

## Trade & Environment



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In the past decades, there have been a large number of studies on international trade and its impacts on the environment. Some argue that globalization and free trade agreements have opened doors for new environmentally friendly technologies, as well as, allowing countries to produce goods in which they have a competitive advantage. On the other hand, environmental advocates argue that international trade is responsible for increasing the global number of polluting industries.

At the start of the lecture, the speaker presented us with data suggesting that the value of global exports growth had been relatively flat until 1950. After that, we observed that there has been an exponential growth in trade, more and more countries started to develop exports to be their major source of national GDP, especially Vietnam.

The speaker then summarizes the 3 key effects of international trade and environment. The first one being scale effect, in other words, increased greenhouse gas emissions as a result of more output and a greater scale of production produced for free trade. Secondly, the composition effect, which measures the change in environmental deterioration due to adjustment in the goods produced in an economy. This is because free trade allows for specialization, industries that can produce goods at a lower opportunity cost survive, while others may not. Therefore, trade liberalization is likely to alter the composition of national output, and the overall effect on the environment is ambiguous. Lastly, the technique effect measures the change (decrease) in environmental deterioration arising from countries or industries shifting to more sustainable production methods. Free trade allows wealthier countries to transfer knowledge about environmental friendly production techniques to developing countries, hence this raises the level of environmental standards and investments towards sustainable technologies. These 3 effects combined form an Environmental Kuznets Curve.

For resource curse or the paradox of plenty, the concept is that resource-rich countries tend to have less economic growth due to the increased probability of having an authoritarian government, conflicts of interest, and commodity prices that are constantly fluctuating, for example, oil and gas.

As I was listening to the lecture, I started to question whether the Environmental Kuznets Curve is valid in real life, considering that the United States ranks the second highest in the world in terms of carbon dioxide emissions. As I explored further, I found that many studies concluded that the Environmental Kuznets Curve is only valid for certain pollutants, for example, sulfur and nitrogen oxides. Meanwhile, carbon dioxide has increased as per-capita income increased (Stern, 2004) and the reduction in sulfur and nitrogen oxide is largely due to improved technology (technique effect). In my opinion, the Kuznets Curve is invalid in a number of ways. Firstly, while a developed country may be more aware of the environmental impacts from capital intensive industries and imposes environmental regulations, firms can still shift their production base to developing countries for cheap labour costs and a more relaxed government policy, hence pushing the burden of pollution on developing countries. In addition, developed countries still import goods from developing countries, in other words, pollution may reduce in the United Kingdom, but may rise in a developing country, such as Vietnam. In that sense, we may say that the United Kingdom supports greenhouse gas emissions by importing.

As for the advantages and disadvantages of FTA, I agree that trade liberalization drives competitiveness, efficiency and economic growth. However, I believe that FTA will only bring maximum benefits to our economy if we continuously improve technology and efficiency of our domestic firms. It is also important that we carefully look at the demand and supply of goods our country produces. Thailand would not be able to compete in the global stage if we keep on producing agricultural products in which there is already an excess supply in the market.

## **Economics of Multinational Enterprises**

**Aj. Nessara Sukpanich**

Foreign direct investment (FDI) refers to a transnational investment in which a foreign entity establishes a long term investment in another economy with the goal of having an influence over a direct investment enterprise. Typically, FDI involves both tangible and intangible assets transfer, such as knowledge and technology. For Laos, FDI plays a major role in its high level of economic growth and its adoption of the 2009 Law on Investment Promotion that combines domestic investment law with foreign investment law.

There are several ways in which we can classify the types of FDI, whether based on the direction of investment, types of activity, modes of entry, nationality of investors, or motives. Using types of activity as a base, FDI can be divided into 2 categories: horizontal and vertical FDI. In the case of a horizontal FDI, the investor manufactures products which are similar to what the company already produces in the home market, whereas in a vertical FDI, the company based in the foreign country acts as a manufacturing facility, supplier or distributor for the company in the home country. Using motives as the base, an FDI can be classified into 4 types: natural resource-seeking FDI, or the company selects a country to invest in based on sources of natural resources, market-seeking FDI, companies expand their production overseas in order to penetrate new customers, or extending its market, efficiency-seeking FDI, firms seek for specific benefits of investing abroad, for example, lower production and labour costs, strategic assets FDI, firms are motivated to invest abroad due to the strategic assets that will allow firms to compete in the market, for example, distribution networks.

There are two main frameworks which explain the determinants of FDI. One divides advantages of FDI into 3 things: ownership, location and internationalization advantages. The other divides

advantages into two things: firm-specific advantages, such as product innovation and an efficient value chain, and country-specific advantages, such as political, cultural, economic and financial FDI.

After a major structural reform in 1986, Laos gradually shifted from a centrally planned economy to a market-led economy in which the country had opened itself to more foreign investors. As shown by several graphs in class, there is a constant upward trend in the number of FDI stocks in Laos from 1988 to 2015. The strongest sector in Laos appears to be the industry sector, for example mining and electricity generation, as indicated by the highest volume of an approved FDI. Not only is Laos rich in its natural resources such as tin, gold, it also has cheap labour costs and more political and exchange rate stability compared to its neighbouring countries. Many multinational enterprises even enter Laos for the possibility of acquiring greater access to markets in South East Asia and intangible assets, for example, local networking with the government or private sectors.

Personally, the most interesting part of this lecture is learning about the potential of Thailand investing more in Laos. Although Laos only has a population of approximately 7 million, it is the highest growing nation among CLMV countries. Since Laos has just opened its economy, there is a lot more to explore including the opportunity of introducing more advanced technology, infrastructure into its manufacturing sector and increasing its labour productivity. Furthermore, it is interesting to see that there are already many Thai businesses operating in Laos, for example, Wuttisak Clinic and Black Canyon which is something that I have not known before. However, Laos would not succeed by relying on the foreign businesses alone, it must also develop on its own in order to have a stronger domestic demand. Technology is the key for Laos to escape from being a lower-middle income country.