

**Institut für Weltwirtschaft, Kiel**

**Advanced Studies in International Economic Policy Research, 2006**

***INTERNATIONAL TRADE:  
THEORY, EVIDENCE AND POLICY***

**28<sup>th</sup> August to 8<sup>th</sup> September, 2006**

**Professor David Greenaway,  
University of Nottingham**

International trade, like cross-border investment and international migration, is a key driver of the globalisation process. Trade expanded at an unprecedented rate in the second half of the twentieth century. Moreover, the growth of trade consistently outstripped the growth of real output, resulting in greater openness, greater interdependence among economies and greater potential for policy conflict. In this course we will review the determinants of international trade and consequences of policy intervention to alter the pattern and composition of trade. The course will involve theory, evidence and policy analysis. Week 1 will focus on: globalisation patterns; the regulatory environment; explanations of international trade flows; and impediments to trade. Week 2 will concentrate on three areas currently the focus of major research efforts. Lectures will be complemented by (student-led) Discussion Topics during both weeks.

**Week 1**

**Monday, 28<sup>th</sup> August**

***Topic 1 Globalisation Trends and Controversies***

Trends in trade, cross border investment and migration. Globalisation in the nineteenth and twentieth centuries. Patterns of specialisation. Drivers of globalisation. Future prospects.

**Topic 2**    *The Regulatory Environment*

General Agreement on Tariffs and Trade. GATT and trade liberalisation. The role of the World Trade Organisation. Minilateralism and Multilateralism.

**Tuesday, 29<sup>th</sup> August**

**Topic 3**    *Determinants of International Trade: Factor Proportions*

Structure of the Heckscher-Ohlin-Samuelson model and comparative advantage. Gains from trade. Extensions to H-O-S. Specific factors model.

**Topic 4**    *Determinants of Trade: Imperfect Competition*

Monopolistic competition, oligopoly and trade. Trade, product variety and competition. Non-neo-classical gains from trade. Geography and trade.

**Wednesday, 30<sup>th</sup> August**

**Topic 5**    *Empirical Evidence on Trade Patterns*

Testing the H-O-S theorem. Econometric problems and results. Natural experiments. Gravity Models. Recent evidence.

**Topic 6**    *Intra-Industry Trade*

Growth of intra industry trade. Measurement problems. Documentary evidence and econometric analyses. Directions for future research.

**Discussion Session 1**    *Why is Globalisation so Controversial? (Group 1)*

## **Thursday, 31<sup>st</sup> August**

### ***Topic 7 Theory of Protection***

Economic effects of tariff and non-tariff interventions. Optimal intervention analysis and ranking of instruments. Political economy of protection.

### ***Discussion Session 2 Will the Doha Round Reach a Successful Conclusion? (Group 2)***

## **Friday, 1<sup>st</sup> September**

### ***Topic 8 Measurement of Protection***

Nominal and effective protection. Cost of protection analysis. Computable general equilibrium analysis. Evidence for developed and developing countries.

### ***Discussion Session 3 What are the Key Drivers of Intra-Industry Trade? (Group 3)***

## **Week 2**

## **Monday, 4<sup>th</sup> September**

### ***Topic 9 Firm Level Adjustment to Globalisation***

Models of trade and firm heterogeneity. Exporting, productivity and firm performance. Exporting and FDI. Empirical analysis.

### ***Discussion Session 4 Are There Persuasive Argument for Protection? (Group 4)***

## **Tuesday, 5<sup>th</sup> September**

### ***Topic 10 Trade and Economic Development***

Links between trade and growth. Trade liberalisation and growth. Policy conditionality. Evidence on trade reforms, exports and growth.

***Discussion Session 5    Are Exporting and Productivity Causally Linked?  
(Group 1)***

**Wednesday, 6<sup>th</sup> September**

***Topic 11    Regionalism and Multilateralism***

Economic effects of regional trading arrangements. Trends in regionalism. Minilateral and multilateral trade reforms. RTAs and MTAs as complements or substitutes.

