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INTERNATIONAL TRADE

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EE463 Globalization and International Development

Overview

- World trade has increased four-fold during the past 30 years
- Open trade benefits developing countries, generating economic growth and reducing poverty
- While trade provides opportunities for economic growth and many developing countries are expanding their trade, there are winners and losers in the process



Overview

- Exporters may face risk of falling prices or other events beyond their control
- 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



Overview

- Multilateral trade is often biased against less developed countries
- For example, rich countries protect their agricultural and textile producers while forcing developing countries to open their economies





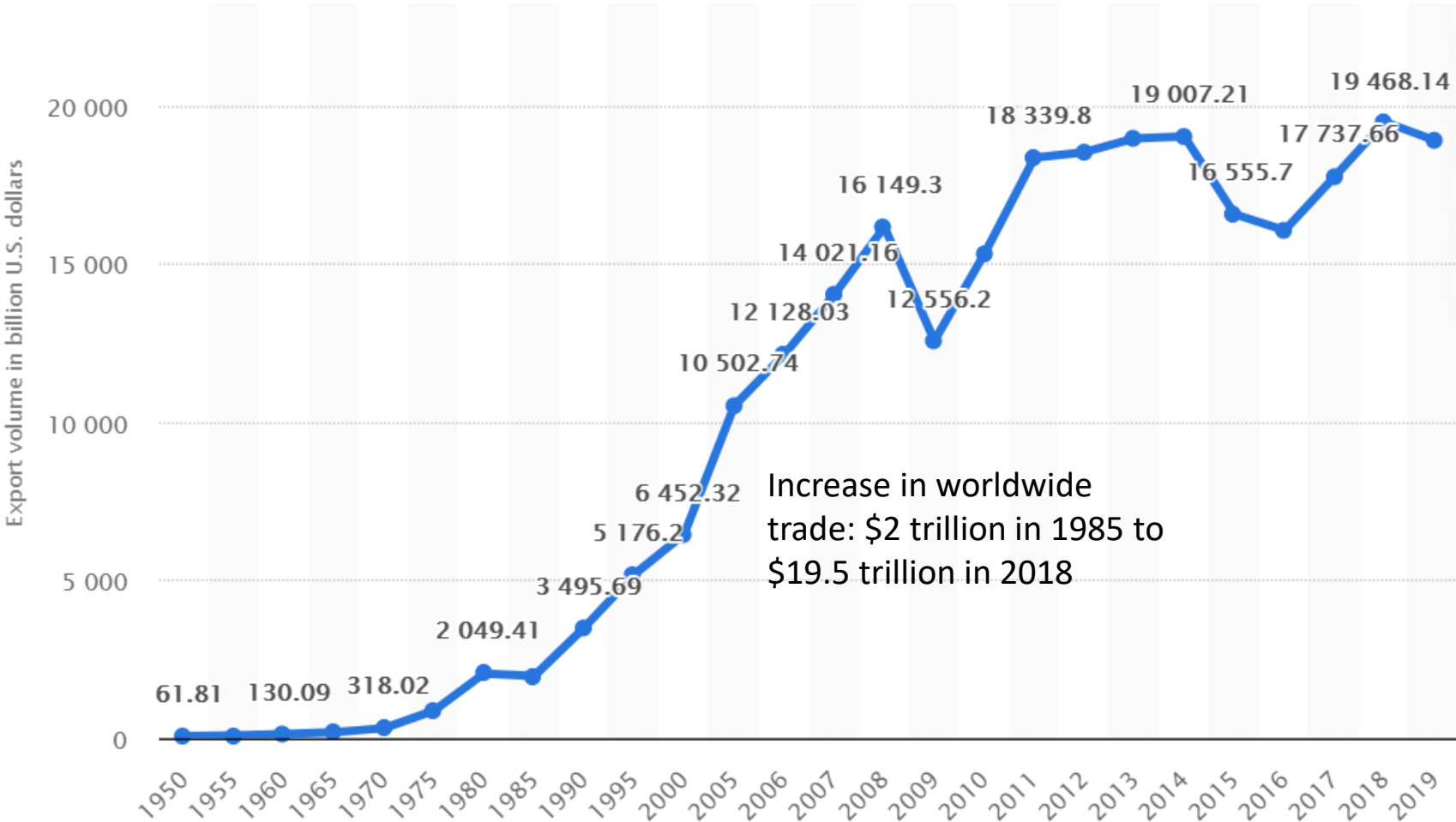
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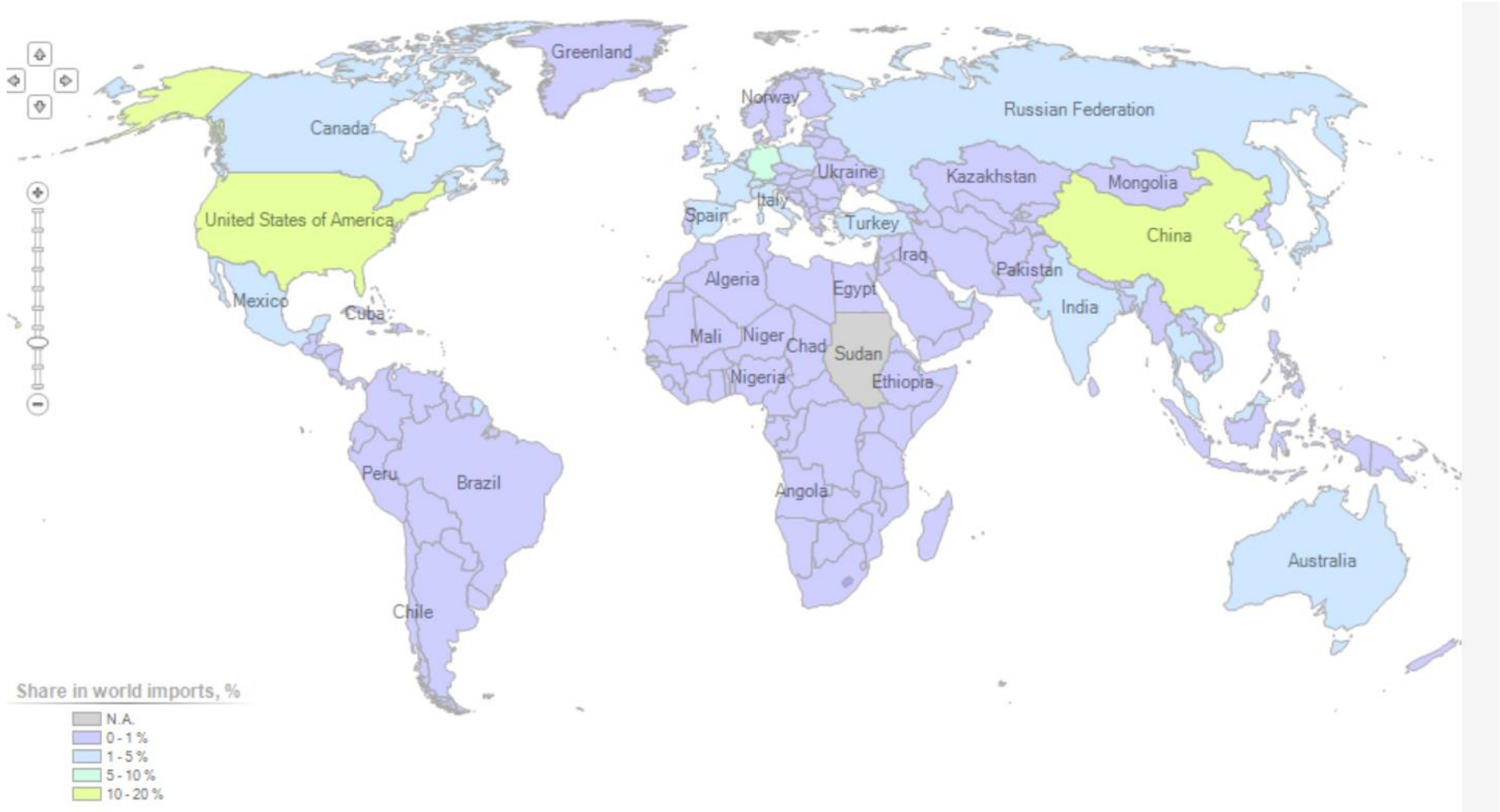
TRENDS AND PATTERNS

