

Political Economy of International Trade

5th Chapter in Book (151-177) = Chapter 7 on Connect



Big Brother

Not...the Reality Soap though...

“Big Brother” = Government Interference with Free Trade

- Free Trade: Government does not attempt to restrict trade between countries.

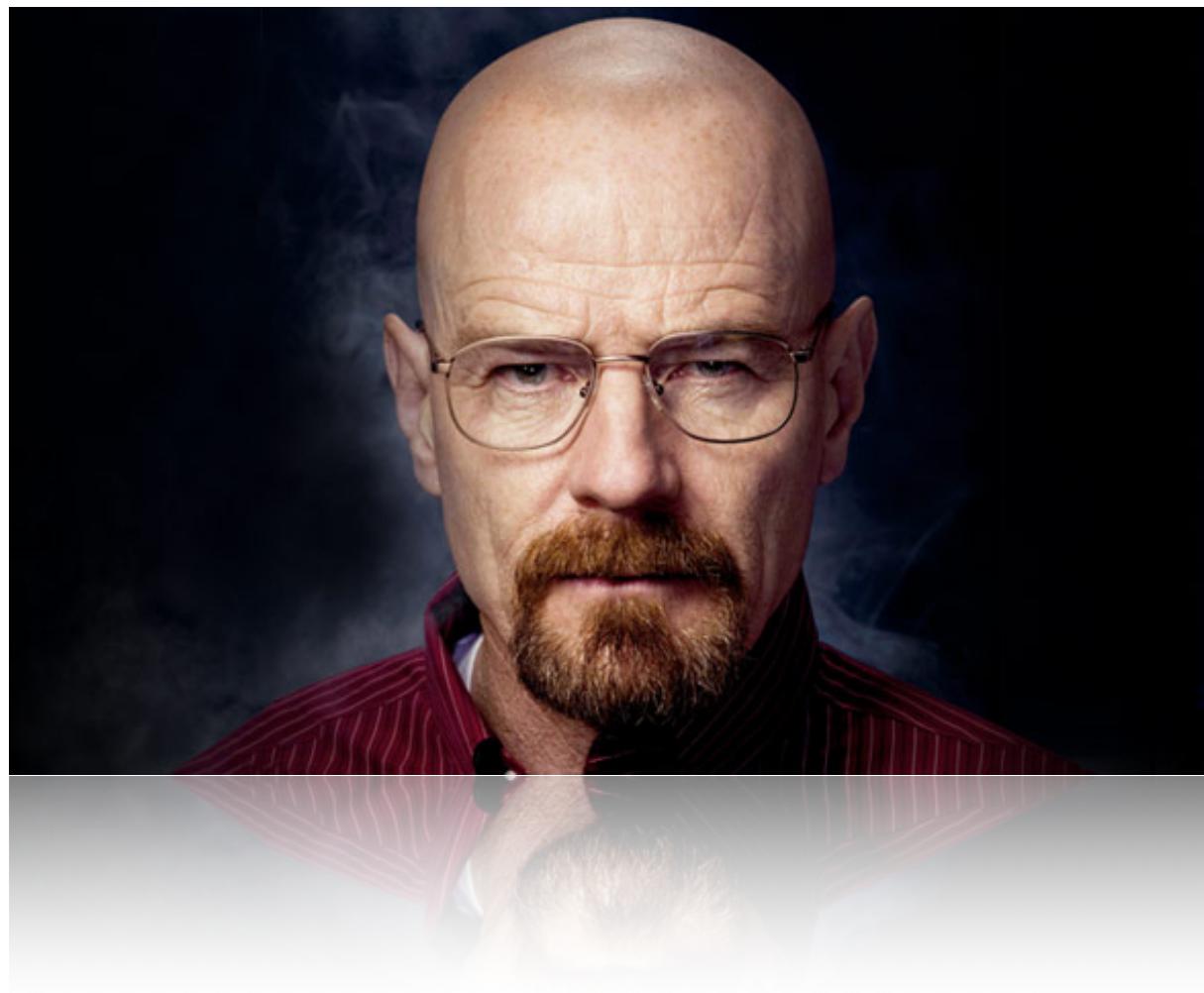
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“Big Brother” = Government Interference with Free Trade

- Free Trade: Government does not attempt to restrict trade between countries.
- Most all nations in the world claim to support free trade.
- Very few governments actually do!

