**MFS514 Lecture 21 January 2025**

** BINDURA UNIVERSITY OF SCIENCE EDUCATION **

**FACULTY OF AGRICULTURE AND ENVIRONMENTAL SCIENCES**

**DEPARTMENT OF AGRICULTURAL ECONOMICS, EDUCATION AND EXTENSION**

**Semester: August - December**

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**Consulting time: After class or by appointment**

**MFS 514: INTERNATIONAL TRADE**

**Preamble**

**The course provides an overview of international trade theory and also interrogates the mismatch between theory and reality on the ground. It also addresses the linkages between trade and food security, which are highly complex and have been subject to intense debates at the national and global levels. The relationship between trade and food security is attracting increased attention on both the trade and development agendas, with trade recognized as one of the means for achieving the Sustainable Development Goals (SDGs). The challenge is how to ensure that the expansion of agricultural trade works for and not against, the eradication of hunger, food insecurity and malnutrition. This course also informs the treatment of agriculture in several World Trade Organization (WTO) agreements and regional trade agreements (RTAs) and aims to support policy makers to develop and implement appropriate agricultural development and food security strategies. Global and regional agreements set out the rules for countries’ trade policies and define the policy space available within agriculture for reaching food security objectives. Therefore, balancing the achievement of national policy objectives with the obligations under trade agreements is critical.**

**Course Aims and Objectives:**

**On completion of the course, students should be able to:**

* **characterize the challenges and opportunities posed by greater openness to trade for food security and nutrition**
* **explain the different types of trade policy measures, their role in promoting food security and nutrition, and considerations for trade policy design and implementation**
* **describe the key global policy and regulatory frameworks governing trade, food security and nutrition, including the WTO Agreement on Agriculture and the 2030 Agenda for Sustainable Development**
* **outline the challenges and opportunities for improving policy coherence between trade and agriculture at the national, regional and global levels**
* **describe the main provisions of the WTO Agreement on Agriculture (AoA) and of other WTO agreements that concern trade-related constraints and procedures; and**
* **describe the treatment of agriculture in the Regional Trade Agreements.**

**COURSE CONTENTS**

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| **Week** | **Content** |
| **1** | **Introduction to Agricultural Trade**  **World current status of agricultural and food trade**  **Zimbabwe’s current status of agricultural and food trade** |
| **2** | **Theories of International Trade**  **Classical Trade Theory**  **Mercantilism**  **Absolute Advantage**  **Comparative Advantage**  **Factor Proportions**  **“New” Trade Theory**  **Economies of Scale**  **Strategic Trade Theory**  **Porter‘s Diamond** |
| **3** | **Valuable Lessons of International Trade Theory** |
| **4** | **Free trade versus protectionism**  **Reasons for trade**  **Arguments for protectionism** |
| **5** | **Trade Policy Tools**  **Administrative Barriers to Trade**  **Technical Barriers to Trade** |
| **6** | **First Continuous Assessment Test and Tutorial 1** |
| **7** | **THE ROLE OF TRADE IN ENHANCING FOOD SECURITY**  **The theory of international trade versus the reality of international agricultural trade**  **Causes of debt in developing countries**  **The relationship between food security and international agricultural trade** |
| **8** | **ECONOMIC INTEGRATION**  **Preferential Trade Agreement (PTA)**  **Free Trade Area (FTA)**  **Customs Union**  **Common Market**  **Economic Union**  **The merits and demerits of trade regionalism versus trade multilateralism** |
| **9** | **TRADE CREATION AND TRADE DIVERSION**  **Welfare effects of Free Trade Area** |
| **10** | **AGRICULTURE AND THE WORLD TRADE ORGANSATION**  **Multilateral Trade Negotiations: GATT and WTO**  **Preferential Trade Agreements**  **Small farmers challenge the existing paradigm (removal of agriculture from WTO talks)**  **The drive for alternative globalization**  **The push for a new round of WTO talks and the alternative position of the supremacy of food sovereignty over trade and economic policies**  **Major distortions in international trade of agricultural products that deny a level playing field to farmers from developing countries** |
| **11** | **Evolution of International Trade Agreements**  **From Mercantilism to Multilateral Trade Liberalization**  **The Deterioration of Multilateral Trade**  **Multilateral Regionalism**  **The Bottom Line - Strategic mix of protectionism and free trade** |
| **12** | **Second Continuous Assessment Test and Tutorial 2** |
| **13** | **Course summary, revision and tutorials** |

