















$$0 \quad \underline{(\tilde{c})} \quad + \quad \underline{(\tilde{c})} \quad \sim \quad \geq$$

$\downarrow$   
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 $\sim$

$$\frac{+}{2} \quad + \quad - \quad 2$$

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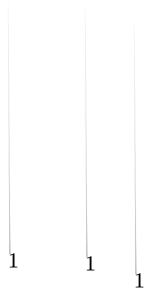

$$- \quad + \quad - \quad 2 \quad +$$

$\downarrow$        $\downarrow$   
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$$\frac{2}{2} = 1$$



+ -

- 2 2 - 2

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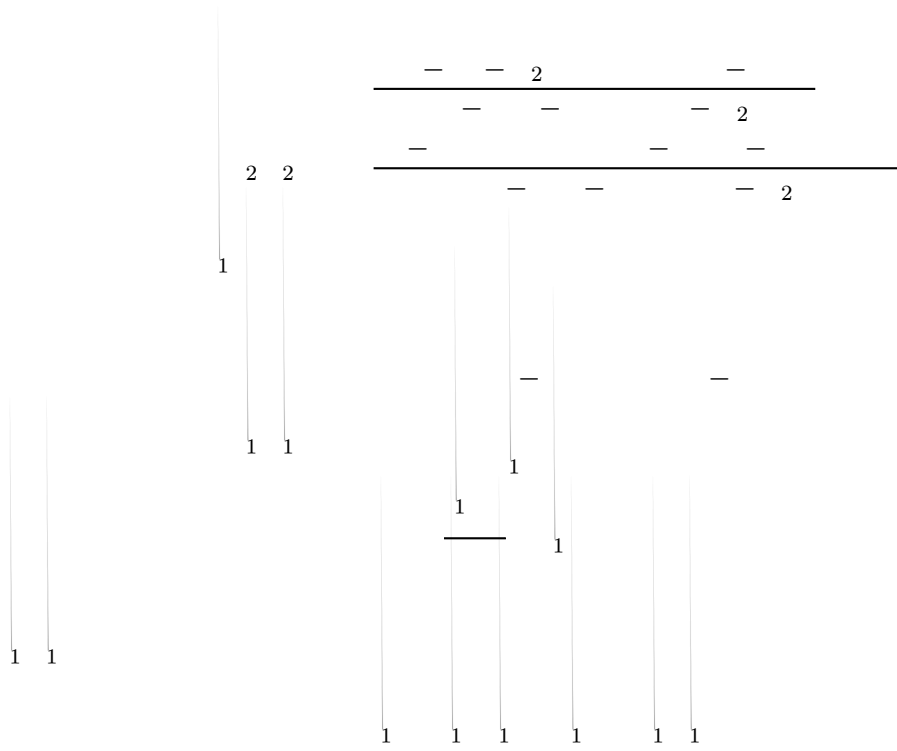
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$$\frac{-}{-}$$

Trade liberalization, or a reduction in trade costs, in a labor abundant country leads to a decrease in the return to capital in the country, which results in an increase in the position of net foreign asset holding in the steady state. A technological progress in favor of the comparative advantage sector in a labor abundant country also reduces the return to capital and produces an increase in the net foreign asset position. An opposite set of results holds when a trade liberalization, a reduction in trade costs, or a productivity increase in favor of the comparative advantage sector, take places in a capital abundant country.