Back to Chemistry Class



H	
Li	Be
Na	Mg
K	Ca
Rb	Sr
Cs	Ba
Fr	Ra

Rare Earth Elements

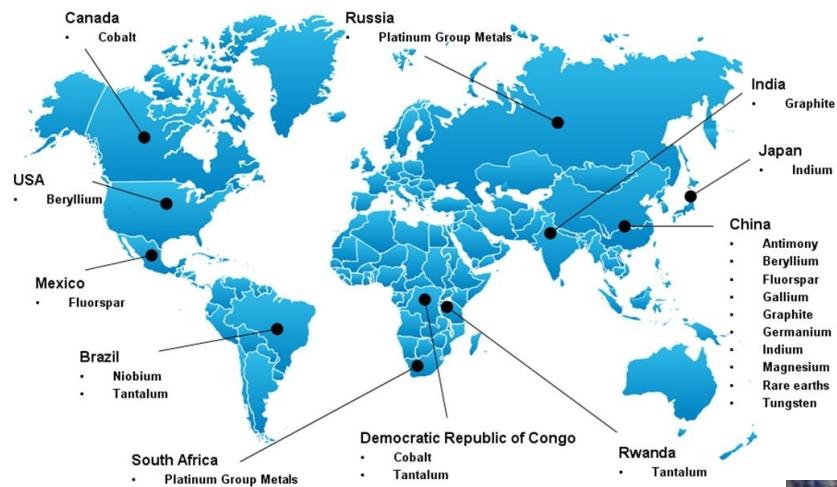
Ce	Pr	Nd	Pm	Sm	Eu	Gd	Tb	Dy	Ho	Er	Tm	Yb	Lu
Th	Pa	U	Np	Pu	Am	Cm	Bk	Cf	Es	Fm	Md	No	U

					Hg
B	C	N	O	F	Ne
Al	Si	P	S	Cl	Ar
Ga	Ge	As	Se	Br	Kr
In	Sn	Sb	Te	I	Xe
Tl	Pb	Bi	Po	At	Rn

Production concentration of critical raw mineral materials



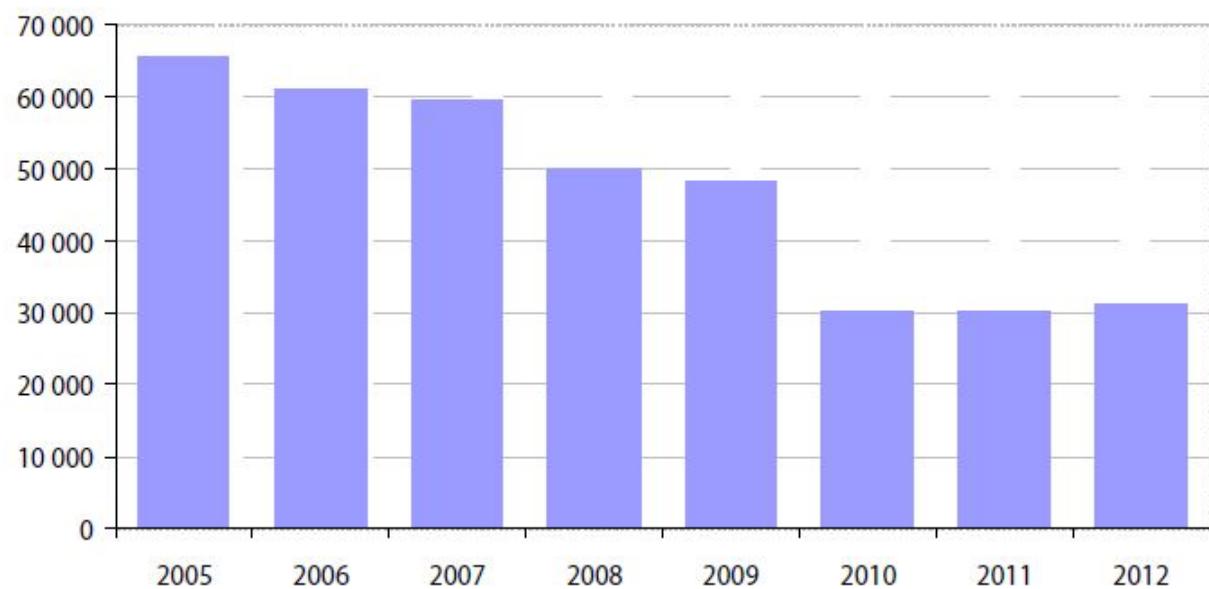
Production concentration of critical raw mineral materials



