

Lecture 25
Economics 181
International Trade

Trade and Growth

I. The impact of globalization on productivity/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 (?). Also counter-examples (Japan, S. Korea, USA, East Asia) So need to resolve puzzle with evidence.

II. 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

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

However, some serious problems:

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