



YOUR LOGO



International Trade and Trade in CLMV

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Outline

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Overview

Definitions

- **Globalization:** the increasing integration of national economies into the international economy
- **Global value chains:** Production is broken into activities and tasks carried out in different countries
- **Strategic positioning:** managing manufacturing assets in order to lower costs and maximize new market opportunities



Definitions

- **Trade protectionism:** Government policies that restrict international trade in order to help domestic industries, such as tariffs, non-tariff barriers and quotas
- **Primary commodities:** Products derived from all extractive occupations, such as agriculture produce, forest products, mining, and fisheries. These are vulnerable to price fluctuations



Definitions

- **Current account:** a portion of a country's balance of payment that reflects the market value of exports and imports
- **Capital account:** a portion of a country's balance of payment that reflects the volume of loans, grants and foreign direct investment that flow into and out of the country



DEVELOPMENTS IN INTERNATIONAL TRADE



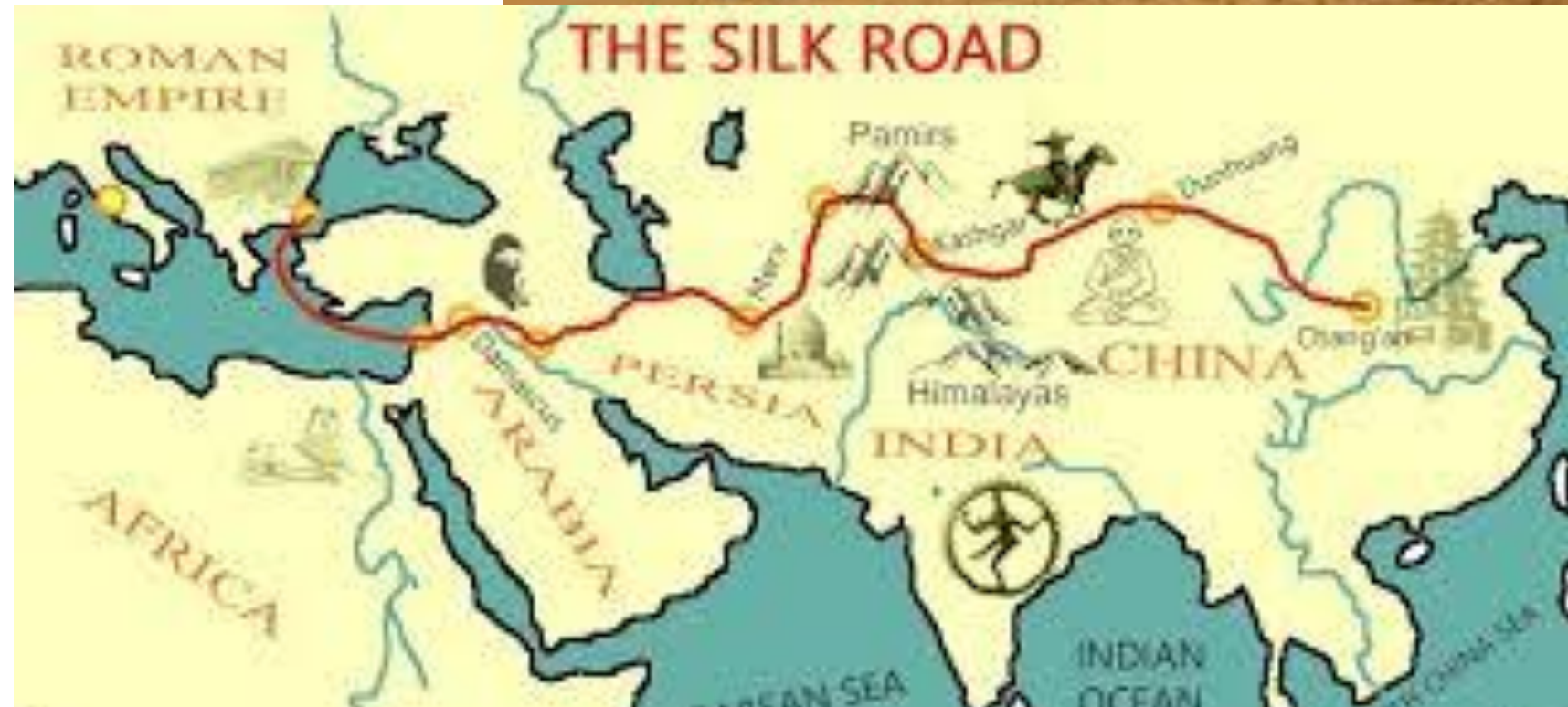
Rationale

- In a global economy, no nation is self-sufficient; nations trade, sell, and acquire what they needs
- World trade has become increasingly linked through expanded international trade and portfolio investments