Production concentration of critical raw mineral materials



Evolution of Chinese REE export quotas from 2005 to 2012, in metric tonnes

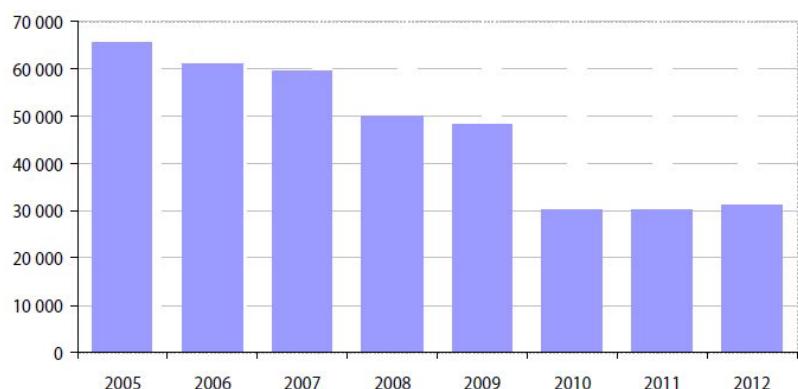


Data source: [US Congress research service](#), March 2012

Production concentration of critical raw mineral materials



Evolution of Chinese REE export quotas from 2005 to 2012, in metric tonnes



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Rare earth minerals

Group of 17 elements used in a wide range of consumer products

Features:

- Gray to silvery metals
- Soft, malleable and ductile
- China supplies at least 95 percent of world's rare earths

Some products that contain rare earth elements:

- **iPods** dysprosium, neodymium, praseodymium, samarium, terbium
- **Wind turbines** dysprosium, neodymium, praseodymium, terbium
- **Fibre optics** erbium, europium, terbium, yttrium
- **Energy-efficient fluorescent light bulbs** europium, terbium, yttrium
- **Hybrid vehicles** dysprosium, lanthanum, neodymium, praseodymium

Source: USGS

AFP

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■ Fibre optics

erbium, europium, terbium, yttrium

■ Energy-efficient floourescent light bulbs

euprium, terbium, yttrium

Source: USGS

AFP

Government Intervening in Markets:

There are 7 instruments or methods
governments use...

How Do Governments Intervene?

- Tariffs:
 - The original method...
 - Specific tariffs

How Do Governments Intervene?

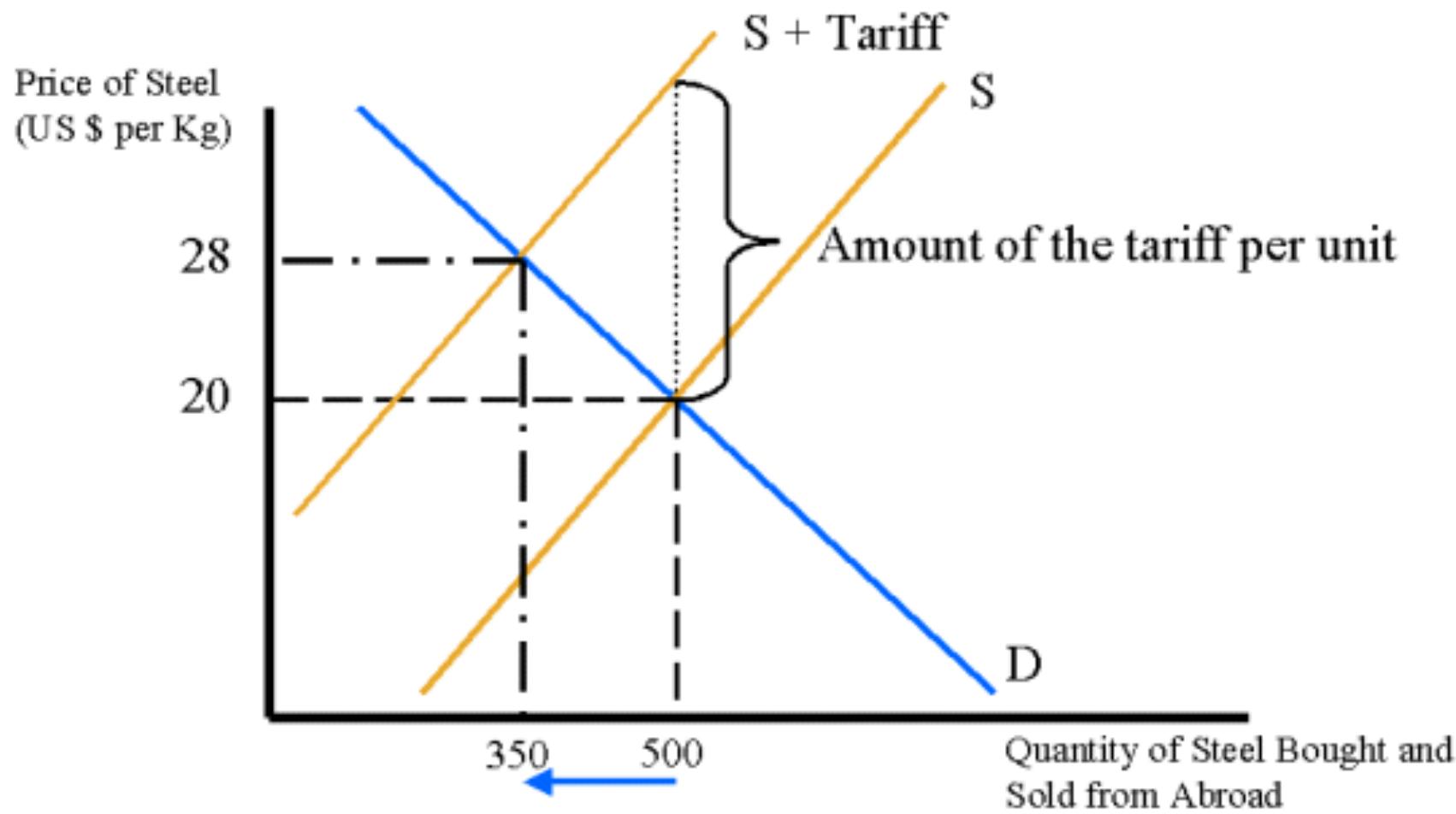
- Tariffs:
 - The original method...
 - Specific tariffs
 - Ad valorem tariffs





