to be based on a Cobb-Douglas function or a CES function, which is convenient in the development of the models.

In the most recent two decades, non-homothetic preferences and income distribution have received some renewed attention in research of international trade. Markusen (1986), Hunter and Markusen (1988) and Hunter (1991) find empirical support for the relevance of non-homothetic preferences in international trade. The assumption that non-homothetic preferences govern consumption requires that income distribution within a country be included in the model specifications. Including income distribution in the analysis provides a better indication of the demand structure in a country. A theoretical framework for how the distribution of income within a country may affect trade flows between countries was provided by Mitra and Trindade (2005). In their model, differences in the structure of demand are a sufficient condition for the existence of gains from trade. Furthermore, they show that greater income inequality within a country has different effects on the demand for necessities and for luxury goods, negative for the former and positive for the latter. They also present hypotheses on how income inequality may affect exports of the two types of products. Income inequality has a positive effect on exports of necessities and a negative effect on exports of luxury products. An empirical follow-up study by Dalgin et al. (2004) explores the effects of income inequality on imports and the results support the hypotheses of Mitra and Trindade.

The following sections in this chapter are organised as follows. Section 2 provides a framework for analysing aggregate trade statistics and section 3 discusses the role of income inequality for international trade. Section briefly point to a few concerns about the reliability of international statistics and finally section 5 provides a short summary of the Chapters 2-5 and their main conclusions.

---

Analysing the structure of world trade

The trade flows published in international trade statistics reflect individual decisions made by firms on where to distribute their products on the world market. Even if we cannot observe each individual decision, we can study the aggregate outcome of these decisions and explore possible explanations for the flows. The observed patterns in the macro data can be explained by models that describe microeconomic behaviour. This section provides a framework for investigating the actions of a typical firm.

2.1 The problem of predicting trade flows

In trade statistics, the observed outcomes of exporter decisions are in general distinguished by the characteristics of the export destination as well as the exporting country. The exchange of products is generally presented in terms of both value and quantity. For international comparability, value flows are denoted in the same currency, commonly US dollars. This adds problems associated with currency conversion to the already existing aggregation problems in the compilation of international trade statistics. Irrespective of these concerns, empirical studies of international trade flows deal with both value and quantity.

The distribution of exports from various countries to different destinations can be presented in a distribution matrix, as illustrated in Table 2.1, where each cell denotes exports from an exporting country to a particular destination.

Table 2.1 Distribution matrix of export flows from exporting countries to export destinations.

<table>
<thead>
<tr>
<th>Exporting country</th>
<th>Export destinations</th>
<th>Total export</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a</td>
<td>b</td>
</tr>
<tr>
<td>a</td>
<td>-</td>
<td>$X_{ab}$</td>
</tr>
<tr>
<td>b</td>
<td>$X_{ba}$</td>
<td>-</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>z</td>
<td>$X_{za}$</td>
<td>$X_{za}$</td>
</tr>
</tbody>
</table>

Total import:

- $M_a = \sum_a X_{za}$
- $M_b = \sum_b X_{ab}$
- $...$
- $M_z = \sum_z X_z$
- $\sum_z M_z = \sum Z X_z$

For example, the cell $X_{ab}$ accounts for exports from country $a$ to country $b$. The row summation presents the total value of exports from each exporting country.
country. The column summation provides the total value of imports to each export destination across all exporting countries. In principle the distribution matrix should be balanced in that total exports in the world should be matched by total imports. However, this is not guaranteed due to various reasons, such as for example inconsistencies in the handling of the statistical material between different countries. This thesis is mainly concerned with the distribution of exports from countries to various export destinations.

Transport costs are commonly borne by the importer. This means that the export price is not the same as the import price. Any discrepancies between the two reflect the transaction cost of making the exchange.

The trade analyst formulates trade models in order to simultaneously estimate expected values for each cell in the matrix. In this thesis, this is made possible through the framework of discrete choice theory (McFadden, 1981). The exporters can in this framework be assumed to maximise profits. Furthermore, discrete choice theory provides consistency between observed trade flows at the aggregate level and the microeconomic foundation that can be used to explain the observed patterns (Bröcker, 1989).

