



YOUR LOGO

INTERNATIONAL TRADE: CASE STUDIES

Faculty of Economics, Thammasat University

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EE463 Globalization and International Development

What issues arise in international trade

- Increasing competition
- Currency manipulation
- Protectionism
- Rising tariffs
- Excessive subsidies
- Intellectual property theft



Case study: rising role of China

- Economic reforms and trade and liberalization have transformed China into a world trading power
- Investments in infrastructure and abundance of low-cost labor has made it internationally competitive
- Initially low-cost, labor-intensive manufacturing; thereafter moving towards high value added and technology-based manufacturing



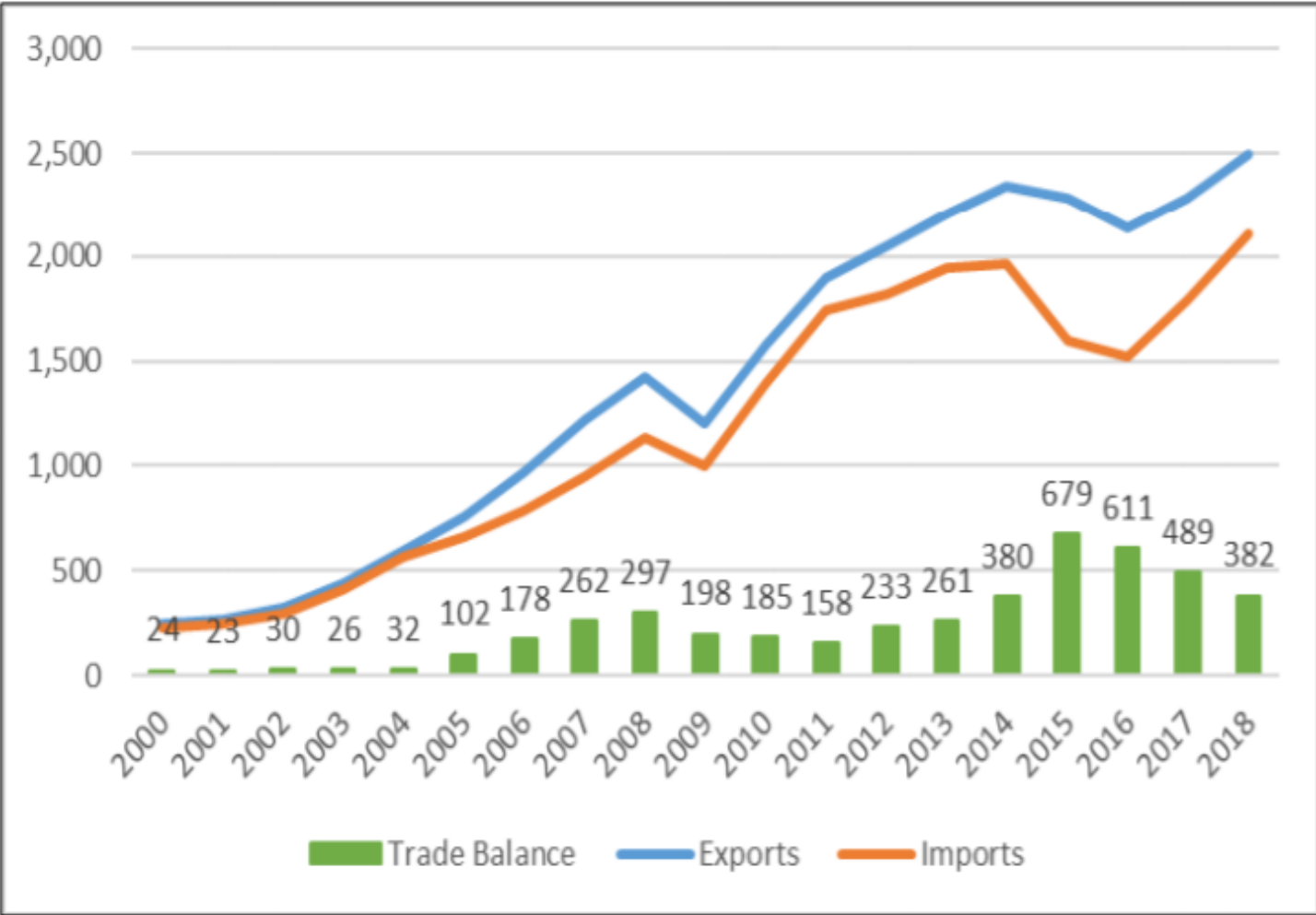
Rising role of China

- 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

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



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 study: currency manipulation

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



Protectionism

Advantages

- Protects a country's new industries from foreign competition
- Temporarily creates jobs

Disadvantages

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

Case study: Malaysia automotive industry

- The Malaysian automotive industry is the third largest in Southeast Asia; and 23rd largest in the world
- Established in 1967; annual production output of over 500,000 vehicles
- The automotive industry contributes 4% or \$ 3.0 billion to Malaysia's GDP; employs a workforce of over 700,000



Case study: Malaysia automotive industry

- Government encouraged local assembly of vehicles and manufacturing components
- Protectionism: in 1983, the government direct involved in the industry: established PROTON
- In 2000s, government liberalised the domestic automotive industry through free-trade agreements, privatisation and harmonisation of UN regulations.