Christopher Rotinson / AP file
Save American Steel

Impact of a Tariff on Steel





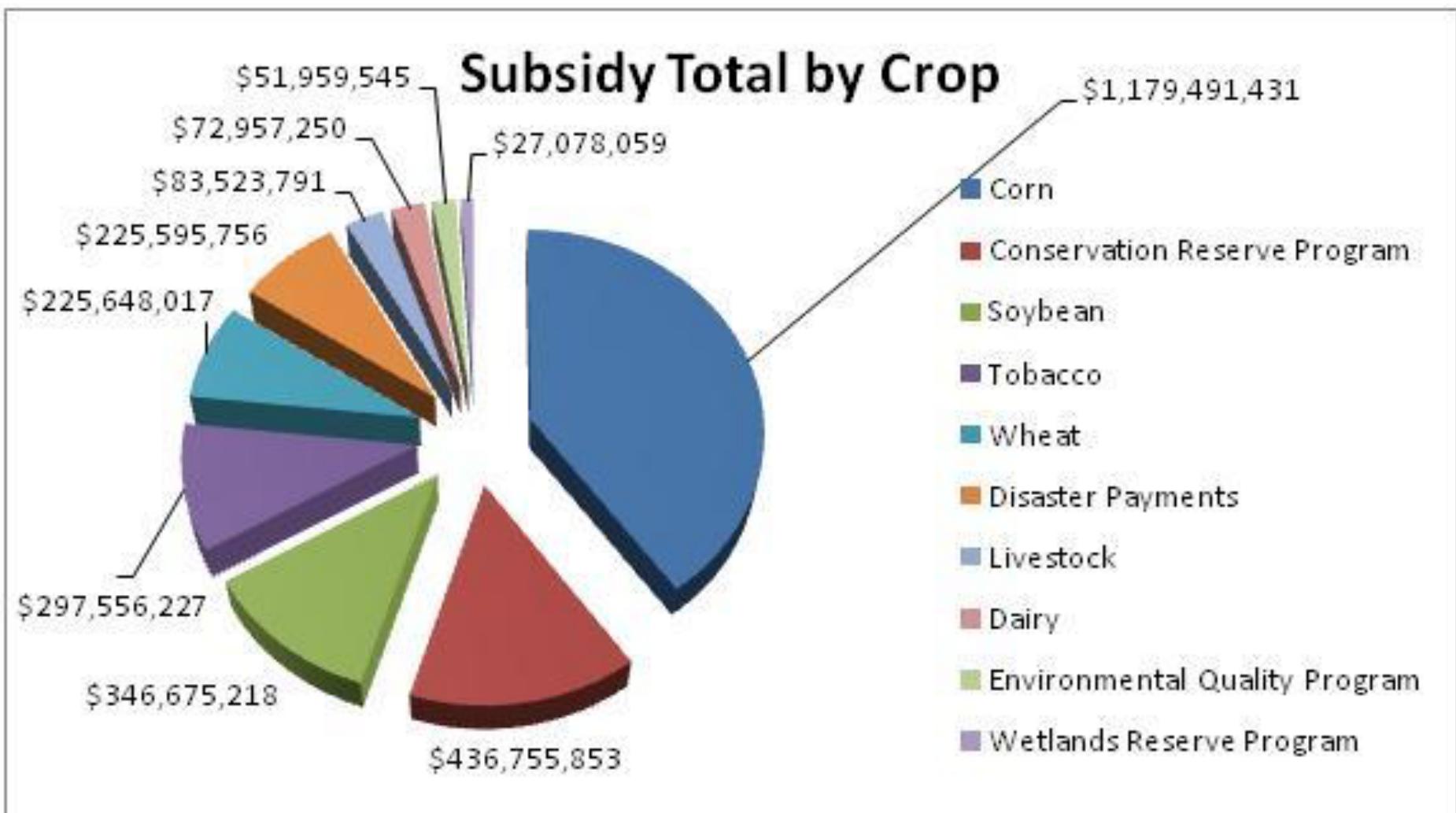
