

National Trade Conflicts Caused by Productivity Changes

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Abstract:

We discuss the circumstances under which improvements in productivity in a trading partner are beneficial to the home country and when they are detrimental. We show that there are gains from trade that a country can capture from a partly developed trading partner that strongly exceed the gains it can obtain by trading with either a fully developed trading partner or one that is relatively undeveloped. Once a trading partner passes this partly developed state, further improvements in the trading partner's productivity usually *decrease* the welfare of the home country so that we have an inherent conflict in the interests of the two countries.

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