

Referee Report on “Inequality in Latina America: The Role of the Nature of Trade and Partners”

OVERVIEW

In this paper, the authors investigate the relationship between trade openness and income inequality in 11 Latin American countries over the period 1989-2015. For this, they use a panel dynamic approach so that they can take into account the high persistence of income inequality. The analysis classifies trade flows, exports and imports according to trading partner’s economic development and income level, and trade flows are split according to different stages of production. Results show that overall trade flows contribute to reduce inequality in Latin America. However, trade has divergent effects depending on the trade partners, so that trade with similar-income countries exacerbates inequality, whereas in the case of developing countries and higher-income countries, income dispersion is reduced.

The article is well written and has some merits, but can also be improved in some respects. In my opinion, its main problem is related to how the two main variables under analysis, namely, openness and inequality, are being measured. It is irrelevant to try to disentangle the links between two variables if we do not really know how they are measured, or what is being measured. In the case of inequality, some authors have recently discussed in a series of studies how inequality has evolved in the World, and how disregarding the existence of tax havens jeopardizes any available measure of inequality. Some of the most prominent authors that have contributed to this area over the last few years are Thomas Piketty, Emmanuel Saez, or Gabriel Zucman but, surprisingly, there are no references to their work in the list of citations. Specifically, their view that inequality is ill-measured because it uses official statistics, which miss the financial flows circulating via tax havens, should be acknowledged. In this

regard, the distinguishing between income inequality and wage inequality is essential, but this distinction is not totally clear in the paper. Therefore, given the essential role of inequality in this paper, it is important that state-of-the-art contributions are, at least, cited.

As for the measurement of openness, I also have similar concerns. Although the sectoral analysis provides a more relatively detailed view of countries' trade structure, the authors might also consider some relatively recent measures of trade integration that consider not only openness but also connectedness. See, for instance, Arribas et al. (2009, 2011), as well as the literature that explores the network structure of trade (Chinazzi et al., 2013). Maybe this could be considered as an extension of the paper, similarly to what was suggested in the above paragraph. Taking explicitly into account both suggestions would increase the overall quality of the paper substantially, but I am aware that it can be costly, but, at least, the existence of these pieces of literature should be acknowledged, including relevant citations.

Apart from this general criticisms, there is also room for improvement in the fields I refer to below.

OTHER COMMENTS

1. The economic size of the different countries in the sample is heterogeneous. Has this been taken into account? A more detailed description of the countries in the sample would be welcome.
2. The analysis by sub-periods might also shed some interesting results. Many things have occurred between 1989 and 2015, particularly at least one relevant economic crisis.
3. The econometric strategy looks reasonable, but perhaps some other possibilities could have also been considered. The reader ends up with the

feeling that this could have been written for a master's dissertation.

4. The number of controls in the model is surprisingly low. Given the study is conducted at the country level, for which the amount of relevant information is substantial, I guess the number of controls could be increased.

MINOR COMMENTS

1. The citation "IMF, 2017" (page 2) is missing from the list of citations.

References

Arribas, I., Pérez, F., and Tortosa-Ausina, E. (2009). Measuring globalization of international trade: Theory and evidence. *World Development*, 37(1):127–145.

Arribas, I., Pérez, F., and Tortosa-Ausina, E. (2011). A new interpretation of the distance puzzle based on geographic neutrality. *Economic Geography*, 87(3):335–362.

Chinazzi, M., Fagiolo, G., Reyes, J. A., and Schiavo, S. (2013). Post-mortem examination of the international financial network. *Journal of Economic Dynamics and Control*, 37(8):1692–1713.