Tariffs

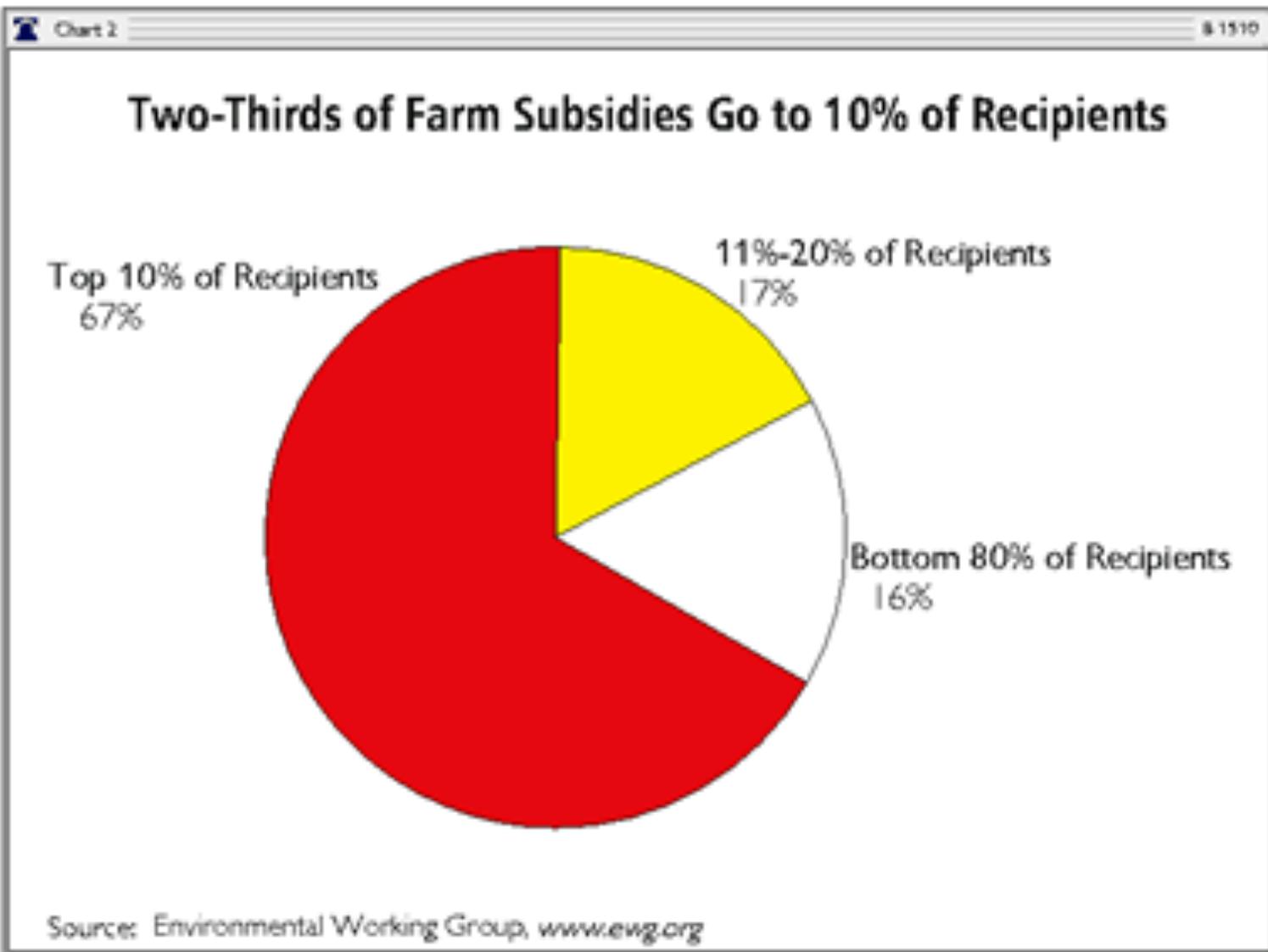
- Picks winners and losers
- Protects domestic suppliers
- But, hurts consumers

