

# International trade and investment

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# Please Read Me

- Check the message **Welcome greeting** published in the News Bulletin Board.
- Dear student please edit your profile uploading a photo where your face is clearly visible.
- The purpose of the virtual meetings is to answer questions and not to make a summary of the study material.
- This presentation is based on (Wild and Wild 2020, chap. 5)

# Purpose

Describe the theories about international trade and examine data about its benefits, volume and patterns in the context of the global economy

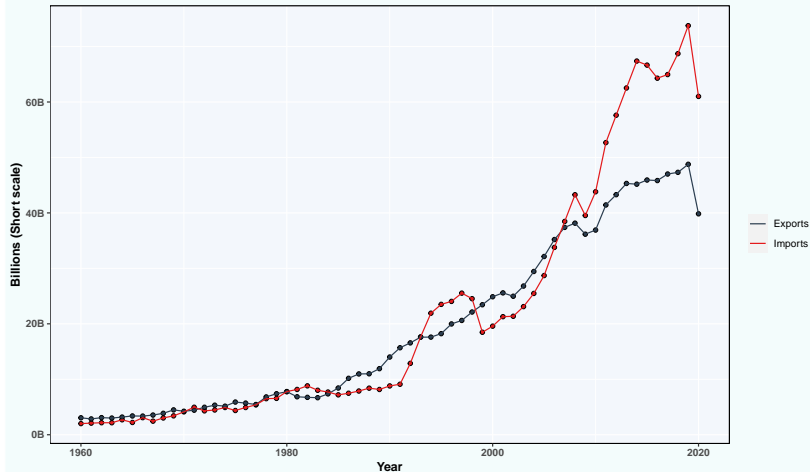
# Volume of international trade

## Colombia imports and exports: 1960–2020

Variables Units: constant USD Base Year 2010

Imports WDI code : NE.IMP.GNFS.KD

Exports WDI code: NE.EXP.GNFS.KD

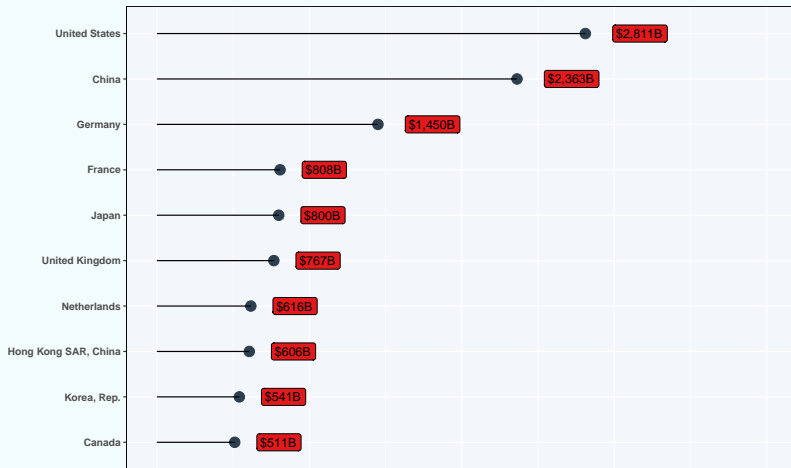


Source: World Development Indicators – World Bank,  
Last update: 2021–12–16

# Volume of international trade

## Top 10 exporters in year 2020

Variables Units: current USD Billions (Long scale)  
Exports WDI code : BX.GSR.GNFS.CD

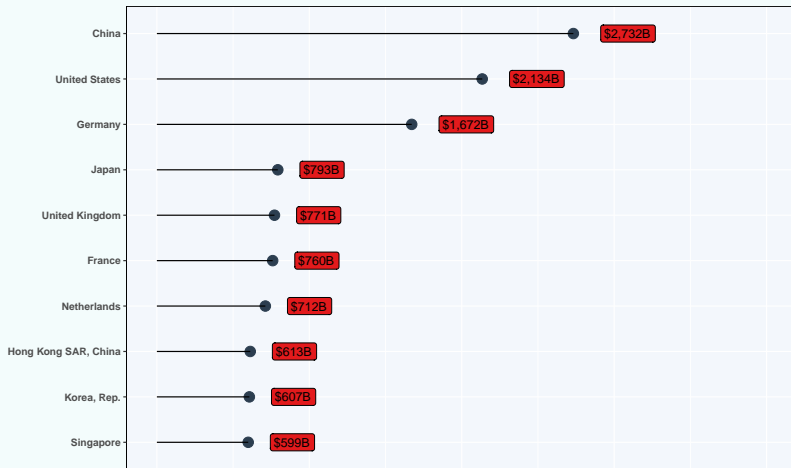


Source: World Development Indicators – World Bank,  
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# Volume of international trade