The Silk Road

- Overland route linking China and the West
- Stretches from Xi'an to Venice



Mercantilism

- An economic policy designed to maximize exports and minimize imports through imperialism, colonialism



Modern era: globalism

- Rise of global trade: world becomes more integrated, leading to a global economy and global economic policymaking
- 1947: establishment of General Agreement on Trade and Tariffs (GATT)
- 1995: establishment of World Trade Organization (WTO); replaced GATT



Benefits and costs of trade

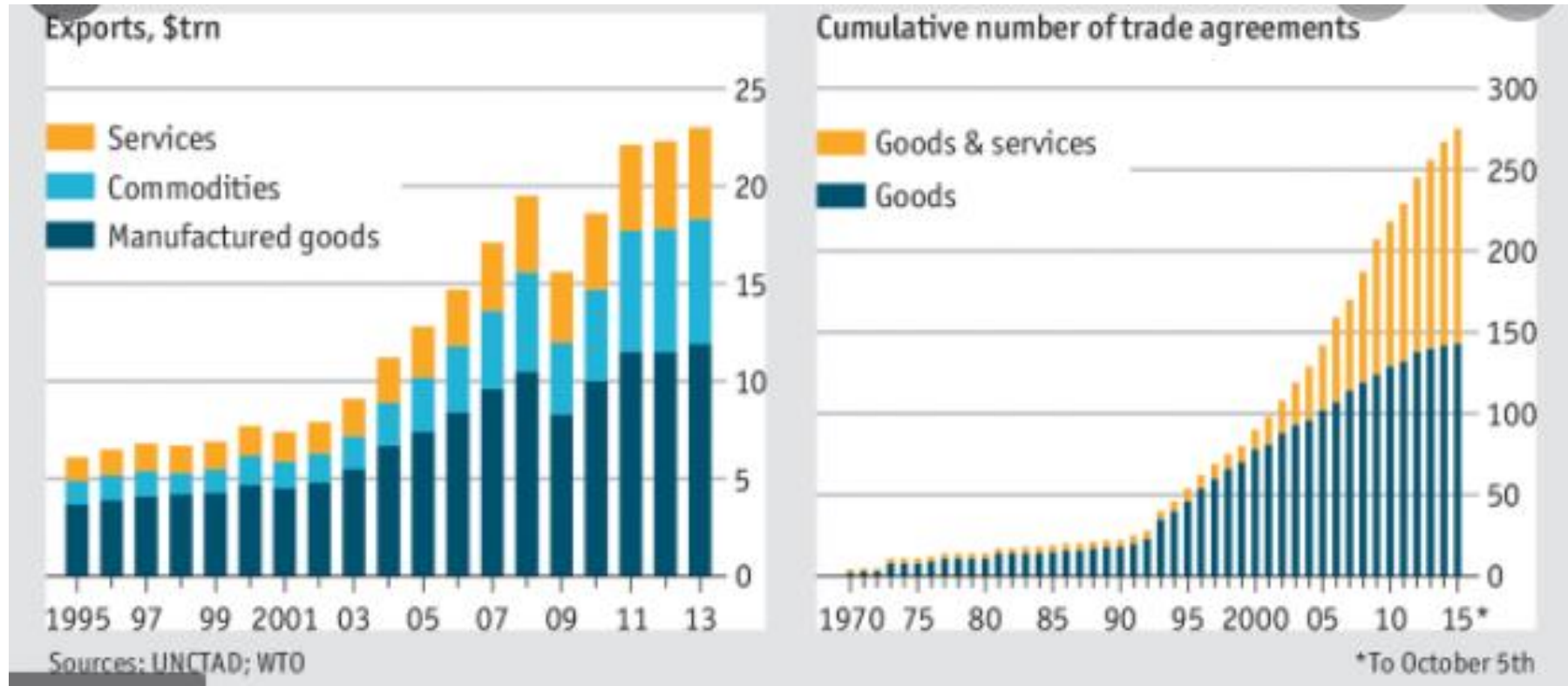
Benefits

- Increased trade creates more business opportunities, rapid growth of knowledge and efficiency gains
- Developing countries are trading more and more, among themselves as well as with developed countries

Costs

- Trade raises concerns of inequality across and within countries
- Because of interdependencies, countries become more vulnerable to changes in capital flows

