Trade Liberalization, Economic Growth, and Income Distribution in a Multiple-cone Neoclassical Growth Model[*]

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Abstract

The empirical literature on trade liberalization reflects two puzzles. First, the effect of trade liberalization on economic growth is ambiguous. Second, the effect of trade liberalization by developing countries on their income distribution is ambiguous. This paper attempts to explain these two puzzles at the same time, based on a multiple-cone neoclassical growth model. The model shows that countries that are labor abundant in a global sense may see a rise in income inequality and a decline in per capita GDP and per capita consumption with liberalization if they are capital abundant in a local sense. The results suggest that the two puzzles can be explained by the existence of global and local factor abundances.

Key words: Trade Liberalization; Medium-run Growth; Income Distribution; Multiple-cone Model; Stolper–Samuelson Theorem
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