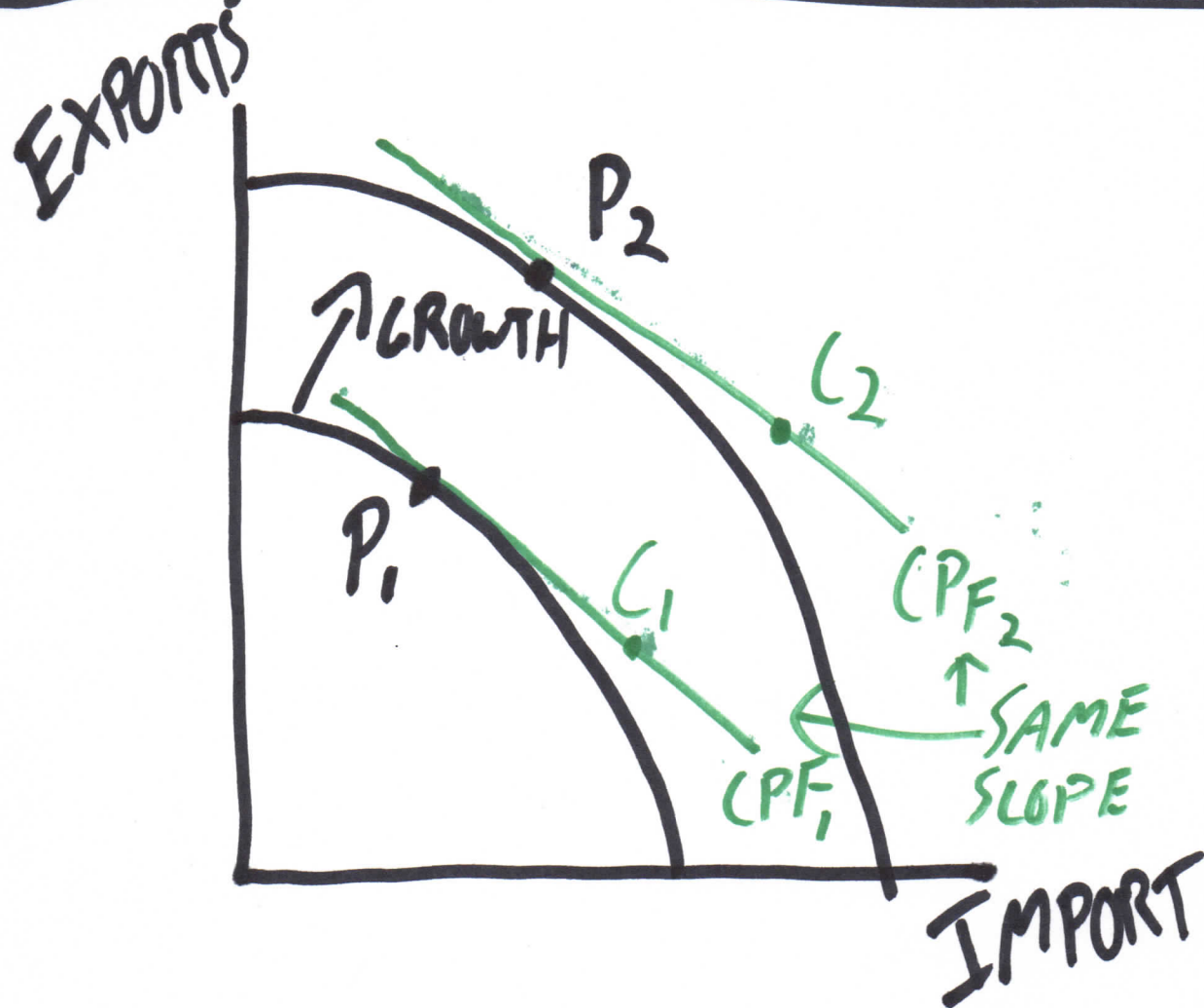


[CH. 7]