$$\frac{-}{=}$$



2

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2

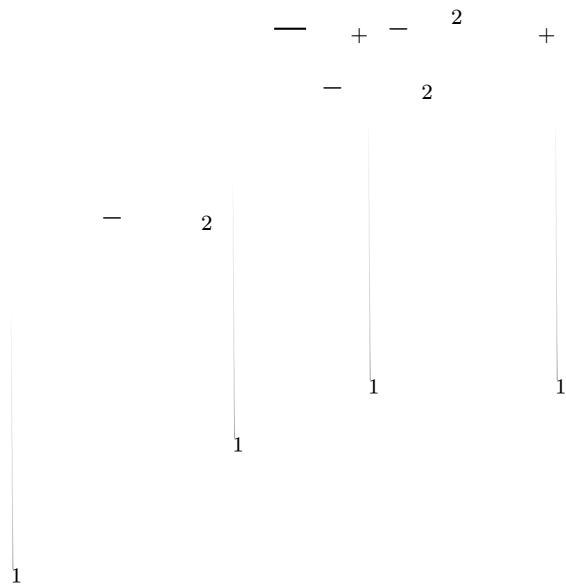
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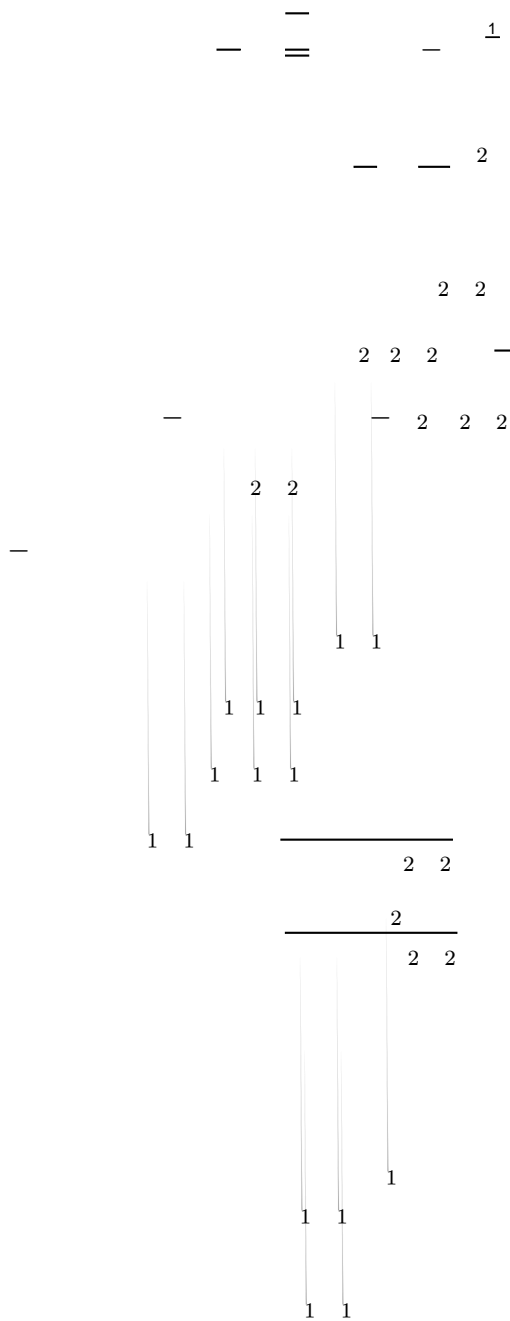
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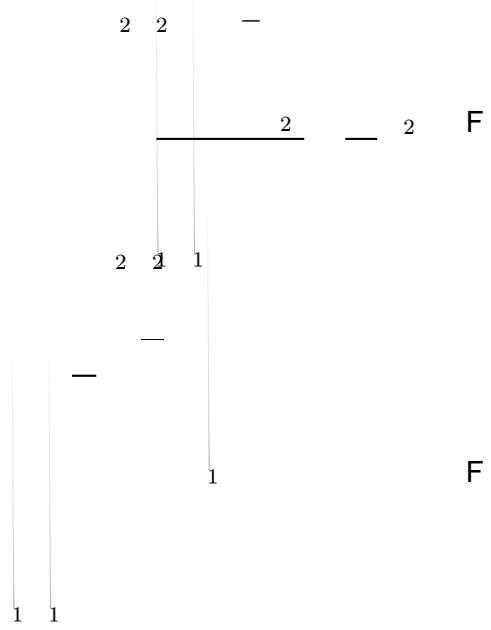
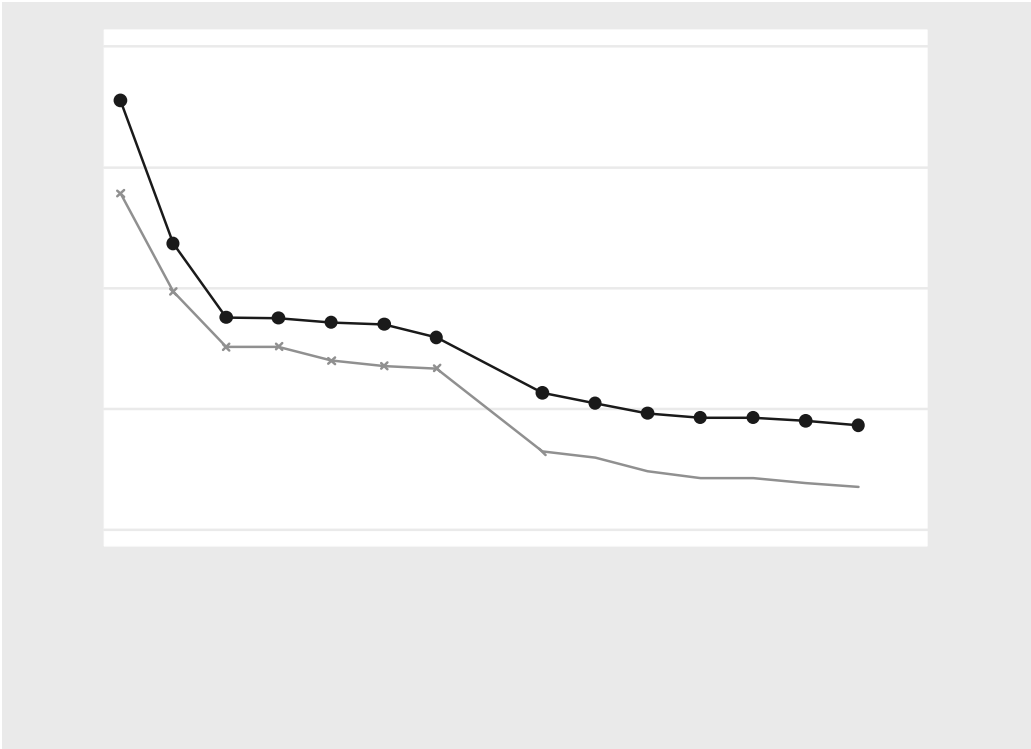




