

International Trade- an Overview



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Scope of today's presentation

- International trade what is it?
- International trade Why? Trade theories explanation
- Recent trends of International trade.
- Globalization debate? ? ?
- World Trade regulatory environment
- Regionalism
- BIMSTEC

What is International trade?

Typically we are using products produced around the world,

- breakfast with Japanese jasmine tea, Brazilian coffee and breakfast cereal from USA. Any celebration with champagne from France.... experiencing the effects of international trade.
 - Creates a world market
 - Greater competition
 - Diverse and best of products available to the consumer
- 
- International trade is the exchange of goods and services between countries. This type of trade gives rise to a world economy, in which prices, or supply and demand, affect and are affected by global events.*

What is International trade?

- Each country has their own resources, natural or acquired and it uses its resources efficiently to trade globally.
- Increase in global trade efficiency
- *Called the specialization in international trade, thus the country's economy gets integrated to the world economy.*

International trade; Why?

Laissez-Faire versus Interventionist Approaches to Exports & Imports

- Interventionist Theory
 - Mercantilism

- Free-trade theories:
 - Absolute advantage
 - Comparative advantage

Theories of Trade Patterns

- Trade competitiveness:
 - Product life cycle theory
 - Porter diamond

Mercantilist Theory

- Proposed in the 16th century
- a country should try to achieve a favorable balance of trade (export more than it imports)
- Encourage exports, discourage imports
- Would accumulate more gold and silver, leading to national wealth and prestige.
- Governmental intervention too strong

Theory of Absolute Advantage

- Adam Smith 1776
- A country may produce goods more efficiently because of a natural advantage or because of an acquired advantage
- Suggests specialization through free trade because consumers will be better off if they can buy foreign-made products that are priced more cheaply than domestic ones