GROWTH IMPACTS TRADE



BALANCED GROWTH

- TERMS-OF-TRADE (PRICES) STAY THE SAME AFTER GROWTH

- P_2 IS MORE EXPORTS + IMPORTS THAN P_1

→ PERFECTLY BALANCED GROWTH OR SMALL COUNTRY

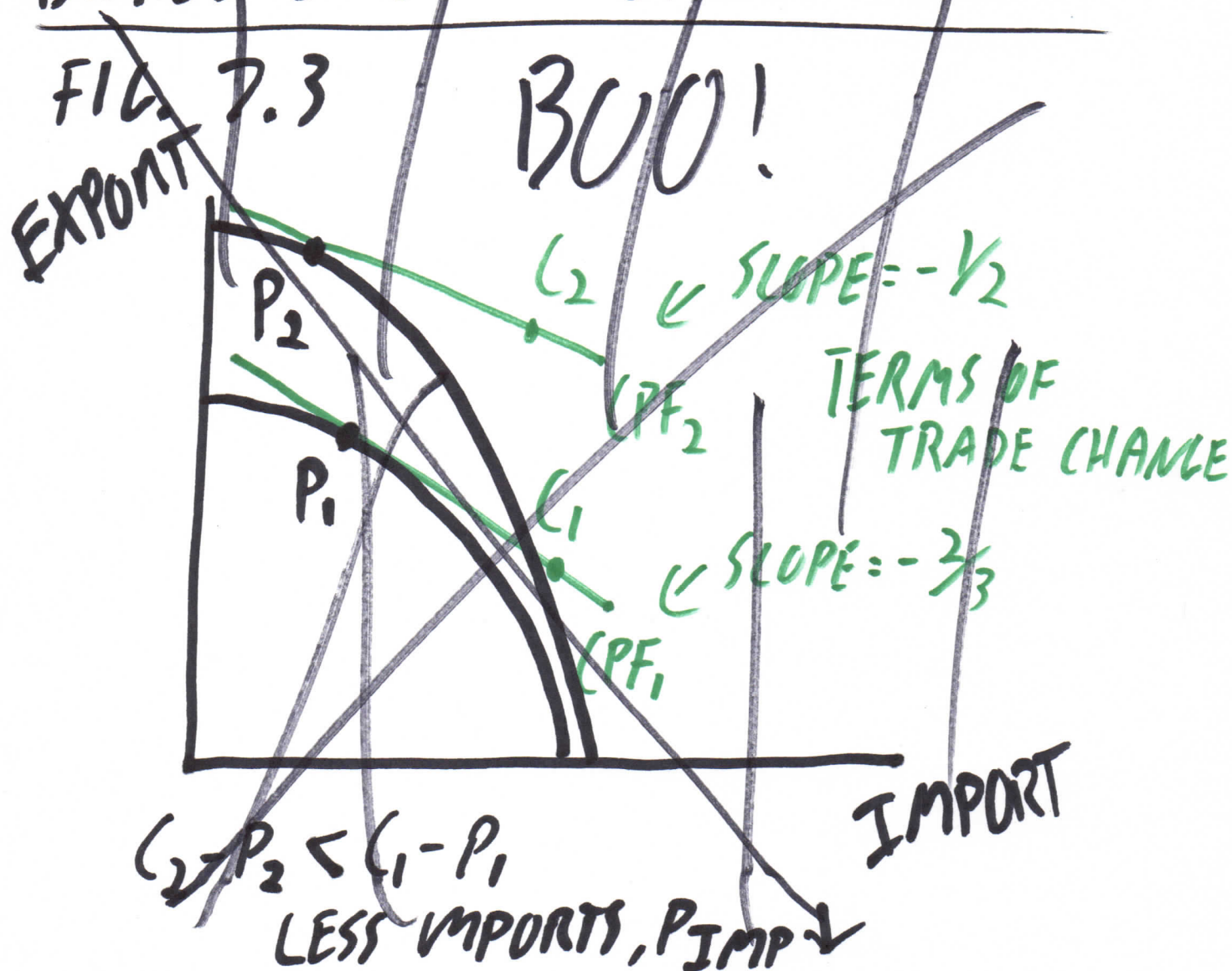
SMALL VS. LARGE COUNTRIES

SMALL COUNTRIES - HAVE NO

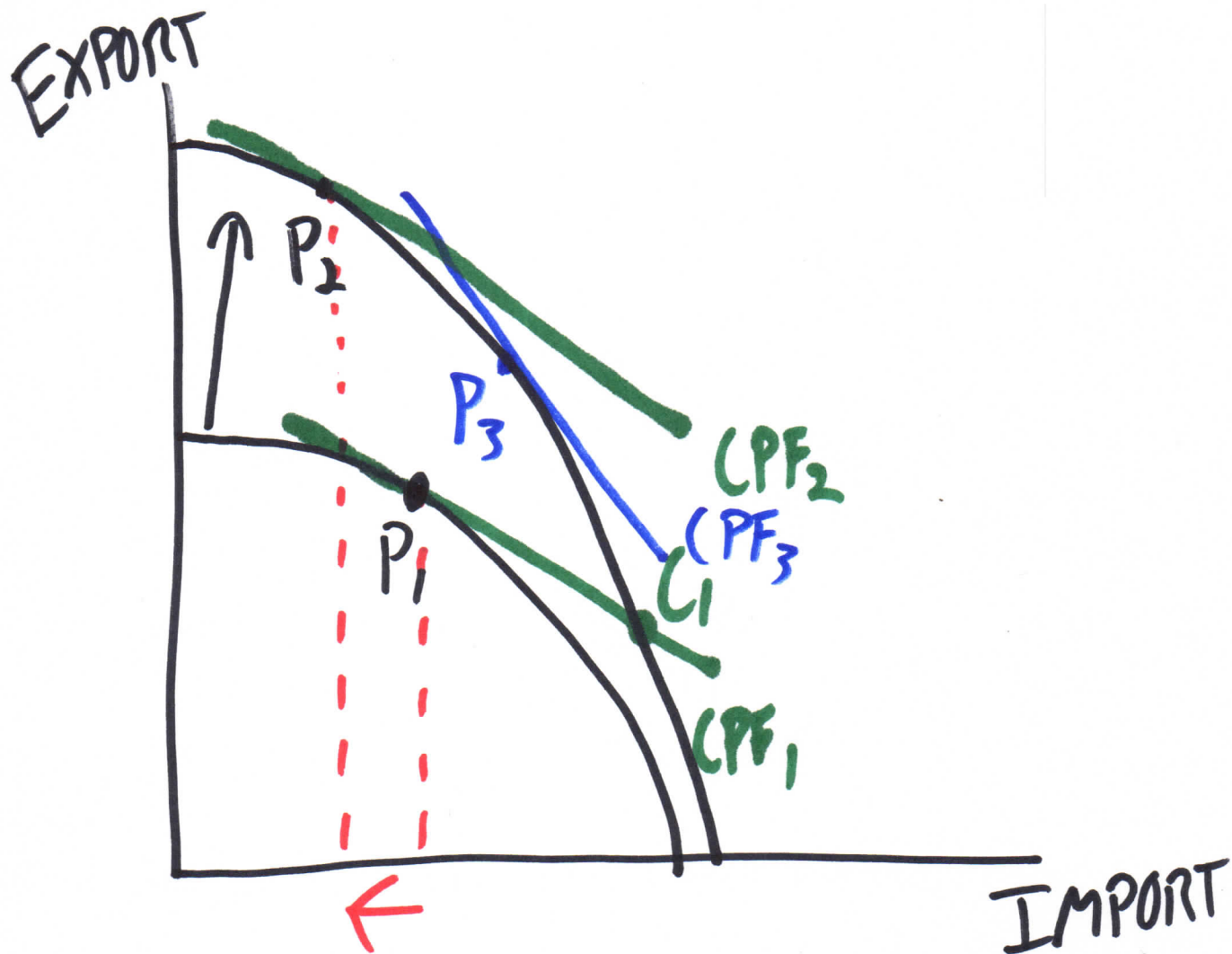
IMPACT ~~ON~~ ON WORLD PRICES

LARGE COUNTRIES - HAVE IMPACT
ON WORLD PRICES

