



UOW
AUSTRALIA

ECON 251 Industry and Trade in Asia

Asia has some govt interference while Europe and USA has minimum govt interference

GDP = Price x Qty

RGDP -> Income, Spending, Production

Income = Salary + Rent + Profit + Interest

Spending = Consumption (Spending of local) + investments (by firms) + govt expenditure + net export (spending of foreigners - spending of locals overseas)

Production =

Economic growth rate = ((Current period rgdp - previous period rgdp) / previous period rgdp) x 100

GDP Growth model - Basic model

$Y = A F(K, L, H, N)$

A = level of technology (Exogenous component, cannot be controlled by government)

F = Denotes function??

K = Quantity of capital [Equipment, Machines, Plants]

L = Quantity of labour

H = Human capital [Knowledge and experience]

N = Land / natural resources

Cobb Douglas production function

$Y = A(K)^{1/2}(L)^{1/2}$

% of change in Y = ((Current period rgdp - previous period rgdp) / previous period rgdp) x 100

GDP per Capita = Real GDP / Population

Two Theories -

Harrod - Domar Growth

Solow Growth

How y increases and mainly adopted in the asian countries

To see what is the role of government

Harrod Domar model -

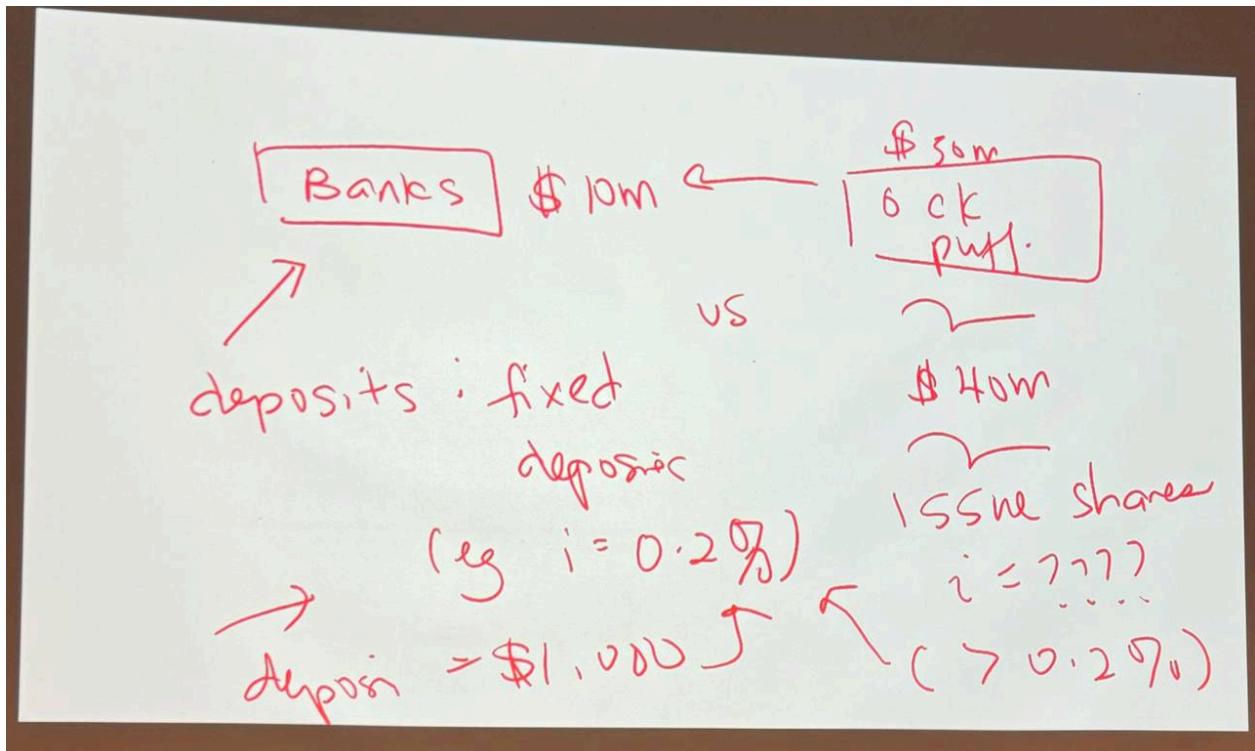
Focus is the role of capital accumulation which is to increase k

As K rises, y also rises. This is to buy more machines and incorporate technology.

Obtains funding by borrowing from banks or obtain funds by issuing shares and stocks

People put money in the bank through deposits or buy shares to be stockholders.

Government must make banks reliable, growing and stable so that individuals will park their funds in these institutions.



HD = increase K (endless levels compared to solow's model) -> increase y but cannot do so fast

Solow's Growth model

Focus on capital accumulation to an ideal level and thereafter any further increase in k will experience diminishing returns

Poor economies can catch up to rich economies by increasing their K if the rich economies are at a stand still.

Rich economies then will increase A to shift the curve upwards for increased output.

Role of the govt is to promote R&D as k rises but it is uncertain and expensive.

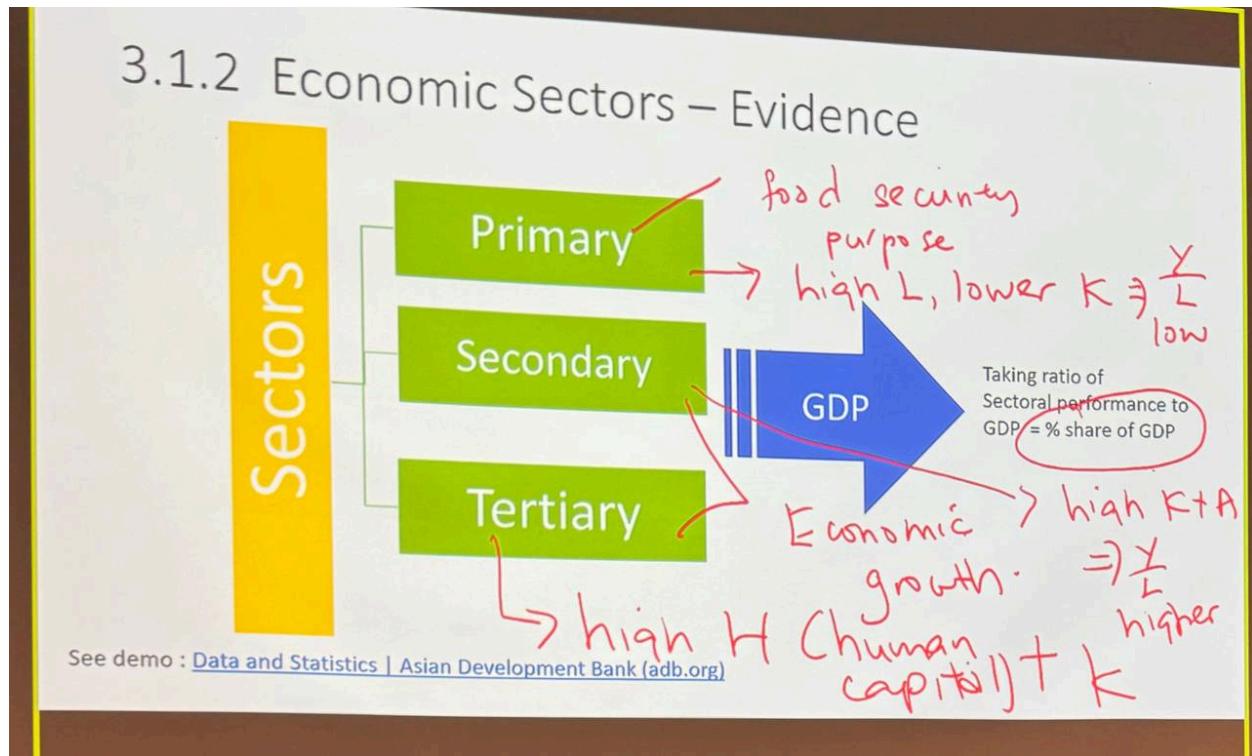
Economic sector

Primary - Farming, raw materials, extracting, fishing (taken from mother earth) -> rice, cotton
(High L, low K)