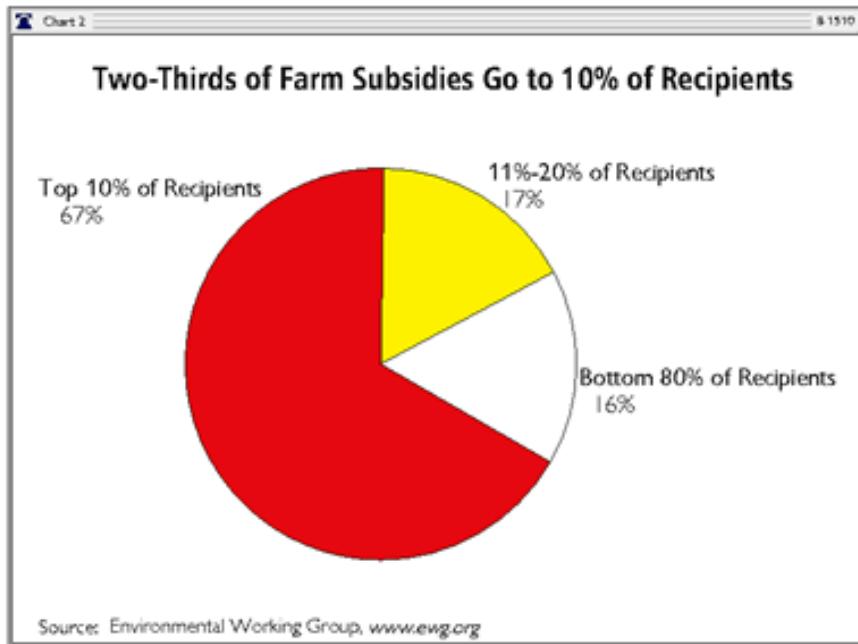
Subsidies

- Government payments to domestic producers
 - To compete against low-cost competition
 - To assist exporters

Consumers absorb the
costs of the subsidies...
(no free lunch after all)