- BIASED GROWTH - LARGE COUNTRY

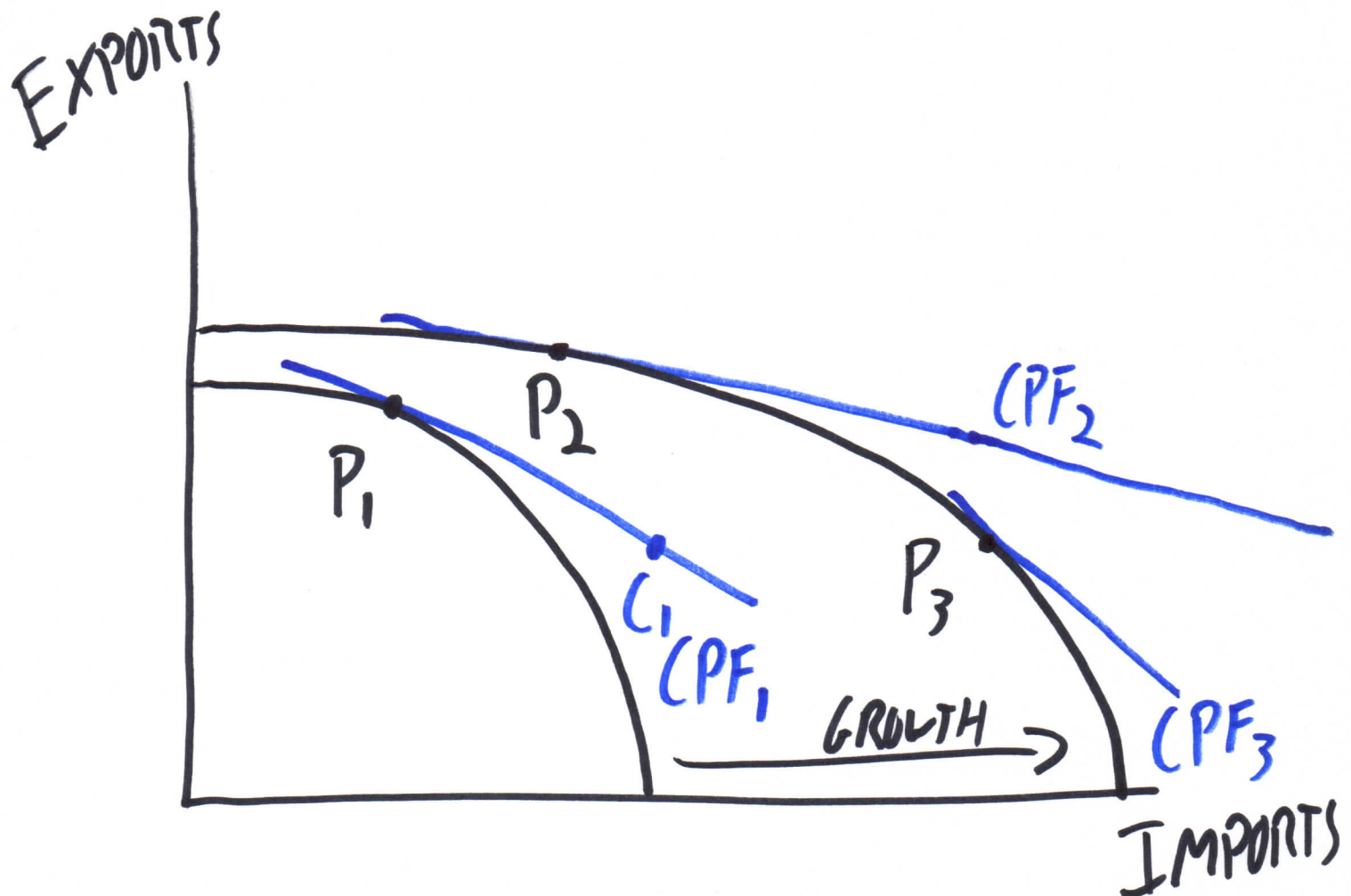


BIASED GROWTH TO EXPORTS



- SMALL COUNTRIES HAVE LITTLE IMPACT ON TERMS-OF-TRADE
 - NO CHOICE OF CPF'S
- (WORSENING TERMS-OF-TRADE ARE EXPECTED) LARGE COUNTRY

BIASED GROWTH TO IMPORTS



CPF, SLOPE = CPF, SLOPE $\Rightarrow$ SMALL COUNTRY
IMPROVEMENT IN TERMS-OF-TRADE
IS EXPECTED

NOT USUALLY THE TYPE OF GROWTH
WE SEE

WHY BIASED GROWTH?

- CHANGE IN FACTOR ENDOWMENTS
- CHANGE IN TECHNOLOGY
- POLICY CHANGES
- CHANGE IN WORLD PRICES

DANGERS OF IMBALANCED

GROWTH

RYBCZYNSKI THEOREM

IF THERE IS GROWTH IN ONE FACTOR...

① OUTPUT OF THE GOOD THAT INTENSIVELY USES THE GROWING FACTOR WILL INCREASE

② OUTPUT OTHER GOODS WILL DECREASE

POTENTIAL DUTCH DISEASE?

POTENTIAL ~~IMMERIALIZING~~ GROWTH?