Secondary - Processing of raw material, manufacturing sectors -> electric cars, computer chips, lab grown corn, oil, natural gas

(High K + A)

Tertiary - Financial and service sector, fnb, tourism -> insurance, web hosting
(High H + K)



Supply and demand analysis

$\downarrow \text{GDP} = P \times \overline{\text{Qty}}$

THE PRIMARY SECTOR

Why wont economies depend on it?

Effect on falling prices

P J

Video Link: <https://www.youtube.com/watch?v=K-X5juE-xIQ>

world population $\leftarrow \rightarrow$ invalid.

SIM/UOW/July 2016/Clare Kon

Supply ↑ (See A to B)
Demand ↓ (See A to C)

For prices to fall, the supply needs to decrease or if the demand decreases.

Role of technological change on supply of primary.

Technology increased the supply of primary products rapidly. Therefore prices will fall

Total revenue = Price x Qty. 10% fall in price with a much smaller rise of 2% in qty will result in the fall of total revenue

Farmers will then migrate to urban cities.

Falling prices where supply forces are rising but unstable, and cannot supply more during high demand periods due to long gestation periods.

Demand forces rising but slow

Perishable and have storage issues

Higher supply than demand, create excesses

Price falls

Falling income and wages in the poor developing economies

Dependency theory

the gap between the rich and poor economy

They exploit poor countries by buying cheaper primary goods to produce manufactured goods such that they can sell to poorer economy.

How to draw supply demand graph, how to tell how much to import and export. Why ppl moving to manufacturing goods.

Import = shortage = dd -ss

P1 + tax

Watch lecture at 30th min for supply analysis question

Country gdp rises but can see very slow because of full gov control

Fully inward oriented growth is not very good. Instead of being inward, countries will say its better to be outward. Its a progression. It should be intentional and not repeat the mistake to slow down the control.

When change need to make sure to reduce the side effects

- Price distortion [p rises benefit firms but harmful for consumers]
- Market inefficiency [firms produce goods where prices are high]
- Huge govt debt [national debt]

Outward growth is not just international trade

Include ideas, knowledge, culture

Topic 3 is structuralist approach (full govt. structured, change to manufacturing, close door) topic 4 is neoclassical approach (some degree of govt. narrow price gap between local and world price and develop the export sector)

Stages of reformation to move from inward to outward:

1. Remove quota protection
2. Reduction of tariffs (reduces price distortion. When u reduce the tax then good will be nearer to world trading price) (done by studying average tariff rates and trade openness, % of gdp((export+import)/gdp x 100%). If openness is > 50% it is open economy)
 - a. Singapore trade openness is >300% as we import water at 35 cents and export 120 cents per gallon
 - b. GDP = export - import = 120 -35, but trade is export + import 120+35
3. Modest protection on key activities
4. Export subsidy where necessary
5. Devaluation of the exchange rate

Includes open stock market, property market where foreign currency can come in and out.

Follows the flow of money

But people wont invest in a country that is not well kept. Thats why requires govt control which maintain certain laws.

Firms will only open up when it brings in profit

Firm profit = total revenue ($p \times q$) - total cost(labour, material cost, etc)

To increase profit, increasing price is questionable but to reduce total cost as well.

Large scale production leads to -

Economies of scale, unit cost falls when output is large. Rental cost for a day is the same whether u use the factory for 4 hours or 24 hours. Bulk purchase of raw materials.

Gain more knowledge and production methods.

Basis of trade is relative advantage. In terms of productivity. Absolute advantage is in quantity where u have more space u have more population, and you can produce everything.

Heckscher Olin theory

Factor intensity (study the nature of the product, what kind of inputs: labour (which type)) -> factor endowment (see availability of resource) -> relative supply -> relative prices in terms of opportunity cost

Step 1 (Factor intensity):

Produce tshirt example need 1 skilled labour (l_s), 2 unskilled labour (l_u)

Produce CPU example need 3 skilled labour (l_s), 3 unskilled labour (l_u)

$\frac{1}{2}$ vs $\frac{3}{3} = 1$. Can do l_s/l_u (skilled ratio, high means skilled) or l_u/l_s (unskilled ratio, high means unskilled)

Step 2 (Factor endowment):

Assume us have 72 mill unskilled worker and 60 mill skilled worker. Total = 132, $l_s/l_u = 60/72$

=0.83

Assume china have 540 mill unskilled worker and 300 mill skilled worker total = 840, $l_s/l_u = 300/540 = 0.56$

US have more skilled worker even though smaller population.

Tshirt is more unskilled intensive so china who have more unskilled labour should produce more shirt making lower opportunity cost (sacrifice lesser) and can easily get more worker
CPU requires more skilled labour so US who have more skilled labour should produce it as it reduce lower opportunity cost

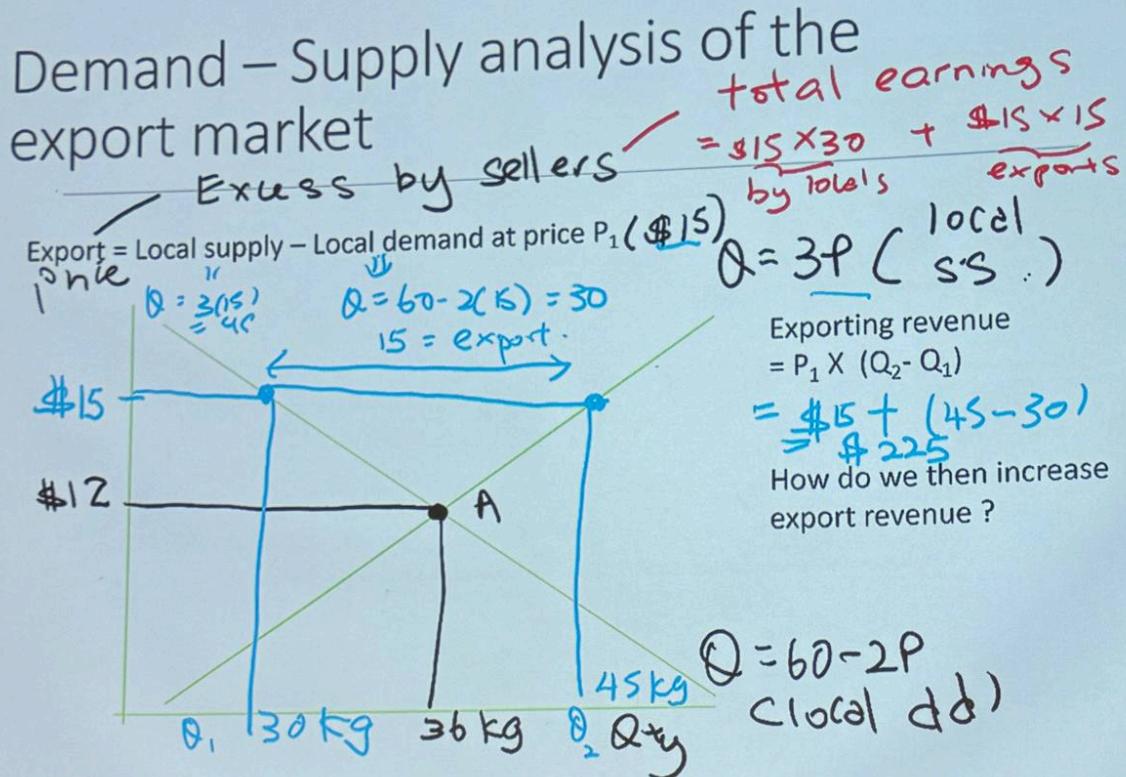
HO theory assumes each country will produce or import all the required input to produce the final output

