Trade Expansion, Division of Labor, and Firm Productivity[1]

Keita Kamei
Graduate School of Economics, Kyoto University
Japan Society for the Promotion of Science

Abstract

We construct a general-equilibrium oligopolistic model that embeds Smith's (1776) famous theory of division of labor under vertical specialization. In the absence of labor market integration with trading countries, we show that trade expansion promotes a decrease in the number of firms in each country and a deeper division of labor, thus increasing firm productivity and improving the welfare of the trading countries. Our model offers a new interpretation of the trade-induced firm productivity effect.

[1] Corresponding author. Graduate School of Economics, Kyoto University, Yoshida Honmachi, Sakyo-Ku, Kyoto 606-8501, Japan. Research Fellow (DC2), Japan Society for the Promotion of Science. Tel: +81 80 1801 5237. E-mail address: keita.kamei@gmail.com.