Figure 2: Change of tariffs and trade/GDP for China from 1995-2009, in percentage

Figure 3: Tariff change, Trade balance/GDP, Current account balance/GDP for China from 1995-2009



Source: WITS and World bank database

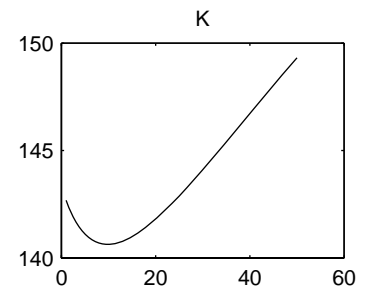
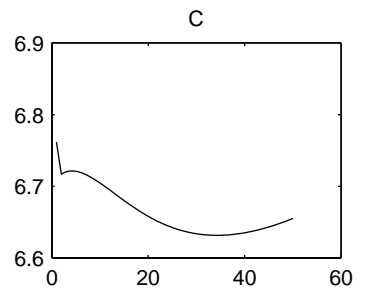
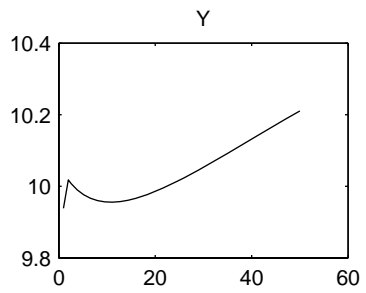
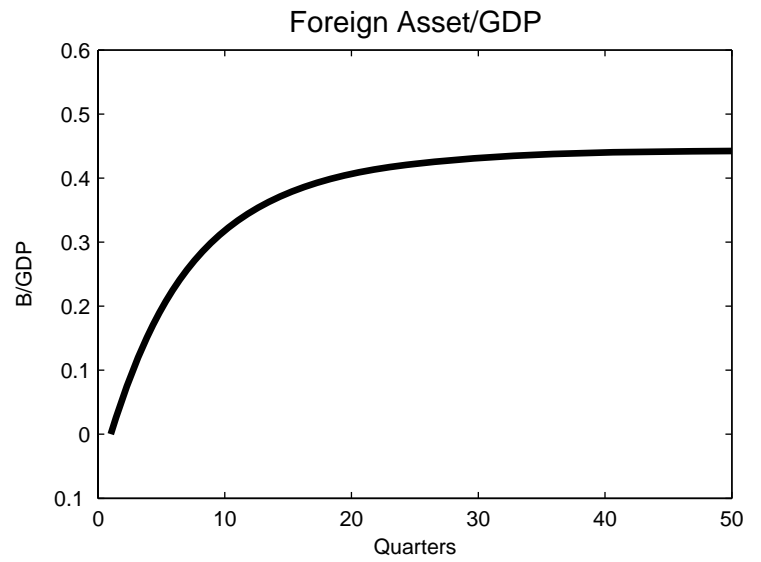
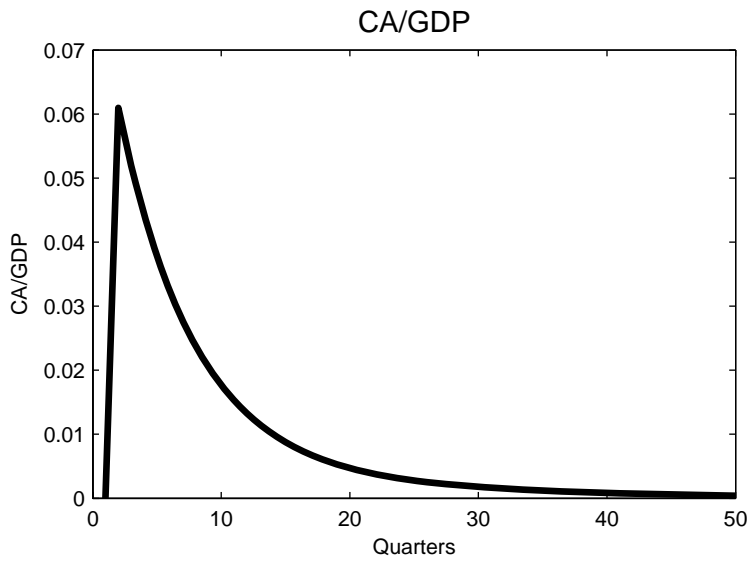
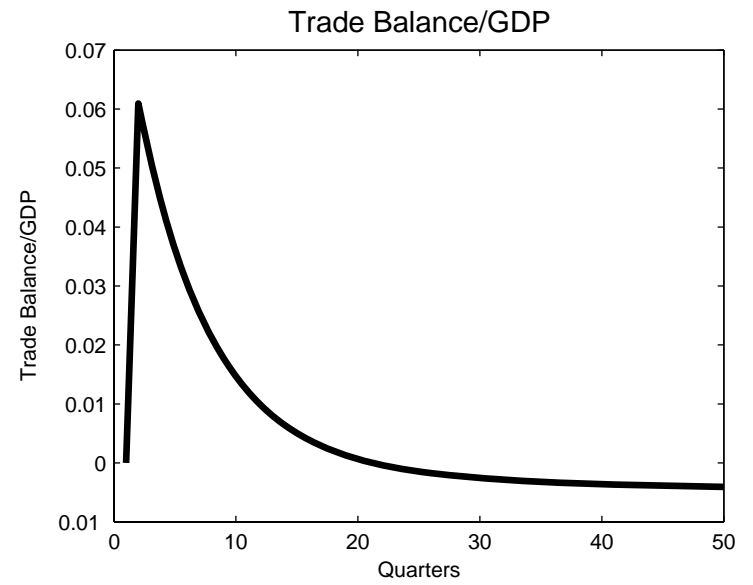
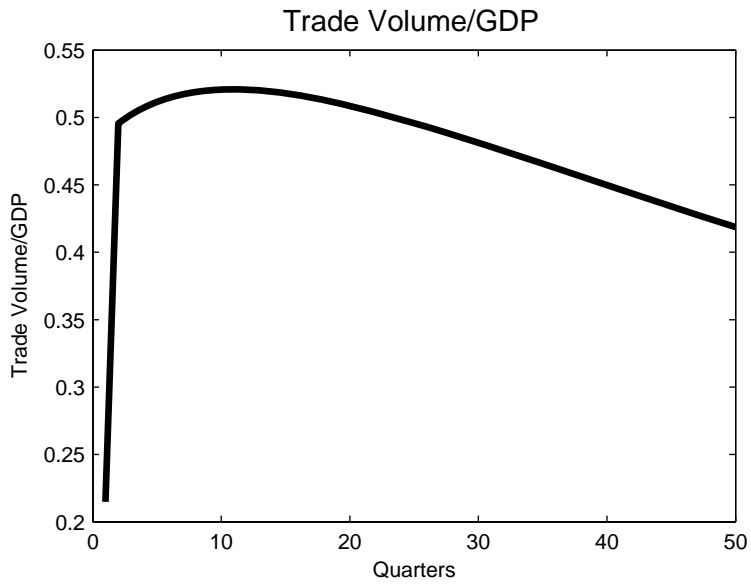


