YOUR LOGO

International Trade

Faculty of Economics, Thammasat University

Module 13

Definitions

- **Globalization:** integration of national economies into the international economy; increasing interdependencies
- **Global value chains:** Production is broken into activities and tasks carried out in different countries
- **Strategic positioning**: managing manufacturing assets in order to lower costs and maximize new market opportunities

Definitions

- **Trade protectionism**: Policies that restrict international trade in order to help domestic industries through tariffs, non-tariff barriers and quotas
- **Primary commodities:** Products derived from all extractive occupations, such as agriculture produce, forest products, mining, and fisheries. These are vulnerable to price fluctuations

Definitions

- **Current account:** a portion of a country's balance of payment that reflects the market value of exports and imports
- **Capital account**: a portion of a country's balance of payment that reflects the volume of loans, grants and foreign direct investment that flow into and out of the country

DEVELOPMENTS IN INTERNATIONAL TRADE

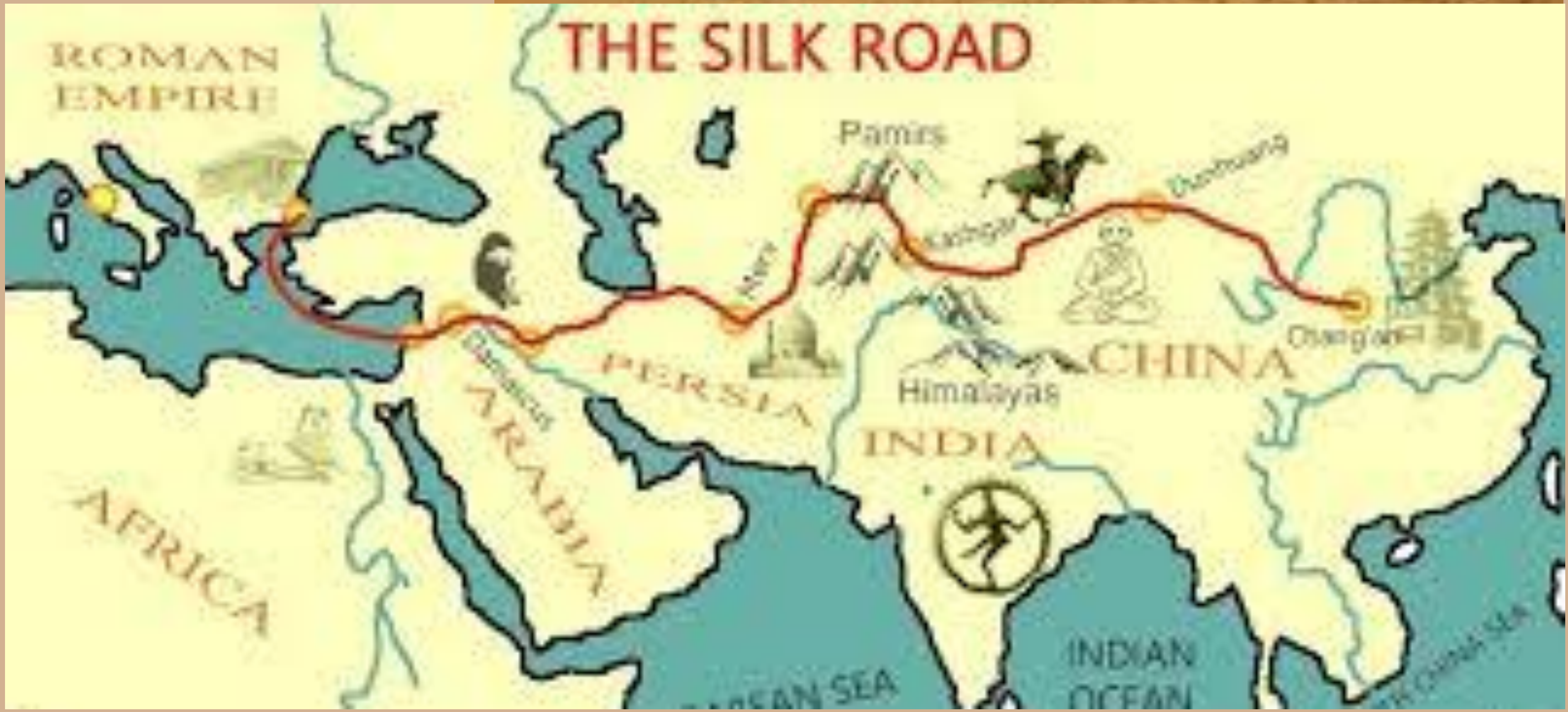
Semester 2 2022

Rationale

- In a global economy, no nation is self-sufficient; nations trade, sell, and acquire what they needs
- World trade has become increasingly linked through expanded international trade and portfolio investments