Volume of world trade, 1995-2013



ISSUES IN TRADE



Design Option #3

Issues in international trade

- Countries that largely rely on primary commodity exports face unstable/suppressed prices, making them export dependent
- Export dependence: some countries are dependent on oil exports (some countries earning over 80% of exports from oil); others depend on tourism or primary commodities



Issues in international trade

- Many developing countries depend on imports of materials, machinery, capital goods and other consumer products; excessive imports creates problems of balance of payment and trade deficits
- Deficits on current and capital accounts; depletion of international monetary reserves; currency instability and slowdown in economic growth



Issues in international trade

- Dualistic farming structures: capital intensive farms exist side by side with low productivity small holder farms
- Export earnings are unlikely to equally benefit both groups



Trade and development

- International trade affects the rate (how quickly the economy grows), structure (changes in key economic sectors), and character (trends and patterns) of economic growth.
- Trade alters the distribution of income and wealth within a country and among different countries; it may benefit some groups while leaving other groups out)



Trade and development

- Trade can help a country to achieve its development objectives such as reducing poverty, ensuring environmental sustainability, and promoting social inclusiveness
- A developing country may determine how much it trades; this will depend on international demand, availability of outputs, production capacity, technological know-how and trade restrictions



Trade and development

- Countries could adopt an outward-looking (export orientation) or inward-looking policy (import substitution), or both
- Successes in export-oriented policies (South Korea, Taiwan, Hong Kong and Singapore), but also failures





TRADE IN CLMV

Trade and economic growth

- Economic growth in CLMV during 2000-2008 has been impressive; average annual growth rate was 6.1%
- During the economic global economic slowdown of 2008, GDP growth slowed down to 0.6%, but accelerated to 7.3% thereafter
- Trade and trade policies pursued by CLMV countries have contributed to the overall economic growth



Trade policies in CLMV

- **Greater outward orientation** and increased economic integration with the global economy has been a key pillar of the development plans of Cambodia, Lao PDR, and Viet Nam
- **Easing of restrictions on FDI provided an impetus to trade and growth**
Examples: relocation of garment factories from South Korea, Taiwan, and PR China to Cambodia; FDI in agriculture, forestry and mining in Lao PDR



Trade policies in CLMV

- **Location of production processes across borders,** further aided by advances in transportation has enabled increased intra-regional trade with GMS. Examples:
- Viet Nam has benefited from setting up of regional production networks, enabling easy access to finance for trade and consumption



Trade policies in CLMV

- **Cross-border trade facilitation:** ratification of cross border trade agreement (CBTA) in GMS countries
- CBTA: a comprehensive legal instrument that includes non-physical measures for cross-border land transport; allows vehicles, goods and people to cross national borders through the GMS road transport system.



All GMS countries have ratified CBTA: Lao PDR, Thailand and Viet Nam – 1999; Cambodia – 2001; PR China – 2002; Myanmar – 2003