Figure 5: Response of trade and capital flow to trade liberalization ( 5% tariff reduction)



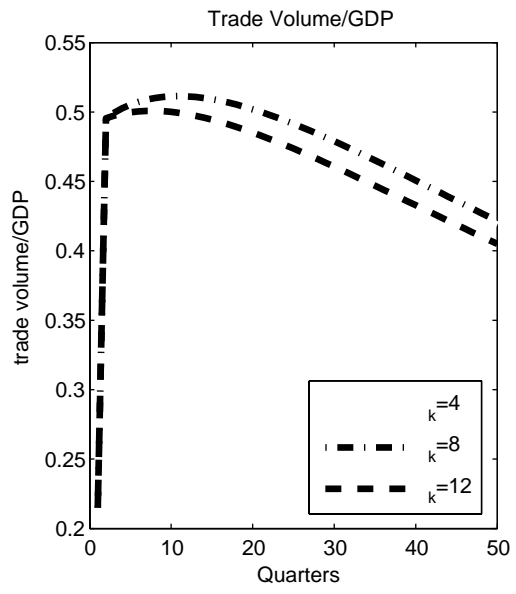
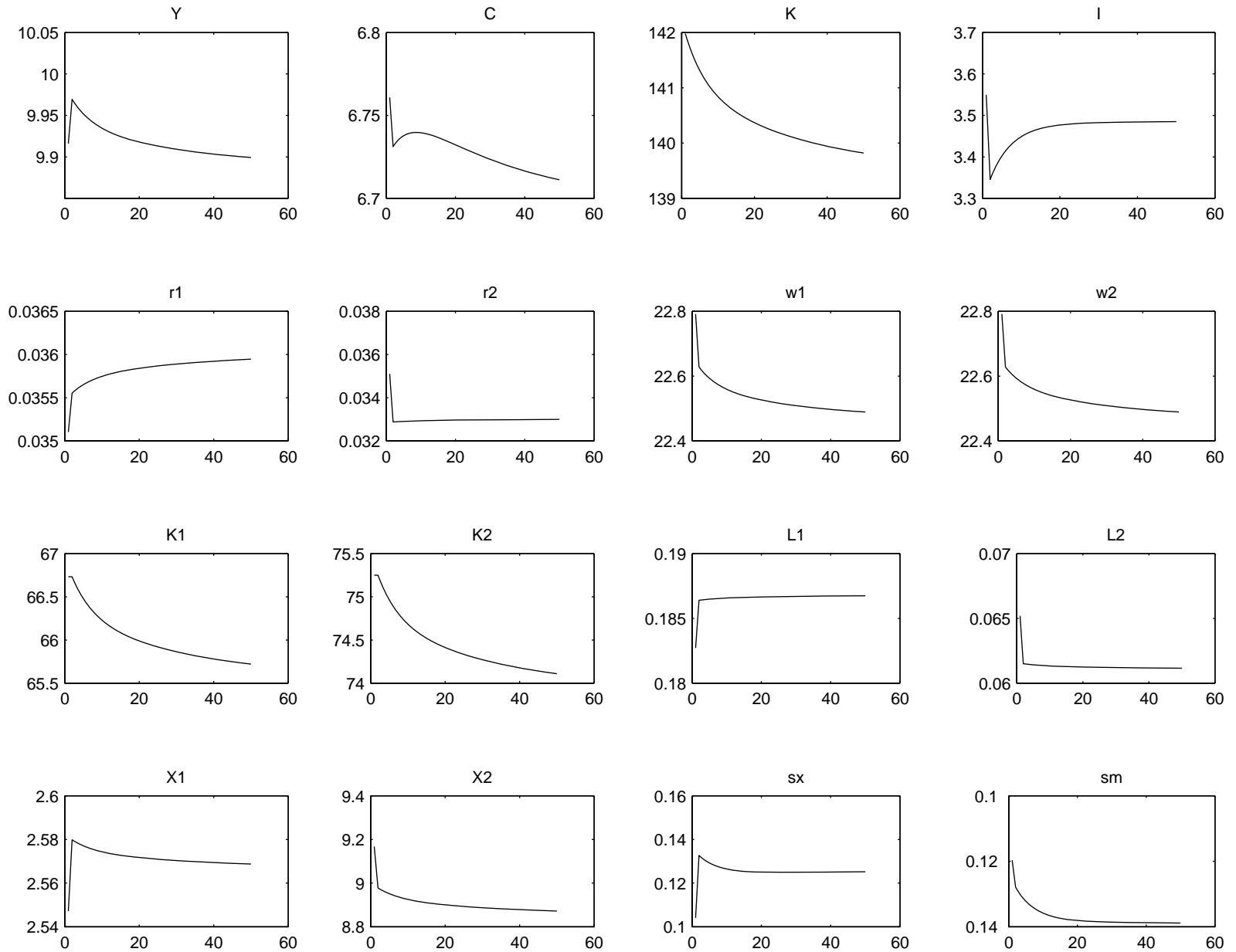
