



YOUR LOGO

INTERNATIONAL TRADE: CASE STUDIES

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EE463 Globalization and International Development

Several issues in international trade

- Increasing competition
- Currency manipulation
- Protectionism
- Excessive subsidies
- Dutch disease



Case 1: Increasing competition

- Pre 1990s: world trade dominated by Western countries
- Post 1990s: rise of China due to
 - economic reforms and trade liberalization
 - infrastructure investments
 - abundance of low-cost labor



Rise of China: strategic policies

- Low-cost, labor-intensive manufacturing
- Thereafter moving towards high value added
- Technology-based manufacturing



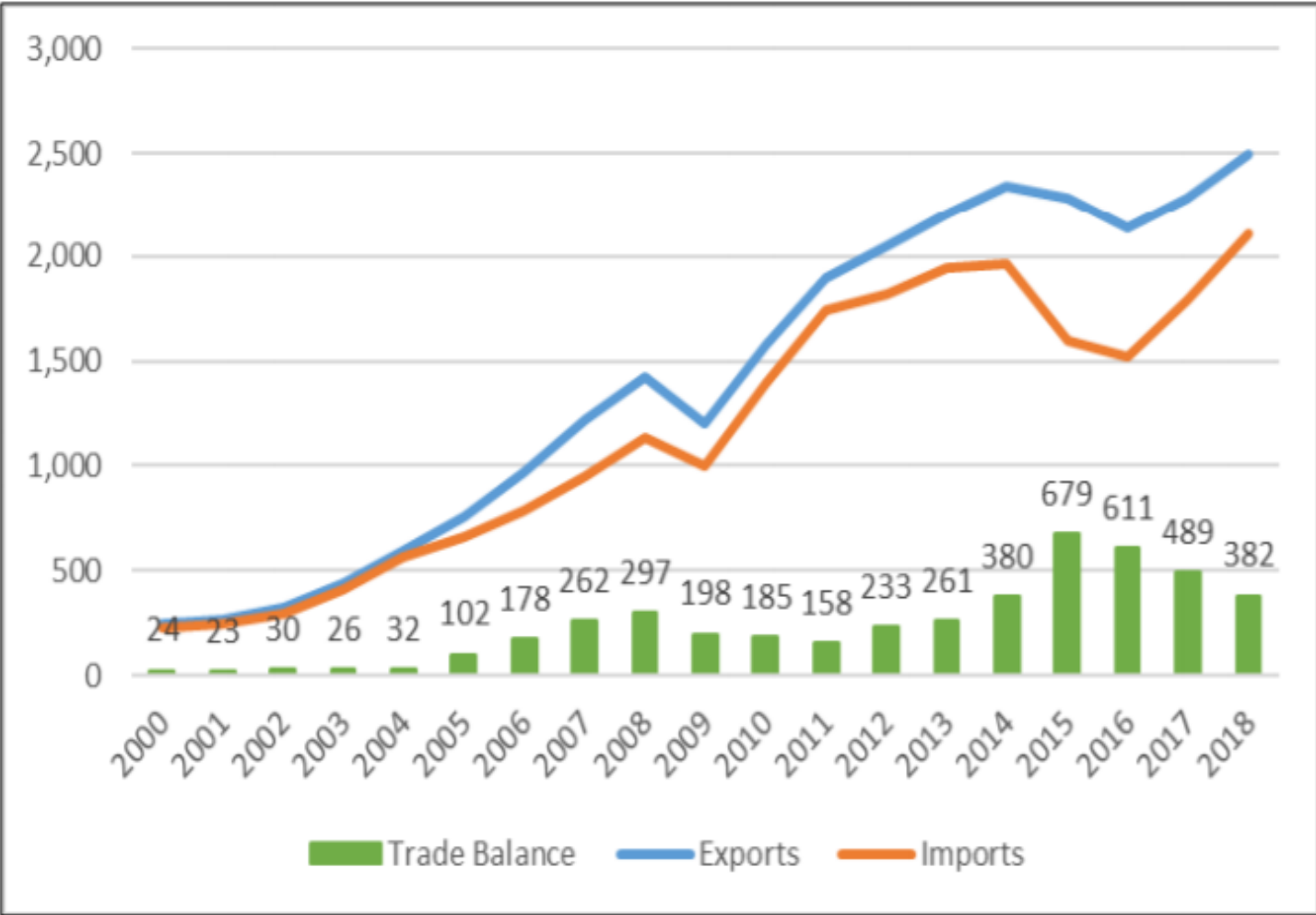
Milestones: Rise of China as a trade power