China will ask less developed city to make shirt and more developed city to make CPU. China have a foot in both absolute and relative advantage so they get to dictate what they want to do. Countries may produce parts and not the final good which moves to global value chain.

There is also new world order or slowbalisation (partners with slower countries).

All this model can be thrown away if cannot meet carbon laws no matter how efficient u are due to the tax u need to pay

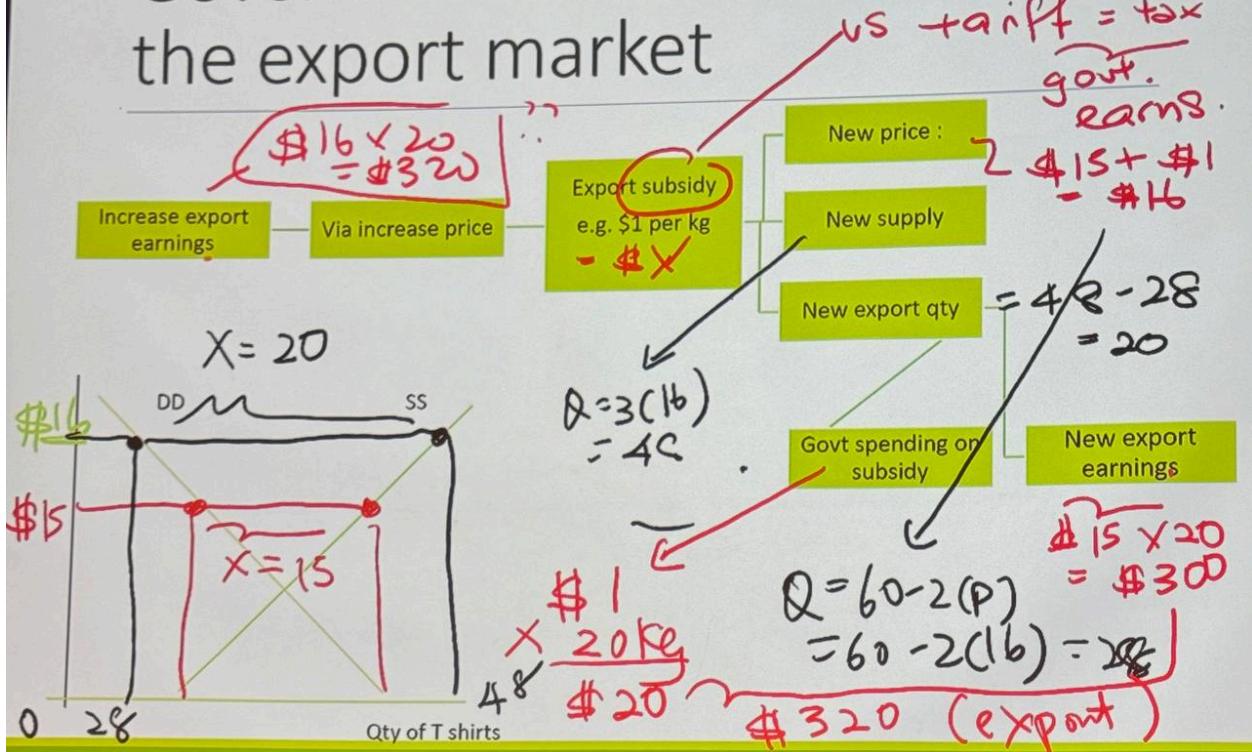
Export



How to increase export revenue? Increase P and Q.

Gov can give subsidy. Means give money to seller. $P + \text{subsidy}$ will be the new price for the formula

Government intervention in the export market



$$P = \$15/\text{kg} \Rightarrow \text{export} = 15 \text{ kg}$$

↳ $P = \$15 \Rightarrow \text{export} = 20 \text{ kg}$

$+ \$1$

$\overbrace{\text{T 5 kg}}$

claim $\$1$ kg
from govt.

Seller will be more willing to take out artificial 5kg to sell. The price sold locally and sold in the world market is the same price. But since govt gives 1 dollar for every kg sold outside, they will take 5 kg out artificially and sell it overseas

Tax is given to the govt and subsidy is spent from govt to sellers.

Currency Devaluation

Example

Initial exchange rate

RM1 = USD 0.25

For American to buy a 1kg tin of milo that cost RM\$20, the Americans are paying USD 20×0.25
= usd 5