***Discussion Session 6    Do Multinational Enterprises Generate Spillovers?  
(Group 2)***

**Thursday, 7<sup>th</sup> September**

***Discussion Session 7    Does Trade Liberalisation Lead to Economic Growth?  
(Group 3)***

***Discussion Session 8    Are Regionalism and Multilateralism Substitutes or  
Complements? (Group 4)***

**Friday, 8<sup>th</sup> September**

***Preparation for end of course examination.***

## **READING AND REFERENCES**

### **General Texts**

Bowen, H. P., Hollander, A. and Viane, J-M. (1998) *Applied International Trade Analysis* (Macmillan)

Feenstra, R. (2004) *Advanced International Trade : Theory and Evidence* (Princeton University Press)

Greenaway, D. and Milner, C. R. (1986) *The Economics of Intra-Industry Trade* (Blackwell)

Greenaway, D. and Milner, C. R. (1993) *Trade and Industrial Policies in Developing Countries* (Macmillan)

Helpman, E. and Krugman, P. (1985) *Market Structure and Foreign Trade* (Wheatsheaf)

Markusen, J. et al (1995) *International Trade: Theory and Evidence* (McGraw Hill)

### **Collected Readings**

Bhagwati, J. (ed) (1987), *International Trade: Selected Readings* (MIT Press)

Choi, E. K. and Harrigan, J. (2003), *Handbook of International Trade* (Oxford, Blackwell)

Görg, H., Greenaway, D. and Kneller, R. (2005), *Globalisation and Productivity Growth: Theory and Evidence* (London, Palgrave)

Greenaway, D. and Nelson, D. (eds) (2001) *Globalisation and Labour Markets* (London, Edward Elgar)

Greenaway, D. and Winters, L.A. (eds) (1994) *Surveys in International Trade* (Blackwell)

Grossman, G. M. and Rogoff, K. (1995) *Handbook of International Economics*, Vol. 3 (North Holland)

Jones, R. W. and Kenen, P. B. (eds) (1984), *Handbook of International Economics* Vol. 1 (North Holland)

### **REFERENCES BY TOPIC (\* denotes course reading)**

#### **Topic 1**

\*Deardorff, A. (2003) 'What Might Globalisation's Critics Believe?', *The World Economy*, Vol. 26, pp.639-658.

\* Baldwin, R. and Martin, P. (1999) 'Two Waves of Globalisation : Superficial Similarities, Fundamental Differences' in Horst Siebert (ed) *Globalisation and Labour* (Mohr Siebeck)

Stiglitz, J. (2002), *Globalisation and its Discontents* (Penguin)

Wolf, M. (2004), *Why Globalisation Works* (Yale University Press).

## **Topic 2**

\* Francois, J. and Martin, W. (2003) 'Formula Approaches to Market Access Negotiations', *The World Economy*, Vol.26 , pp.1-28.

\*Charlton, A. and Stiglitz, J., 'A Development Friendly Prioritisation of Doha Round Proposals', *The World Economy*, Vol. 28 (2005), pp.293-312.

Blackhurst, R., 'The Capacity of the WTO to Fulfil Its Mandate', Chapter 1 in Krueger 1998.

Anderson, K. and Martin, W., 'Agricultural Trade Reform and the Doha Development Agenda', *The World Economy*, Vol. 28 (2005), pp.1301-1327.

## **Topic 3**

\*Falvey, R. E., (1994) 'The Theory of International Trade', Chapter 2 in Greenaway and Winters (eds)

\* Deardorff, A. (2005) 'How Robust is Comparative Advantage?' *Review of International Economics*, Vol. 13, pp. 1004-1016.

Falvey, R. E. and Yu, Z., (2005) 'Exporting and Productivity Growth: Theory', in Görg et al (eds)

Deardorff, A., (1994) 'Overview of the Stolper-Samuelson Theorem' in A. Deardorff and R. Stern, *The Stolper-Samuelson Theorem: A Golden Jubilee*, University of Michigan Press.

## **Topic 4**

\*Krugman, P., (1995) 'Increasing Returns, Imperfect Competition and the Positive Theory of International Trade', Chapter 24 in Grossman and Rogoff,.

\*Smith, M. A., (1994) 'Imperfect Competition and International Trade', Chapter 3 in Greenaway and Winters.

Greenaway, D. and Milner, C.R.,(1986) *The Economics of Intra-Industry Trade*, Blackwell, Chapters 2-4.

Krugman, P.R. (1991) *Geography and Trade*, Cambridge, MIT Press

## **Topic 5**

\*Leamer, E., 'Testing Trade Theory', Chapter 4 in Greenaway and Winters, 1994.

\*Bernhofen, D. and Brown, J. 'An Empirical Assessment of the Comparative Advantage Gains from Trade'. *American Economic Review*, Vol. 95, 2005, pp. 208-225.