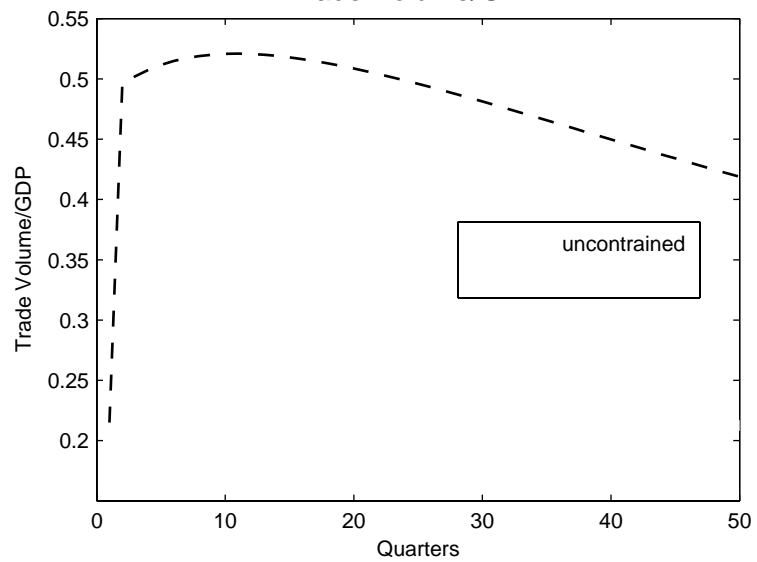
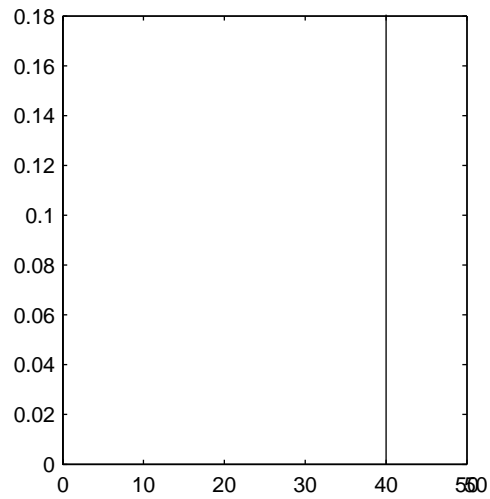
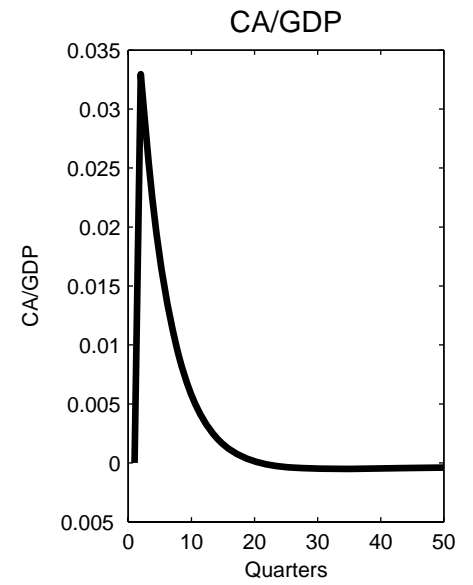
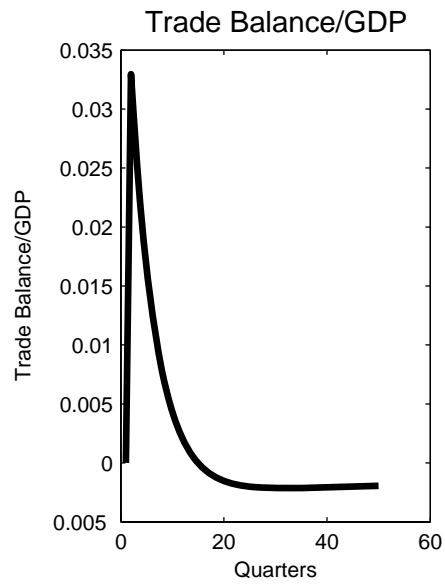
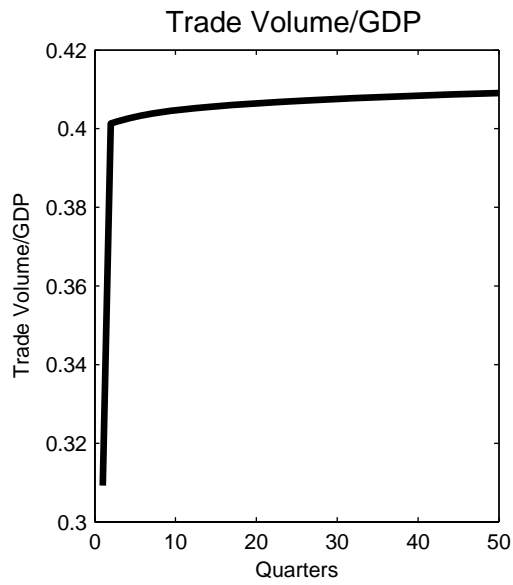