## Top 10 importers in year 2020

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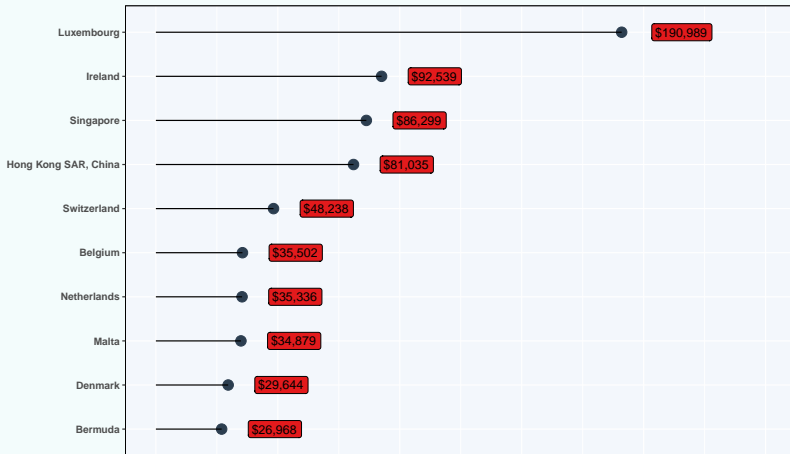


Source: World Development Indicators – World Bank,  
Last update: 2021-12-16

# Volume of international trade

## Top 10 per-capita exporters in year 2020

Variables Units: current USD per inhabitant  
Exports WDI code : BX.GSR.GNFS.CD,  
Populations WDI code : SP.POP.TOTL



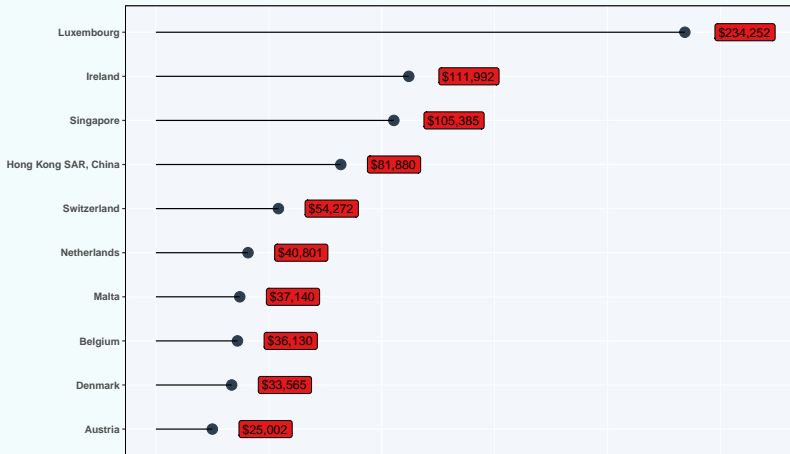
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# Volume of international trade

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Variables Units: current USD per inhabitant  
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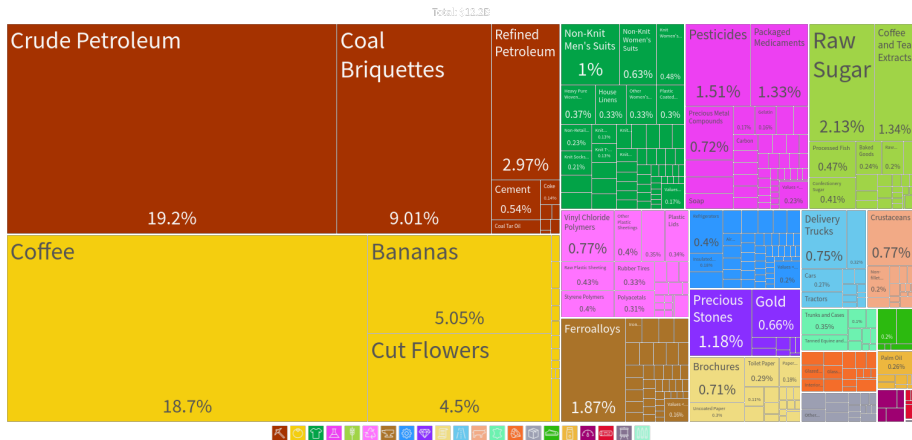
Source: World Development Indicators – World Bank,  
Last update: 2020-12-16