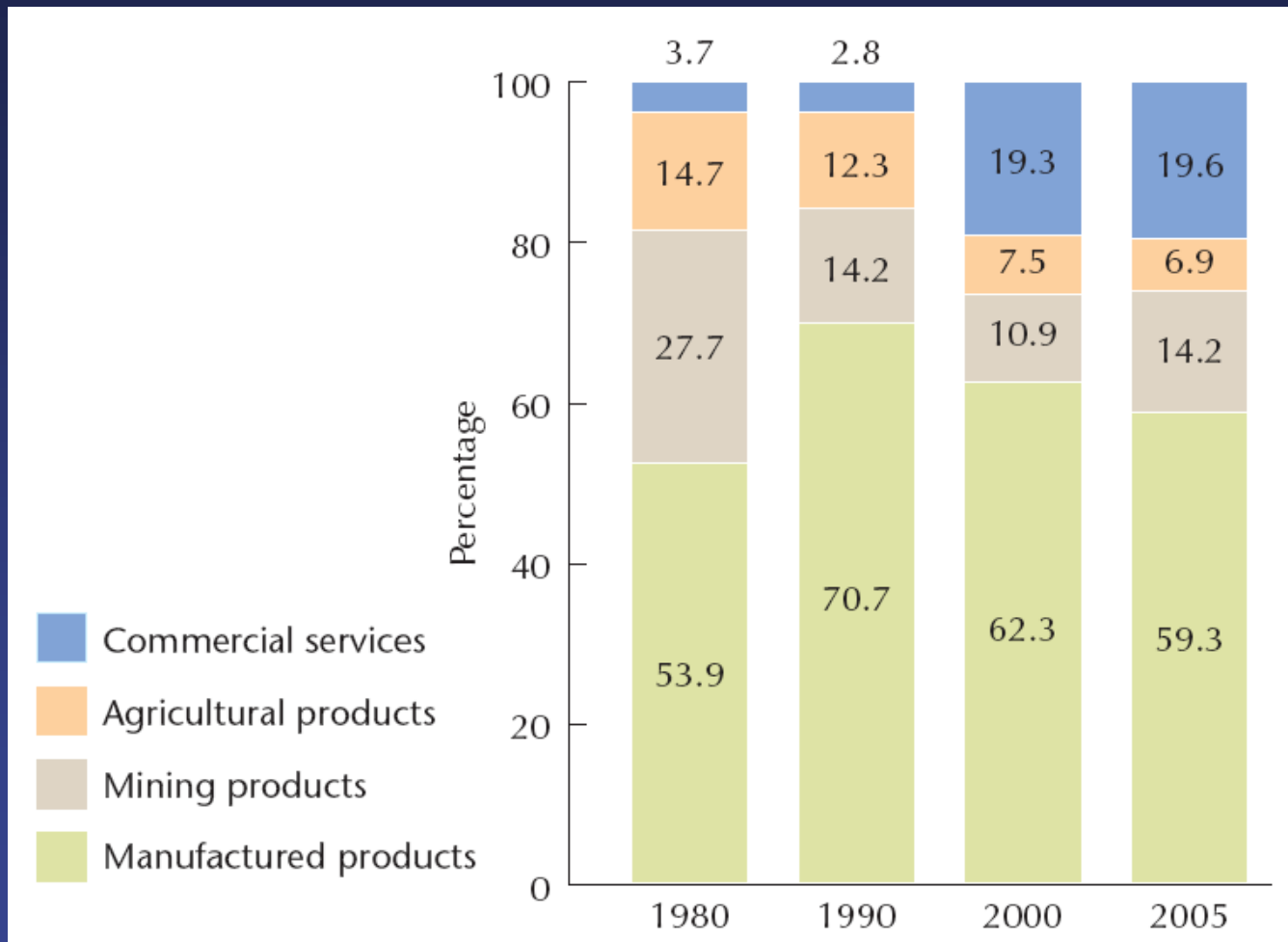
Theory of Comparative Advantage

- Proposed by David Ricardo in the early 19th Century
- Relative/ comparative advantage rather than absolute advantage
- Comparative advantage arises when you have differences in the way the resources are being used. How efficiently are they being used.
- What are resources?

Theories of Specialization

- Both absolute and comparative advantage theories are based on specialization
- Assumptions policymakers question:
 - full employment
 - transport costs
 - production networks
 - Mobility of labour

Worldwide trade of major goods



Product Life Cycle (PLC) Theory

- Proposed by Raymond Vernon, 1960s
- Companies will manufacture products first in the countries in which they were researched and developed, almost always developed countries
- Over the product's life cycle, production will shift to foreign locations, especially to developing economies as the product reaches the stages of maturity and decline

Life Cycle of the International Product

	LIFE CYCLE STAGE			
	1: INTRODUCTION	2: GROWTH	3: MATURITY	4: DECLINE
Production location	<ul style="list-style-type: none"> In innovating (usually industrial) country 	<ul style="list-style-type: none"> In innovating and other industrial countries 	<ul style="list-style-type: none"> Multiple countries 	<ul style="list-style-type: none"> Mainly in developing countries
Market location	<ul style="list-style-type: none"> Mainly in innovating country, with some exports 	<ul style="list-style-type: none"> Mainly in industrial countries Shift in export markets as foreign production replaces exports in some markets 	<ul style="list-style-type: none"> Growth in developing countries Some decrease in industrial countries 	<ul style="list-style-type: none"> Mainly in developing countries Some developing country exports
Competitive factors	<ul style="list-style-type: none"> Near-monopoly position Sales based on uniqueness rather than price Evolving product characteristics 	<ul style="list-style-type: none"> Fast-growing demand Number of competitors increases Some competitors begin price cutting Product becoming more standardized 	<ul style="list-style-type: none"> Overall stabilized demand Number of competitors decreases Price is very important, especially in developing countries 	<ul style="list-style-type: none"> Overall declining demand Price is key weapon Number of producers continues to decline
Production technology	<ul style="list-style-type: none"> Short production runs Evolving methods to coincide with product evolution High labor input and labor skills relative to capital input 	<ul style="list-style-type: none"> Capital input increases Methods more standardized 	<ul style="list-style-type: none"> Long production runs using high capital inputs Highly standardized Less labor skill needed 	<ul style="list-style-type: none"> Unskilled labor on mechanized long production runs

The Porter Diamond

- Four conditions as important for competitive superiority:
 - demand conditions
 - factor conditions
 - related and supporting industries
 - firm strategy, structure, and rivalry

- Governmental interventions

Limitations of the Porter Diamond Theory

- Production factors and finished goods are only partially mobile internationally
- The cost and feasibility of transferring production factors rather than exporting finished goods internationally will determine which alternative is better

