

Lecture 26
Economics 181
International Trade

Finishing up on regional trade agreements; Trade and Growth

- I. Summarizing gains and losses from regional integration**
- II. The WTO and trade rounds (see last week's handout)**
- III. The impact of globalization on productivity and growth: the theory**

- A. Static theories
 - Welfare losses from protection (deadweight loss triangles)
 - Increasing returns and gains from trade
 - More varieties
 - More competition
- B. Dynamic theories
 - Availability of more imported inputs and new technology embodied in inputs
 - More efficient use of investment capital
 - Bigger markets increases returns to innovation
 - Pressure to compete raises innovation (Hindustan motors in India)

Visually, how to show static versus dynamic gains

But also other arguments against benefits from trade discussed in class (infant industry protection, industrial policy with externalities). Also counter-examples (Japan, S. Korea, USA, East Asia) So need to resolve puzzle with evidence.

IV. Empirical evidence. Three general approaches

- A. Share of trade in GDP and growth
- B. Price-based measures of openness, correlate with growth
- C. Administrative measures (tariffs, quotas)
- D. Micro-based studies

V. What do most studies find? A positive relationship between openness and growth or productivity.

However, some issues to take into consideration:

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