

# Free Trade and Business Elites: Who Are the Winners of Globalization?

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## Highlights

- Free-trade and economic-integration agreements (FTEIAs) create new opportunities for firms to expand.
- These agreements may foster entrepreneurial wealth through creative destruction, but they may also reinforce dynastic business families with established networks and privileged access to capital.
- I use stacked DiD around 36 FTEIAs from 1986–2020 combined with hand-collected billionaire data differentiating entrepreneurial from dynastic wealth.
- Dynastic wealth-to-GDP rises by 0.27 percentage points per year after an agreement, while entrepreneurial wealth-to-GDP shows no significant change.
- Consistent with dynastic families having privileged access to capital:
  - The effect is stronger in financially underdeveloped countries;
  - Post-agreement increases in dynastic wealth-to-GDP are associated with slower productivity growth.
- Implication: Without strong financial systems, trade liberalization may reinforce the dominance of dynastic business families rather than promote entrepreneurial wealth creation.

## Empirical Strategy

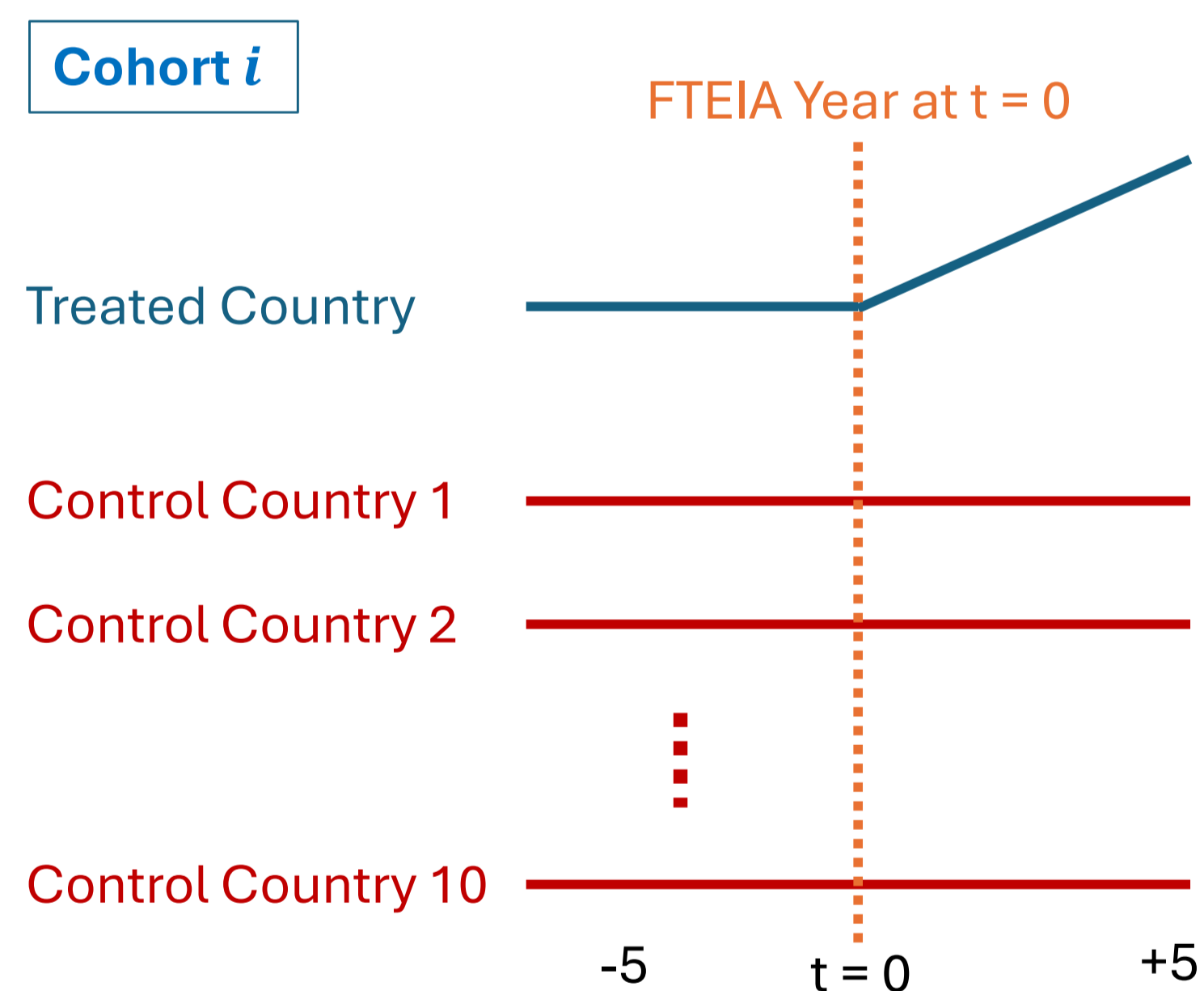
### 1. Measuring Entrepreneurial and Dynastic Wealth

