



# International Trade

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# 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

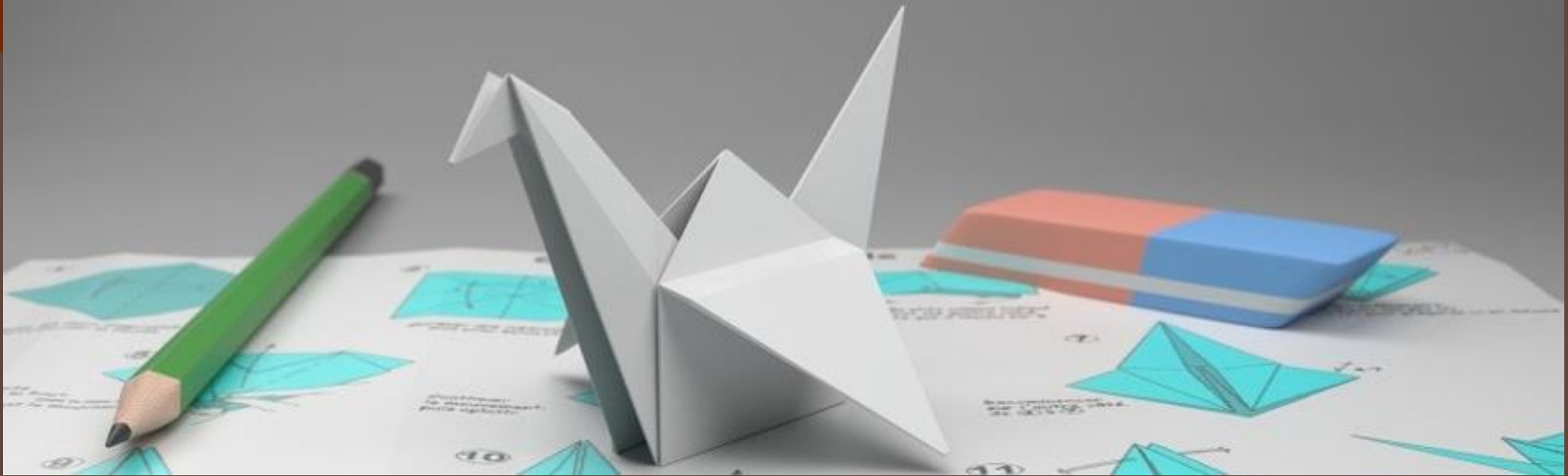


# Definitions

- **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



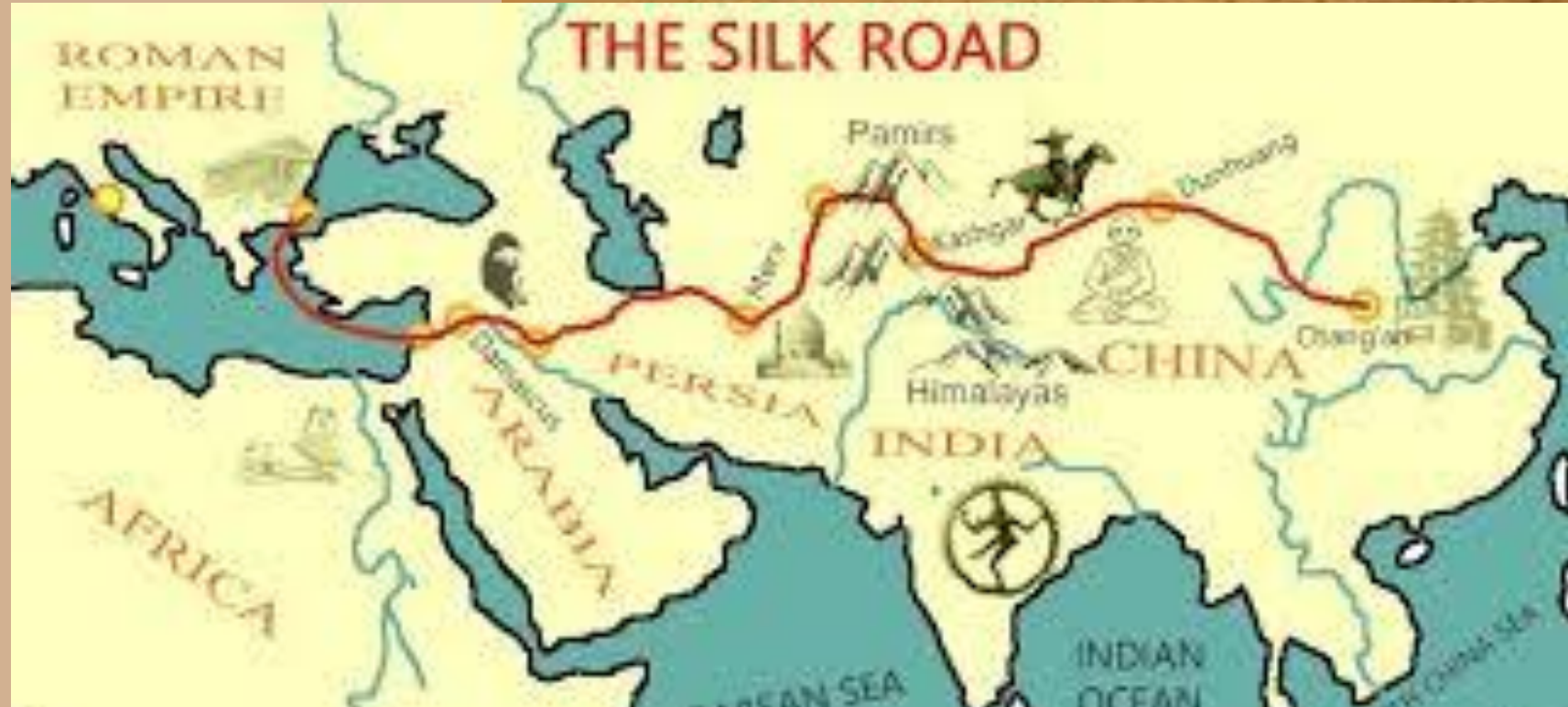
# Why is trade important?