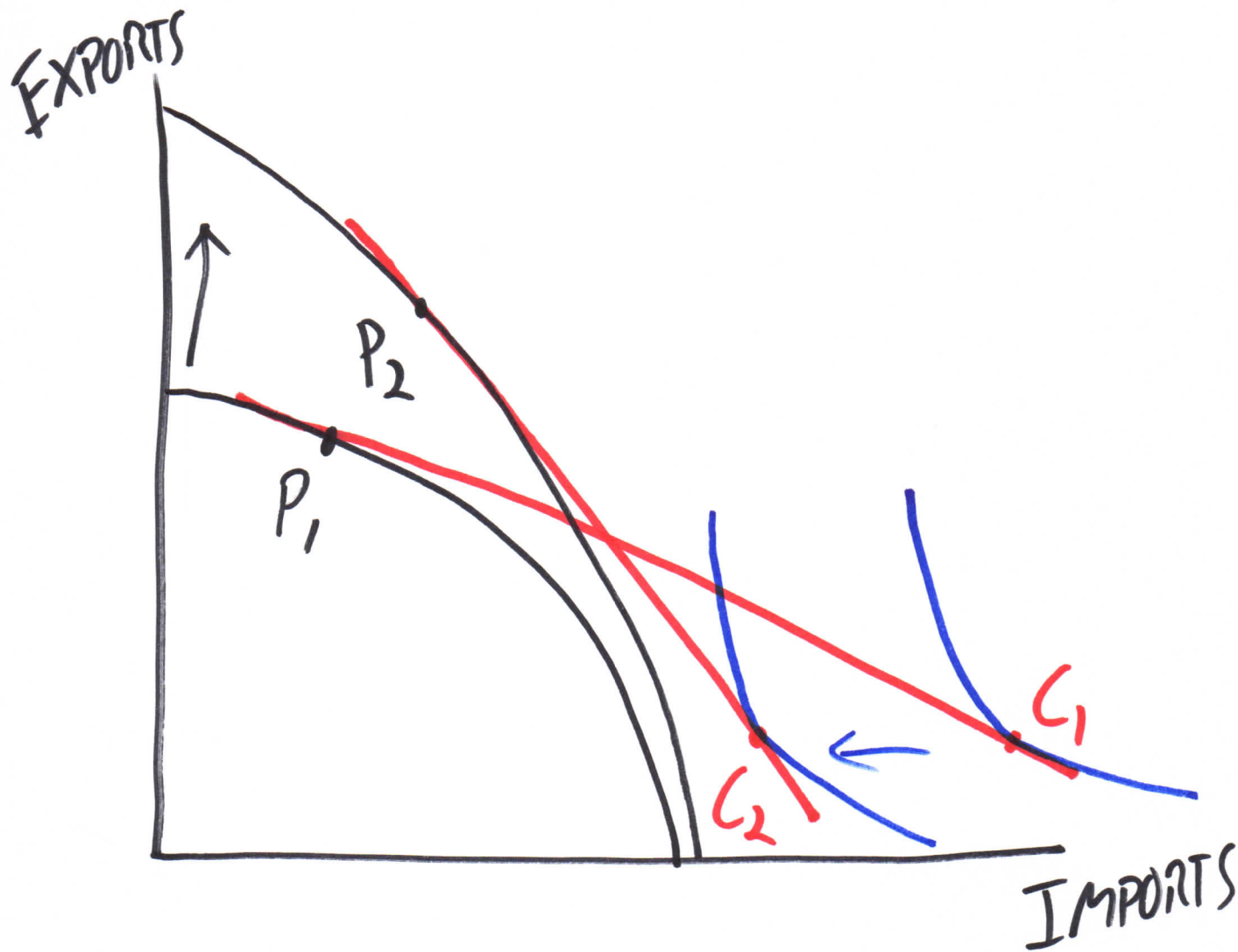
IMMERIALIZING

DUTCH DISEASE

- 1 INDUSTRY IS PRIMARY PRODUCTS
(RAW AG. GOODS, OIL, MINING)
(LOW VALUE ~~ADDED~~ ADDED GOODS)
- GROWTH IN FACTOR ENDOWMENT
OF PRIMARY PRODUCT
 - NEW OIL FIELD
 - NEW AG. TECHNIQUE
(ILLEGAL, ILICIT AG.)
- RESOURCES (LABOR, CAPITAL, FINANCE)
ARE DRAWN AWAY FROM VALUE
ADDED INDUSTRIES (MANUFACTURING
OR R+D)
- ECONOMY DEVOLVES

IMMUNIZING GROWTH

FIG.
7.4



- ① HEAVY GROWTH TO EXPORTS
- ② INELASTIC FOREIGN DEMAND
 $Q_{EX} \uparrow \rightarrow P_{EX} \downarrow \downarrow \downarrow !$
- ③ DEPENDENT ON TRADE

CH 12 REAL WORLD TRADE + GROWTH

- TRADE IMPACTS GROWTH
- GROWTH IMPACTS TRADE
 - DIRECTION OF TRENDS?
- TRADE + GROWTH ARE HIGHLY CORRELATED BUT LESS THAN 9% OF CHANGES TO PER CAPITA GDP ARE LINKED TO TRADE

IMPORTANCE OF OPEN TRADE

- MORE BENEFIT THAN JUST TO EXPORTING INDUSTRIES + IMPORT CONSUMERS

WHY?

- TECHNOLOGY CAN BE IMPORTED
- ACCESS NEW CAPITAL GOODS, NEW CONSUMER GOODS
- PRODUCT CYCLE

① DC A NEW INNOVATION

IMPROVES A PRODUCT OR
MAKES A NEW PRODUCT

② INNOVATED GOOD IS EXPORTED
TO ALL OPEN ECONOMIES

③ LDC → IMITATION OF PRODUCT

④ IMITATED GOOD IS EXPORTED

- TRADE = PEACE?