- $EW/GDP$  = Aggregate entrepreneurial wealth/GDP. Entrepreneurial wealth is held by first-generation billionaire *founders*.
- $DW/GDP$  = Aggregate dynastic wealth/GDP. Dynastic wealth is held by billionaire *heirs* who inherited corporate control from their families.

Billionaire data are hand-collected from Forbes lists covering 1986–2020. Each billionaire is classified as either a founder or an heir, and wealth is aggregated by type to the country-year level.

### 2. Estimating the FTEIA Effect

- Stacked Difference-in-Differences Design



Stack 36 cohorts to form the final sample

FTEIA data are from Mario Larch's Regional Trade Agreement database.

## Main Findings

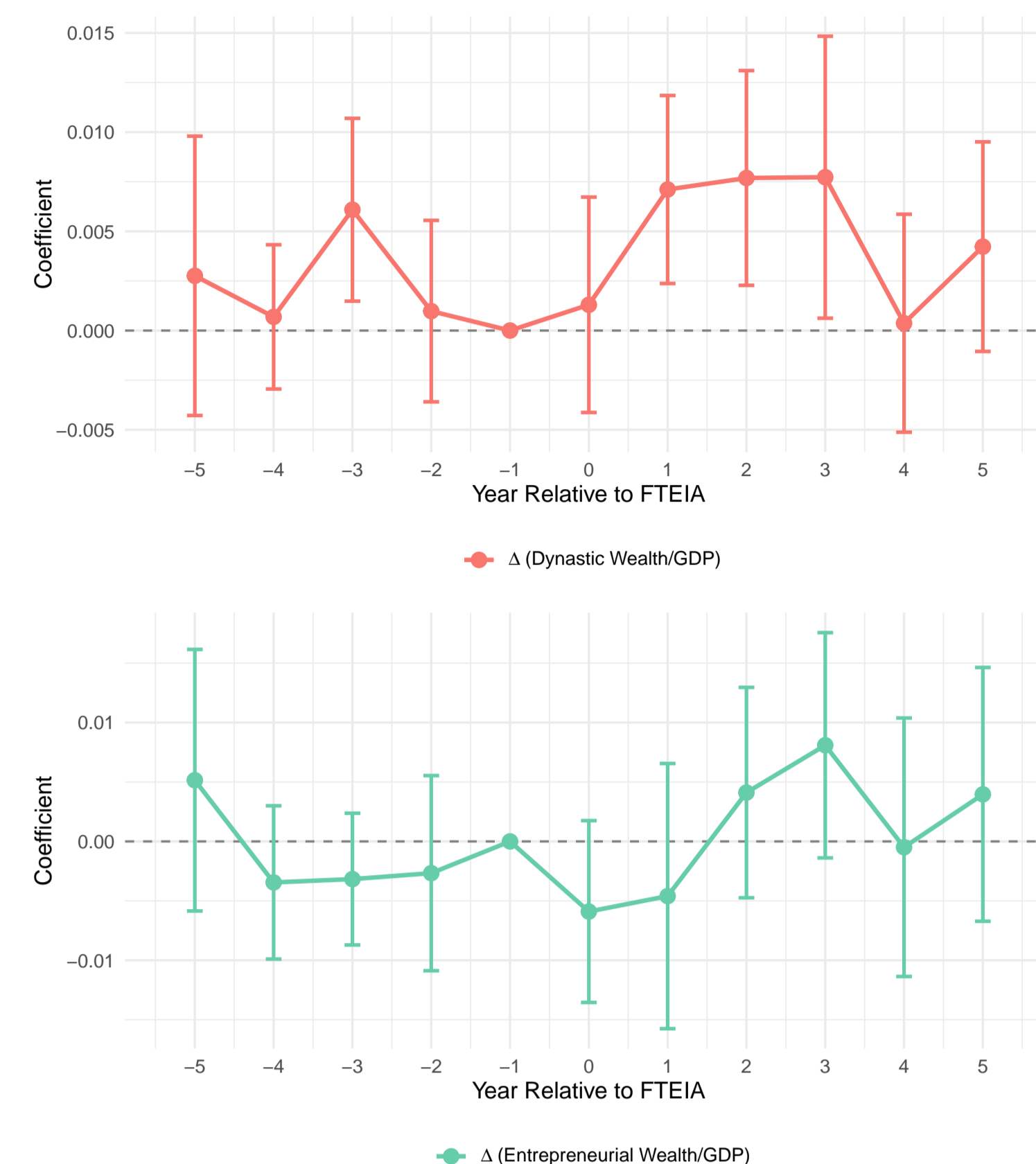
FTEIAs increase dynastic wealth-to-GDP by 0.27 percentage points per year, while leaving entrepreneurial wealth-to-GDP unchanged.