**LEARNER EXPECTATIONS**

1. **Active in-class participation: ask and answer questions, join in discussions, work productively in groups and share group responsibilities.**
2. **Read assignments before they are to be discussed in class.**
3. **Complete assignments on time.**
4. **Arrive at class on time and stay the entire class period.**

**ASSESMENT**

* 1. **Assignments- Individual/Group**
  2. **Main Lecture/Group presentation**
  3. **In class Tests**
  4. **Group Presentations**

**ASSIGNMENTS**

**Due 21 January 2025. Submit to [igovere@buse.ac.zw](mailto:igovere@buse.ac.zw)**

1. **Describe the trend of Zimbabwe’s major agricultural commodity imports and exports over the past 10 years.**
2. **Identify the global and regional trade agreements that Zimbabwe is a member of.**

**LEARNING RESOURCES**

**Available online**

**COURSE OUTLINE REVIEW PANEL**

**Name………………………… Qualifications…………………….Organisation……………………………Signature………**

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**Name………………………… Qualifications…………………….Organisation……………………………Signature………**

**Lecturer:**

**Name:……I. Govere……………………..Signature IG Date…...14/09/2020……**

**Approval by the Chairman**

**Name:……Dr. E. Zivenge..……………Signature Date……14/09/2020…**

**Approval by the Dean**

**Name:……………………………………….Signature…………………………..Date……..**

**Evolution of trade theory from mercantilism to new trade theories.**

1. **Mercantilism**

* **Exports should exceed imports**
* **Bullionism**
* **Colonialism**

**2) Classical Trade Theories**

* **Absolute Advantage - Producing a good with fewer inputs (capital, labour, land, raw materials, etc.) per unit of output than other countries.**
* **Comparative Advantage - Producing a good at a lower opportunity cost than another country.**
* **Factor Proportions Trade Theory - A country that is relatively abundant in a factor of production should export goods that use a lot of that factor in the production process, and import other goods.**

**3) New Trade Theory**

* **Economies of Scale – Internal and External economies of scale**
* **Strategic Trade Theory - Trade can permit companies to realize economies of scale in production. But exploiting economies of scale takes a country’s resources (capital, labour, etc.) away from other companies and industries, thus abandoned product ranges**
* **Porter’s Diamond -** **Four components of global competitiveness: Factor conditions, Demand conditions, Related and supporting industries and Firm strategy, structure and rivalry.**

**Lessons from international trade theory**

**The candidate should identify the following points and explain:**

* **[Free trade can raise aggregate economic efficiency.](http://internationalecon.com/v1.0/ch5/5c051.html)**
* **[Some people will suffer losses in free trade.](http://internationalecon.com/v1.0/ch5/5c052.html)**
* **[A country may benefit from free trade even if it is less efficient than all other countries in every industry.](http://internationalecon.com/v1.0/ch5/5c053.html)**
* **[A domestic firm may lose out in international competition even if it is the lowest-cost producer in the world.](http://internationalecon.com/v1.0/ch5/5c054.html)**
* **[Protection may be beneficial for a country.](http://internationalecon.com/v1.0/ch5/5c055.html) [Although protection can be beneficial, the case for free trade remains strong.](http://internationalecon.com/v1.0/ch5/5c056.html)**

**Rationale / reasons for trade**

* *Different factor endowments*
* *Lower prices*
* *Increased welfare*
* *To gain economies of scale*
* *Diversity of choice*
* *Availability of foreign exchange.*

**Arguments for protectionism**

*Despite the arguments for free trade, most governments’ trade policies are a blend of free trade and protectionism.*

*• the protection of domestic jobs,*

*• national security,*

*• protection of infant industries,*

*• the maintenance of health, safety and environmental standards,*

*• anti-dumping and unfair competition,*

*• a means of overcoming a balance of payments deficit and • a source of government revenue. Governments*

**Administrative trade barriers that may be used by countries as a means of protectionism**

* **Technical regulations, standards, etc.**
* **Customs procedures - bureaucracy etc**
* **Veterinary and phytosanitary measures**
* **Restrictions on access to primary products**
* **Insufficient protection of intellectual property rights**
* **Barriers to trade in services**
* **Restrictions on access to investment**
* **Unfair application of state aid and other forms of subsidies**

**Trade policy tools**

* **[Import Tariffs](http://internationalecon.com/v1.0/ch10/10c050.html)**
* **[Export Taxes](http://internationalecon.com/v1.0/ch10/10c080.html)**
* **[Voluntary Export Restraints (VERs)](http://internationalecon.com/v1.0/ch10/10c070.html)**
* **Phytosanitary and Safety Standards**
* **Red-Tape Barriers**

**International trade and food security**

“The World Food Summit in 1996 declared that trade is a key element in securing both availability of and access to food. However, analysts argue that, in reality, international agricultural trade has yielded a mixture of positive and negative impacts on food security.”