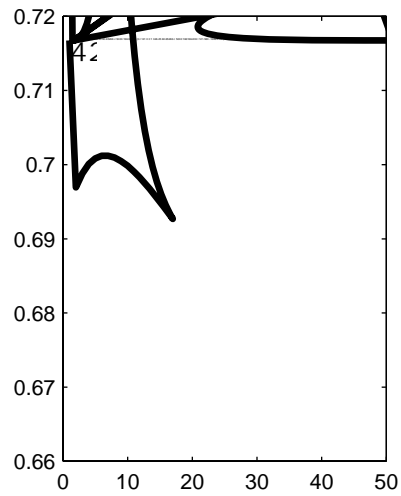
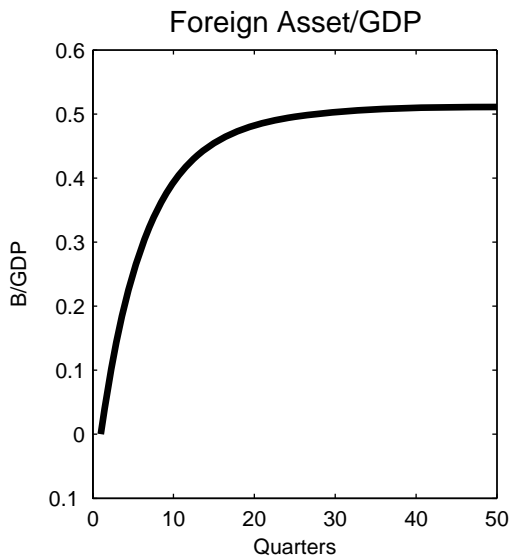
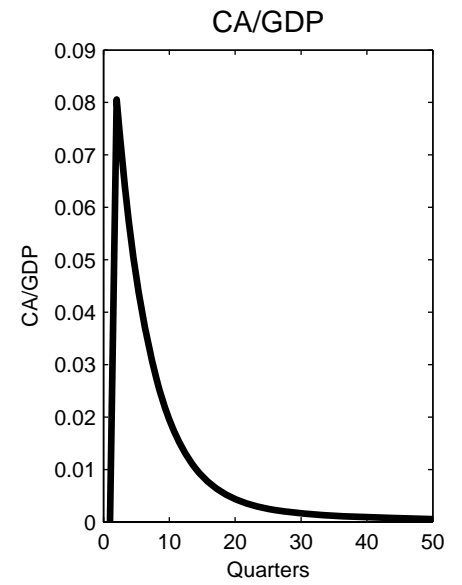
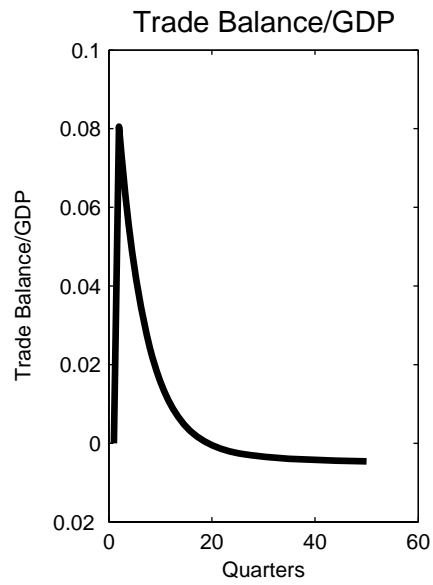
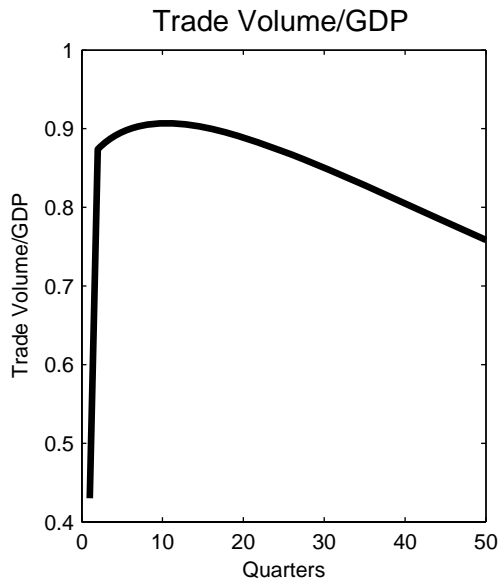
Figure 7: Transition path of the economy after trade liberalization with credit constraint