- $\Delta(DW/GDP)$  is the annual change in dynastic wealth-to-GDP.
- $\Delta(EW/GDP)$  is the annual change in entrepreneurial wealth-to-GDP.

Dependent Variable:	$\Delta(DW/GDP)$	$\Delta(EW/GDP)$
$TREAT \times POST$	0.0027** (0.034)	0.0017 (0.509)
$\ln(GDPPC)$	-0.0170*** (0.000)	-0.0135*** (0.008)
Stock Market Return	0.0146*** (0.000)	0.0220*** (0.000)
GDP Growth	-0.0210*** (0.001)	0.0018 (0.864)
Cohort $\times$ Country FEs	Yes	Yes
Cohort $\times$ Year FEs	Yes	Yes
Adjusted $R^2$	0.200	0.191
N	4,496	4,496

$p$ -value are in parentheses. Standard errors are clustered by country within each cohort.

\*, \*\*, \*\*\* indicate statistical significance at 10%, 5%, and 1%, respectively.

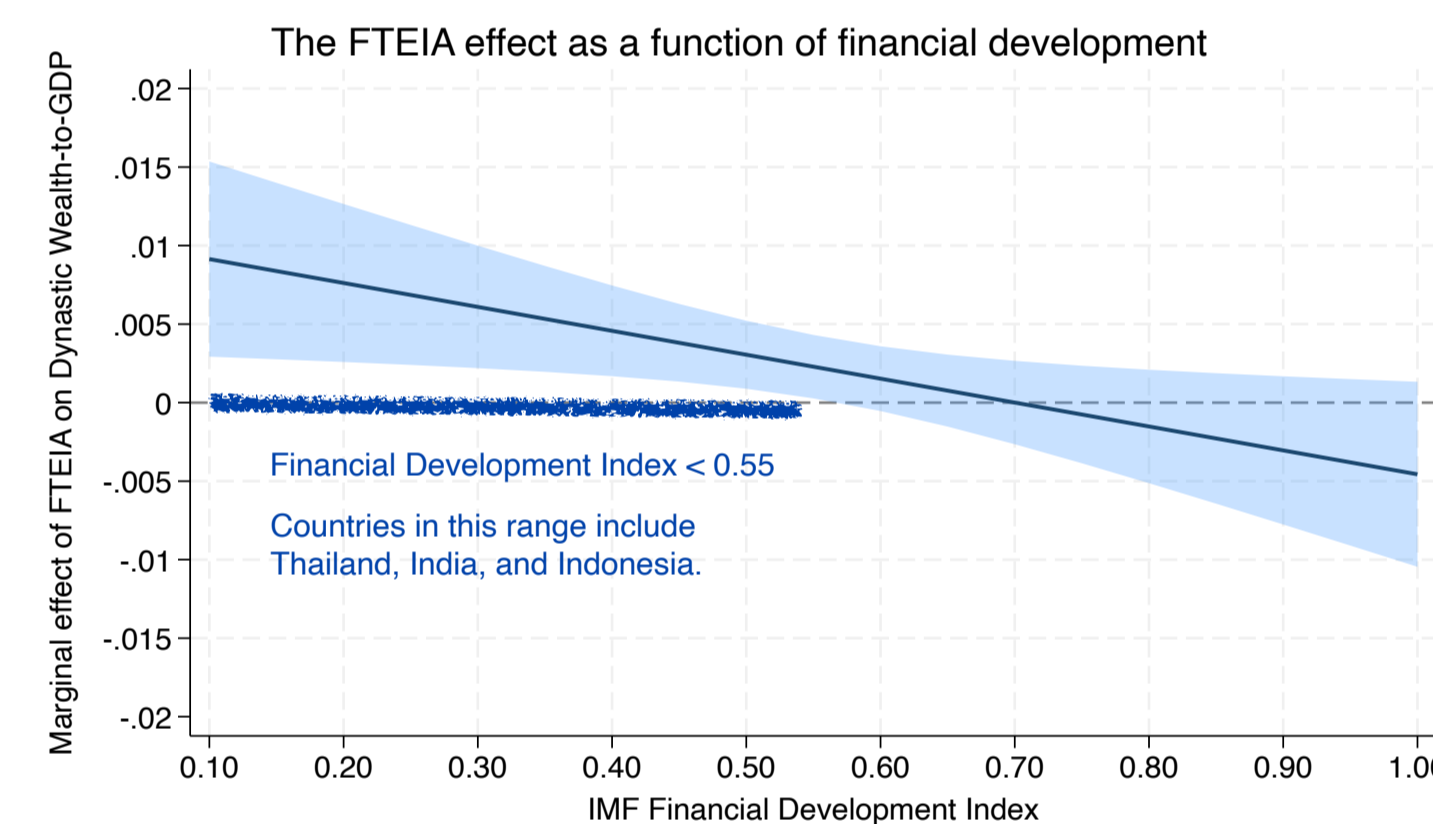


Growth in dynastic wealth-to-GDP starts to accelerate 1 year after an FTEIA, while entrepreneurial wealth-to-GDP shows no response.

