

## Trade, Growth, and Development: The Role of Poverty Traps

This paper revisits the role of poverty traps in accounting for cross-national income differences. I argue that poverty traps are vital for explaining the prolonged collapses in economic growth which tend to occur in lower and middle-income countries. However, conventional one-sector models of poverty traps generate counterfactual implications that are not borne out by the cross-national data. In contrast, a two sector model of “specialization traps”, where economies can become trapped in the production of goods that have low productivity growth rates, predicts accurately the medium and long-run reaction of the economy to exogenous shocks. These results call for a reappraisal of the role of trade policy in development strategies.