Is this a valid observation?

* *Industrialized countries are the biggest exporters and importers of most raw agricultural commodity products.*
* *Industrialized countries produce the bulk of global food and agricultural commodities but only export a small proportion of their production.*
* *The ability of corporate monopolies and cartels to influence world market prices:*
* *Subsidisation of production in industrial countries:*
* *Food and agricultural products have a low price-elasticity of demand*

**Reforming the WTO - A new paradigm shift**

**There has been a strong move within mass-based peasant and small farmer movements as well as the global civic society in general to remove agriculture from new rounds of WTO negotiations.**

* **There is a strong move within global civil society to remove agriculture from the WTO negotiations.**
* **There is a strong drive for an alternative form of globalization where democratic, bottom-up and participatory agreements are reached between people around the world.**
* **As it stands, the “consensus’ system of decision-making in the WTO operates to prevent democratic decisions based on ‘one country-one vote” or population size criteria. It was deliberately constructed to ensure that the Quad – the US, Canada, the EU and Japan — must agree before major decisions can be taken.**
* **The aim of a significant section of civil society is to radically limit the power of the WTO, reducing it “to simply another institution in a pluralistic world trading system with multiple systems of governance”. The issue of food security cannot be separated from the broader issues of democracy and political power.**
* **The argument from resource poor producers around the world to remove agriculture from the WTO negotiations is primarily based on the reality of increasing control of corporations over food production and trade. This control consequently undermines local production both by cheaper imports of poor quality subsidized food and the reorientation of production away from meeting local food needs and towards cash crops for export. At the core of this alternative position is the concept of food sovereignty, which has been defined quite simply as “the supremacy of food production and consumption over trade and economic policies”.**

**Demands of the anti-corporate (perhaps anti-WTO) movement calling for alternative globalization**

**The demands are:**

* **No new round of trade negotiations, and a proper review of the influence of the previous agreements;**
* **The protection of basic social rights and needs, and their permanent exclusion from trade negotiations;**
* **The exclusion of production sectors relating to basic needs from the realm of trade negotiations, including food and fibre production;**
* **The prioritization of international agreements dealing with environment, health, development, human rights, safety, indigenous people’s rights, food security, women’s rights, workers’ rights and animal welfare over trade agreements;**
* **Use of the precautionary principle when introducing new processes and agreements;**
* **The raising of special and differential treatment in favour of developing countries to a principle for all agreements;**
* **The deconcentration, decentralisation and democratisation of institutional power and decision-making.**

**The roles of Trade Multilateralism and Trade Regionalism**

* **Since GATT and WTO agreements commit all member nations to reduce trade barriers simultaneously, it is sometimes referred to as a *multilateral* approach to trade liberalization.**
* **An alternative method used many countries to achieve trade liberalization includes the formation of preferential trade arrangements, free trade areas, customs unions and common markets. Since many of these agreements involve geographically contiguous countries, these methods are sometimes referred to as a *regional* approach to trade liberalization.**
* **One reason supporters of free trade may support regional trade arrangements is because they are seen to represent movements towards free trade. Indeed, Section 24 of the original GATT allows signatory countries to form free trade agreements and customs unions despite the fact that preferential agreements violate the principle of non-discrimination. When a free trade area or customs union is formed between two or more WTO member countries, they agree to lower their tariffs to zero between each other but will maintain their tariffs against other WTO countries. Thus, the free trade area represents discriminatory policies. Presumably the reason these agreements are tolerated within the WTO is because they represent significant commitments to free trade, which is another fundamental goal of the WTO. However, there is also some concern among economists that regional trade agreements may make it more difficult, rather than easier, to achieve the ultimate objective of global free trade.**

**The fear is that although regional trade agreements will liberalize trade among its member countries, the arrangements may also increase incentives to raise protectionist trade barriers against countries outside the area. The logic here is that the larger the regional trade area, relative to the size of the world market, the larger will be that region's market power in trade. The more market power, the higher would be the region's optimal tariffs and export taxes. Thus, the regional approach to trade liberalization could lead to the formation of large "trade blocs" which trade freely among members but choke off trade with the rest of the world. For this reason, some economists have argued that the multilateral approach to trade liberalization, represented by the trade liberalization agreements in successive WTO rounds, is more likely to achieve global free trade than the regional or preferential approach.**