

### Reaction Essay: Trade and Environment

Since, the transportations have been improved over the decades, international trade becomes, nowadays, more common, and easier. According to the lecture, data suggests that free-trade-agreement has showed good results. However, there are some problems that the government and everyone need to be concerned; environmental damage is related to economic growth.

There has been a long debate between Free trade supporters and Environmentalists. Free trade supporters propose that FTA can help to boost economy and improve more friendly technologies simultaneously. In addition, higher income per capita could be achieved by trade liberalization. Meanwhile, environmentalists argue that FTA causes more problems; higher expansion of pollution; Many countries take for granted the environmental impact. Nonetheless, data shows that countries having FTA agreement have more cleaner environment; there is a positive relation between real income and demand for environmental quality. Furthermore, the Heckscher-Ohlin theorem implies that countries that have abundant natural resources have a competitive advantage of producing environmentally damaging goods. It also states that in early stage of trade liberalization, the pollution has a positive correlation to economic growth. When it becomes more progressive development, it causes higher concerns on environmental standard. According to Grossman and Krueger, pollution is emitted by scale of activity, share of dirty goods in total output, and the multiplier of the emission per unit of dirty good. In term of scale effect, trade liberalization causes higher scale of economic production damaging environment. Besides, composition effects on environment is ambiguous. Since, goods and capital have differences impact to country. Lastly, technique effect is that developed country indirectly or directly transfer knowledge to developing country causing the lower emission of pollution. All together comes down to an ambiguous conclusion whether trade liberalization will increase or decrease emission. Turning to resource

course, it is the concept that country which has abundant resources prone to have less economic growth due to the lack of democracy, conflict of interest, insufficient spending and borrowing, Dutch disease, and limited government capture of benefits. In my opinion, I agree with some concepts that free trade agreement will elevate our economic growth. There are two reasons that free trade agreement is an effective policy in terms of economic growth. First, increasing in economic growth, China is the one of best examples that gains advantages from opening country and adopting free trade agreement. Since 1978 (China Economic Reform) to 2017 China GDP average growth is 8.5% annually (data from UNICEF China). In consideration of adopting FTA, each country should adjust policy to be more suitable for its economy instead of copying other's policy. Furthermore, it increases human capital. Moreover, I disagree with the aspect that FTA can improve environmental standard in some countries especially in ASEAN. The study impact of FTAs on bilateral carbon emissions by using gravity framework shows the unambiguous impact of FTA on carbon emission in high income countries. On the other hand, in upper- and middle-income countries, it shows that FTA does not compelling improve carbon emission. Rather, it is devastated. (Xiao Yao)<sup>1</sup>. Due to the lack of efficient environmental policy and people awareness. Therefore, if governments would like to adopt FTA, they also need to revise and improve their environmental standard.

In conclusion, our people need clean air, fresh water, and good policy to sustain the growth of HDI and GDP altogether. Sustainable development goals must be strictly adopted to improve people's living conditions and economy. Our ASEAN might not need to have a very high growth. Rather, sustain growth and life quality are preferred.

---

<sup>1</sup> Free Trade Agreements and Environment for Sustainable Development: A Gravity Model Analysis  
Xing Yao, Rizwana Yasmeen, Yunong Li, Muhammad Hafeez, and Ihtsham Ul Haq Padda Published: 23 January 2019

## Reaction Essay: Economics of Multinational enterprises

Multinational Enterprises (MNEs) has no precise definition. Nevertheless, it can be referred as companies that established in many countries or co-ordinate to other company in different country in various ways. Foreign Direct Investment (FDI), according to OECD benchmark definition, is a cross-border long-term investment relationship with direct investment enterprises. The “lasting interest” is when direct investors own at minimum 10% of voting power of direct investment enterprise. The goals of direct investment differ from the goals of portfolio investment in terms of managing power. FDI could be categorized by many aspects such as direction of investment, types of activity, modes of entry, nationality of investors, motivation of investors. The motives of FDI aspects include natural resource-seeking FDI, market-seeking FDI, efficiency-seeking FDI, and strategic asset-seeking FDI. In addition, Dunning’s OLI framework states that determinants of FDI could be classified as ownership advantages (O), location advantages (L), and internalization advantages (I). On the other hand, FSAs/CSAs framework states that determinants of FDI could be assorted as firm-specific advantages (FSAs) and country-specific advantages (CSAs). There are various numbers of impact of FDI to host and home country, for examples, resource allocation, technology transfer, income distribution, trade, and economics development. According to the data, case-study: FDI in the Laos PDR, Vietnam and Thailand was the most important investors in Laos. Nowadays, China is the key important player FDI in Laos. This country has a numerous of motives for foreign investors such as based on natural seeking FDI, mining and electricity generation (Hydro Power); based on market-seeking FDI, service sectors, construction, and agricultural sectors; based on efficiency-seeking FDI, low labor cost, neighbor sharing of effective supply chain; based on strategic-assets, local networking. According to CSAs and FSAs framework, there are three mainly determinants of FDI in Laos. First, host country specific

advantages are pull factors the positive factors such as rich natural resources, political stability, high level of economic growth, low labor cost, stable exchange rate, investment's environment, and revised regulations. On the other side, there are negative factors such as small market size, limited amount of labor, and problem of corruption. Secondly, home country specific advantages (push factors), there are three specific countries that have impacts on Laos' FDI. Most of Vietnam outward FDI in Laos are stated-owned enterprises. Thailand agricultural plantation are scare compared to Laos. It also has higher wages. Turning to Firm specific advantages (FSAs), some multi-national firms have technology advantage or managerial skill over other MNEs. Well-known MNEs in the region have the advantage in terms of brand recognition.

In my opinion, Laos should gain advantages of some pull factors in early economic growth (The highest GDP growth in ASEAN). However, in long-run, Laos should invest in human capital and build intra-investment environment. So, Laos could have a sustain growth and mitigation of risk for relying on FDI. Moreover, skilled labors are needed and crucial for Laos to get paid more which could lead to higher income. Since, Laos can attract many MNEs into its country, it should be prepared for revising its policy such as environmental policy and stock market policy. In addition, they should improve more effective institution while seriously adopt the sustainable development goals to attract more foreign investment and elevate people living standard simultaneously.