World trade volume, 1950-2020

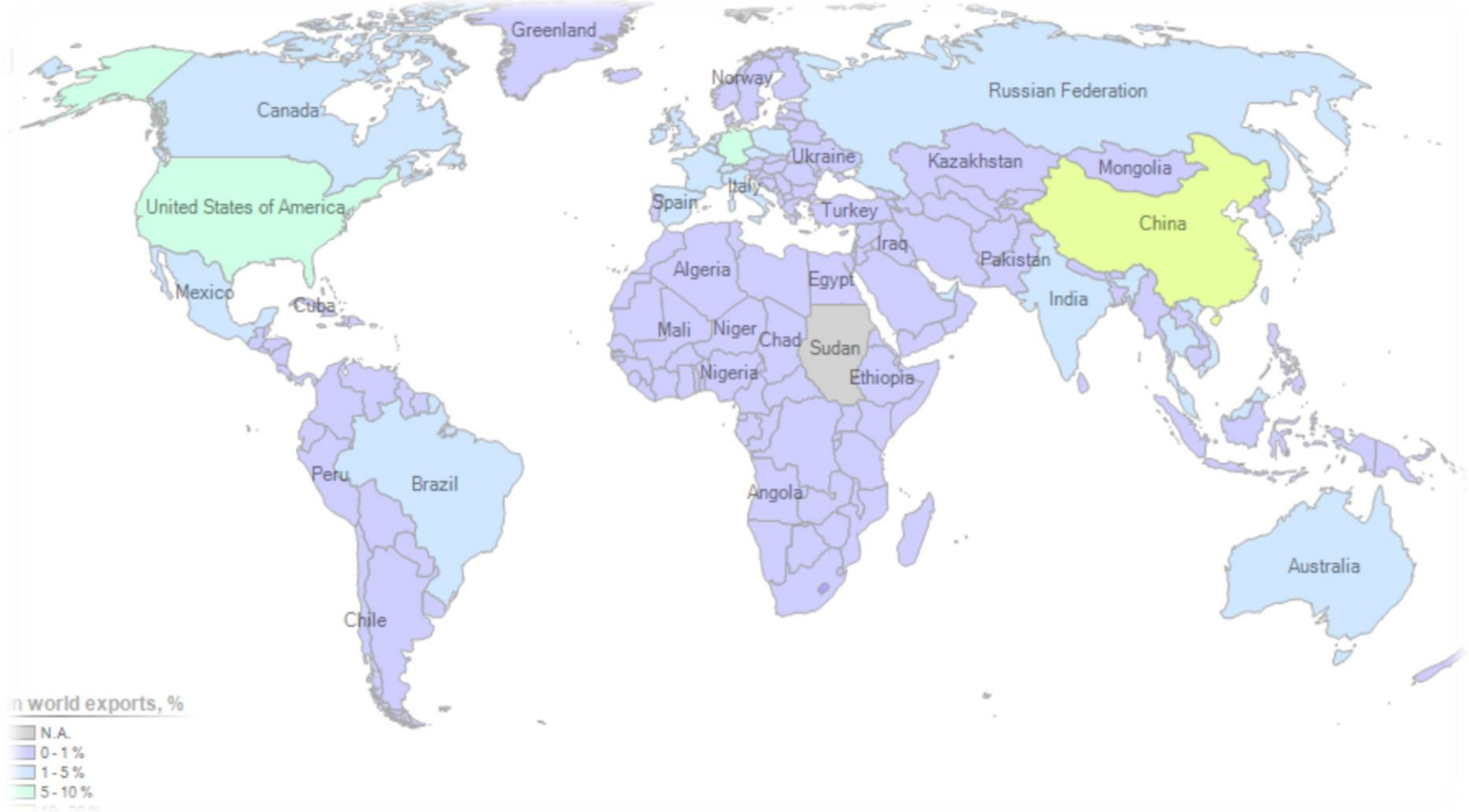
- World trade increased steadily since 1985
- Triggers: collapse of the Soviet Union and various economic reforms undertaken worldwide



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
- The bulk of world trade occurs among high income countries
- 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



Exports from low- and middle income countries

- Significant growth in exports from low- and middle-income countries
- China: since its reversal 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)



Imports and exports

- Imports: as incomes increase, countries typically import higher quality and sophisticated goods
- Exports: workers gain new skills and increase productivity; composition of exports shift from primary commodities to manufacturing products and services
- 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

Design Option #9

Benefits of trade: 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 they have to compete and therefore prices will go down, society benefits
- Trade enables transfer of technology and raise productivity, particularly when intermediate and advanced goods are involved



Benefits of trade: quality, variety and choice

- Trade increases not only the amount of goods a country can consume, but also the quality and variety of goods available
- Examples: cell phones and computers
- Trade brings people into contact with one another; it may promote global understanding, democracy and prosperity



