YOUR LOGO

INTERNATIONAL TRADE

Faculty of Economics, Thammasat University

Module 18

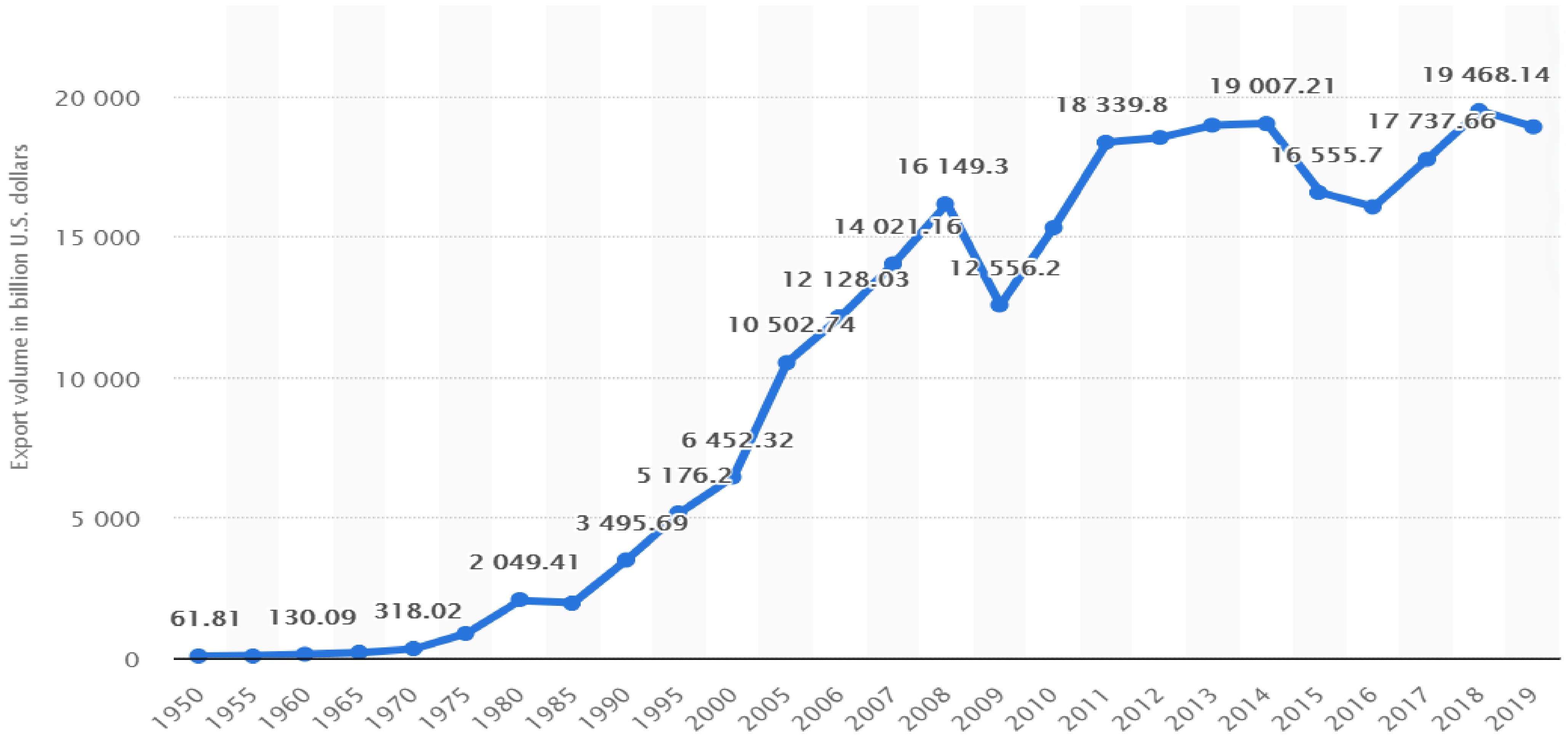
Semester 2 2022

EE463 Globalization and International Development

Overview

- In a global economy, no nation is self-sufficient; some are better at producing particular goods than others (comparative advantage)
- Trade involve exports (surplus) and imports (needs)
- Trade has become increasingly linked volume increased from $2trillion in 1985 to $19.5 trillion in 2018

World trade volume, 1950-2020



Why is trade important?