Trade policies in CLMV

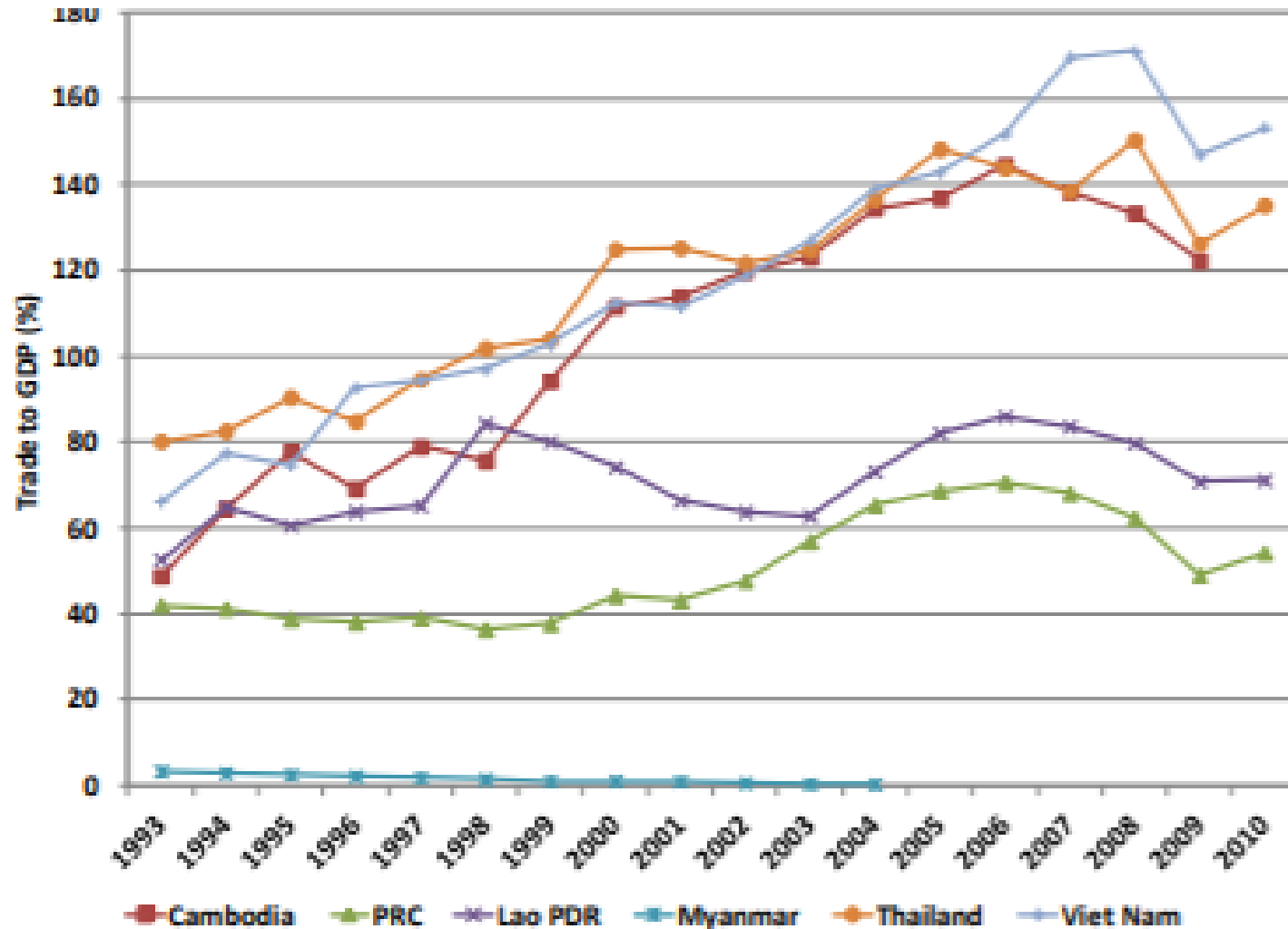
Development of special economic zones (SEZ)

SEZ: an area in which business and trade laws are different from the rest of the country; which aims to attract foreign investment, generate employment and increase trade balance and generate foreign currency through exports