Case Study: 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

Agricultural subsidies: why and what

Reasons

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

Consequences

- surplus production
- depressed prices
- dumping of goods



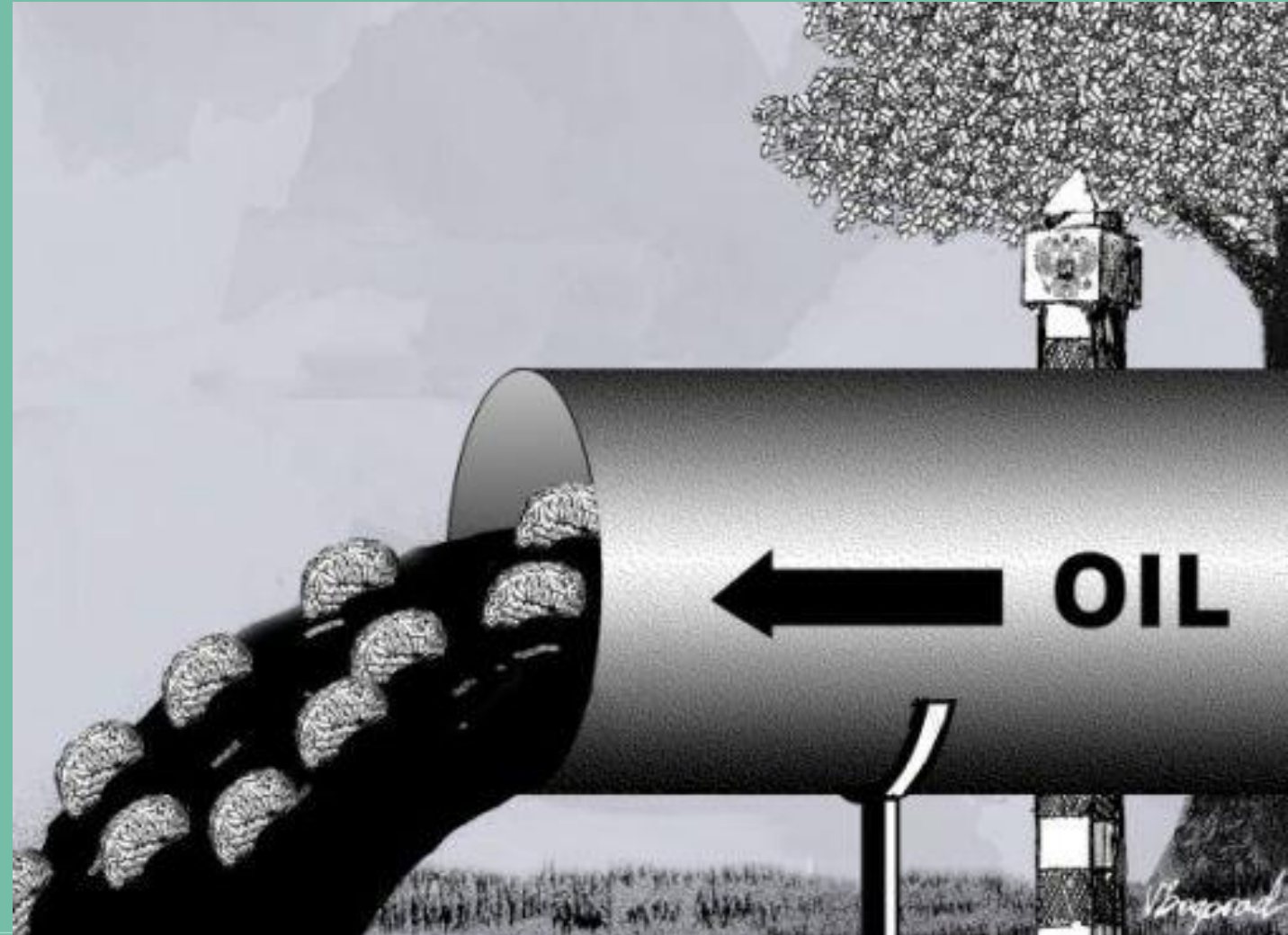
Case study: Dutch disease

- Earnings from booming primary export prices causes adverse effects on the economy
- Netherlands, 1960s: discovery of reserves of natural gas fueled an oil boom, resulting in a large export boom and bringing in foreign exchange and economic surplus



Dutch disease

- Netherlands, 1970s: rising inflation, declining manufacturing exports, lower rate of economic growth and rising unemployment
- Other countries experiencing Dutch disease: Mexico, Nigeria, Saudi Arabia (oil); coffee booms in Africa



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
- Intellectual property theft

THANK **Y**OU!