Distributional aspects: winners and losers

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



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;
Increases national pride



Instruments for import substitution

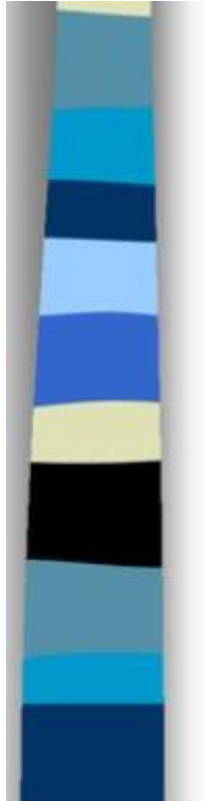


- Non-tariff barriers
- Tariffs (level and dispersion)
- Exchange rate control
- Export tax
- State-owned enterprises
- Targeted credit, subsidy

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

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



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)

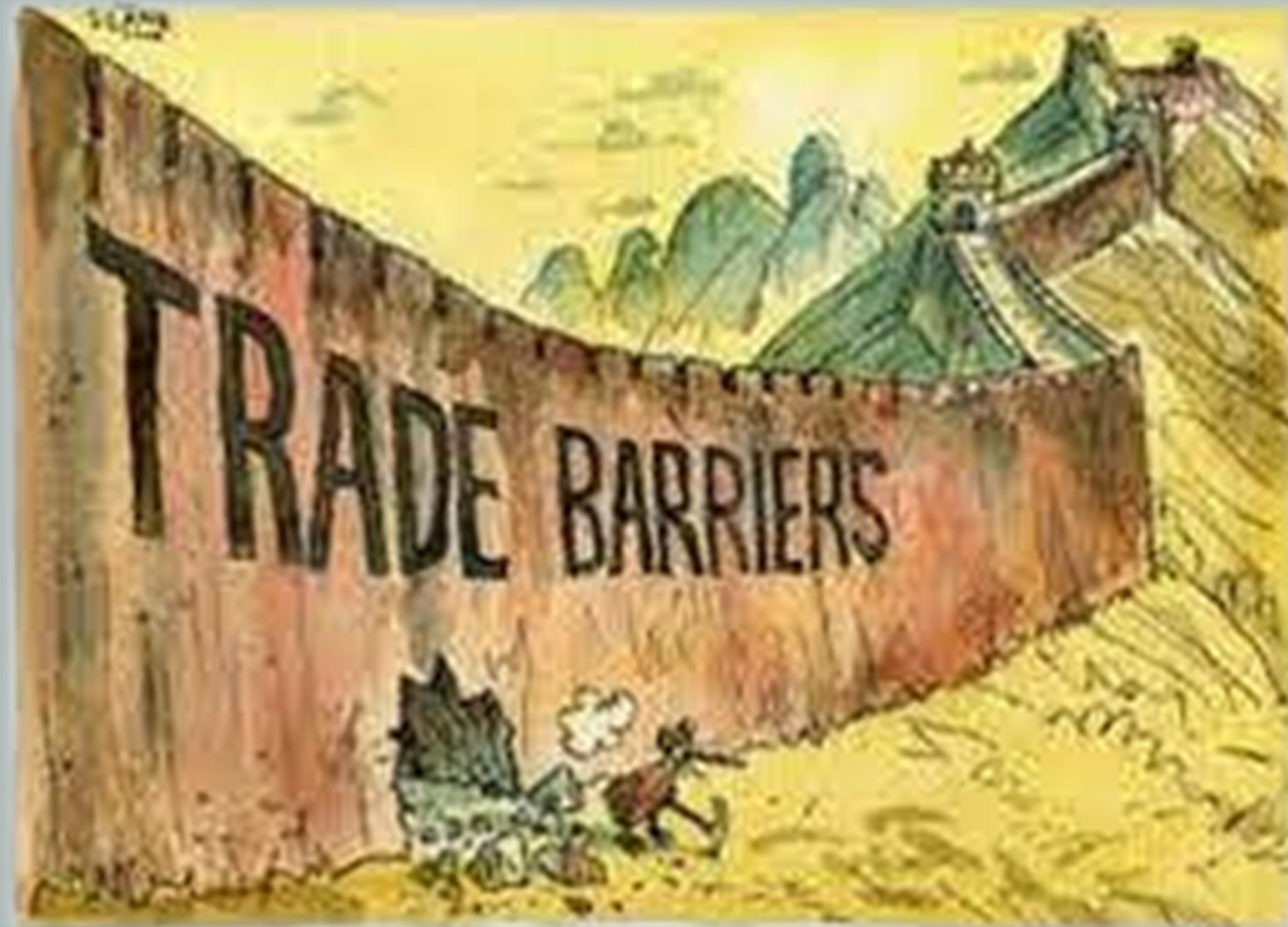


backward linkage

forward linkage

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





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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
- 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 **Y**OU!