The traditional approach of estimating expected values in the distribution matrix is through the application of gravity models, which may be formulated as follows:

\[
X_{ab} = f(Y_a, Y_b, ID_a, ID_b, F_{ab}, \varepsilon)
\]

where \( X_{ab} \) is the amount of exports from country \( a \) to country \( b \), \( Y_a \) is a vector of variables that indicate the capacity to produce in country \( a \), \( Y_b \) is a vector of variables that indicate the capacity to produce in country \( b \), \( ID_a \) and \( ID_b \) represent the income distribution within country \( a \) and \( b \), respectively, \( F_{ab} \) is a vector of friction variables and \( \varepsilon \) represents the error term. The capacity to export and import are expected to be positively associated with export flows. The inclusion of income distribution within a country in explaining exports to and from that country is one of the contributions of this thesis and discussed at length in section 3 of this chapter. The friction variables are specific to the bilateral relation (between country \( a \) and \( b \)) and include variables that can either deter or promote the exchange of products between two countries. The distances between capitals (sometimes indicated by the economically most important city instead) are commonly included as a variable that reduces exports between countries. Bilateral variables that generally increase trade are for example common borders, common language, colonial ties, free trade agreements (FTA) and customs unions. Friction variables, other than distance, are usually included as dummy variables. For example, to capture the friction reduction for the European countries trading inside the European Union, a variable could be
created in which the value 1 indicates that both trading partners are members of the European Union and whereas the value 0 indicates that at least one of the countries is not a member of the European Union.

It is not possible to perfectly determine the expected directions of export flows. Thus, the model has to be closed by means of a random component. In the analysis, this component is captured by an error term. The asymmetric information between the exporters and the trade analyst partly explains the prevalence of a random component. Gravity models reflect simultaneous export and import decisions as observed in the individual cells of the matrix in table 2.1.

In Chapter 2 of this thesis a full gravity model is estimated, while in Chapters 3-5 the empirical analysis is only concerned with the demand for exports. Thus, in the final three chapters export demand functions, which are closely related to gravity models, are estimated. The difference between the two is that export demand functions only consider variables that influence the capacity to import and they also include the friction variables as displayed in equation 2:

\[ X_{ab} = f(Y_b, ID_b, F_{ab}, \varepsilon) \]  

in which the exporter assesses the demand potential of various destinations by considering different characteristics of the destinations. Export demand formulations usually assume that total export supply from each exporting country is always met by sufficiently large demand in the destination countries.

### 2.2 Multilateral resistance

Multilateral resistance measures the average resistance between a country and its trading partners. Anderson and van Wincoop (2003) define multilateral resistance as reflecting for the influence of relative prices differences between countries in determining the patterns of trade. Anderson and van Wincoop derive a gravity formulation in which price indices are included for both the exporting and importing country. The price index is positively correlated to trade barriers between the exporting country and all of its trading partners. Any differences in the price indices between the two trading partners are caused by unobserved trade costs. Multilateral resistance can be represented as a function of all bilateral trade barriers. The exchange between two trading partners depends in part on the general resistance faced by each partner. For example, if country A experiences an increased resistance from all countries except country B, this will have a positive effect on the exchange with country B. Thus, any changes in the trading conditions...
with the “rest of the world”, may influence the exchange between countries A and B.

Anderson and van Wincoop (2003) and Bröcker and Rohweder (1990) account for multilateral resistance by implementing export and import country fixed effects. This methodology of incorporating multilateral resistance introduces unitary income elasticities due to the assumption of homothetic preferences in the traditional derivations of gravity models (see e.g. Anderson, 1979, Tinbergen (1962), Linnemann (1962), Pöyhönen (1963) Bergstrand (1985, 1989), Deardorff (1995), Helpman and Krugman (1985)). Chapters two and three of this dissertation aim to account for the multilateral resistance in the exchange of goods, but since both chapters assume that preferences are non-homothetic, the Anderson and van Wincoop approach is not appropriate. The matter is resolved by applying the method of Mundlak (1978) instead. The contribution of Mundlak to the research on panel estimations concerns the correlations between fixed effects and the explanatory variables. Mundlak asserts that the fixed effects are linear functions of the explanatory variables.

---

2 The drawback in using this method, according to Bröcker and Rohweder (1990), is that additional assumptions need to be made about the supply and demand functions to allow the effect of changes in the bilateral variables to be assessed.
3 Income distribution, demand and trade

Income inequality and its effects on an economy was a neglected research area for many years. However, in recent years there has been increasing interest in the subject. Bertola et al. (2006) provide a framework for understanding how and why income distribution may affect economies in general. They consider its effect on growth, innovation and structure of the economies. Some of their insights into the phenomenon will be presented in this section. The first subsection delineates the effect of non-homothetic preferences on the pattern of aggregate demand. Subsection 3.2 present different measures of income distribution.

