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Economic Integration, Product Cycles and Regime Effects

Ying Liu^a Zhe Wang^a Xiaopeng Yin^{ab}

Abstract

By adopting the modified North-South product cycle model of Grossman and Helpman (G&H, hereafter) (1991a) with adding “two-way” FDIs to form the complete economic integration, we obtain the opposite conclusion for such regime effects from that of both Krugman (1979) and G&H (1991b) in different frameworks, while G&H (1991a) have the similar result in the same oligopolistic framework (without FDIs) we adopt. It demonstrates that the relative wage rate between the North and South will not be affected by the size of labor markets and that there are no regime effects on relative wage rate, regardless of there exist FDIs.

Key Words: Product cycle, two-way FDI, regime effect, innovation, labor market

JEL Classification: F14, F21, L62, P23, P33

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