# Patterns of international trade

- The **Harmonized System (HS)** is a standardized numerical method of classifying traded products that is internationally accepted and maintained by the **World Customs Organization (WCO)**
- The HS code consists of 6-digits that are the same independent of the country:
  - First 2 digits designate the **HS** chapter
  - Second 2 digits designate the **HS** heading
  - Third 2 digits designate the **HS** subheading
- Example of **HS** code: 090111 (Coffee, not roasted, not decaffeinated)
  - Chapter **09**: Coffee, tea, mate and spices
  - Heading **01**: Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion
  - Subheading **11**: Coffee, not roasted, not decaffeinated

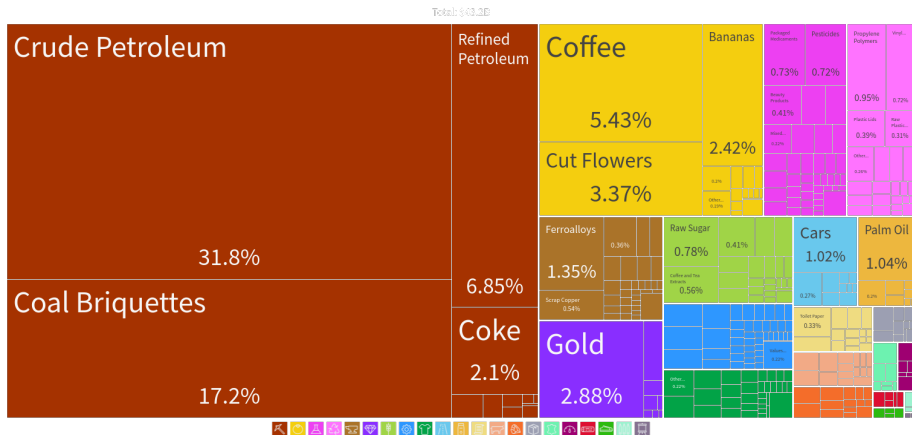
## Patterns of international trade

- Colombian exports **HS 4 digits (HS92) edition** year 1997 (OEC 2022)



# Patterns of international trade

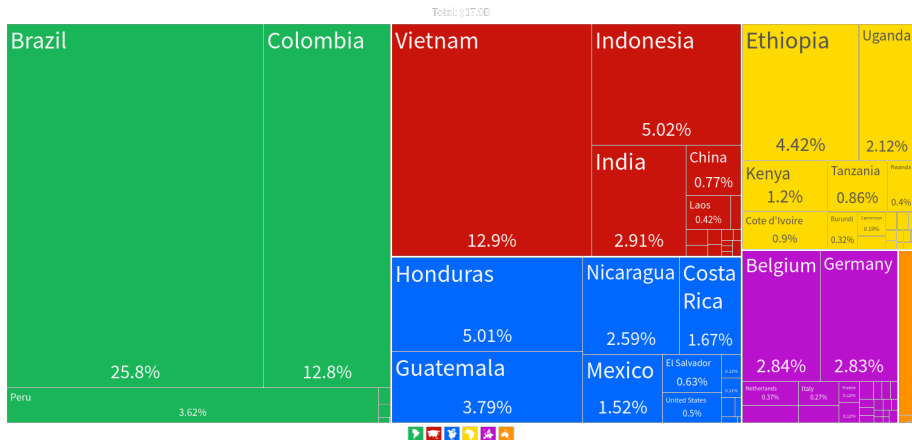
- Colombian exports **HS 4 digits (HS92) edition** year 2019 (OEC 2022)