Trends in international trade

- Increasing trends of Globalisation (international interdependence)
- World is getting flat
- Technological advances and lower costs of communications
- Technology and logistics, free flow of material
- Increasing role of regulatory framework- WTO. It covers many agreements. Areas which could be further added are labour, environment. Role of Free Trade Agreements
- Lowering of trade barriers? Or increased protectionism?
- Global value chains

Trends in international trade

- Exports as an engine of growth
- Increased competition.
- Development Of E- commerce
- Shift from N-S trade to S-N, S-S
- Increasing power of China and India

discussion

- Debate on globalizatiion

The World Trade Regulatory Framework

- World Trading Organization
- Keeps an eye on the jungle of world trade
- Sovereign nations come together in a regulatory environment
- A move to follow WTO rules with an intent to gain in world trade, proof lies in its growing membership

WTO- OBJECTIVE & THE MULTILATERAL FRAMEWORK

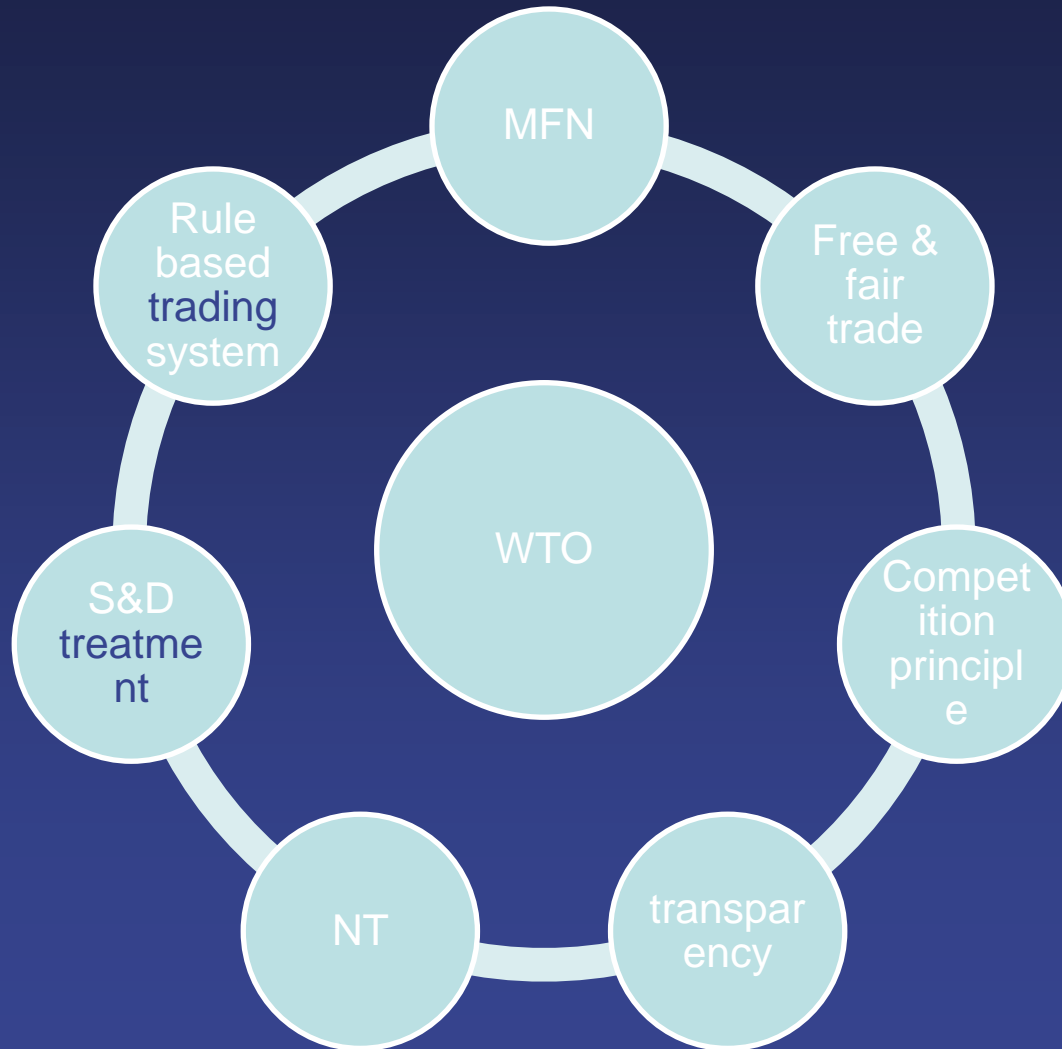
- World war II- ended with ravaged economies.
- War depletes economic prosperity – goes against sustainability.

