

Equitable Trade

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ABSTRACT

When equity issues are a concern, what is the socially optimal pattern of trade? This paper studies a multi-country, heterogeneous agent trade model where market incompleteness distorts the quantity and sourcing decisions of households. I calibrate the model to match the observed pattern of trade, and then study the pattern of trade that arises when a planner allocates resources and can overcome the frictions leading to consumption inequality. In general, the planner prefers “nearshoring.” Trade increases with already competitive (geographically close or productive) trading partners to serve the masses; in contrast, the planner reduces small (geographically far or unproductive) trading relationships that typically cater to the rich

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