The Silk Road

- International trade has existed since ancient times
- Example: Silk road an overland route linking China and the West
- Stretches from Xi’an to Venice



Mercantilism

- An economic policy designed to maximize exports and minimize imports through imperialism and colonialism

Modern era: globalism

- Rise of global trade: world becomes more integrated, leading to a global economy and global economic policymaking
- 1947: establishment of General Agreement on Trade and Tariffs (GATT)
- 1995: establishment of World Trade Organization (WTO); replaced GATT

Benefits and costs of trade

Benefits

- Increased trade creates more business opportunities, rapid growth of knowledge and efficiency gains
- Developing countries are trading more and more, among themselves as well as with developed countries

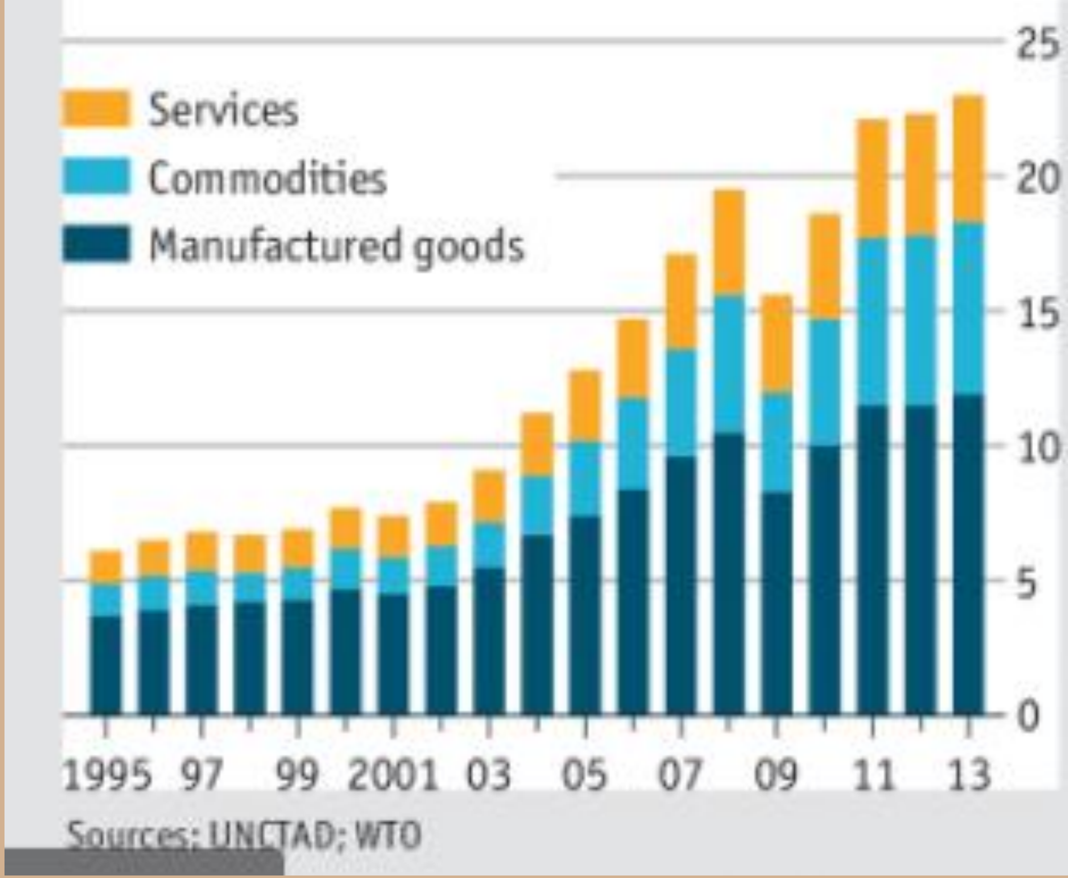
Costs

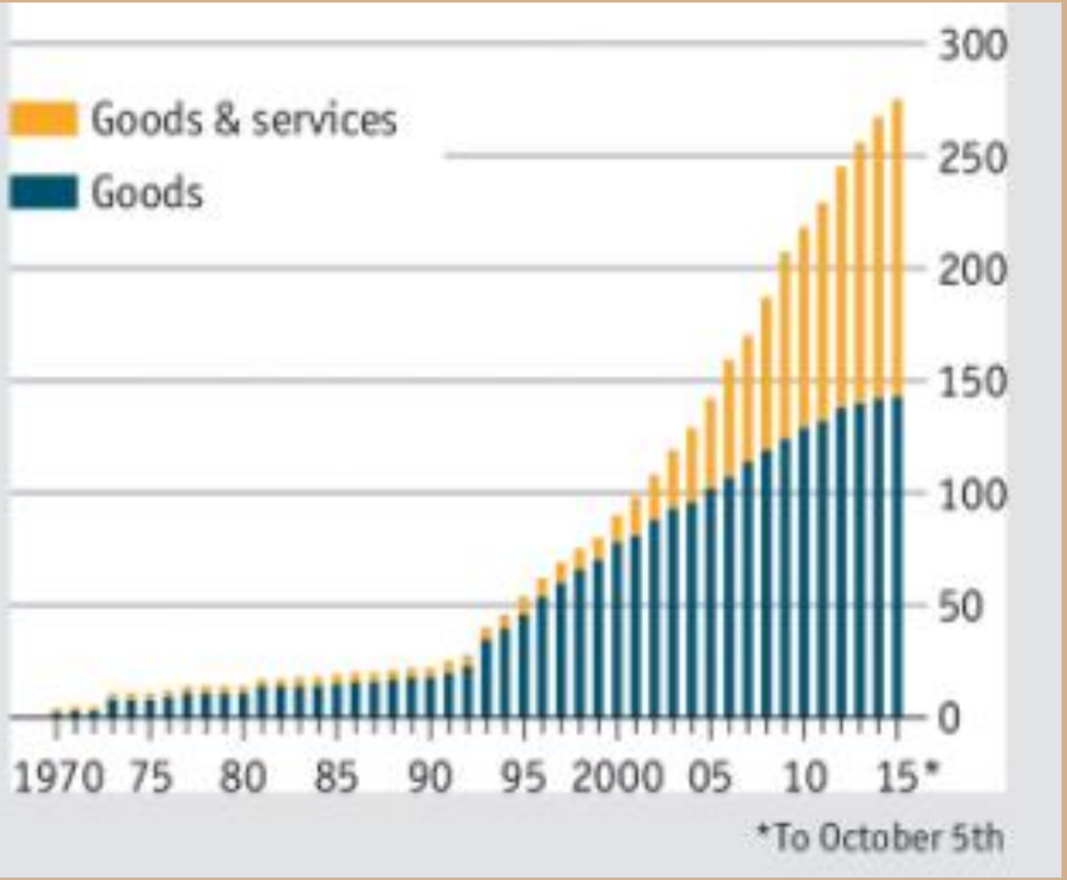
- Trade raises concerns of inequality across and within countries
- Because of interdependencies, countries become more vulnerable to changes in capital flows

Volume of world trade, 1995-2013

Exports $ trillion

Cumulative number of trade agreements





ISSUES IN INTERNATIONAL TRADE

Dependence on primary commodities

- Countries that largely rely on primary commodity exports face unstable/suppressed prices, making them export dependent
- Export dependence: some countries are dependent on oil exports (some countries earning over 80% of exports from oil); others depend on tourism or primary commodities

Balance of payments and trade deficits

- Many developing countries depend on imports of materials, machinery, capital goods and other consumer products; excessive imports creates problems of balance of payment and trade deficits
- Deficits on current and capital accounts; depletion of international monetary reserves; currency instability and slowdown in economic growth

Issues of equity