New adjusted exchange rate

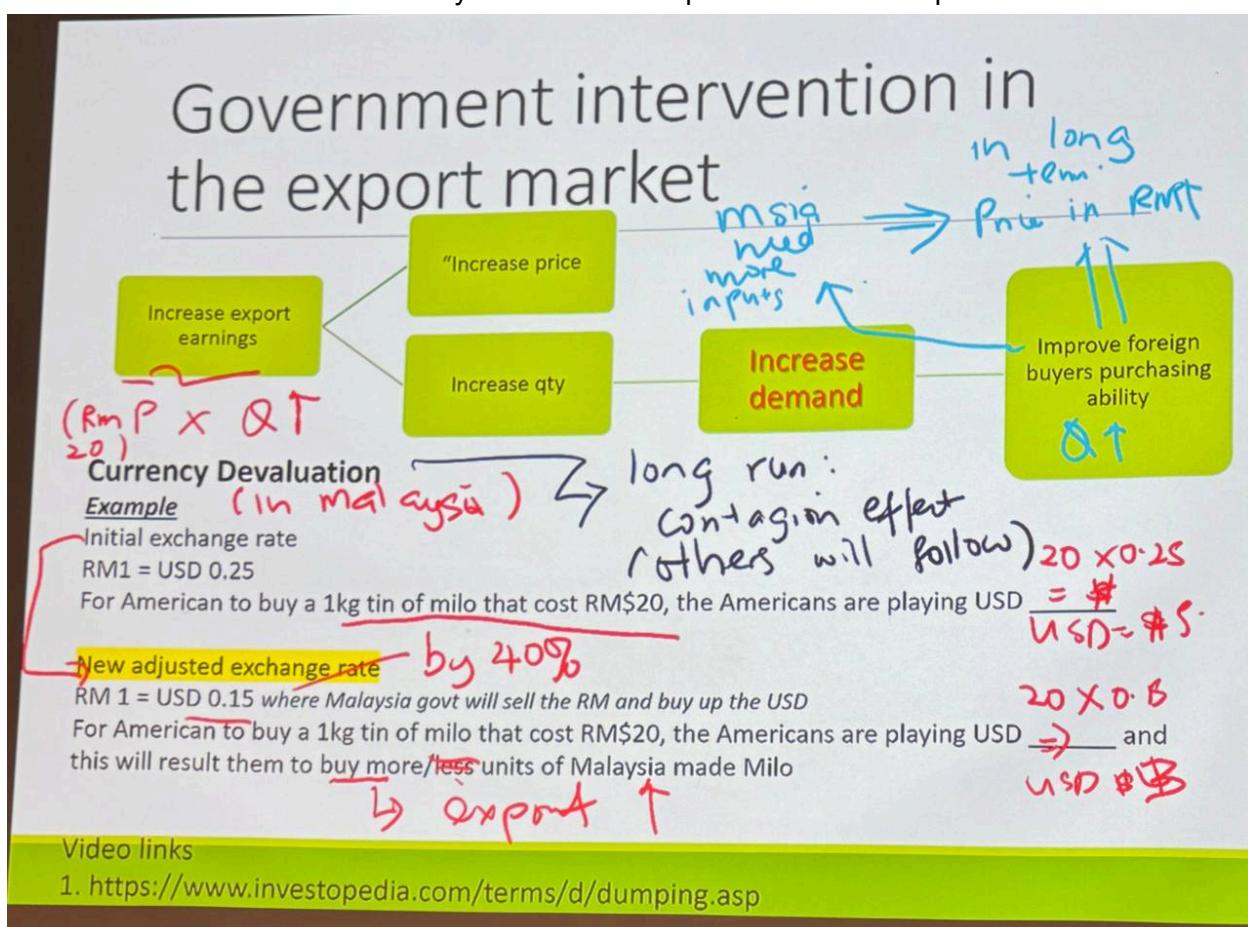
RM 1 = USD 0.15 (by 40%) where Malaysia govt will sell the RM and buy up the USD

For American to buy a 1kg tin of milo that cost RM\$20, the Americans are paying USD 20×0.15
= usd \$3 and this will result them to buy more units of Malaysia made Milo

^

(<https://www.investopedia.com/terms/d/dumping.asp>)

When u improve foreign buyer purchasing ability, Q will increase. In long term, price in malaysian will increase. This is because malaysian need more input to increase the production rate.

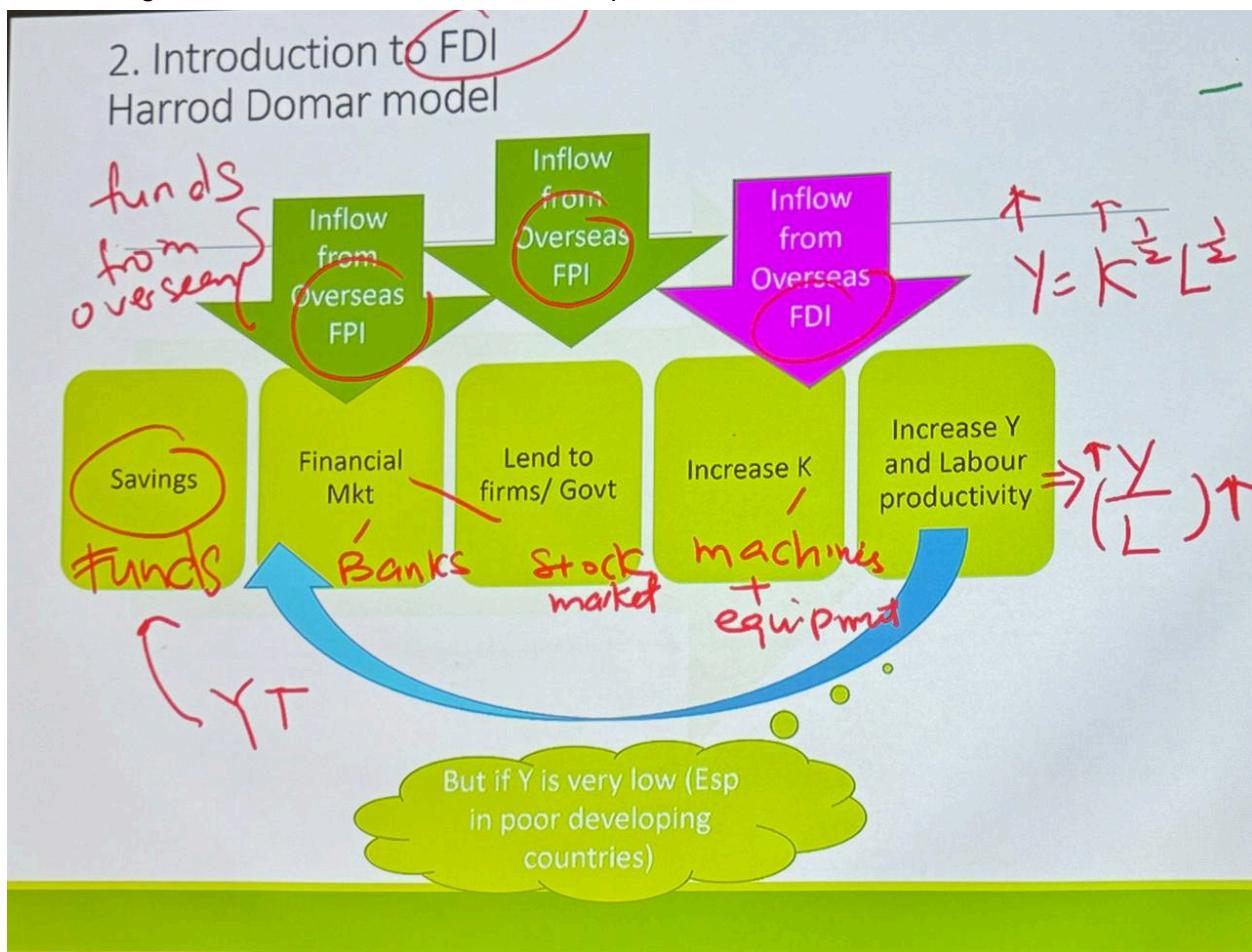


Subsidy and devaluation are short term measures. Long term measure is when improved buyer preference (people are willing to buy your goods even if it is expensive). Co-operations with existing reputable brands : role of FDI, EPZ(local and foreign firms); regionalization. (actual P and q increase)

Need to do both short term and long term interventions.