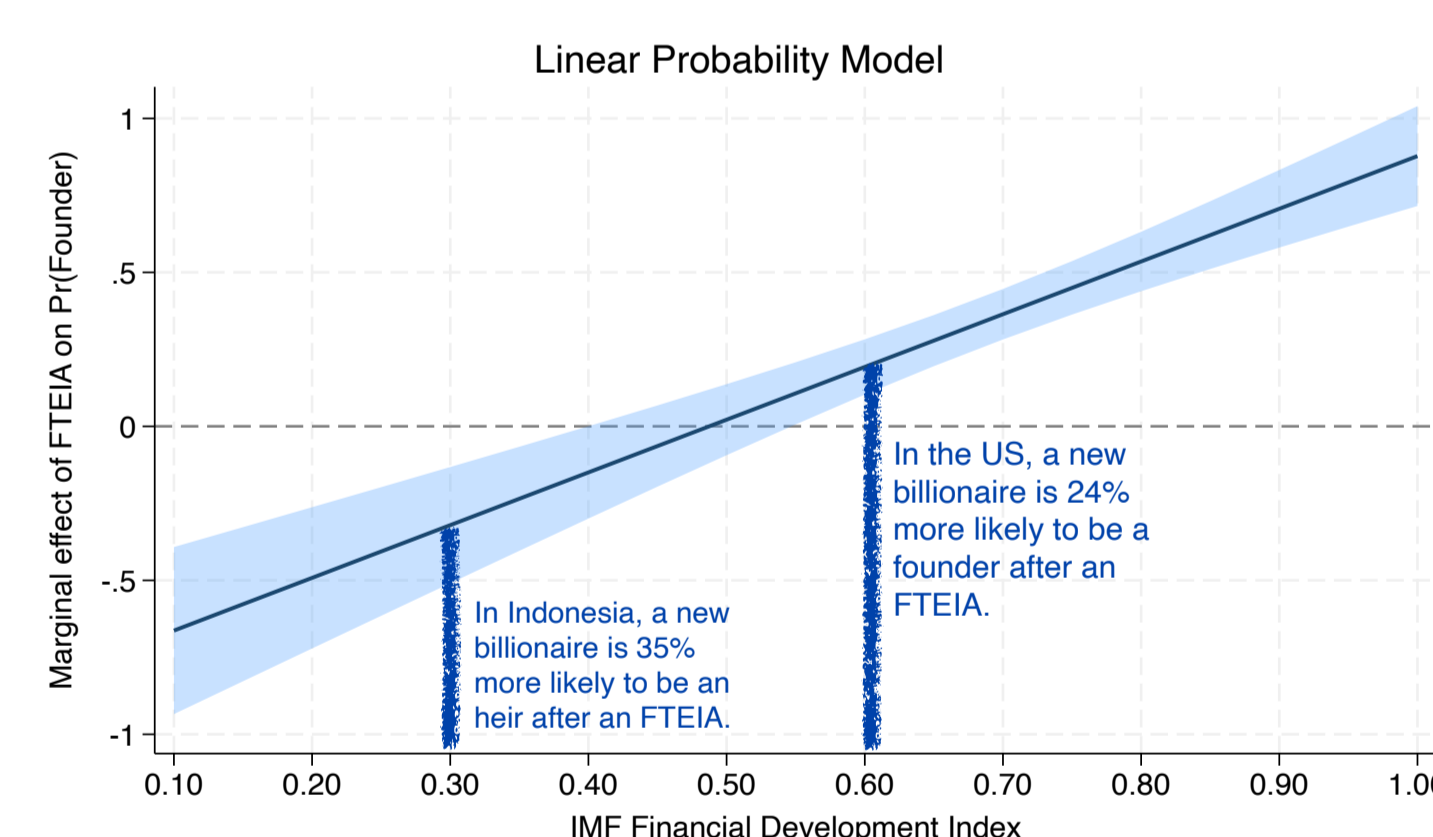
## Mechanism

The post-FTEIA rise in dynastic wealth-to-GDP is consistent with dynastic families capturing new investment opportunities through privileged access to capital. The following 3 pieces of evidence support this explanation.

- The post-agreement increase in dynastic wealth-to-GDP is strongest in financially underdeveloped economies.



- After an FTEIA, new billionaires are more likely to be heirs in countries with weak financial systems, but founders in countries with strong financial systems.



- Post-agreement increases in dynastic wealth-to-GDP are associated with slower productivity growth, consistent with inefficiency, while comparable increases in entrepreneurial wealth-to-GDP show the opposite.

Dependent Variable:	$\Delta_3 \ln(TFP)$	$\Delta_3 \ln(KPC)$	$\Delta_3 \ln(GDPPC)$
$TREAT \times POST \times \Delta(DW/GDP)$	-0.3262*** (0.000)	-0.1021*** (0.001)	-0.1237 (0.333)
$TREAT \times POST \times \Delta(EW/GDP)$	0.1111** (0.044)	-0.0200 (0.576)	-0.0146 (0.907)
$TREAT \times POST$	0.0163*** (0.000)	0.0009 (0.724)	0.0107 (0.159)
$\Delta(DW/GDP)$	0.2266*** (0.000)	0.1255*** (0.000)	0.2601*** (0.000)
$\Delta(EW/GDP)$	0.0727*** (0.000)	0.0442*** (0.000)	0.0389*** (0.002)
Adjusted $R^2$	0.564	0.884	0.672
N	4,462	4,462	4,462

All models include logs of GDP per capita, human capital index, and capital per capita as controls as well as Cohort  $\times$  Year and Cohort  $\times$  Country FEs.  $p$ -value are in parentheses. Standard errors are clustered by country within each cohort.

## Policy Takeaways

- Free trade may not broaden economic opportunity when financial systems are weak; it may instead entrench incumbent business families.
- Complementary financial reforms are needed to ensure that trade liberalization benefits productive entrepreneurial firms, not only established dynasties.