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INTERNATIONAL TRADE

Faculty of Economics, Thammasat University

Semester 1 2022

EE463 Globalization and International Development

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

Overview: international trade

- World trade has increased four-fold during the past 30 years
- Trade generates economic growth and reduces poverty
- Trade enables economic growth
- The bulk of world trade occurs among high-income countries

Overview: risks of trade

- Falling prices or other events beyond exporters' control
- Cheap imports force domestic producers out of business
- Good weather: causes surplus, drives commodity prices down
- Bad weather: when crops fail, prices go up

Overview: inequalities in trade

- There are winners and losers in international trade
- Multilateral trade: often biased against less developed countries
- Rich countries protect their agriculture and textile producers
- However they force developing countries to open their economies

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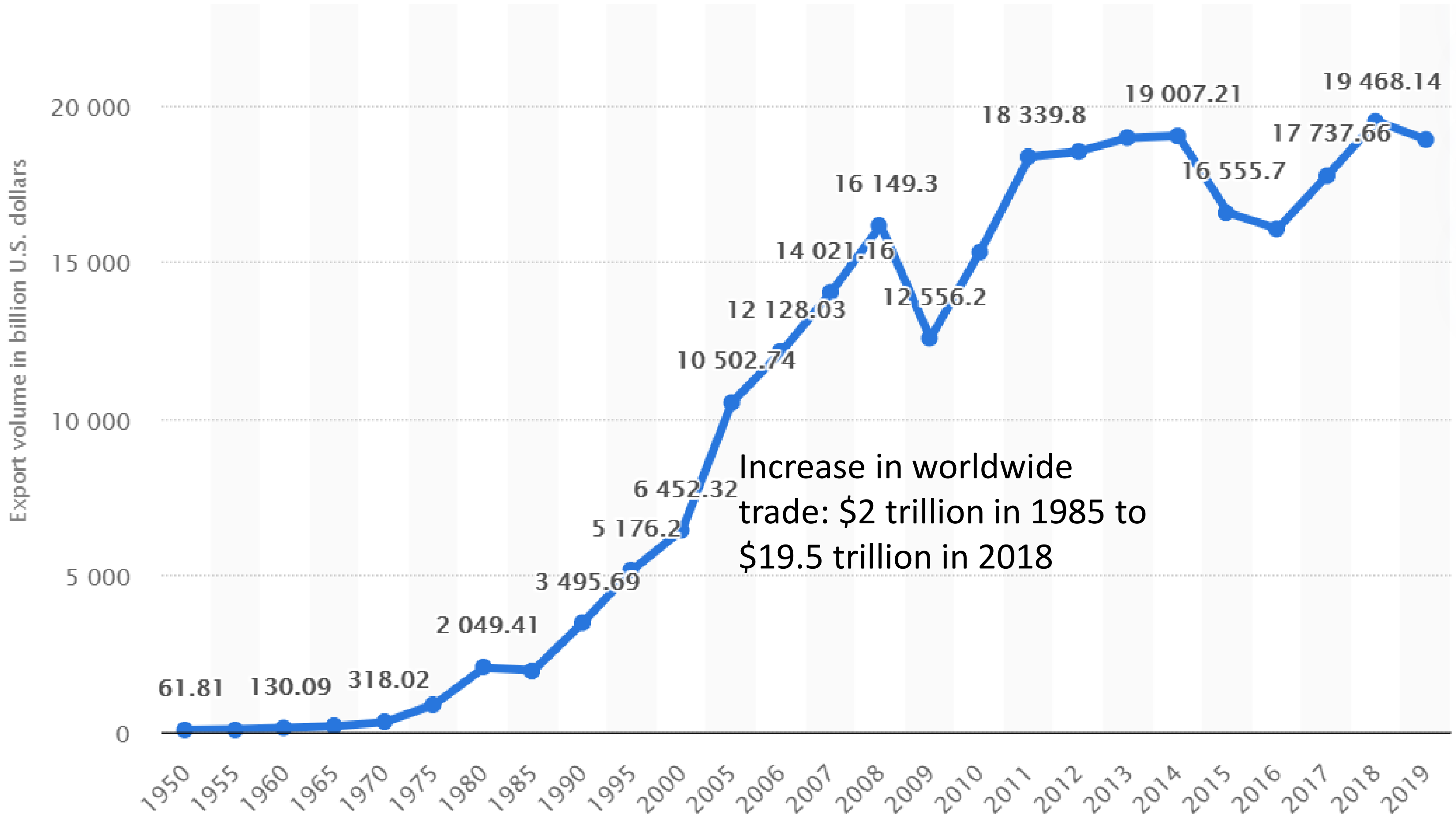
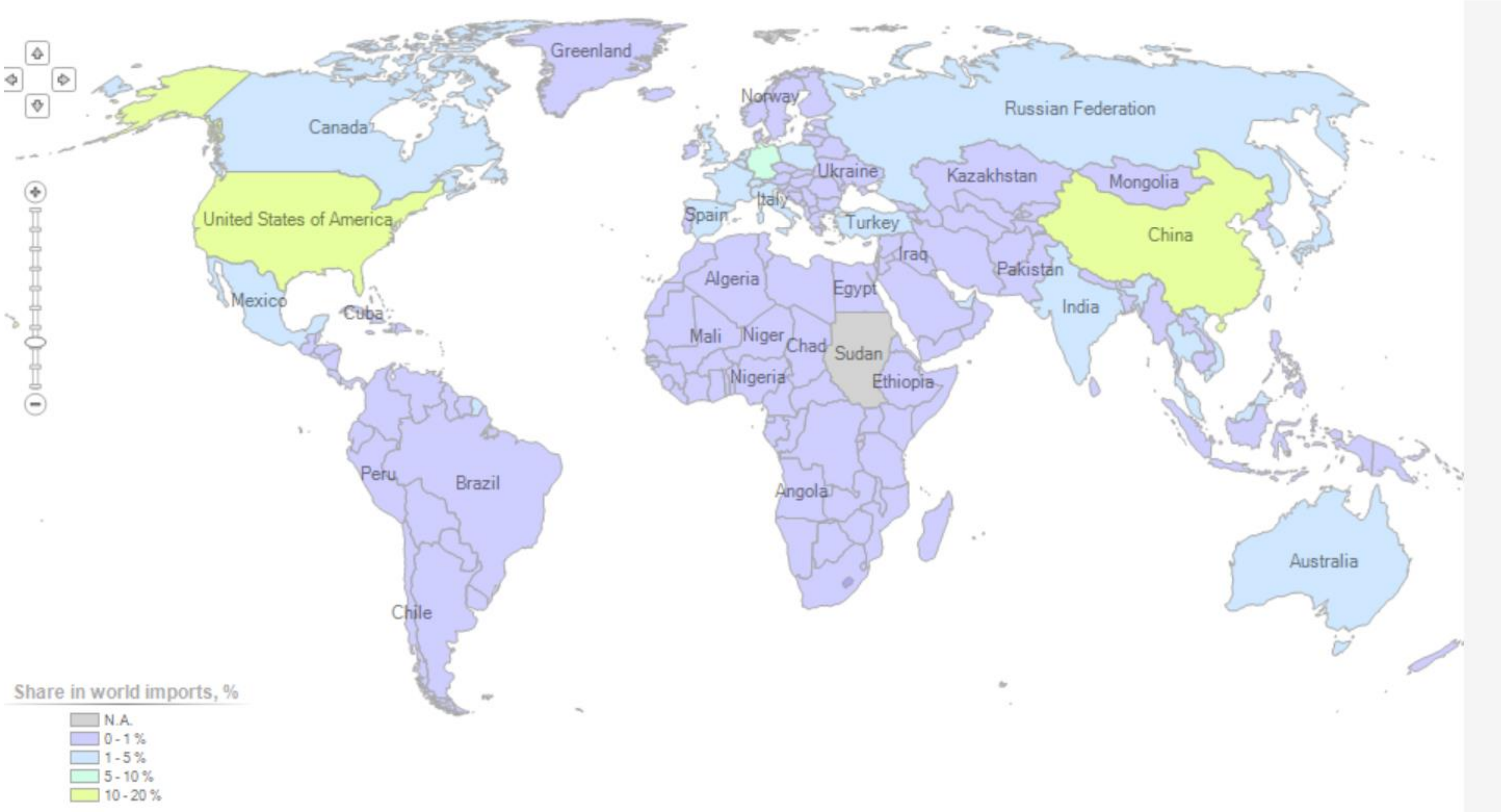
TRENDS AND PATTERNS