- Dualistic farming structures: capital intensive farms exist side by side with low productivity small holder farms
- Export earnings are unlikely to equally benefit both groups

Trade and development

- International trade affects the rate (how quickly the economy grows), structure (changes in key economic sectors), and character (trends and patterns) of economic growth
- Trade alters the distribution of income and wealth within a country and among different countries; it may benefit some groups while leaving other groups out)

Trade and development

- Trade can help a country to achieve its development objectives such as reducing poverty, ensuring environmental sustainability, and promoting social inclusiveness
- A developing county may determine how much it trades; this will depend on international demand, availability of outputs, production capacity, technological know-how and trade restrictions

Trade and development

- Countries could adopt an outward-looking (export orientation) or inward-looking policy (import substitution), or both
- Successes in export-oriented policies (South Korea, Taiwan, Hong Kong and Singapore), but also failures

Conclusion

International trade promotes economic efficiencies and optimal resource allocation; countries trade based on their comparative advantage

Fair trade does not exist in practice; countries operate on imperfect competition and have different levels of technological know-how

Most developing countries commodity exports; there is a risk of facing falling prices in the long run and unstable prices in the short run

Conclusion

- Countries that have diversified sources of income are less susceptible to economic downturns
- Policies to promote trade (reducing trade barriers, improving trade facilitation), have had a positive impact on growth and reduce poverty; however the distribution of the benefits of trade to the wider population will need to be assessed

THANK YOU!