FPI = foreign portfolio investment = cash (but can get stuck)

FDI = foreign direct investment = ask firms to open factories etc



Inflows: financial market(banks and stock market), lend to firms/ govt(loan money or joint venture) FDI = open factories. Or get into debt with world bank IMF

Foreign investment - a lot of preparatory and convincing by government.

A: FDI - Company buying or building a factory in another country. Thailand and Toyota where Thailand ask Toyota to build a factory to sell in Thailand and be able to sell with Thai govt subsidising the tax etc. so that locals will choose to buy Toyota. Thai govt also has to convince Temasek holding the foreign direct investor (outward FDI stock) to invest in the telco which is direct investment enterprise

Why toyota agreed -

Location is good as they dont need to ship cars to thailand anymore

Lower cost:

Cheaper input, more resources, raw materials, labour

Reduction of tariffs, lower tax rates

FDI has risk as they can just leave and leave a hollow. Suppliers will also be stranded.

They will leave due to instability, political crisis. Change of law and order.

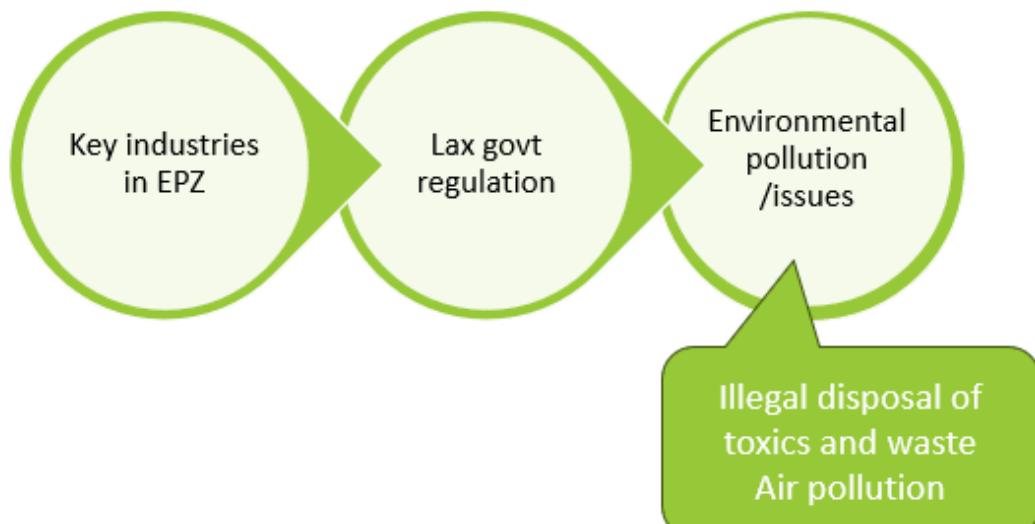
Can be mitigated by creating a bubble or zone that has immunity of change in law and order.

Law is that goods in this area must be exported in this area.

Usually called free trade zone, special economic zone, export processing zone(must export the other 2 dont need.).

Epz no labour law and lax environment policies (harms villages through pollution) even though there is job creation, generate foreign earnings, externalities and linkages

Key evaluation of EPZ



Pollution is key focus***

Challenges:

Rapid change in taste and consumption pattern of consumers: produce excess wastage

Regional trade arrangement - tension will be created when countries start to leave each other when it epz is created through join venture

Impact interactions with global agencies WTO - WTO have awkward stance as workers are neglected and environmental harm.

Trade creation is when a partnership between countries are formed.

Trade diversion is when a country is blocked off

Trade deflection is when country c gets item of country a from country d as country a are not trading with c and d and country d got the item from country b

Multilateral trade - create pact with a few countries

Bilateralism - create pact between 2 country

Noodle bowl effect

Too many crisscrossing FTAs would represent a costly complication of world trades and would allow countries to adopt discriminative trade policies which would in turn reduce trade welfare

Global value chain

Supply chain vs value chain is cause of the data

Supply chain only show the final result of a product. Like if china sells a phone in us for 200 dollars does not mean that china earn 200. Through value chain, they are able to see clearly how much china benefitted from the sale.

Intra-industry trade(forward linkage frontward linkage) Countries these days produce parts of a product therefore the calculation done is to take the input and output values to see the real profit.

Value Chains vs. Supply Chains

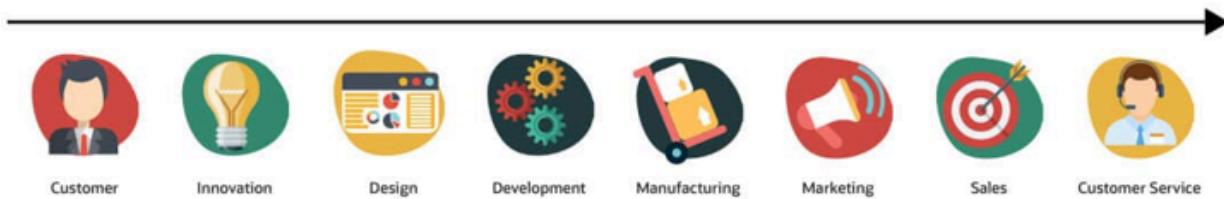
Supply Chains

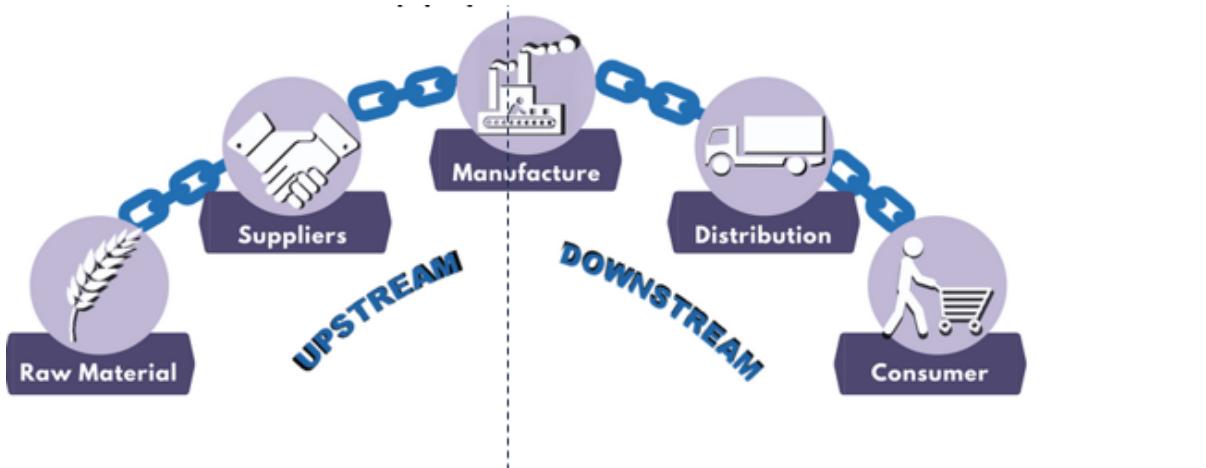
A supply chain sources raw materials, builds products and distributes them to customers.



Value Chains

A value chain starts with customer values and seeks to imbue products and services with those values.





Why participate in gvc is due to more competitively priced inputs, higher variety and economies of scales

For emerging economies, it is a fast trak to industrialization

What drives this trend:

Lower cost - container ship, more sources of input

Trade liberalisation - lower tariff, FDI

Others - govts growth objectives

Melitz model to explain why firms corporate with govt to do trade and exports.