Import Quotas

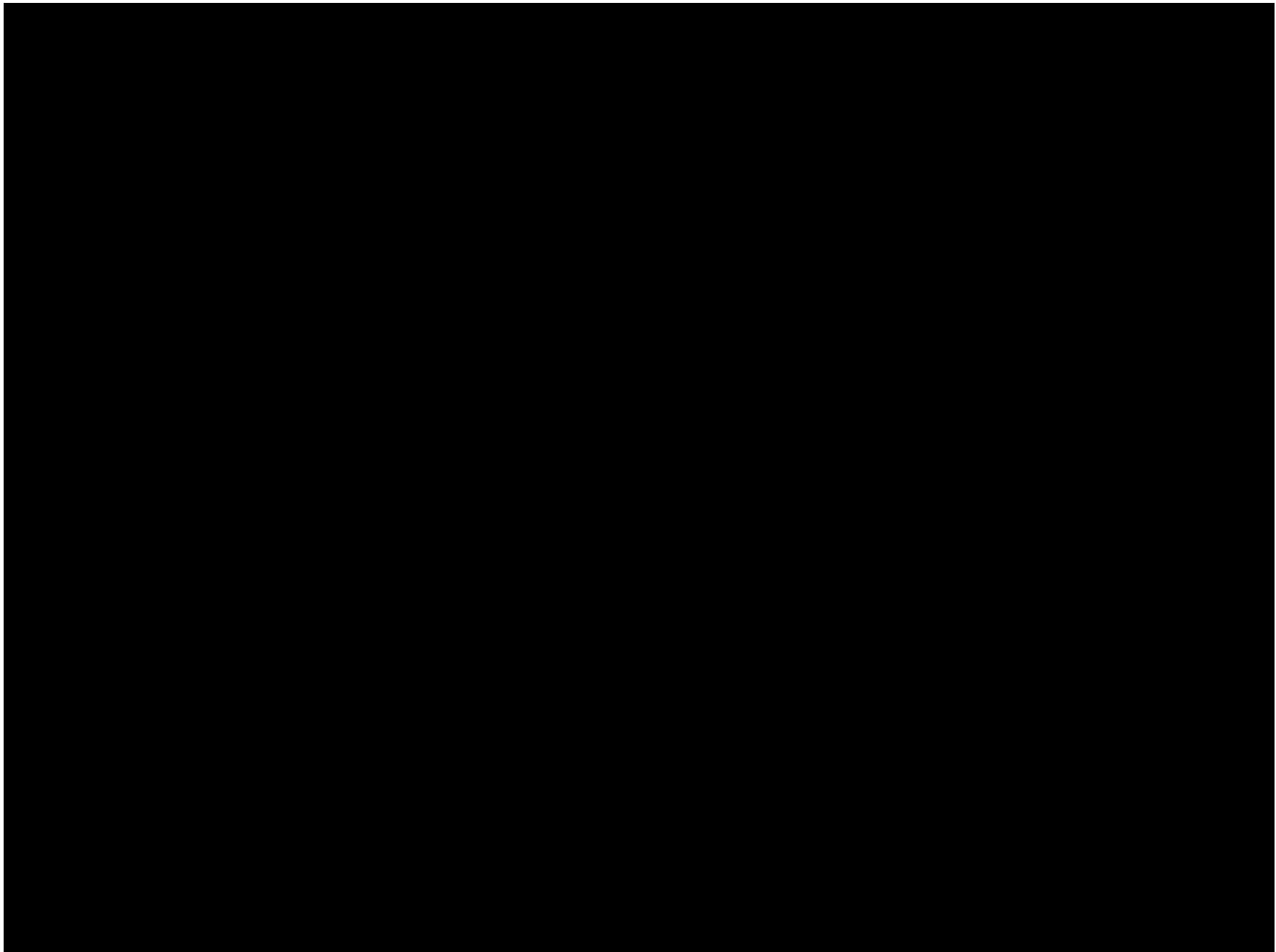
- Restrict the quantity of goods allowed to be imported into a country

Import Quotas

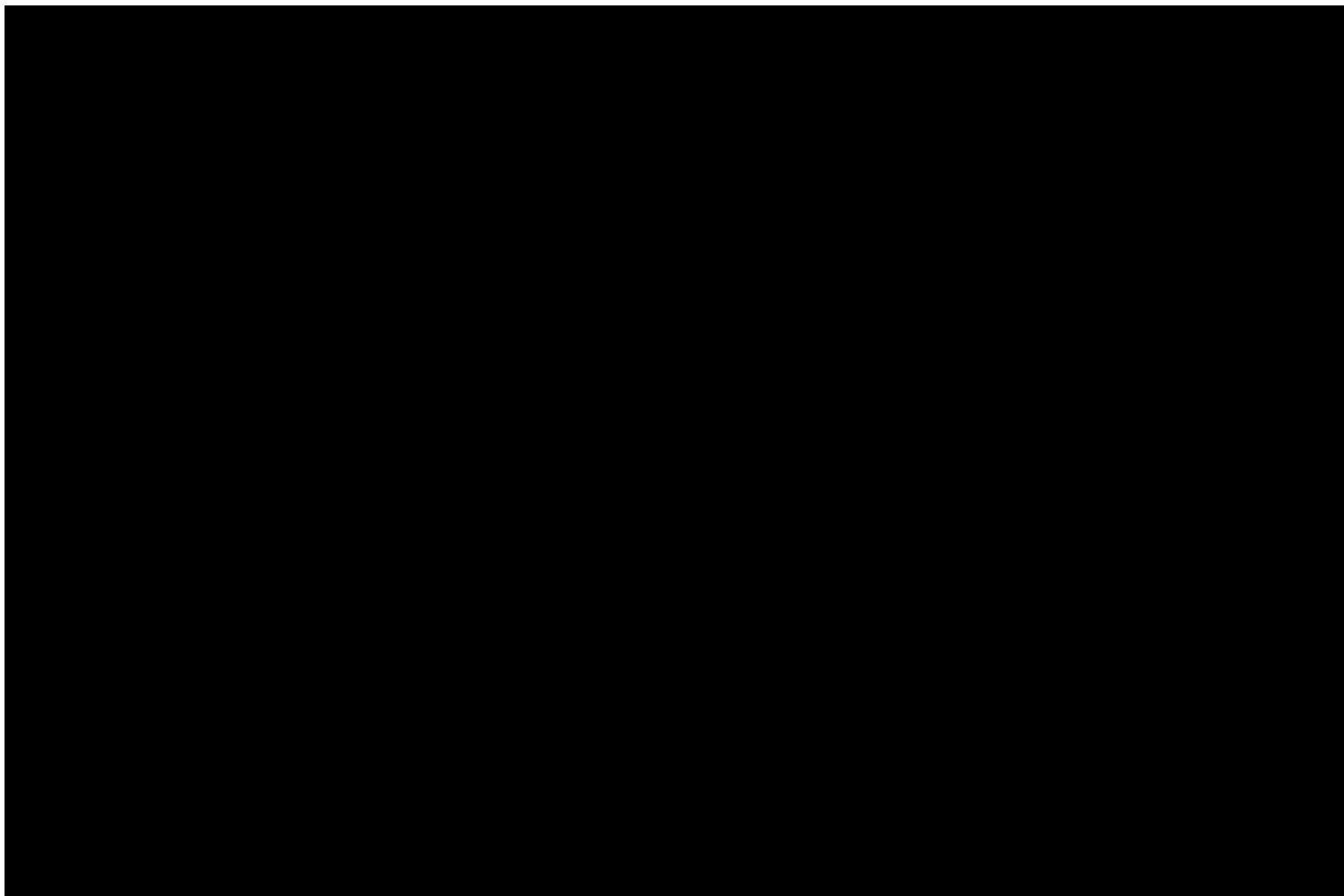
- Restrict the quantity of goods allowed to be imported into a country
 - Tariff Rate Quotas
 - Leads to: Quota Rents