3.1 Non-homothetic preferences and aggregate demand

People have different needs and these needs can be ranked according to priority. Classical examples of products that comply with needs that have a high priority are necessity goods, such as food and housing. People generally try to make sure that they have enough food to feed themselves and their children, and also that they have some minimum shelter. After taking care of the basic needs, people consider other types of goods. The value of consumption of these goods tends to increase more than proportionately with income increases, which makes them luxury goods. Once a consumer’s demand for these goods has been satisfied, other goods replace them in priority for additional spending. This means that for a consumer with small income most goods have the character of luxury goods. As this consumer’s income grows, some of the goods that previously were classified as luxury ones, are turned into basic (or necessity) goods. Thus, the demarcation between necessity and luxury goods changes as the income level increases (Bertola et al 2006).

Ernst Engel (1957 and 1881) was the first to systematically establish a correlation between different needs and the individual income level. He found that a poor person will assign a large share of his or her income to consumption of food, while a rich person allocates a smaller portion of income to necessities. The budget share allocated to a particular type of product then becomes a function of the income level. In accordance with this, Bertola et al. (2006) in developing their theoretical macroeconomic framework make the assumption that consumers have preferences that vary by their income level. This means that the distribution of income within a country corresponds to differences in preferences.
Shifts in consumption patterns due to changing income level apply not only to shifts among different product groups. Shifts can also take place within a product group. The upgrading of consumption within a category commonly follows the path of better quality or more sophisticated products in terms of technology and complexity. Hence, a consumer’s preference for quality and technological sophistication can manifest itself after the basic consumption of a product has been satisfied. The quality of a good and the technological content of products are generally incorporated into the price. Recent studies have shown a relation between income distribution and the demand for quality. Chul Choi et al. (2006) demonstrate that countries with similar income distributions also present similar distributions of import prices. Hallak (2006) shows, in a cross-country analysis, that a sufficiently high income level is imperative for the demand of high quality goods.

In their theoretical framework Bertola et al. (2006) assume preferences to be the same across individuals, but allow the individual the alternative of not consuming a good. This is an important departure from traditional methods because it is incompatible with homothetic preferences. Homothetic preferences require that all goods are consumed in constant proportions, irrespective of the income level, for any positive income. With homothetic preferences and positive income, it would always be optimal for the person to consume a product. In reality one can think of several reasons for not purchasing a product; the price may, for example, be too high given a person’s resources for one indivisible unit of it. Bertola et al. (2006) ignore differences in taste, since these do not contribute to the results of their model. However, it is possible that there are large differences in how rich people spend their money. Some buy only the best of everything and others may have a more dispersed consumption.

Since preferences are dependent on income, the aggregate summation of demands in a country needs to be weighted by income distribution to display the adequate total demand in a country. Using the non-homothetic utility function, provided in Bertola et al. (2006), the pattern of the aggregate demand depends on the weighing of the different products as well as on the average marginal utility of income. Thus aggregated demand in a country is structured by the various types of products available and the distribution of income. Non-homothetic preferences have previously also been modelled by Stokey (1988), Matsuyama (2000), Föllmi and Zweimüller (2002), Philippides and Hubbard (2003) and Hallak (2006).

The theoretical framework provided by Bertola et al. (2006) offers reasonable explanations for several empirical findings about the effect of income inequality in an economy. Falkinger and Zweimüller (1996) and Jackson (1984) find a positive relation between product diversity in a country and the unequal distribution of income. These results provide a platform on which the contributions in this thesis can rely on.
3.2 Measures of income distribution

Now that we have established that income distribution has an effect on the pattern of aggregate demand, the next step is to try to measure the distribution of income in an appropriate manner for empirical application. A large part of the research in this field has been occupied with defining the distribution of income. The general consensus agrees on that for most countries the Pareto distribution fits with the upper tail of the income distribution while the lognormal distribution fits well the lower tail (Cowell et al., 1998 and Sinha, 2006). However, this type of finding does not have any clear-cut implications for how to calculate aggregate demand and how to compare the distribution in different countries.

The most popular measure of skewness in income distribution is the Gini coefficient. The Gini coefficient is calculated from the Lorenz curve. There has, however, been a great deal of criticism against the measure. One of the main concerns has been that two countries with notably different skewnesses of their income distributions may generate the same Gini coefficient.

A measure that has also been used in other areas is the Theil index (Theil, 1965 and 1967). The Theil index is an entropy measure. Entropy measures have been widely used in different areas because of their power to aggregate large amounts of data. The Theil index is deduced from information theory, applying combinatorial arguments to allow for probability interpretations of distributions. The Theil index, as employed in Chapter 3, measures the deviation from a perfectly equal distribution of income in a country.

