

## My must-read paper

# Discover Swati Dhingra's recommended reading on trade economics

My favourite economics paper is Paul Krugman's 1979 contribution to new trade theory. Few papers have so elegantly transformed an entire field. The future Nobel laureate showed that growth through trade is not merely about reallocating production according to comparative advantage: it can generate productivity growth through larger markets, economies of scale and greater competition. It's one of the clearest examples of a simple model delivering a profound conceptual shift.

The paper reflects a broader intellectual instinct inherited from the standard framework outlined by Avinash Dixit and Joseph Stiglitz in the late 1970s and Dixit and Victor Norman's subsequent work on trade theory in the 1980s: once markets are characterised by distortions, economists must ask whether market outcomes are delivering the right equilibrium.

Yet while Krugman (1979) is my favourite paper, it is not the one I would recommend as a must-read. Precisely because it is canonical, its ideas are already deeply embedded in how economists think. The papers I most recommend instead are those that capture the broader lesson since that openness can generate substantial gains, but also profound tensions – and that understanding those tensions requires empirical discipline rather than ideological certainty.

That lesson resonates with me in part because of how the trade debate evolved alongside the world I grew up in, the aftermath of India's liberalisation in 1991. The first economics of trade I encountered was the tradition of Jagdish Bhagwati: the critique of protectionism, rent-seeking and the distortions of state-led industrialisation. Growing up as reforms opened the economy it was difficult not to appreciate the force of that argument. The contrast between the Licence Raj and the dynamism unleashed afterwards shaped my early instinct that markets and openness matter enormously for growth. But it became equally clear that growth alone does not lift all boats.

Because theory and ideology alone cannot resolve these tensions, the most important advances in the field have come from empirical work capable of adjudicating among competing explanations. In my view, the most illuminating

advances came when trade borrowed from labour economics to confront how trade, technology and institutions interact in practice rather than in abstraction. I teach the 1980s debate on skill-biased technological change – drawing heavily on CEP's contributions from Stephen Machin and John Van Reenen – and it is invariably the lecture that persuades students that the economics of globalisation is not about slogans, rather it is about disentangling competing explanations with evidence.

My recommendation, then, is to read Krugman for the intellectual provocation, but to read the labour market papers such as Machin and Van Reenen "Technology and changes in skill structure: evidence from seven OECD countries" to understand what trade actually does to people and places – and the policy shifts that now dominate debates over globalisation, deglobalisation and industrial strategy.

The two papers that I most recommend in trade capture this central tension of openness in practice.

My first recommendation is Gary Sawchuk and Daniel Trefler's "A time to sow, a time to reap: The FTA and its impact on productivity and employment" – a less-cited but exceptionally clear paper, showing that the Canada-US Free Trade Agreement generated meaningful productivity gains while also imposing significant employment dislocation and adjustment costs in Canada. The enduring challenge for trade economists and policymakers is not choosing between those truths, but understanding how both can coexist and what policies to design. When I showed the paper's striking results at the then Department for International Trade, it was not quite the figure the minister wanted highlighted at an event celebrating free trade just after Brexit. Later work on the China shock in the United States and the role of economic reforms in poverty reduction in India would push this lesson further.

Increasingly, the central questions in the world economy are also about resilience, strategic dependence and planetary constraints. My second recommendation is M Scott Taylor's 2005 paper "Unbundling the pollution haven hypothesis". That paper was influential in

shifting environmental economics towards disentangling the competing mechanisms through which environmental burdens arise in an integrated world economy – whether through weak environmental regulation in poorer countries, or through differences in technological capability. I am relatively new to the field, and surveys by Taylor and Brian Copeland explain the evolution of debates about trade and the environment.

In a world of integrated global production, recurrent supply shocks and intensifying geopolitical fragmentation, we need the best evidence to guide policy under imperfect institutions and new strategic constraints. That, to me, is the enduring lesson of modern trade economics: elegant theory and modelling can illuminate possibilities, but only empirics can reveal which possibilities matter in practice.

## Recommended reading

Krugman, P. (1979) 'Increasing returns, monopolistic competition, and international trade', *Journal of International Economics*, 9(4): 469–79.

Machin, S., and Van Reenen, J. (1998) 'Technology and changes in skill structure: evidence from seven OECD countries', *The Quarterly Journal of Economics*, 113(4), 1215–1244.

Sawchuk, G., and Trefler, D. (2002) 'A time to sow, a time to reap: the FTA and its impact on productivity and employment', in S. Rao and A. Sharpe (eds.), *Productivity Issues in Canada*. Calgary: The University of Calgary Press.

Taylor, M.S. (2005) 'Unbundling the pollution haven hypothesis', *B.E. Journal of Economic Analysis & Policy*, De Gruyter, 4(2): 1–28, June.

**Swati Dhingra** is an associate professor of economics at LSE and director of CEP's green transition programme. Read more about her work on [page 16](#).