World trade volume, 1950-2020

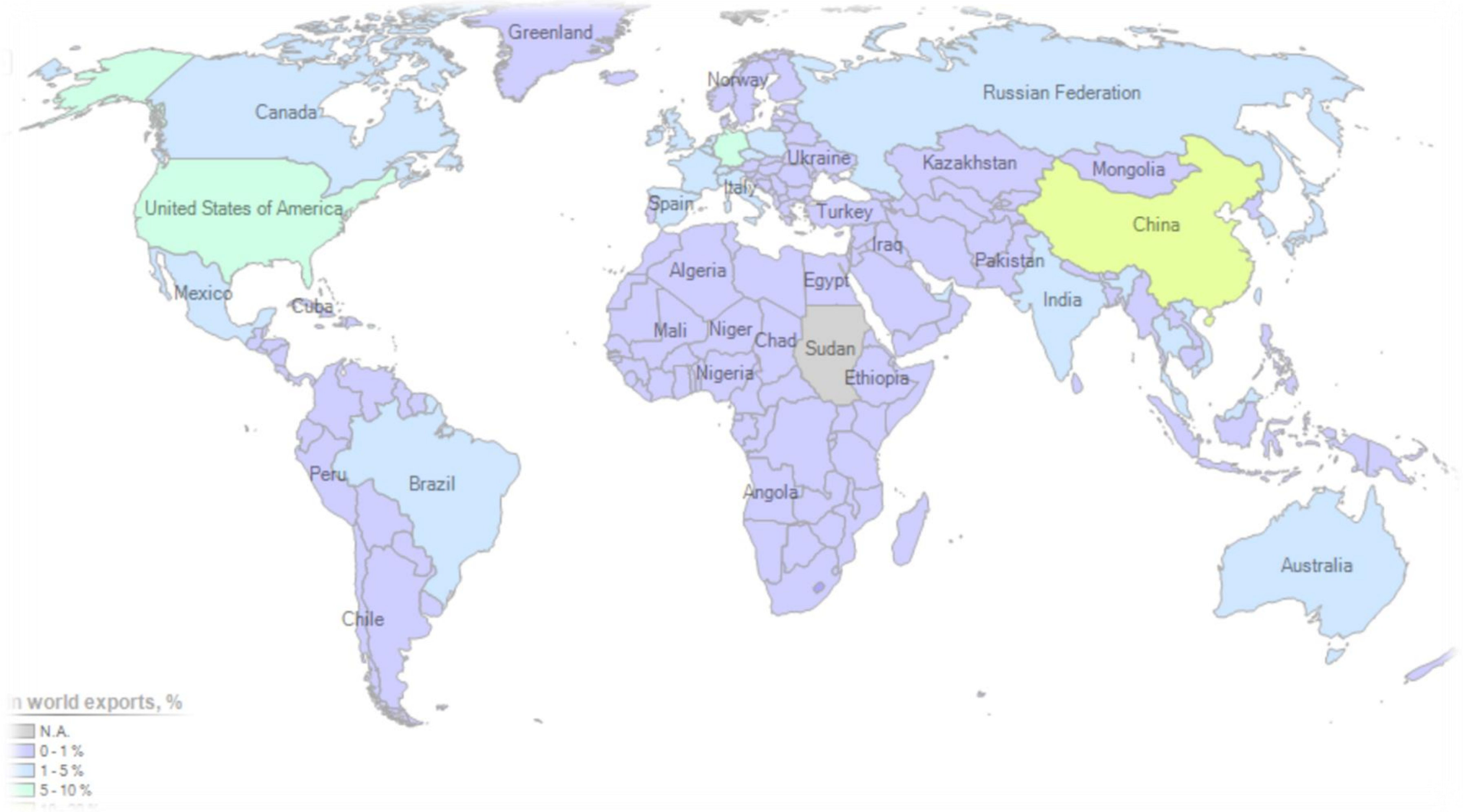
- World trade increased steadily since 1985
- 1992: collapse of the Soviet Union
- Various economic reforms undertaken worldwide