- Trade provides opportunities for economic growth and poverty reduction
- Enables transfer of technology and raise productivity
- Ensures availability and variety of goods
- Brings people into contact with one another and promote global understanding

Patterns of trade

- The bulk of world trade occurs among high-income countries
- International trade is often biased against less developed countries
- As economies grow and trade increases, imports and exports tend to change

Patterns of trade: imports

- Imports: with increased incomes, countries tend to import higher quality and sophisticated goods
- Increases the amount, quality and variety of goods available
- Examples: cell phones and computers

Patterns of trade: exports

- Less developed and developing countries mainly export primary commodities and extractive goods which do not require processing
- More exports allow workers gain new skills and increase productivity; composition of exports shift from primary commodities to manufacturing products

What are primary exports/commodities?

- 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

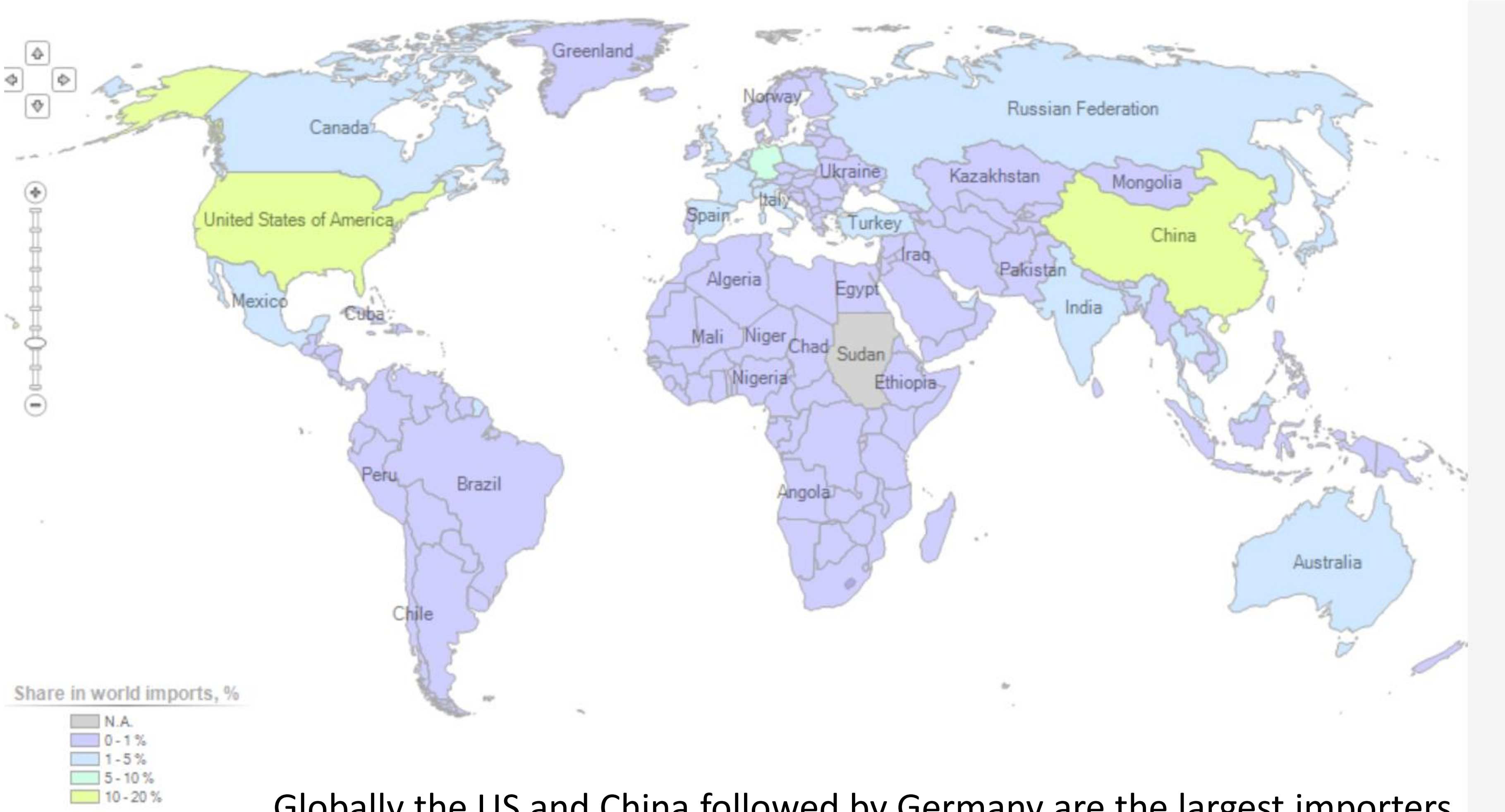
Patterns of trade: exports

- Over the past 30 years, East Asia, South Asia, and Latin America have replaced primary product exports with manufacturing
- Trade has moved beyond finished goods; for example, a single car contains 30,000 components such as car seats, glass, electrical and mechanical parts, and tires

Significant achievements in exports

- China: since its policies towards outward-looking trade strategy (late 1970s)
- Korea, Taiwan, Hongkong and Singapore: export orientation strategies (early 1960s)
- Mauritius: exported sugar cane (1975); manufacturing share of exports increased from 12% to 81% (2000)

Share of world imports by country, 2020



Globally the US and China followed by Germany are the largest importers

Share of world exports by country, 2020

- China, followed by the US, are the largest exporters

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TRADE ISSUES

Design Option #9

Falling prices and weather changes

- Exporters face risk of falling prices and weather
- With cheap imports, firms and farmers producing at high prices for domestic consumers can be forced out of business
- Weather occurrences affect trade: excess surplus drives commodity prices down; however when crops fail, prices go up

Competition and productivity

- In small economies, there are a limited number of domestic producers who could exercise monopoly power and charge more for their goods
- With international trade producers compete and therefore prices will go down, benefiting society

Distributional aspects: winners and losers

- Although countries gain from trade, not all groups or individuals stand to gain
- There are winners and losers in the process of international trade
- Winners: large companies, consumers
- Losers: domestic producers, labor, middlemen