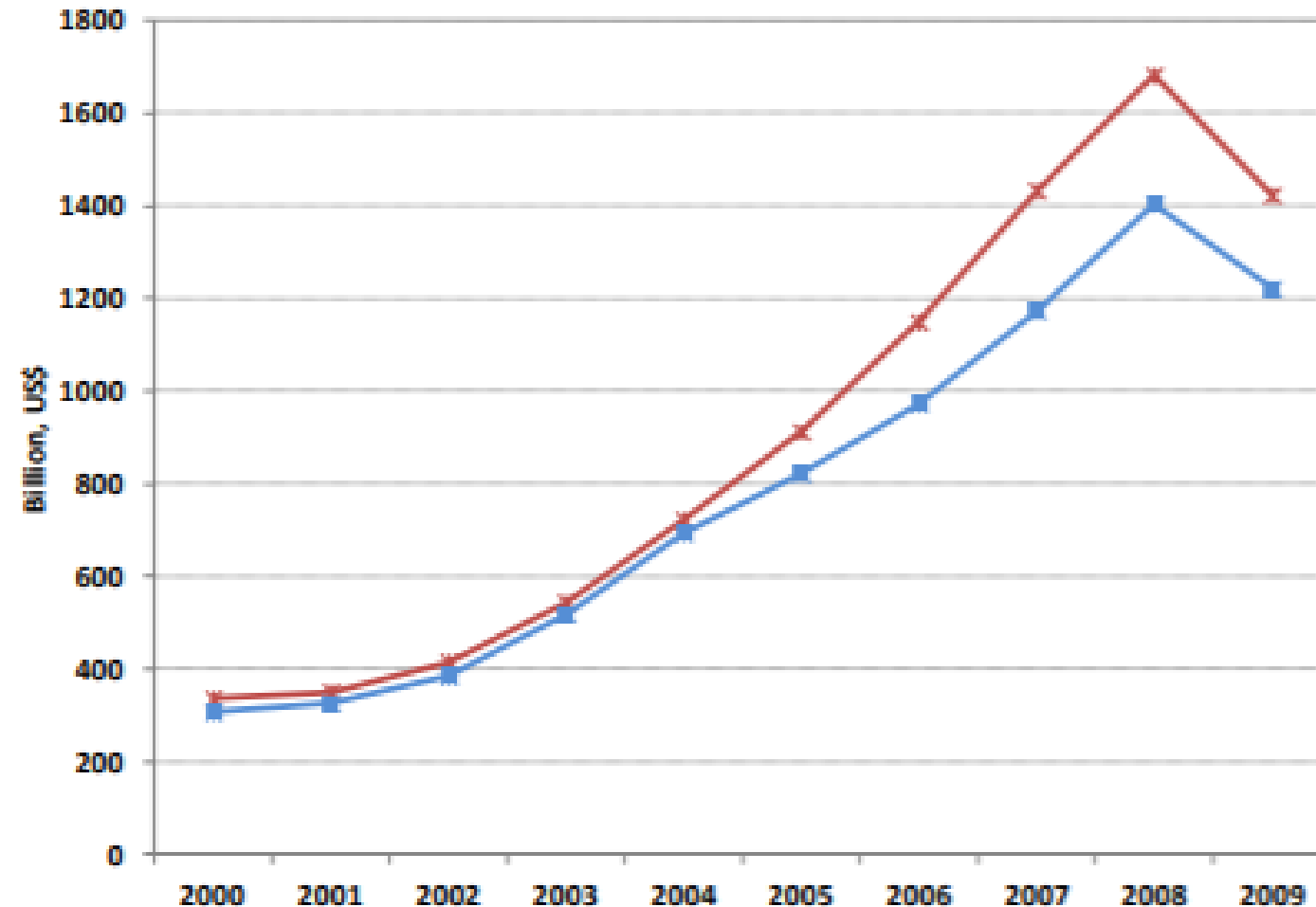
Outcomes of increased trade

- Trade-to-GDP ratio* and integration with the global economy through the trade channel increased in all the GMS countries except Myanmar



Outcomes of increased trade

- Total intraregional exports of the GMS countries grew at an average annual rate of 7.4%, from \$336 billion in 2000 to \$1,423 billion in 2009.
- During the same period, total imports increased from \$307 billion to \$1,223 billion with an average annual growth rate of 16.6%.



Bilateral trade with CLMV

- From PRC exports to GMS were mostly machinery and transport equipment; chemicals; non-metallic minerals; and textiles, apparels, and travel goods
- Export baskets of Lao PDR and Myanmar comprise largely of primary products



Bilateral trade with CLMV

- The composition of Viet Nam's export basket has changed
- Its export basket consisted of 60% primary products in 2000, but that share declined to 34% by 2009 due to increased manufacturing and services



Bilateral trade with CLMV

- Cambodia's overall export basket is dominated by manufacturing products, mainly garments. Relocation of garment factories from South Korea, Taiwan, and PR China to Cambodia helped stimulate garment exports from Cambodia
- However, composition of Cambodia's export basket differs by destination; in 2009 exports to GMS comprised largely of primary products (90%) while primary products accounted for only 10% of the total exports to the rest of the world





CONCLUSION

Conclusion

In theory, trade promotes economic efficiencies and optimal resource allocation; countries trade based on their comparative advantage

However like perfect competition, trade does not exist in practice; countries operate on imperfect competition unequal trade and different levels of technological know-how

Since many developing countries are dependent on one or a few commodity exports (oil, coffee), there is a risk of facing falling prices in the long run and unstable prices in the short run

Countries that have diversified sources of income are less susceptible to economic downturns

Conclusion

- Total GMS trade has grown rapidly during 2000-2009; intra-regional trade (including with PR China) has grown faster than its countries' overall global trade.
- The composition of exports varies across the GMS countries; high value added manufacturing products are largely from Thailand followed by Viet Nam.
- Exports of Cambodia, Lao PDR, and Myanmar to the world consists largely of low value added goods such as textiles, apparels, and of primary products; this indicates that these countries are not yet a part of the regional production networks

Conclusion

- In general, greater outward orientation in the CLMV countries, through both the trade and investment channels, has fueled integration with the global economy
- Policies to promote trade (reducing trade barriers, improving trade facilitation), have had a positive impact on growth and reduce poverty; however the distribution of the benefits of trade to the wider population will need to be assessed

THANK **Y**OU!