ABSTRACT

There is a lively debate about the impact of trade liberalization on economic growth measured as growth in real gross domestic product (GDP). Most of this literature focuses on the empirical relation between trade and growth. This paper investigates the theoretical relation between trade and growth. We show that standard models — including Ricardian models, Heckscher-Ohlin models, monopolistic competition models with homogeneous firms, and monopolistic competition models with heterogeneous firms — predict that opening to trade increases welfare, not necessarily measured GDP. In a dynamic model where trade changes the incentives to accumulate factors of production, trade liberalization may lower growth rates even as it increases welfare. To the extent that trade liberalization leads to higher rates of growth in real GDP, it must do so primarily through mechanisms outside of those analyzed in standard models.

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