A more blunt way of capturing the distribution of income in a country is simply to calculate the difference in income level between rich and poor people (Nelson, 1984). For example, the average income level may be calculated for the richest 20 per cent of the population and for the poorest 20 per cent. Inequality is then reflected by the difference or ratio between these two income levels. The results in this dissertation (see Chapter 3) seem to indicate that the Theil index reflects income inequality better than the Gini coefficient and the difference between the highest and the lowest quintiles.

There have also been some new methods developed which are able to compare different distributions across countries. Bohman and Nilsson (2007) develop a method which measures the overlap between two different income distributions. This is performed by application of kernel smoothing techniques and calculating the common area below the two income distributions. The purpose is to assess the similarity in demand structures between two countries. A comparable technique is applied by Chul Choi et al. (2006), in which they measure the distance between the income distribution in a country and its import price distribution.
4 Structure and quality of international data

International statistics are constantly subject to criticism. The gathering of statistics from different countries in the world is most likely not consistent across nations. As they cross national borders, specific products are categorised, but this is often done more than once, in different classification systems. Even if rules are clearly specified, there may exist uncertainties and cases where it is a matter of opinion how a product should be classified.

The gathering of the statistical material is commonly performed by having separate firms or individuals filling in specific forms, and inaccurate reporting is not uncommon. In international trade statistics, if, for example, production is subject to taxation or other restrictions there exists an incentive for firms to underreport their activities. When assembling the data that are reported, there can be concerns with regard to how to best classify them into categories. There are a number of different classifications and sometimes conversion keys are provided to allow comparison across data sets. However, it is very difficult to achieve a perfect translation between two classifications.

Similar types of problems exist in the collection of income data. When reporting their individual income, people have an incentive not to be truthful in order to avoid income taxes. When analysing issues about income inequality, the best option is to use expenditure data. Expenditure data has a more direct relation to consumption patterns than income data. Income data are, however, more accessible and easier to collect than expenditure data. This thesis uses income data in order to include as many countries as possible in the analysis. The quality of the census studies, which provides the income data, have also been important in the selection of the countries to be included in the analysis (for details about the selection process see the appendices of Chapter 2 and 3 in this dissertation).
5 Chapters in the thesis and main findings

This dissertation thesis consists of five chapters, including this introductory chapter. This section provides a short summary of each the Chapters 2-5 and the conclusions reach in each of them.

The purpose of Chapter 2, “Income inequality as a determinant of trade flows” (co-authored by Helena Bohman), is to test the hypotheses of Mitra and Trindade (2005) on the relationship between income distribution and trade with the help of gravity models. The expected results are that, all else equal, a country with a more unequal income distribution will generate larger imports of luxury products than a country with a more equal income distribution. The export structure is also affected by the distribution of income within a country. A country with a more unequal allocation of income is expected to, all else equal, generate larger exports of necessities and less exports of luxury goods relative to a country with a more even distribution of income. The effects of income inequality on the trade of products are likely to be different depending on the type of product that is considered. In the empirical section, product groups have been divided into categories depending on whether they are considered as necessities or luxury goods. The types of products that we consider are food, clothes, durables and transport (vehicles). The results indicate that greater income inequality has a positive effect on imports of luxury goods and a negative effect on the imports of necessities. The opposite relation is found for exports: larger income inequality has a negative effect on the export of luxury goods and a positive effect on the export of necessities.

Chapter 3, “Market potential and income distribution”, further explores the influence of income inequality on the exporter’s decision to export its products to particular destinations. It also considers the effect of income inequality on the demand for product variety. According to the theoretical model in that chapter, exporting firms that are looking for potential export markets should consider the distribution of income in those markets in order to properly assess the potential demand for their products. The theoretical framework relies on discrete choice theory, which provides a structure for analysing how the decision process of firms influences their distribution of export flows across potential importers. In the empirical section, only exports from the industrialised countries are included while the importing countries comprise of both developing and developed countries. The

---

1 Based upon empirical consumption studies see Clements, Wu and Zhang (2004), Selvanathan and Selvanathan, (2003), Clements and Qiang (2001), Chen and Clements (1996), and Clements and Selvanathan (1994).
robustness of the effect of income distribution is checked for by considering three different measures of income inequality — the Gini coefficient, the Theil index and the rich-to-poor ratio. The results indicate that greater income inequality boosts imports and also has a positive effect on the number of different products imported.