- In a global economy, no nation is self-sufficient; nations need to trade, sell, and acquire what they need
- World trade has become increasingly linked
- Trade can help a country to achieve its development objectives: reduce poverty, ensure environmental sustainability, and promote social inclusiveness



# 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

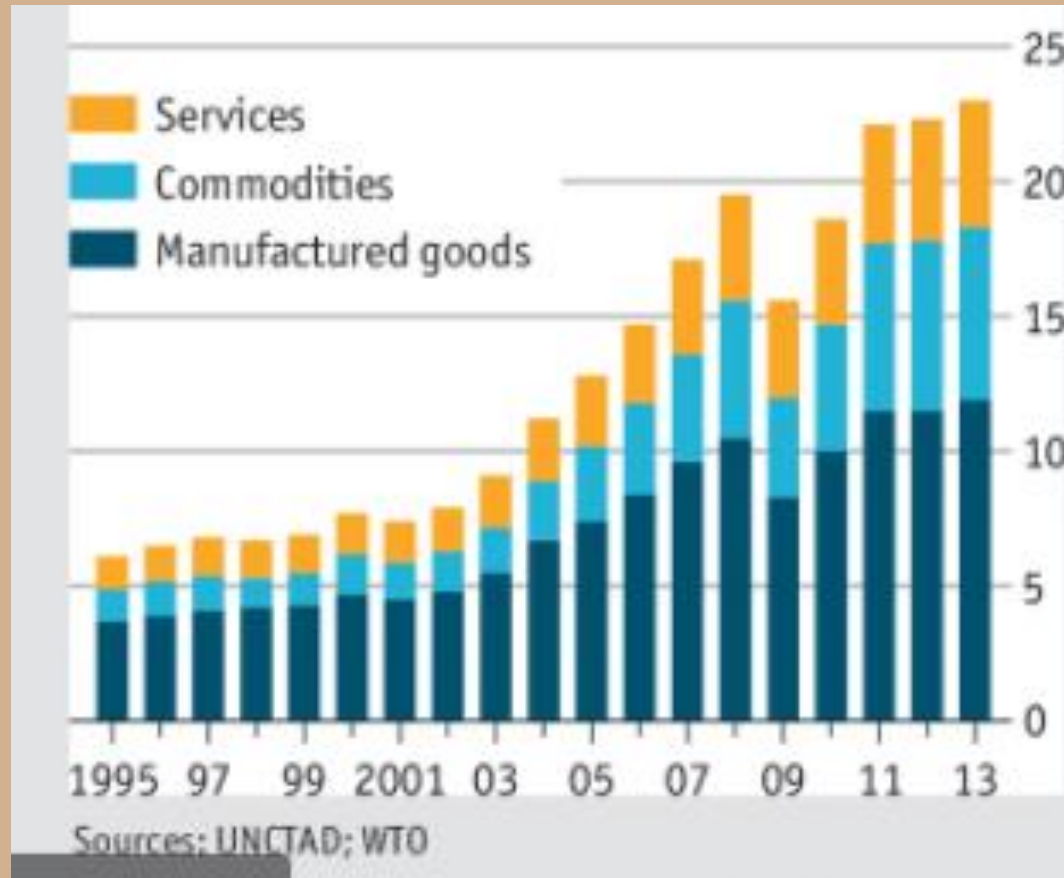
- Increased trade creates more business opportunities, rapid growth of knowledge and efficiency gains
- Developing countries are trading more and more, among themselves as well as with developed countries