Voluntary Export Restraints





Local Content Requirements



Administrative Policies



7. Antidumping Policies—also called countervailing duties—punish foreign firms that engage in dumping and protect domestic producers from “unfair” foreign competition

- **dumping** - selling goods in a foreign market below their costs of production, or selling goods in a foreign market below their “fair” market value
 - enables firms to unload excess production in foreign markets
 - may be predatory behavior - producers use profits from their home markets to subsidize prices in a foreign market to drive competitors out of that market, and then later raise prices

Arguments for Government Intervention

Arguments for Government Intervention

- Political
 - Protect producers
 - National security
 - Retaliation
 - Protecting consumers
 - Human rights
- Economic
 - boosting economy

New Trade Policy (go
back to trade theory
chapter)

History



- Until the Great Depression of the 1930s, most countries had some degree of protectionism
 - Smoot-Hawley Act (1930)
- After WWII, the U.S. and other nations realized the value of freer trade
 - established the General Agreement on Tariffs and Trade (GATT) - a multilateral agreement to liberalize trade

- In the 1980s and early 1990s protectionist trends emerged
 - Japan's perceived protectionist (neo-mercantilist) policies created intense political pressures in other countries
 - persistent trade deficits by the U.S
 - use of non-tariff barriers increased

- The Uruguay Round of GATT negotiations began in 1986 focusing on
 1. Services and intellectual property
 - going beyond manufactured goods to address trade issues related to services and intellectual property, and agriculture
 2. The World Trade Organization
 - it was hoped that enforcement mechanisms would make the WTO a more effective policeman of the global trade rules

WORLD TRADE ORGANIZATION



- The WTO encompassed GATT along with two sisters organizations
 - the General Agreement on Trade in Services (GATS)
 - working to extend free trade agreements to services
 - the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)
 - working to develop common international rules for intellectual property rights

- The WTO has emerged as an effective advocate and facilitator of future trade deals, particularly in such areas as services
 - 159 members in 2013
 - so far, the WTO's policing and enforcement mechanisms are having a positive effect
 - most countries have adopted WTO recommendations for trade disputes
 - a magnet for various groups protesting free trade



- The WTO launched a new round of talks at Doha, Qatar in 2001 that have already gone on for 12 years and are currently stalled.
- The agenda includes
 - cutting tariffs on industrial goods and services
 - phasing out subsidies to agricultural producers
 - reducing barriers to cross-border investment
 - limiting the use of anti-dumping laws

Why Do Managers Care:

- Trade barriers raise the costs of exports
- May limit a company's ability to execute international strategy
- May force a company to enter foreign markets with production and other facilities