- 2000-2008: annual growth of merchandise exports and imports averaged 25%
- 2008: global financial crisis, annual growth of exports and imports fell by 15%
- 2011: trade recovered with export and import growth increase of 28%
- 2012: China overtook the US as world's largest merchandise trading economy



China trade balance, 2000-2008

- 1979-2018 exports rose from \$14 billion to \$2.5 trillion
- Imports grew from \$18 billion to \$2.1 trillion
- 2016: slight decline due to increased commodity prices (oil, ores)



Trade with China – perspectives from the West

Advantages

- Good economic environment
- Stable political environment
- Good quality infrastructure
- Abundant labor

Disadvantages

- Lack of intellectual property protection
- Rising business costs
- Market penetration
- Problems with manufacturing

Case 2: Currency manipulation

Currency manipulation: a deliberate attempt by a country to lower the value of its currency

Lowering the value of a country's currency makes its exports more competitive – lower prices increases demand

Effects of currency manipulation

- In short term exports become cheaper, more competitive
- However it can result in retaliation by other countries and start a currency war
- Countries can lower their currency's value through a fixed exchange rate

How currency manipulation happens



Case 3: Protectionism

Protects a country's industries from foreign competition

Advantages

- Develops target industries
- Temporarily creates jobs

Disadvantages

- Companies without competition decline in quality
- Leads to the outsourcing of jobs
- Inefficient production
- Slows economic growth

Malaysia automotive industry

- 1967: Malaysian PROTON car industry established
- 1983: Protectionism, direct government involvement, subsidies
- 2000s: liberalization of the domestic automotive industry
- Government encouraged local assembly of vehicles and manufacturing components



Impacts of liberalization

- Aggressive free-trade agreements, privatisation and harmonisation of UN regulations
- The automotive industry is the third largest in Southeast Asia; and 23rd largest in the world
- Contributes 4% or \$ 3.0 billion to Malaysia's GDP; employs a workforce of over 700,000



Case 4: Subsidies

- Monetary support or other incentives or other types of support to producers to supplement their income and manage supply
- Examples: agriculture, electric cars, green energy, oil and gas, green energy, transport, and welfare payments

Agricultural subsidies: why and what

Reasons

- keep commodity prices low
- exports
- favors politically active farmers

Consequences

- surplus production
- depressed prices
- dumping of goods

Politics of agricultural subsidies

Rich countries of developed world subsidize farm products: more than \$300 billion/year

- keeps commodity prices low for domestic consumers
- market agricultural goods to other countries → more competitive
- Satisfies political constituents

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Oxfam Briefing Paper

Dumping Without Borders:

How US agricultural policies are destroying the livelihoods of Mexican corn farmers

The Mexican corn sector is in acute crisis because of the influx of cheap subsidised corn imports from the US. Poor Mexican farmers cannot compete against US producers, who receive \$10bn a year in subsidies. Action is required at the WTO Ministerial Conference in Cancun in September 2003 to end agricultural dumping, together with action by the Mexican government to control US corn imports.

"Poor Mexico, so far from God and so close to the US!"

Popular saying

Impact of agricultural subsidies

- Low prices for domestic consumers
- Competitive prices overseas
- Hardships for farmers of less developed countries