.Leamer, E. and Levinson, J., 'International Trade Theory: The Evidence', Chapter 6 in Grossman and Rogoff, 1995.

Evenett, S. and Keller, W., 'On Theories Explaining the Success of the Gravity Model', *Journal of Political Economy*, Vol. 110, 2002, pp.281-316.

## **Topic 6**

\*Greenaway, D. and Torstensson, J., 'Back to the Future: Taking Stock of Intra-industry Trade', *Weltwirtschaftliches Archiv*, Vol. 133, 1997, pp.249-269.

\*Blanes, J. (2005) 'Does Immigration Help Explain Intra-Industry Trade', *Review of World Economics*, Vol. 141, pp. 244-270.

Greenaway, D. and Milner, C.R., (1986) *The Economics of Intra Industry Trade*, Chapters 5-9.

Ulff-Moller Nielson, J. and Luthje, T., (2002) 'Tests of the Empirical Classification of Horizontal and Vertical Intra-Industry Trade', *Weltwirtschaftliches Archiv*, Vol.138, pp. 587-604.

## Topic 7

\*Anderson, J., (1994) 'The Theory of Protection' in Greenaway and Winters.

\*Corden, W. M., (1994) 'The Normative Theory of International Trade' in Jones and Kenen (eds).

Corden, W. M., (1997) *Trade Policy and Economic Welfare*, Oxford University Press, 2<sup>nd</sup> edition.

## Topic 8

\*Greenaway, D. and Milner, C.R.(1993) *Trade and Industrial Policies in Developing Countries*, Chapters 4-9.

\*Anderson, K. (2003) 'Measuring Effects of Trade Policy Distortions : How Far Have We Come'. *The World Economy*, Vol. 26, pp.413-440

Feenstra, R., (1995) 'Estimating the Effects of Trade Policy', Chapter 30 in Grossman and Rogoff..

Greenaway, D. and Milner, C.R., (2003)'Effective Protection, Policy Appraisal and Trade Policy Reform', *The World Economy*, Vol. 26, pp. 441-456.

## Topic 9

\*Clerides, S, Lach, S. and Tybout, J., (1998) 'Is Learning by Exporting Important?', *Quarterly Journal of Economics*, Vol. 113, pp.903-948.

\*Greenaway, D. and Kneller, R., (2006) 'Firm Heterogeneity, Exporting and Foreign Direct Investment: A Survey', *Economic Journal / GEP Research Paper 2005/32*.

Görg, H. and Hijzen, A., (2005) 'Multinational Enterprises and Spillovers', in Görg et al (eds)

Hoekman, B. and Smarzynska-Javorcik, B., (2004) 'Policies Facilitating Firm Level Adjustment to Globalisation ', *Oxford Review of Economic Policy*, Vol. 20, pp.457-471.

## Topic 10

\*Krueger, A. O., (1997) 'Trade Policy and Economic Development: How We Learn', *American Economic Review*, Vol. 87, pp.1-22.

\*Rodrik, D., (1998) 'Globalisation, Social Conflict and Economic Growth', *The World Economy*, Vol. 21, pp. 143-158.

Edwards, S., Openness, (1998) 'Productivity and Growth: What Do We Really Know?' *Economic Journal*, Vol. 108, pp. 383-398.

Greenaway, D., Morgan, C.W. and Wright, P.W. (2002), 'Trade Liberalisation and Growth in Developing Countries', *Journal of Development Economics*, Vol. 67, pp.229-244.

## Topic 11

\*Hine, R. C., (1994) 'International Economic Integration', Chapter 9 in Greenaway and Winters, 1994.

\*Baldwin, R. (1997) 'The Causes of Regionalism' *The World Economy*, Vol. 20, pp. 865-888.

Bhagwati, J., Greenaway, D. and Panagariya, A., (1998) 'Trading Preferentially: Theory and Policy', *Economic Journal*, Vol. 108, pp.1128-1148.

Panagariya, A., (1999) 'The Regionalism Debate: An Overview', *The World Economy*, Vol. 22, pp. 477-512.

## Useful Websites:

[www.gep.org.uk](http://www.gep.org.uk)

[www.worldbank.org](http://www.worldbank.org)

[www.imf.org](http://www.imf.org)

[www.wto.org](http://www.wto.org)

**Key Journals:**

*Journal of International Economics*

*Review of World Economics*

*World Bank Research Observer*

*The World Economy*

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23<sup>rd</sup> August 2006