Firms make goods but to improve the profit, they will need to increase Q. it can be done through automation which is to increase K. (not tested to draw. Need to know which are the stages.

What is the stage of diminishing return. Need to read the bubbles for each stages in the slides topic 06)

Topic 7

8 economies that have miracle growth. Leader : Japan, 4 Asian Tigers: Taiwan, HongKong, Korea, Singapore, Newly industrialised country (NIC): Thailand, Malaysia, Indonesia.

Key observations

Evidence of industrialisation?

In the Economy GDP%,

Agriculture dropped, singapore and hongkong hit 0%. Taiwan and Korea also dropped but they withhold as food security is important to them.

The industry sector can be further seen as manufacturing and it has been growing since 1960 to 1995. But for japan and hongkong went down as there is diminishing returns already therefore a switch towards service sector. Hongkong is smaller than japan and is in a bad location therefore requires a switch earlier than Japan and singapore

Employment % total in each sector increased in employment as well and there is a drop in agriculture.

Growth pattern - flying geese theory

It is a model that demonstrates the changing patterns of comparative advantage as the second tier geese will follow the lead goose from which they acquire technologies through trade and investments.

Japan increased K and then increased productivity. As trade rises, the GDP rose. Savings and capital accumulation will then rises.

Overtime, labour cost will rise, labour productivity will go down. Prices will increase which reduces export. which loses its comparative advantage. FDI/factories will then move out.

FDI then moved to nearby countries like taiwan, korea and sg.

Japanese firm then start to innovate and adopt more towards capital intensive activities. This increases their K and their A as well. (A is tech)

Which increases the rise in labour productivity

The tier 2 geese then will follow the lead geese by letting FDI in due to cheaper labour. Similarly, overtime, the FDI will then relocate to tier 3 countries

Japan leading growth

Zaibatsu were big conglomerates that funded the Japanese army. They scaled down during the American rehabilitation period. They then re-emerged as Keiretsu.

Reformation by USA:

Agriculture reformation

- The government purchased land from absentee landlords and all the tenant land in excess of one hectare and sold them to farmers at nominal prices which increased the number of independent farmers.

Labour market reformation

- Labour unionisation - wages and working conditions improved

Education reformation

- Compulsory education was extended from 6 to 9 years

This is done to brainwash the Japanese people and to demilitarise Japan. It is not for economic growth but it is more political driven to control or limit the spread of communism.

The Japanese govt then led the re industrialization of Japan.

It is a government directed growth set up by the ministry of economic trade and industry.

3 sectors for growth and development were identified.

Nation building:

They went into heavy industries like shipbuilding and timber making. As there were coal and steel. There was production of electronic goods but it was not the priority.

Industrial production then recovered from 31% to 80% through the coal and steel production.

Countries then looked at Japan as a supplier.

The govt also had a goal which was the restoration and catching up to westerners as a producer economic state. The large economies were fighting the cold war, therefore, the advanced countries slowed down the goods production and Japan was able to catch up.

For a short term protectionism, they reduced imports through tariff and exchange rate control. They advertised local consumption and funded the import of foreign technology. They then focused on producing consumer products for export market and flooded it.

Japan then sells their service. They see the demand then they supply which explains how they keep prices low. By selling services like solutions, manufacturing plants and knowledge.

World automobile market:

Strong backward linkage to steel and machine tools.

Their just in time systems that were linked and fed on each other, aimed to minimize wastage to reduce cost.

They know what the consumers want and their needs. Since they know what people want, they don't need to waste money on storage.

They went into the steel industry as it was able to introduce mass production of machines, ship building, washing machines, refrigerators, cars and many more. They needed to disarm that's why they had an abundance of steel.

The keiretsu is the linkage of industrialists, banks, trading companies to help each other to progress. They had good relations in the past before the westerners disbanded them. Their nationalistic goal made the people of Japan gel together and not depend on FDI and FPI.

Keiretsu earned the profit and they don't report it as dividends. They accumulate the money to reinvest.

Singapore also tries to do this through Temasek Holdings and such but we do not have the same amount of funds.

Horizontal Keiretsu is like the Harrod domar model is to relying on the banks.

Vertical keiretsu consist of supplier and distributors.

The retailers will tell the manufacturer what the people want and the manufacturer will tell suppliers what they need and then be able to produce what the consumer wants and keep the just in time system.

Example is toyota.

Management Style:

Back then Japan practised lifetime employment. This is to promote sense of security and identity.

Seniority based payment and promotion

Job rotation: To move people around to innovate and help other sectors.

T shirt linkage

For a T-shirt, the backward and forward linkages involve various stages of production and distribution that connect suppliers and customers. Here's an overview of the backward and forward linkages for a T-shirt:

Backward Linkages

These are the industries and suppliers that provide the inputs needed to produce a T-shirt.

Textile Manufacturing:

Cotton Farming: Farmers who grow cotton used to make fabric.

Textile Mills: Factories that process raw cotton into yarn and fabric.

Dye and Chemical Suppliers: Companies that provide dyes, chemicals, and other materials used in fabric processing and finishing.

Machinery and Equipment:

Sewing Machines: Manufacturers of sewing machines and other equipment used in garment production.

Textile Machinery: Suppliers of spinning, weaving, and dyeing machines.

Packaging Materials:

Packaging Suppliers: Companies that provide packaging materials such as tags, labels, bags, and boxes.

Accessories and Notions:

Thread Suppliers: Companies that supply sewing thread.

Button and Zipper Manufacturers: Suppliers of buttons, zippers, and other garment accessories.

Forward Linkages

These are the industries and customers that use the finished T-shirts or are involved in their distribution and sale.

Wholesale and Retail:

Wholesalers: Businesses that buy T-shirts in bulk and sell them to retailers.

Retailers: Stores and online shops that sell T-shirts to consumers.

Fashion Brands: Companies that design and market T-shirts under their brand names.

Distribution and Logistics:

Transportation Companies: Firms that handle the shipping and transportation of T-shirts from manufacturers to wholesalers and retailers.

Warehousing: Storage facilities that hold T-shirts before they are distributed to retailers.

Marketing and Advertising:

Advertising Agencies: Companies that create marketing campaigns to promote T-shirts.

E-commerce Platforms: Online platforms that sell T-shirts directly to consumers.

Printing and Customization:

Print Shops: Businesses that offer custom printing services for T-shirts, such as screen printing or embroidery.

Promotional Products Companies: Firms that provide customized T-shirts for corporate events, sports teams, or promotional purposes.

By understanding these backward and forward linkages, companies involved in the T-shirt industry can better manage their supply chains, optimize production processes, and develop effective marketing and distribution strategies.

Lecture 8

Taiwan and south korea can be grouped while sg and hongkong can be grouped in their similarities of their actions.

Taiwan and SK continued with primary sector to secure food in case they suddenly stopped receiving support. Produce low cost manufactured goods

SG and HK provides financial market etc.

Taiwan and SK industrialization

Temporary protectionism to boost local production and consumption to increase GDP - initially on selected primary sectors and then to manufacturing sector.