Share of world imports by country, 2020



Share of world exports by country, 2020



Changing trade patterns

- As economies grow and trade increases, imports and exports tend to change
- Less developed countries: mostly export primary commodities
- Next level: light manufacturing, assembled goods, intermediate products

Trade: advanced countries

- Advanced level: high tech, innovative products, finance and services
- Trade has moved beyond finished goods; a single car contains 30,000 components including car seats, glass, electrical and mechanical parts, and tires

Imports and exports

- Imports: as incomes increase, countries import higher quality and sophisticated goods
- Exports: composition of exports shift from primary commodities to manufacturing products and services

Trade: gaining new skills and productivity

- With increased trade, workers gain new skills and increase productivity
- Over the past 30 years, East Asia, South Asia, and Latin America have replaced primary product exports with manufacturing

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TRADE ISSUES

Benefits of trade: competition and productivity

- Where domestic producers are limited, they can exercise monopoly power
- International trade: producers compete and therefore prices go down; society benefits
- Trade allows for transfer of technology and improved productivity

Benefits of trade: quality, variety and choice

- Trade increases the amount, quality and variety of goods
- Examples: cell phones and computers
- Trade brings people together
- Trade promotes global understanding, democracy and prosperity

Distributional aspects: winners and losers

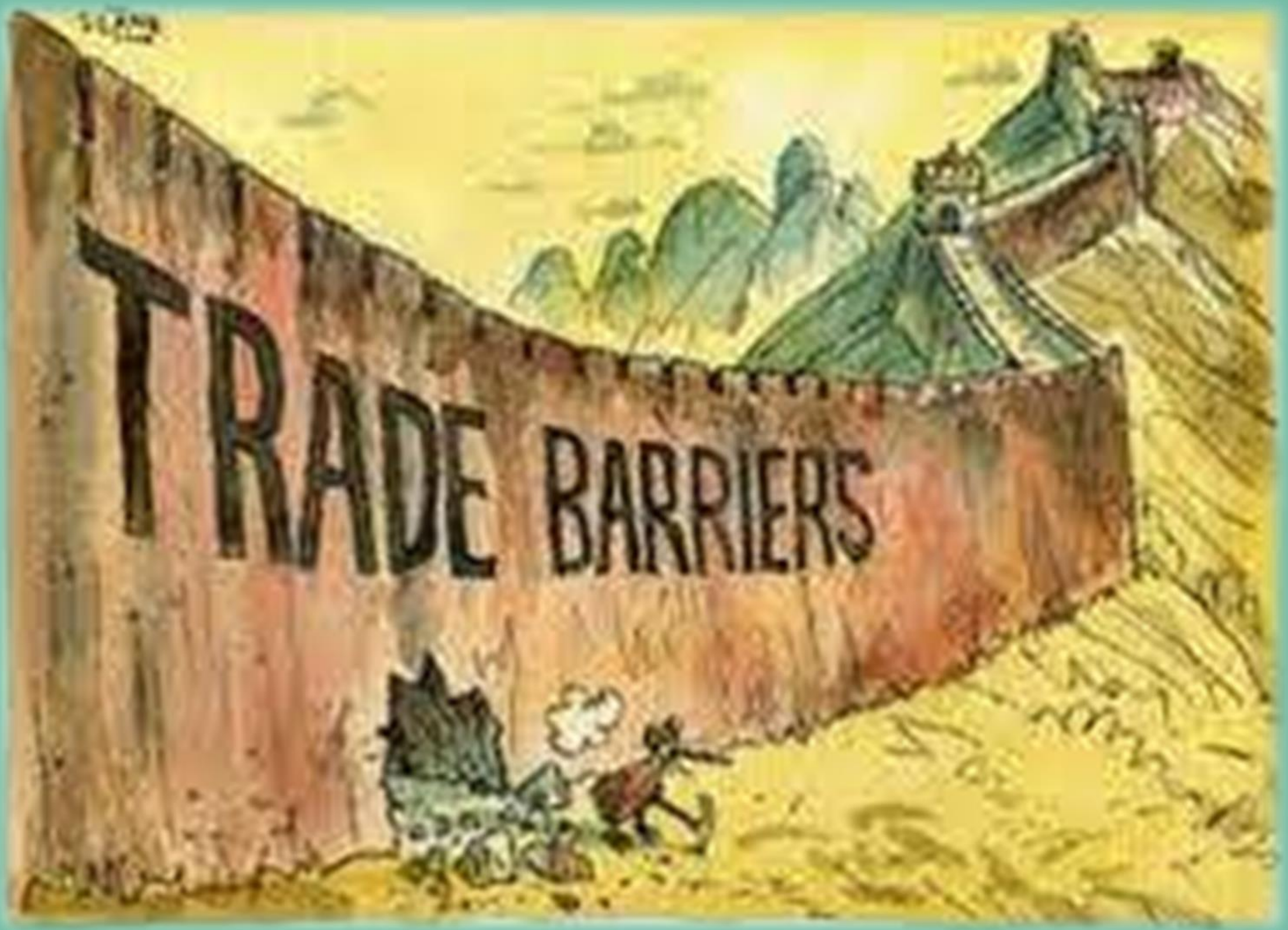
- Not all groups or individuals gain from trade
- There are winners and losers
- Winners: large companies, consumers
- Losers: domestic producers, labor, middlemen

