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Marc Teignier

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The Role of Trade in Structural Transformation

Marc Teignier

Universitat de Barcelona and BEAT. Diagonal 696, 08034 Barcelona, Spain. E-mail: marc.teignier@ub.edu.

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Abstract

Low agriculture productivity is considered a key obstacle to economic development for many countries. International trade in agricultural goods can help overcome this barrier and facilitate structural transformation because it allows countries to import part of their food needs. This article quantifies the role of trade in this context through the examples of South Korea during the last 50 years and Great Britain in the 19th century. To do the analysis, I calibrate and simulate a two-sector, neoclassical growth model to match the data and perform the policy experiments. I find that agricultural imports played a crucial role in the early transformation of Great Britain, while, in South Korea, trade also had a positive impact on its structural transformation but it could have played a much larger role if the country had not introduced agricultural protection policies.

JEL classification numbers: O41, F11, Q18.

Keywords: sectoral reallocation, agricultural productivity, comparative advantage, agricultural trade policy.

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