

PRINCETON UNIVERSITY: Woodrow Wilson School of Public and International Affairs

**WWS 543: International Trade Policy
Gene Grossman**

Spring 2008 (Preliminary)

The objective of this course is to provide students with the ability to analyze policy issues related to international trade. The course will begin with an introduction to the main theories of international trade, which seek to explain why countries trade, what countries trade, and who gains and loses from trade. Next, we will discuss the instruments of trade policy and their effects on resource allocation and welfare. We will distinguish between the use of trade policy to protect declining industries and buffet income losses and the use of policy to promote national champions and stimulate growth.

Part of the course will address policy issues of current topical interest, including the debate over offshoring and outsourcing, the relationship between trade and the environment, and the processes of multilateral and regional trade integration.

The course will feature one or two speakers from the trade policy community, and in-class debates by students on controversial policy issues.

COURSE OUTLINE AND READING LIST

(Tentative and Incomplete)

I. GLOBALIZATION IN HISTORICAL PERSPECTIVE

The Economist, Survey on "[Globalization](#)" September 27, 2001. Items 1-5, 7-8.

Richard E. Baldwin and Philippe Martin, "[Two Waves of Globalisation: Superficial Similarities and Fundamental Differences](#)," Chapter 1, pp 3-59, in H.Siebert (ed.), *Globalisation and Labour*, J.C.B. Mohr, Tubingen, 1999.

II. WHAT AND WHY DO COUNTRIES TRADE?

A. POTENTIAL GAINS FROM INTERNATIONAL TRADE

R. Caves, J. Frankel and R. Jones, *World Trade and Payments: An Introduction*, 10th edition, Pearson/Addison Wesley, 2007 (henceforth CFJ) pp.13-29, 34-35

B. INTER-INDUSTRY TRADE: ENDOWMENTS, TASTES, AND TECHNOLOGY

CFJ, pp.59-69, 95-98, 99-103, S24-S26

C. INTRA-INDUSTRY TRADE: ECONS OF SCALE AND IMPERFECT COMPETITION

CJF, pp. 121-131

H. Kierzkowski, "Models of International Trade in Differentiated Goods," in D. Greenaway, ed., Current Issues in International Trade, Macmillan Publishers, 1985.

D. WHO GAINS AND WHO LOSES?

CJF, pp. 103-106, S22-S24, 79-84

Kevin O'Rourke and Jeffrey Williamson, "From Malthus to Ohlin: Trade, Growth and Distribution Since 1500," NBER Working Paper No. 8955, May 2002.

E. TRADE, JOBS AND WAGES

Gary Burtless, Robert Z. Lawrence, Robert E. Litan and Robert E. Shapiro, Globaphobia: Confronting Fears about Open Trade, Brookings Institution, 1998, Chs. 3 and 4

Richard Freeman, "[Are Your Wages Set in Beijing?](#)" Journal of Economic Perspectives, Summer 1995, p. 15-32.

International Monetary Fund, World Economic Outlook, Chapter 4: Globalization and Inequality, October 2007.

III. THE POSITIVE AND NORMATIVE THEORY OF PROTECTION

A. TARIFFS, QUOTAS, AND RESOURCE ALLOCATION

CJF, pp.169-177

E. Helpman and P. Krugman (henceforth HK) Trade Policy and Market Structure, MIT Press, 1989, pp.27-38, 56-58

Gary Hufbauer and Kimberly Elliot, Measuring the Costs of Protection in the United States, Institute for International Economics, 1994, ch.1,2

B. THE FIRST-BEST MONOPOLY TARIFF

CJF, pp.177-181, S27-S30

HK, pp. 12-13, 15-20.

C. TARIFFS TO EXTRACT MONOPOLY RENTS

HK, pp. 49-56

D. THE SECOND-BEST ARGUMENT FOR PROTECTION

Jagdish Bhagwati, "The Generalized Theory of Distortions and Welfare," in J.N Bhagwati, ed., International Trade: Selected Readings, 2nd ed., MIT Press, 1987.

E. ADMINISTERED PROTECTION

D. Yoffie and B. Gomes-Casseres, "United States Trade Law," Ch.24 in D. Yoffie and B. Gomes-Casseres, International Trade and Competition, 2nd ed., McGraw Hill.

Gene Grossman, "Imports as a Cause of Injury: The Case of the U.S. Steel Industry," Journal of International Economics, May 1986, pp.201-222.

Thomas Prusa, "Antidumping: A Growing Problem in International Trade," The World Economy, May 2005, 683-700.

IV. MANAGING LOSS OF COMPETITIVENESS

A. TRADE POLICY AND INCOME DISTRIBUTION

B. TRADE POLICY AND UNEMPLOYMENT

C. TRADE POLICY AND ADJUSTMENT ISSUES

M. Mussa, "The Adjustment Process and the Timing of Trade Liberalization," NBER Working Paper No. 1458, pp.1-58.

M. Moore, "Steel Protection in the 1980's: The Waning Influence of Big Steel?" in A. Krueger, ed., The Political Economy of American Trade Policy, Univ. of Chicago Press for NBER, 1996.