The changing trade environment

- WTO issued many regulations governing trade since established in 1995
- Rules for trade imposed beyond goods and tariffs
- These include regulations, services and intellectual property rights

Trade barriers

- Trade barriers are government-induced restrictions on international trade which decrease overall economic efficiency
- Trade barriers are generally imposed to protect domestic industries



Forms of trade barriers

- Tariff barriers: taxes on imported goods
- Non-tariff barriers: import quotas, embargos, national regulations, involuntary export restraints, trade restrictions, and subsidies, and local content requirements

Issues of primary exports

- Primary exports or commodities are raw materials or unprocessed products
- Agriculture products: rice, agricultural crops, industrial crops
- Forest products: timber, rattan, non-timber forest products
- Mining products: copper, gold, bauxite, tin

Issues of primary exports

- Benefits of primary products export is the possibility of stimulating production in other, related sectors; exports would therefore lead to more broad-based economic growth
- However primary exports are subject to price fluctuations in the international market, making developing countries vulnerable

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TRADE POLICIES

Import substitution

Focuses on the production of goods and services that replace or substitute imports; Increases national pride

Instruments for import substituion

- Non-tariff barriers
- Tariffs (level and dispersion)
- Exchange rate control
- Export tax
- State-owned enterprises
- Targeted credit, subsidy

Export-led growth

Focuses on production for exports or global markets;
however it is sensitive to global economic/financial fluctuations

Instruments for export orientation

- Neutral incentives
  - elimination of the anti-export bias
- Static gains from trade
- Economies of scale
- Advanced technology and innovations
- Competition and efficiency
- Self-correcting policies

Backward and forward linkages

- **Backward linkage**: the growth of one industry (e.g., textiles) stimulates domestic production of an upstream input (cotton)
- **Forward linkage**: the growth of one industry stimulates the production of downstream industries (apparel, garment)

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CONCLUSION

Conclusion

- World trade has grown rapidly during the past three decades; trade among high income countries dominate world trade
- The share of trade in GDP tends to be higher for smaller economies

Conclusion

- International trade encourages competition and reduces the market power of domestic firms, facilitates the adoption of new technologies, can facilitate investments and increase the quantity and quality of available goods

Conclusion

- As economies grow, the composition of trade tends to change: exports shift from primary products towards manufactured goods
- Trade is not without costs; there are both winners and losers
- In the aggregate, however, countries benefit from trade

THANK YOU!

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