Protectionism

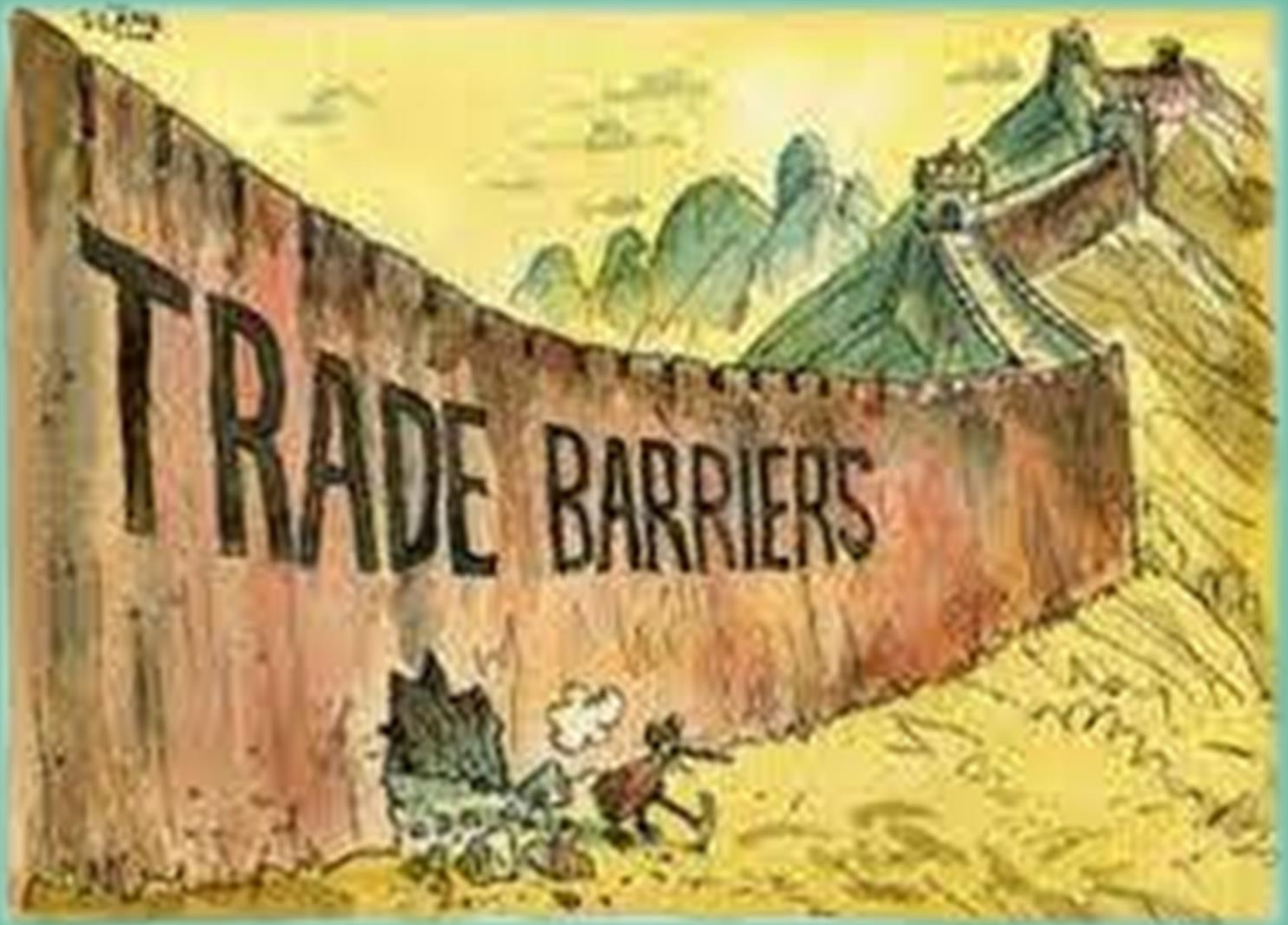
- Rich countries protect their agricultural producers while forcing developing countries to open their economies
- Example: soybeans, textiles and meat imported from developed countries

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

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

The changing trade environment

- Many regulations governing trade since WTO established in 1995
- WTO broadened international rules for trade beyond goods and tariffs to regulations, services and intellectual property rights

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TRADE POLICIES

Design Option #8

Import substitution

- Focuses on the production of goods and services that replace or substitute imports
- Strategy:
  - Provide subsidies to domestic enterprises
  - Impose import tariffs and increase export taxes (to discourage imports)
- Adopted by Argentina, Brazil and Chile in in 1970s and 1980s
- Outcome: excessive subsidies stifled competition, resulting in low quality goods

Export-orientation

- Focuses on the production of goods for exports or global markets
- However it is sensitive to global economic/financial fluctuations
- Strategy:
    - Open the economy and encourage competition and inefficiency
    - Discourage subsidies to domestic enterprises
    - Abolish tariffs and export taxes (to discourage imports)
- Adopted by South Korea, Taiwan, Hongkong and Sinapore in the 1970s-1990s
- Outcome: more competitive and efficient production

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
- As economies grow, the composition of trade tends to change, whereby exports shift from primary products towards manufactured goods

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
- Trade is not without costs; there are both winners and losers
- In the aggregate, however, countries benefit from trade

THANK YOU!