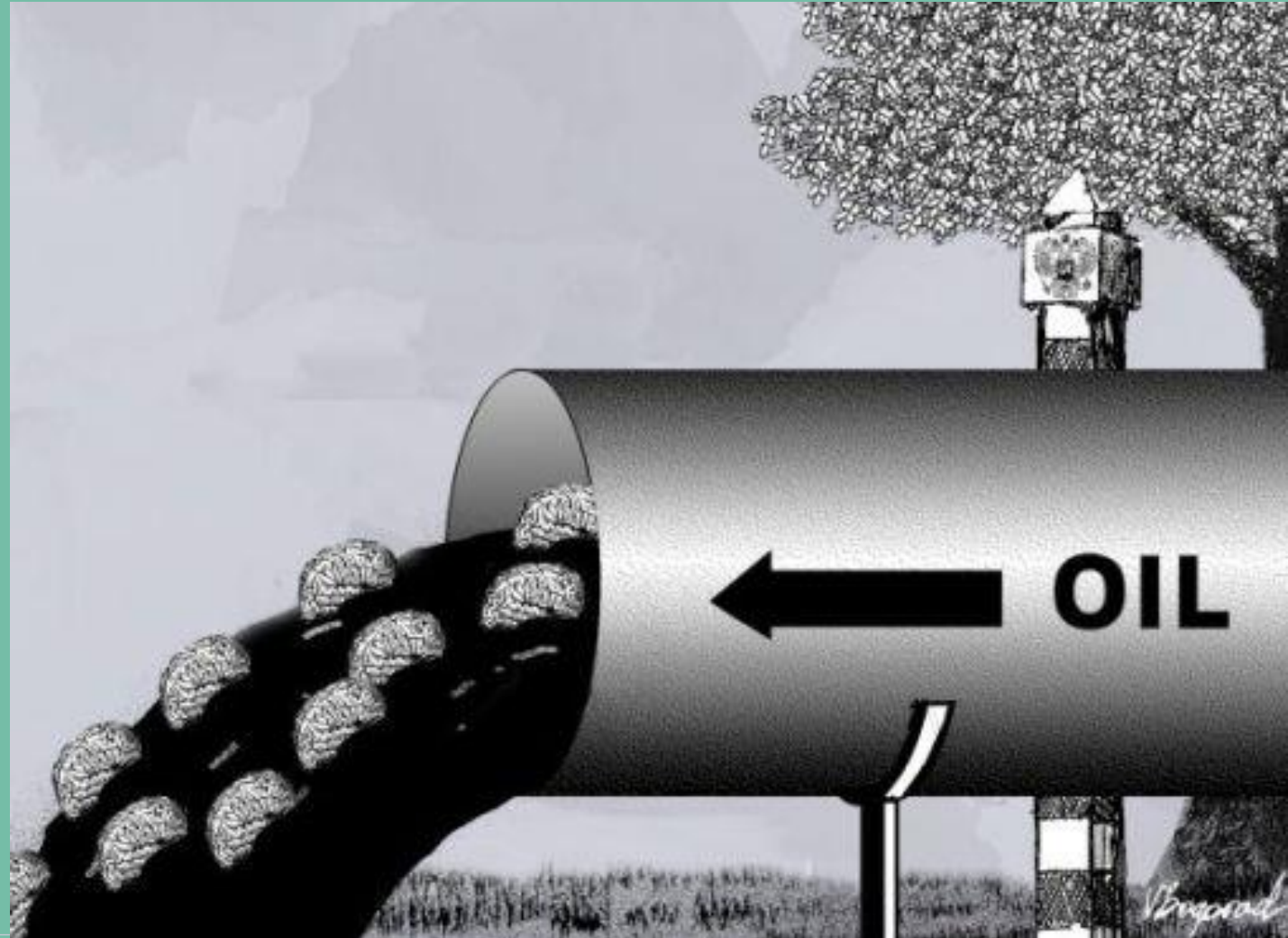
Case 5: Dutch disease

- Earnings from booming primary export prices causes adverse effects on the economy
- Seemingly good occurrence harms a country's broader economy



Dutch disease: Netherlands, 1960-1070

- 1960s: discovery of reserves of natural gas fueled an oil boom
- Resulted in a large export boom and bringing in foreign exchange and economic surplus



Impacts of Dutch disease

- Rising inflation, declining manufacturing exports,
- Lower rate of economic growth
- Neglect of other sectors
- Rising unemployment
- Other experiences: oil (Mexico, Nigeria, Saudi Arabia); coffee booms (Africa, Brazil)

Conclusion

- Countries compete to produce and export to achieve trade surplus
- It is government's role protect domestic producers and their citizens; there may be cases of conflicting interests
- Protecting domestic interests may lead to policies that conflict with interests of other countries

Conclusion

- With increased globalization there is increasing competition among countries
- Several cases arising from international trade that has a potential for conflict include include currency manipulation, protectionism, rising tariffs, and excessive subsidies

Case study on international development: Rise of Singapore

<https://youtu.be/XSOgcpRbrCo>

THANK **Y**OU!