J. Michael Finger and A. Harrison, "The MFA Paradox: More Protection and More Trade?" in A. Krueger, ed., The Political Economy of American Trade Policy, Univ. of Chicago Press for NBER, 1996.

D. THE POLITICAL ECONOMY OF TRADE POLICY

D. Rodrik, "The Political Economy of Trade Policy," in G.Grossman and K.Rogoff, eds., Handbook of International Economics, vol.3, North Holland, 1996.

P. Goldberg and G. Maggi, "Protection for Sale: An Empirical Investigation," American Economic Review Dec. 1999, pp. 1135-1155.

Robert E. Baldwin, R. and Christopher Magee, "[Is Trade Policy for Sale? Congressional Voting on Recent Trade Bills](#)," Public Choice, Oct. 2000, pp 79–101.

V. OFFSHORING AND OUTSOURCING

Alan Blinder, "[Offshoring: Big Deal or Business as Usual?](#)" CEPS Working Paper No. 149, Princeton Univ., June 2007.

Gene Grossman and Esteban Rossi-Hansberg, "[The Rise of Offshoring: It's Not Wine for Cloth Anymore](#)" The New Economic Geography: Effects and Policy Implications, Federal Reserve Bank of Kansas City, 2006.

Mary Amity and Shang-Jin Wei, "Fear of Service Offshoring," Economic Policy, April 2005, pp.309-347.

VI. PROMOTING PROFITABLE INDUSTRIES AND GROWTH

A. TRADE POLICY AND OLIGOPOLY PROFITS

HK, 83-115, 155-168

Avinash Dixit, "Optimal Trade and Industrial Policies of the US Automobile Industry," in R.Feenstra, ed., Empirical Methods for International Trade, MIT Press, 1988.

B. INFANT INDUSTRIES: DYNAMIC EXTERNALITIES AND ECONS OF SCALE

Gene Grossman, "Promoting New Industrial Activities," O.E.C.D. Economic Studies, Summer 1990

Robert Baldwin, "The Case Against Infant Industry Protection," Journal of Political Economy, May 1969.

D. Irwin, "Trade Politics and the Semiconductor Industry" in A. Krueger, ed., The Political Economy of American Trade Policy, Univ. of Chicago Press for NBER, 1996.

D. Irwin, "Did Late Nineteenth Century Tariffs Promote Infant Industries? Evidence from the Tinsplate Industry," Journal of Economic History June 2000, p. 335-360

C. INFANT INDUSTRIES: CAPITAL MARKET IMPERFECTIONS

Harry Flam and Robert Staiger, "Adverse Selection in Credit Markets and Infant Industry Protection," in E. Helpman and A. Razin, eds., International Trade and Trade Policy, MIT Press, 1991.

D. TRADE AND GROWTH

Dollar, D. and A. Kraay (2003), "Institutions, trade, and growth: Revisiting the evidence," World Bank Policy Research Paper No. 3004.

Juan Carlos Hallak, James Levinsohn, "Fooling Ourselves: Evaluating the Globalization and Growth Debate" NBER Working Paper 10244, January 2004.

Francisco Rodriguez and Dani Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," NBER Macroeconomics Annual 2000.

VII. ECONOMIC INTEGRATION

A. TRADE AGREEMENTS AND THE WTO

World Trade Organization, [Understanding the WTO](#), Feb. 2007, Chs.1-3.

World Trade Organization, The GATT/WTO at 60: World Trade Report 2007, October 2007, Chapter II, Sections B and C.

Kyle Bagwell and Robert Staiger, The Economics of the World Trading System, MIT Press 2002, ch.2

TN Srinivasan, "The Dispute Settlement Mechanism of the WTO: A Brief History and an Evaluation from Economic, Contractarian and Legal Perspectives," The World Economy July 2007, p.1033-1068.

B. THEORY OF CUSTOMS UNIONS

R. Baldwin and A. Venables, "Regional Economic Integration," in G.Grossman and K.Rogoff, eds, Handbook of International Economics, vol.3, North Holland, 1996.

World Bank, Trade Blocs, April 2000.

VIII. TRADE AND THE ENVIRONMENT

Gene Grossman and Alan Krueger, "The Environmental Impacts of a North American Free Trade Agreement," in Peter Garber, ed., The Mexico-U.S. Free Trade Agreement, Cambridge MA: MIT Press, 1993.

Werner Antweiler, Brian R. Copeland and M. Scott Taylor, "[Is Free Trade Good for the Environment?](#)" American Economic Review, Sept. 2001, pp.877-908.

Josh Ederington, Arik Levinson, and Jenny Minier, "Trade Liberalization and Pollution Havens," BE Journals: Advances in Economic Analysis and Policy, 4(2) 2004.