Trade Volume/GDP







variable	benchmark		Credit Constraint	
	tariff=0.15	tariff=0.1	tariff=0.15	tariff=0.1
rc	0.035101	0.03171	0.035101	0.034412
r1	0.035101	0.03171	0.035101	0.035996
r2	0.035101	0.03171	0.035101	0.033008
w1	22.791	24.132	22.791	22.471
w2	22.791	24.132	22.791	22.471
p1	2.5545	2.5545	2.5545	2.5545
p2	0.45018	0.43061	0.45018	0.43061
p	1.0724	1.0488	1.0724	1.0488
c	6.7617	6.9124	6.7608	6.6973
d	10.088	10.707	10.071	10.024
k	142.68	158.9	141.98	139.55
l	3.567	3.9724	3.5496	3.4888
k1	66.409	81.692	66.732	65.589
k2	76.273	77.203	75.251	73.962
l1	0.18182	0.19084	0.18271	0.18679
l2	0.066076	0.057064	0.06519	0.061112
x1	2.5347	2.8168	2.5471	2.5673
x2	9.2923	8.8831	9.1678	8.8586
d1	2.1174	2.198	2.1138	2.0578
d2	12.015	13.04	11.995	12.207
nx1	1.066	1.5807	1.1067	1.3016
nx2	-1.2259	-1.7898	-1.2727	-1.4421
ca	0	0	0	0
	0.0%	41.6%	0.0%	9.0%
	21.5%	30.6%	22.4%	26.5%
GDP	9.938547896	10.50788262	9.915821665	9.890131194
consumption	6.7617	6.9124	6.7608	6.6973
c/y	68.0%	65.8%	68.2%	67.7%
i/py	33.5%	36.0%	33.4%	33.6%



Table A1: Tariff Reductions, Trade Volume and Current Account in China

year	simple average tariff	weighted average (import+export) tariff	(import+export)/GDP	(export-import)/GDP	Current account/GDP
1995	0.3552	0.2786	0.3881	1.6426	0.2223
1996	0.2370	0.1972	0.3806	2.0502	0.8461
1997	0.1756	0.1515	0.3901	4.4951	3.8800
1998	0.1750	0.1517	0.3639	4.2999	3.0871
1999	0.1716	0.1401	0.3769	2.6491	1.9492
2000	0.1701	0.1357	0.4424	2.4092	1.7120
2001	0.1592	0.1336	0.4308	2.1199	1.3135
2002	0.0000	0.0000	0.0000	2.5713	2.4365
2003	0.1133	0.0648	0.5691	2.1987	2.7956
2004	0.1048	0.0600	0.6535	2.5514	3.5544
2005	0.0964	0.0483	0.6863	5.5296	7.1256
2006	0.0929	0.0428	0.7057	7.7006	9.3355
2007	0.0929	0.0429	0.6803	8.8000	10.6419
2008	0.0902	0.0390	0.6224	7.7152	9.6445
2009	0.0866	0.0357	0.4907	4.4148	5.9602