Chapter 4, “Globalisation and distribution of exports” (co-authored by Börje Johansson), examines to what extent there has been globalisation of exports for Sweden, a small open economy. In the chapter, several hypotheses are formulated that are consistent with the definitions of globalisation used in the chapter. In this context, globalisation is said to increase when the number of export destinations increases, the export radii is extended and the effect of distance on trade flows declines. Furthermore, since with more globalisation trade friction becomes less important, globalisation is considered to be associated with the distribution of exports being more proportional to GDP in the importing countries. The empirical analysis presents the development of Swedish exports during the period 1965-2000. The results show that Swedish exports tend to be internationally regionalised rather than globalised, in the sense that export flows from Sweden are increasingly concentrated on the European countries.

Chapter five, “Changing export structure according to income elasticity – Kaldor revisited”, analyses the development of export market shares as a process in which the individual countries gradually adjust the structure of their export and production. The purpose of the chapter is to explore whether concentrating exports on high income-elastic products improves the competitiveness of countries, indicated by growing export market shares. The theoretical framework is once more based on non-homothetic preferences and contributions by Nicholas Kaldor (1957 and 1970) on the importance of export structure and specialisation for economic growth and competitiveness of countries. The investigation is carried out for the OECD countries during the period 1980-2001. The estimated degree of income-elasticity for a product is based on how the amount exported of the product varies, not how the amount exported varies with income over time. The results show that the majority of the OECD countries have changed their export structure towards more income-elastic products. Among the top five countries where this process is most apparent, Sweden ranks as number five, after Germany, Switzerland, Italy and the United States. There also seems to be a positive relation between the share of a country’s exports that is focused on high income-elastic products and that country’s export market share. Thus, countries can improve their competitiveness by shifting production and exports toward those products for which there is greater demand in countries with higher income.
References


Essays on Trade Flows, Demand Structure and Income Distribution


Chapter II

Income Inequality as a Determinant of Trade Flows^a

Helena Bohman and Désirée Nilsson^b

Abstract
Consumer studies have a long tradition of incorporating non-homothetic preferences in their models, whereas this has been a very uncommon procedure in studies of international trade. We use a model from Mitra and Trindade (2005) to set up a gravity model in which we include income distribution measures as explanatory variables for the exporting as well as for the importing countries. Our results indicate that non-homothetic preferences significantly affect both exports and imports.

Keywords: income distribution, international trade, non-homothetic preferences, gravity model

JEL classification: F10, D31

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Chapter III

Market Potential and Income Inequality

Désirée Nilsson

Abstract
This study assumes that non-homothetic preferences determine the flow of international trade. Empirical studies of international trade have commonly only considered demand from a representative consumer. This would not provide a complete picture of the aggregate market demand. Because of the prevalence of non-homothetic preferences in demand, firms that contemplate exports should consider the distribution of income within a country as an attribute of the corresponding market. This study evaluates the effect that income inequality may exert on a firm’s probability of selecting a particular export market. The theoretical framework is supported by discrete choice theory, and the empirical analysis uses export statistics for the OECD countries. The results indicate that uneven income distribution is perceived as an attractive feature of destinations for exports.

Keywords: market potential, income inequality, discrete choice theory

JEL classification: F10, D31
Chapter IV

Globalisation and Distribution of Exports

Börje Johansson and Désirée Nilsson

Abstract
During the 1980s many economists started to use the term globalisation as a catchword for an increased interaction between countries in world trade. The literature does not provide a clear definition of globalisation. We set up a number of criteria and formulate hypotheses about globalisation that we explore for Swedish export flows during the years 1965-2000. Globalisation, in this study, is referred to as increases in country diversity, extended transport radii, less effect of distance on trade flows, and the ratio of exports to the importing countries’ incomes. The results from the empirical analysis do not support the hypotheses of increasing trade globalisation. It is rather the case that export flows are becoming more internationally regionalised.

Keywords: Globalisation, Country Diversity, Transaction Distance, Proportional Distribution

JEL classification: F01, F10
Chapter V

Changing Export Structure according to Income Elasticity — Kaldor revisited

Désirée Nilsson

Abstract

The competition for market shares has taken various routes over the years. The first factor that perhaps spring to mind is prices. Studies have also shown that advanced technology and superior quality of products are important in the competition for market shares. The purpose of this study is to explore whether changes in export and production structures in the OECD countries tend to incorporate the income sensitivity of demand for products and if a strategy of this kind is beneficial for the development of market shares. The theoretical framework is provided by Kaldor (1957, 1967 and 1970) and by the concept of non-homothetic preferences, first established by Engel (1857 and 1881). The results show that there has been an increased focus on high-income elastic products among the OECD countries. The strategy of concentrating export and production to the high income elastic products also seems to generate increases in market shares.

Keywords: export structure, income elasticity of export demand, competitiveness, market shares, Nicholas Kaldor

JEL classification: F10, F14
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