Give farmers and producers experience. Develop their potential and face external competition as well as create export policies such as epz and subsidies to trade with us and japan

GDP increases, pays workers more. Industrialization creates more jobs. increase savings and more investments to funds. Govt collects more taxes and expands economy

SGP is very state directed. Studies Is compulsory, need to be bilingual etc

Role of public policy -

- Need to invest in infrastructure, transport, human resources and education
- Targeted industrial sectors - taiwan targeted steel petrochemical automobile, ship building, korea heavy chemical industry and singapore oil processing ship servicing

Bubble

Basics of bank operation, harod domar(need more funds to happen. Borrows money to increase):

Funds come from individual savings or firms (local or overseas). We put the money in the bank of interest rate of 1 percent. Banks then lend the money to firms, govt and individuals at a 2% interest rate in order to survive.

Modern banks

They take funds and instead of loaning people, they do financial investment and put into stock market and real estate where interest is 5%.

Real estate market is outward oriented which helps the flow of fund and people

Individual buy real estate for asset ownership which can also be used for rentals.

Individual then borrow from banks

Economy highway: issues of cheap loans

Source of funds will be borrowing from banks or borrow from overseas which is in \$usd

Loan interest of 1000 interest is 1% will earn 10\$

Govt say no, policy say interest is 0.1%, bank earn 1\$

So banks need to loan 10000 to earn \$10

But bank no money, so the bank borrow money

Escalating inflation

Wages will go up, profit increase

Spending will also increase

Inflation happens as prices rises

Eg. 2000 sqft house is 1m, after inflation will be 1.2m, people will buy it for the profit so people will borrow more money to buy the flat.'

When prices go up, profit of firms go up, dividend will go up. So people buy stocks and shares.

All this increases more borrowings.

Banks will not stop as it gives them a lot of returns

Bubble will burst when

- Domestic policy: govt raise interest rate to curb spending (eg. $i = 0.1\%$ to 0.2% is a lot already)
- Foreign policy: bank's foreign borrowings - they will be in debt when USD appreciates/goes up. They need to pay back more. Which is a result of higher interest rate.
- Domestic/regional instability: withdrawal of foreign firm - firms leaving will lead to unemployment.

File for bankruptcy - stock market and real estate will start to cool down and prices will start to go down.

When the bubble burst, banks will get hit first, then real estate, and then stock market. Banks will go through restructuring where they will merge and a debt crisis will happen. Which leads to pessimism in the people.

Lecture 10

Challenges of growth

Current challenges:

- Income inequality
- Environment and climate change

New challenges

- Digital economy
- New international trade order

Did everyone benefit from it but what is the cost?

Standard of living and quality of life.

Poverty

Must be able to afford the bare minimum. (must be above the poverty line, able to afford food, water, medical and education etc) In the past was 1.90 usd per day and 700 usd per year spent, now is about 3.20 usd

The bigger the population the higher the occurrence rate of poverty. Growth is not evenly spreaded.

Income inequality

No best way to calculate it. But in general, the top 20% should not be earning more than 50% of the gdp

Eg.

Imagine an island with 10 persons with total GDP of \$1000; GDP per capita = $1000/10 = \$100$

But the true fact is :

if 20% of the population (i.e. 2 persons) own 60% of the income (i.e. \$600), each of them in average gets \$300

Then the remaining population i.e. 8 persons share out the \$400 , each getting \$50 or lesser
It is not measured by the tangible like the car u own, the house u own etc.

Gini coefficient is used to measure inequality. To show country is growing but not everyone have the fairshare of the pie. Water cannot flow to every corner of the street, some corners will be blocked. Ranges between 0 to 100 where 0 means no income inequality and 100 is perfect income inequality. Higher the coefficient the greater the inequality

Energy and environment

Gdp increase co2 increase means industrialization. There is new tax systems makes it hard to calculate the price.

First threat is food security and poor countries trying to develop thru agriculture.

Affects fdi (toyota and mazda was thinking of moving out of thailand as it was flooding hard and they had to close the factories for 2 months)

Affect global value chain as flights got stuck and goods cannot be transported

Disruption to communication system via optic fiber network.

Singapore spend alot of money to tackle climate change and issue green bonds to get money to invest in the infrastructure.

4th challenge is industrial revolution and digital economy -

Impact on asia is employment as we will lose our advantage. If production is being replace by machinery. Eg. indonesia, 56% of job is at risk when production goes into full automation.

But it can be also used to adjust energy consumption. Using iot sensors to detect light to detect temperature or motion to off and on the light etc.

Data centres use a lot more electricity than entire countries as well.

Countries are becoming more inward looking and will look to self sustain.

REVIEW QUESTION ON DEMAND SUPPLY ANALYSIS ON TRADE

Island Tasmana produces and consumes corn with the given functions, in kg

$$\text{Local supply , } Q = 5P$$

$$\text{Local demand , } Q = 24 - 3P$$

In the coming six months, the island is expecting a delivery of imported corns at a price of \$1 per kg
Determine

Before trade (intersects at $P=3$, $Q=15$)

- a) The initial price \$3
- b) the revenue of the local farmers price \times qty = 45

This is one type of short questions you will be tested in final exams. You need to write out your workings. Diagram is not required

With trade, importing at \$1

- a) The level of import ($Q = 5$, $Q = 21$, shortage is level of import, $21 - 5 = 16$)
- b) the new revenue of the local farmers (local supply = 1×5 as local farmers = local supply line in graph. Therefore $q = 5$ when $p = 1$)

Other trade restriction

- a) If the government wish to reduce import half the given level, what is the recommended per unit specific tax?
- b) What will be the revised revenue of the local farmers
- c) What is government tax revenue and how it may use it effectively to help the corn industry and the economy

Review question on export subsidy & devaluation

Colombia faces the following functions for the product bananas

$$\text{Local supply} = 6P$$

$$\text{Local demand} = 100 - 4P$$

- a) Determine the level of export to USA if the world trade price is \$20 /kg of banana
- b) Determine the size of earnings of the farmers in terms of earnings from the locals and earnings from the export sector [which is spending of USA on bananas]
- c) If the farmers seek to increase their export SIZE by 25kg. Two proposed methods of achieving such goals can be achieved via export subsidy and a currency devaluation

Export subsidy

- i) what is the recommended level of subsidy the Colombian government should provide?
- ii) What is the effect on the farmers earnings from this intervention from the government?

Devaluation

Initial exchange rate is 10,000 peso to 1USD

- i) What is the initial spending of USA on the bananas measured in USD
- ii) To meet the export level by 25kg at the same world price, what should be the new devalued exchange rate of peso-usd?

Lecture 9

Although china is thriving now, india is going to take over as their median age is way lower. Giving them the chance to take over slowly.

China's government invests in many industrial firms and shutdown firms that are not making profit. This helped to find jobs for people and grow their own technology

Government takes care of energy and finance as well. By guarding the energy source, they are able to self sustain. They do not want to sell energy to gain profit but to safeguard their country and national security. It takes a lot of money to build telecom, energy company and banks therefore govt can do it.

State owned enterprises get easy access to cheap credit and therefore they run at excess capacity which leads to inefficiency and breed corruptions. The smaller companies sell materials to govt enterprises and through backdoors.