Brettonwoods conference-


Objective- discourage the protectionist tendencies amongst nations.
encourage international trade among nations.

- ITO (International Trade Organisation)
- GATT(General agreement on trade and Tariff) 1947 signed by 23 participating countries/ contracting parties.
- 8th round of GATT- Uruguay Round added many other issues under the fora, apart from goods were added services, trips trims DSB Textiles & Agri trade.
- Marrakesh Agreement led to - January 1st 1995 , formation of WTO

PILLARS OF WTO



PILLARS OF WTO

- MFN- (Most Favoured Nation)/ non discrimination between members. One member granting a special favour to another member, lowering of customs duty. This favour to be granted to all members. Article I of GATT'94
 - FTA groups (free trade agreements),
 - GSP (generalised system of preferences) under UNCTAD forum.
 - Following antidumping duties or countervailing duties.
- National treatment / nondiscrimination between goods. Imported goods that have entered the market should be given the same treatment as a locally produced good. ArticleIII GATT '94
- Free and fair trade- lowering of barriers (duties , quotas, nontariff barriers) dumping agreement, trips , AOA , all propogate fair trade.
- Transparency- WTO centers in all major countries, members required to give copies of its rules , regulations, notifications, legislations, at  WTO

PILLARS OF WTO

- Reciprocity- any concession made with the negotiating partner will be reciprocated.
- Special and differential treatment for developing and LDC's countries qualified under this are required to take commitments as per their individual development, financial, trade administrative capabilities.
- Rule based trading system- sets rules through its agreements, member countries are expected to follow. Any disputes settled through a well developed dispute settlement mechanism. This system too follows non-discrimination. Leads to certainty and predictability
- Competition principle-restricting monopolies and protecting consumer interest.

MARRAKESH AGREEMENT--- WTO

- Agreement signed after many deliberations, established the WTO with effect from January 1st 2005
- **Annexe1** Multilateral Agreement on trade in goods.
Gats (1A) & Trips(1B)
- **Annexe2** Understanding on rules & procedures governing the settlement of disputes.
- **Annexe3** Trade policy review mechanism
- **Annexe4** Plurilateral trade agreements.(government procurement & civil aviation.)

Discussion

- **WTO?**
- A move towards free and fair trade?
- Do we see signs of protectionism

A voice in the world trade, one member one voting right, principle of Non discrimination, principle of Reciprocity and less than reciprocity, and the Dispute Settlement Board (DSB)

BIMSTEC- A Regional Co-operative Initiative

- Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, 1997.
- South Asian and South East Asian countries, Bangladesh, India, Sri Lanka, and Thailand Nepal and Bhutan
- Objective
- technological and economic cooperation
- Commerce, investment, technology, tourism, human resource development, agriculture, fisheries, transport and communication, textiles, leather etc. have been included in it .

BIMSTEC Co-operation

- Trade and Investment, led by Bangladesh
- Transport and Communication, led by India
- Energy, led by Myanmar
- Tourism, led by India
- Technology, led by Sri Lanka
- Fisheries, led by Thailand

BIMSTEC Co- operation

- Agriculture, led by Myanmar
- Public Health, led by Thailand
- Poverty Alleviation, led by Nepal
- Counter-Terrorism and Transnational Crime, led by India
- Environment and Natural Disaster Management, led by India
- Culture, led by Bhutan
- People to People contact, led by Thailand
- Climate change, led by Bangladesh

BIMSTEC Co- operation

- 1.5 billion people
- 22% of the Global population
- GDP 2.7 trillion economy

Main take away's

- Why International trade takes place?
- The recent trends in international trade
- The main principles of WTO, (MFN and NT)
- Regionalism vs Multilateralism
- BIMSTEC

- Thank you