



Gairuzazmi Ghani

Trade Elasticities and Economic Growth

Implications for Trade Policy

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This study examines the relationships between trade elasticities and economic growth, and their implications for trade policies. If trade elasticities are structural, then there is a case for trade protection because difficulty in the balance of payments will reduce economic growth. If trade elasticities are determined by economic growth, then international trade should be free. The study empirically investigate (i) whether the BOP model and the Krugman 45-degree rule can be accepted, (ii) whether trade elasticities are structural or determined by economic growth, and (iii) whether there are limits to the export-led growth strategies. The empirical findings show that export and import elasticities are not structural, as assumed by theories that advocate trade protections and subsidies. Hence, the support for import substitution industrialization, the validity of the BOP growth model, and the fear of the fallacy of compositions, which provide the case for trade protection and subsidies, are weak at best.

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