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Concluding Observations

We reached a simple conclusion from our calculations. The potential gains from the integration of world markets and the compression of price divergence are very large. This is not a new finding, but our calculations represent a new way of reaching a familiar result.

Many scholars have concluded that when a country chooses to have denser trade and investment relations with the world economy, it will enjoy a higher level of income, other things being equal. Their results are based both on cross-country econometric studies and on computable general equilibrium models. We reach the same result by applying simple supply and demand models to make a “what-if” calculation: what if the wide extent of price divergence that now characterizes the world economy could be compressed?

Our calculations, which are based on simple partial equilibrium analysis, show large potential gains. The potential gains are larger, as a percentage of GDP, for middle-income and low-income countries than for high-income countries. Moreover, a substantial share of the gains can be captured by policies that encourage an open economy: low trade and investment barriers, low corruption, and keen competition in the marketplace.