## Costs

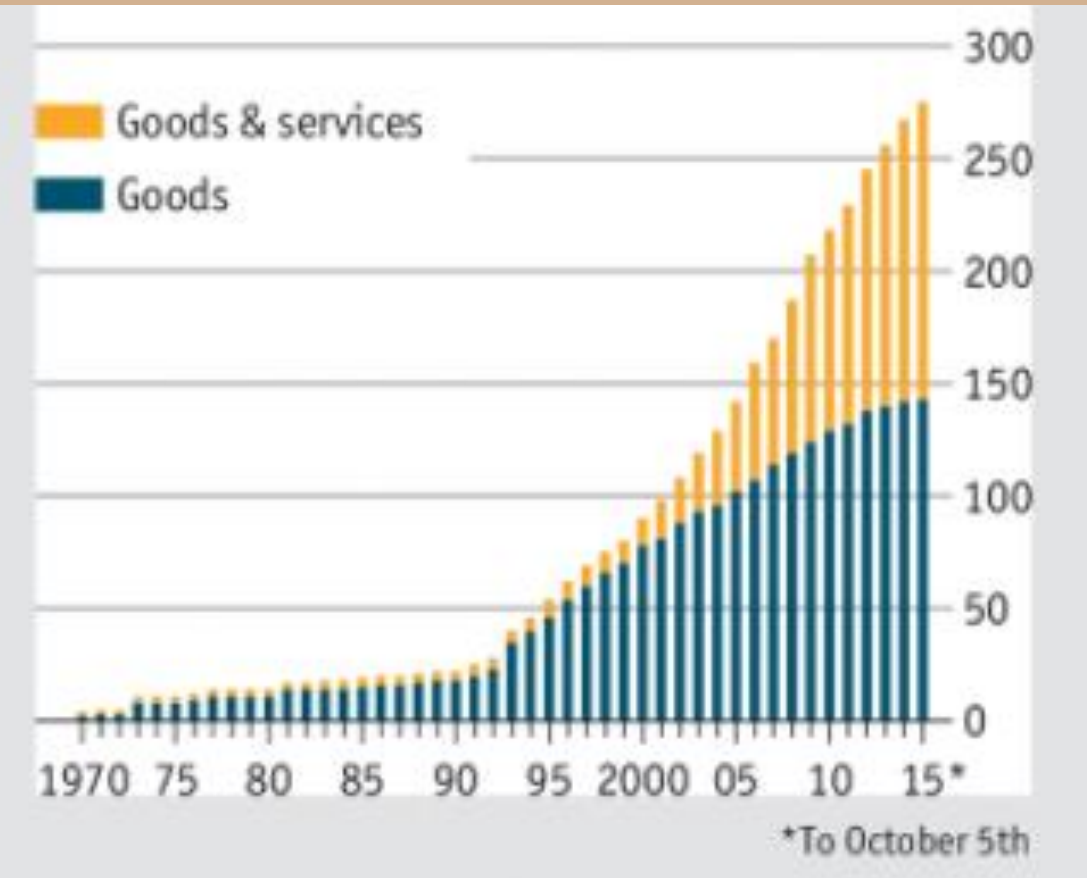
- Trade raises concerns of inequality across and within countries
- Because of interdependencies, countries become more vulnerable to changes in capital flows

# Volume of world trade, 1995-2013

Exports \$ trillion



Cumulative number of trade agreements



# ISSUES IN INTERNATIONAL TRADE



# Dependence on primary commodities

- Countries that rely on primary commodity exports face unstable/suppressed prices, making them export dependent
- Export dependence creates vulnerabilities
- Some countries are dependent on oil exports (earning 80% of GDP); 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 in agricultural sector: 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, structure and character of economic growth
- Trade alters the distribution of income and wealth within a country and among different countries
- Trade benefits some groups while leaving other groups out



# Factors affecting how much a country trades

- International demand
- Availability of outputs
- Production capacity
- Technological know-how
- Trade restrictions



# Trade and industrial policies

- Export orientation: outward-looking policy
  - South Korea, Taiwan and Hongkong in the 1980s
  - Develop economy by opening itself up to international trade by boosting exports, improving quality, liberalize trade, cut production costs
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- Import substitution: inward-looking policy
  - Brazil, Argentina in the 1960s-1970s
  - Develop domestic industries through import licensing, tariffs, quotas, import prohibitions, and direct government investment in key industries



# 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
- Trade is beneficial; however it has winners and losers; the distribution of the benefits of trade to the wider population will need to be assessed
- Policies to promote trade (reducing trade barriers, improving trade facilitation), have had a positive impact on growth and reduce poverty

**T**HANK **Y**OU!