

Payne, chapter 8

- Understand what we mean by the “globalization of free trade” or “trade liberalization”—this should largely be a review.
 - Know what *comparative advantage* means, and how a country would structure its economy in terms of its comparative advantage—and, thus, what trade the country would engage in if it were to specialize its economy according to its comparative advantage.
 - Be able to explain the responsibilities of the IMF and World Bank.
 - Know the basic relationship between exchange rates and trade: how does the value of a country’s currency affect the international trade it engages in?
 - Be comfortable with such barriers to free trade as *tariffs*, *quotas*, and *subsidies*—be able to define these protectionist measures and to explain *how* they undermine free trade or trade liberalization.
 - Explain some of the reasons for the establishment of “regional trade blocs,” and be able to discuss some of the specific examples of these regional trade agreements that Payne details.
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Tupy – “Free Trade Benefits All”

- Know the three alleged benefits of “voluntary exchange” (that is, of free trade).
- Tupy notes that in 2004 the per capita GDP—a common measure of a country’s wealth and economic growth—of the *most* protectionist countries (of \$1,883) was 12.7x *lower* than the per capita GDP of the *least* protectionist countries (of \$23,938).

Tupy should have us believe that *fewer* barriers to trade—that is, *free-er* trade policies—are responsible for this stark difference in wealth.

But what *else* might be causing this disparity? What else might be accounting for the inequalities between poor and affluent countries *other than* their trade policies? (Think this through!)

IMF Staff – “Global Trade Liberalization and the Developing Countries”

- Recognize the *five* benefits of trade liberalization (of *freer* trade) that the IMF notes.
- Know the *four* reasons—in *addition to* poor countries’ protectionist trade policies—that the IMF suggests could be the reasons why poorer countries remain poor.
- It is the liberalization of which industry or industries that would benefit developing countries the most? In other words, it is the removal of *what* specific trade barriers that would *most* benefit developing countries?

Be able to explain *why*.

- Explain the consequence of agricultural subsidies in industrial countries.

And be able to explain *why* developing countries maintain high tariffs on agricultural imports.

Tang and Harrison – “Trade Liberalization: Why So Much Controversy”

- Be able to describe and explain the *five* conclusions that Tang and Harrison discuss.
- The authors consistently return to the idea that trade liberalization (that is, more open trade, or the absence of trade barriers) is *not sufficient* for economic growth—meaning that free-trade *on its own* does not increase a country’s economic growth.

Again, what *else* might be helping to explain or account for economic growth?

- Be able to explain *in detail* how trade liberalization was *supposed* to help poorer countries and their lower-skilled workers (section 3 of reading).
 - What are the *four* indirect effects of trade liberalization on the poverty in poor countries?
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Harberger – “Trade and Economic Growth, Part II”

- Note Harberger’s definition of *successful* economic growth.
- Harberger offers a unique explanation of what actually causes economic growth: know how his explanation differs from the ones you’ve read.

In other words, be able to explain the relationship between (a) shifting resources to produce goods for *export* (versus goods produced for domestic consumption), (b) the reduction in the costs of export production, and (c) economic growth.

This is **central** to Harberger’s argument: that it’s *not just* engaging in international trade and liberalizing trade policies that promote economic growth—another factor is necessary here.

Sundaram and von Arnim – “Trade Liberalization and Economic Development”

- This complex article assumes that readers are familiar with specific concepts and theories in international political economy—so don’t allow yourselves to get lost in the details.
- More generally, be able to articulate what Sundaram and von Arnim claim is necessary for developing countries to benefit from liberalizing their trade policies.

They claim that a specific consideration has been overlooked by previous studies, and that this consideration makes it unclear if (all) developing countries benefit from trade liberalization.

Again, their argument is complicated, so don’t worry if you don’t fully understand their explanations, **but you must be able to explain their conclusion.**

- *Which* developing countries stand to gain from trade liberalization, and which are likely to be harmed by engaging in greater international trade and removing their trade barriers?
 - What is the risk to developing countries that liberalize their agricultural sectors?
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(optional) Jeffrey Sachs – “The Development Challenge”

- Understand the principal objections to U.S. development aid that Sachs highlights.
 - And be able to understand the connection between economic development and our previous discussion about regional and global security concerns.
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