After President Xi took over, he shutdown 20 over SOE, saving 10.6 billion yuan and shutting down of 4977 firms. Debts of 412 million was written off also

They allow mixed ownership to include private sector for both local and foreign.

India also focus on energy and mineral but not banking and infrastructure.

During industrialization, exporting goods will increase from 8RMB to 9RMB.

The existing rate of RMB 8 : 1 USD. So the item will cost 1.125 USD and the demand will fall. So china can devalue their currency to make it 9RMB : 1 USD by buying USD and printing more RMB.

1. What are the 3 types of real gdp
2. How is gdp calculated
3. How is real gdp calculated
4. How to calculate rgdp growth
5. What are in the gdp growth model
6. What are the production functions and models
7. How to calculate rgdp per capita
8. How to calculate labour productivity
9. What are the type of linkages
10. What is inward oriented growth known as
11. What is outward oriented growth known as
12. Difference between inward oriented and outward oriented
13. Effects inward oriented growth strategies
14. Trade openness formula
15. Why globalization
16. Heckscher olin theory formula
17. How does govt work to make a country more outward oriented
18. How to calculate export promotion
19. What is Trade creation , trade diversion and trade deflection
20. Who is in the flying geese formation
21. What are the evidence of industrialization
22. Why is it called the flying geese formation
23. What are the band of firms supporting Japan called
24. What did US do during the reforming of Japan
25. What did Japan do after the US left?
26. What production method did they come up with

1. What are the 3 types of real gdp

income, spending, production

2. How is gdp calculated

price x qty

3. How is real gdp calculated

Salary+profit+rent

Local expenditure + govt spendings + firms investments + foreign spendings - local online spendings

Firms spendings

4. How to calculate rgdp growth

(current rgdp - prev rgdp)/prev rgdp x 100

5. What are in the gdp growth model

$y = a f(k l h n)$, grp = tech f(capital labour knowledge resource)

6. What are the production functions and models

Cobb douglas $y=a K^{1/2} L^{1/2}$

Harrod Domar $Y = AKL$

Solow's model

7. How to calculate rgdp per capita

rgdp/population

8. How to calculate labour productivity

Y/L

9. What are the type of linkages

backward linkage and forward linkages

10. What is inward oriented growth known as

structuralist approach

11. What is outward oriented growth known as

neoclassical approach

12. Difference between inward oriented and outward oriented

inward oriented uses tariffs and limit to control and make sure lesser fdi come in.

outward oriented promotes exporting of goods as well as subsidies and tax reductions on companies

13. Effects inward oriented growth strategies

Price distortion [P rises benefit firms but harmful for consumers], Market Inefficiency [

Firms produce goods where Prices are higher], Huge govt debt [also national debt]

14. Trade openness formula

$(\text{export+import})/\text{gdp} \times 100\%$

15. Why globalization

drives up competition, specialization reduces wastage and improves efficiency, large scale production leads to unit cost lowering and increase knowledge, firms have cheaper resources including labour

16. Heckscher olin theory formula

Ls/Lu, an economic theory that suggests that countries will specialize in and export goods that use their abundant and cheap factors of production, while importing goods

that use the countries' scarce factors. The theory is based on the relative availability of factors of production (land, labour, and capital)

17. How does govt work to make a country more outward oriented

Export promotions, FDI, EPZ

18. How to calculate export promotion

19. What is Trade creation , trade diversion and trade deflection

creation - to create trade, Trade deflection occurs when goods are redirected or rerouted through a third country to avoid trade restrictions such as tariffs or quotas. trade diversion is where trade agreement is cancelled

20. Who is in the flying geese formation

Japan, Singapore, Taiwan, South Korea, Hong Kong, Indonesia, Thailand, Malaysia

21. What are the evidence of industrialization

Reduction in agriculture sector, employment rate increase in industry or service sector while agriculture decrease

22. Why is it called the flying geese formation

Because tier 2 geese like Singapore, Hong Kong, South Korea and Taiwan took the opportunity and followed Japan's footsteps when Japanese firms wanted to relocate to find cheaper alternatives for labour, so they created an outward growth policy to lure them in.

23. What are the band of firms supporting Japan called

Zaibatsu and Keiretsu

24. What did US do during the reforming of Japan

Weakened Japan military by having the dissolution of zaibatsu, reform agriculture by buying land from landlords and excess lands to sell to farmers which increase the farmers. Create a labour union so that wages and working conditions improve. Made education compulsory so that they are prepared for industrialization and transition.

25. What did Japan do after the US left?

The Government directed growth and prioritised production using steel and coal from weapons to build ships and timber making. This is so they can sell to allied forces for them to use in the war. Adopted short term protectionism with tariffs and exchange rate control etc to encourage local consumption and firms to grow. Firms copied overseas production and they opened for export

26. What production method did they come up with

Just in time system which linked technological advances and fed on each other to aim to minimise wastage. The linking of industrialists, banks and trading companies formed a corporation which is the keiretsu which can be horizontal or vertical.

Horizontal keiretsu has the bank at the core with trading company at one side and manufacturer at the other side. The banks will then get more K and invest the Ks into the other firms. Vertical keiretsu is centred around the manufacturer which has tight communication and is able to communicate with each other quickly so that the goods can be produced fast when the customer needs it.

27.

28.

29.

30.

FDI correlation negative mean money flow OUT

Explain the key features of the China Economy
that led to her successful growth

Single political party so it was easier for changes to be made, 1 common language. Big enough to pass around the effects of industrialization within the country

b) Explain the type and level of state intervention in the growth path of China

State owned enterprises, creation of special economic zone, belt road initiative, financial market reformation, trade liberalisation, fdi inflow increased

c) Explain the type of trade liberalisation tools China adopts

More sez, belt road initiative to connect china to the world

d) Explain the problems that rose from China's rapid growth

Over capacity, too much debt and material. Too much housing. Ageing population.

e) Explain the key features of the India economy

IT sector is growing, they have a lot of younger generations to keep up the development of the country. Involved with global trades. It is involved heavily in the agriculture as well

f) Explain the various trade liberalisation tools that India adopts

Tariff reduction, export promotion schemes, fdi, sez, trade agreement

g) Explain what limits the growth of the Indian economy

Educational level, bureaucracy at local state level, agriculture economy, poor infrastructure, soe's are not targeting the right sectors

h) Explain the role of the service industry that can reshape India's growth path

Service sector is the largest contributor to india gdp and they are very competitive in the IT service sector.

What are the challenges of growth?

Poverty as there are still a lot of people that live with US\$2 or less a day

income inequality is where the top 20% of the population owns a larger share of the gdp as compared to the bottom 20%, or using the gini coefficient where the disparity is larger the higher the coefficient

Environmental degradation as industrialization requires a large amount of energy therefore lots of co2 emission. This causes climate change which in turn harms the agriculture sector as it

affected crop yields and quality, loss of values of assets, disruption to communication systems, reduces flow of FDI, affect GVC process

Digital economy impacts labour employment while data centres use more electricity than entire countries

new trade order as there were GVC disruptions, geopolitical tensions, climate sustainability and digital trade