

EE561: Reaction Essay for Aj. Anin lecture on International trade and Environment

In international trade theory, economists believe that trade across countries will make the economic welfare better. Based on the Heckscher-Ohlin theorem which suggested that countries will export their abundant factor products since they have higher comparative advantage in production compared to other countries. The theory implicitly stated that countries with a lot of environmental resources should be the main producer of the environmentally damaging goods. With globalization, each country becomes more open and starts to gain from trade. By opening the country in terms of trade, there are a rise in production and improvement in the economy of scale of the country, resulted in the economic growth. Some countries in the ASEAN such as Vietnam relies heavily on the export followed by Cambodia and Thailand. With more export lead to higher economic growth, this attract the foreign investors to invest in the country too and there are trend showing an increasing in the foreign direct investment in ASEAN especially in the CLMV countries.

The question is how would this fast-growing economic growth effect the environment? Higher export means higher production which contributes to enormous amount of greenhouse gases (GHGs) being released. We can see the leap in the rounds and routes of shipping which resulted in a large emission of GHGs to the atmosphere. There are two arguments to this question. First, the pro-free trade suggested the positive impact on the environment. With liberalization, countries will be able to have access on environmentally friendly technologies. Countries will use less resources if they follow the HO-theorem to produce abundant factor goods. People will also receive higher income with liberalization and when they become richer, they will want a better standard of living such as better environmental quality. This will then

increase the environmental awareness. Second, by the environmentalists. They argue that with globalization, that will be more pollution industries and encourage the pollution industries to locate the other areas that have more relax environmental regulations. However, there are evidence that countries that are more open to trade transfer to cleaner technologies more quickly and higher income lead to higher demand on environmental quality.

In my opinion, for people in the country to have higher standard of living and for the country to have better quality populations. Every country needs to push themselves to be at least an upper middle-income country. By doing so, people will be able to seek higher opportunity for themselves in terms of education. With good quality of education, people will be able to think in a way that is not only to themselves but to other as well. This will play a role in a reduction in those products that are not so environmentally friendly. People will also become more innovative in terms of production and this will lead to a better economic growth once again. However, the strictness of government regulations will play a huge role too. To bring the country to the point I suggested, we need do need to sacrifice the environmental quality with economic growth at first. Then when each country become more stable with the growth, we then begin with replacing as much technologies as possible to reduce the excessive emission of GHGs until all is being replaced. Together with sectioning the country with greeneries, this would be a good alternative way to compromise what we had destroyed. Relationship between neighboring countries is important too. The better the relationship, the more sympathized we become. We will not let the action made by country to float across and make our neighbor suffers from the consequences. Basically, people need to be more selfless, then the world will become a better place to live.

## EE561: Reaction Essay for Aj.Nessara on Economics of Multinational Enterprises (MNEs)

MNEs could be explained as companies or entities that established in more than one country or co-ordinate their operations in various ways. The ownership could be private, state or mixed.

Foreign direct investment (FDI) is when investors from one country invest in other countries with the intention to manage the direction of the company. They need to buy large amount of stocks and owned more than 10% of the voting power to be able to do so. On the other hand, the “portfolio investors” are those without the intention to influence the direction of the company. They buy much smaller amount of stocks of the company. There are 4 key factors why direct investors want to invest in foreign countries. First, the natural resource-seeking purpose. Every country has their own natural resources and the more you have, the lesser the cost. So, if investors need to use a specific natural resource, they might choose to invest overseas to own a cheaper factor of production. Secondly, for the market size of the host country. For example, people like to invest in China because they have a very large population size, it will lead them to higher profits if they are able to make these people consume their products. Thirdly, for the efficiency of the production. Some country, especially the developing countries, tends to have lower wage or rent rate. Some country may be better at producing something from the specialization skills or infrastructure that they owned. Investors may take these advantages into consideration. Last but not the least, the strategic seeking FDI. Some investors may choose to do joint venture for the local connections, knowledge and privileges, since locals will usually know better than foreigners.

The main reasons for FDI in Lao PDR are first, the natural resources such as mining, land for agricultural and electricity generations. Second, Laos is granted the GSP, firms

that wish to export to certain countries that granted Laos this tax reduction can invest in Laos to get this advantage. Some investors who find the gap in the development in Laos' market can also expand their business to Laos to be the first mover. Thirdly, Laos has low labor cost compared to the neighboring countries such as Thailand so many companies such as Toyota Boshoku and HP actually moved from Thailand to Laos. Lastly, for the strategic assets seeking FDI, they will get the local networking and able to learn from the locals. There are various advantages and disadvantages to be considered of you want to do FDI in Laos. They might have political stability but there are also problems in implementing investment policies and regulations.

In my opinion, FDI is better off with regulations and fair gains by both the home and host countries. They are a lot of positive effect from having the FDI in the country. Company with knowledge and technology needs lower wage rate to efficiently produce their products with lower cost. If they place their factory in foreign country with lower wage rate, the host country will be able to learn new skills and adapt it to other industries to strengthen other industries in the way that they can compete with the world so that they will be able to push themselves to become a developed countries where the populations would be better off. However, the regulations need to be made clearly and fairly since some foreign factories might build their factory in the host country for the sake of reducing their negative externalities to their own country.

As I mentioned before, if only human are less of a selfish-kind, we could have made a fair and reasonable agreements in a way that we provide trust and peace for one another. With this, we will be able to reach the full potential of our kind and become even more that what we are now.