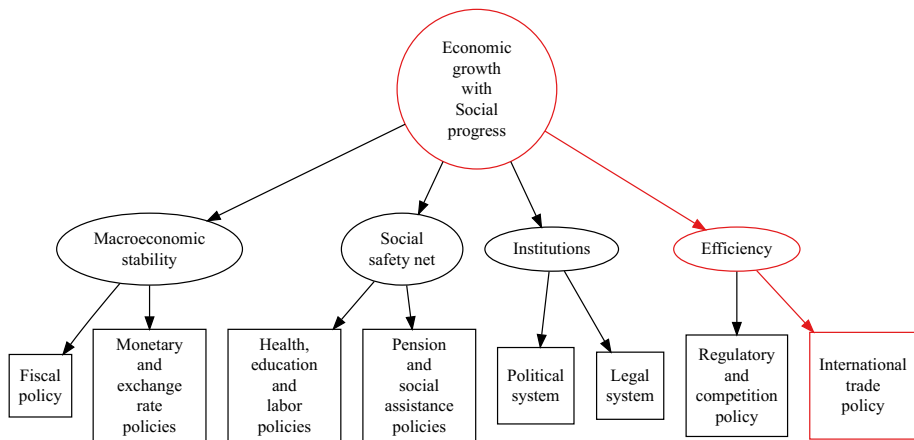
# Patterns of international trade

- Coffee exporters **HS 4 digits (0901) (HS92) edition** year 2019 (OEC 2022)



# Benefits of international trade

- International trade, economic growth and social progress (Vallejo 2006)



# Benefits of international trade

- International trade
  - Increases the total availability of products in an economy (Vallejo 2004) (Vallejo 2006)
    - The number of varieties of products for consumers increases
    - The number of varieties of inputs and capital goods for producers increases
  - Makes the markets more contestable (Vallejo 2004) (Vallejo 2006)
    - Monopoly and oligopoly markets tend to be more competitive reducing prices and increasing the consumption of products in those market structures



# Theories of international trade

- **Mercantilism** (Magnusson 2018)
- **Absolute and comparative advantage** (Smith and Spencer 2012) & (Ricardo and Kolthammer 2004)
- **The Heckscher-Ohlin** (factor proportions) model (Heckscher et al. 1991)
- **New trade theory** (Helpman 1984), (Krugman 1995) & (Brander 1995)
- **National competitive advantage** (Porter 1998)

# Theories of international trade

- An outline of theories of international trade
  - An alternative view of **Mercantilism**
    - Mercantilism was never a well- structured doctrine built on a number of well- settled principles (Magnusson 2018)
    - Nowadays it is erroneously related with a policy that recommends a favourable balance of trade (exports > imports) and a regime characterized by direct state intervention in order to protect domestic merchants and manufacturers (Magnusson 2018)

# Theories of international trade

- **Absolute advantage:** the ability of a party (individual, company, country) to produce a product more efficiently than any other party
  - A party should concentrate in producing a good in which it has an absolute advantage
  - ¿What happens when you don't have an absolute advantage?
- **Comparative advantage:** the ability of a party (individual, company, country) to produce a product at a lower relative opportunity cost
  - Under certain conditions, even if a party doesn't have an **absolute advantage**, trade with other agent can be beneficial for both of them

# Theories of international trade

- Example of gains of trade using the concept of **comparative advantage** (Ridley 2010)
  - **Agent 1** produce 1 spear in 4 hours and 1 axe in 3 hours.
    - To produce both products **agent 1** will need to allocate 7 hours
  - **Agent 2** produce 1 spear in 1 hour and 1 axe in 2 hours.
    - **Agent 2** has the absolute advantage in the production of spears and axes.
    - To produce both products **agent 2** will need to allocate 3 hours
  - ¿It will be beneficial for agent 1 and 2 to trade? Yes!!! **Agent 1** can produce 2 axes in 6 hours and **agent 2** 2 spears in 2 hours. Then they can trade 1 spear for 1 axe.
    - **Agent 1** has now 1 spear and 1 axe only working 6 hours.
    - Furthermore **agent 2** has now 1 spear and 1 axe only working 2 hours.
    - Each of them saves 1 hour of work in contrast with a situation in which they don't trade and produce themselves both products.

# Theories of international trade

- **The Heckscher-Ohlin** (factor proportions) model
  - An economy exports products that are abundant and therefore cheaper in the economy and imports products that are short in supply in the economy and therefore expensive
- **New trade theory**
  - Includes the possibility of increasing returns to scale where an increase in a same amount of all inputs generates more than a proportional increase in production
  - Includes the possibility of strategic interactions between companies in the context of international trade and oligopoly markets
  - Points out the conditions in which a government can use subsidies to benefit a domestic company using strategic trade policies

# Theories of international trade

- **National competitive advantage:**

- The objective is to explain why some countries are more competitive in some industries using the framework known as *Porter Diamond* (Porter 1998):
  - Factor conditions: skilled labor and infrastructure
  - Demand conditions: characteristics of the domestic market
  - Related and supporting industries: other companies that supply or distribute products related to the specific industry being examined
  - Firms strategy, structure and rivalry: market structure of the industry being examined
- These determinants create the environment in which companies emerge and become more or less competitive in relation to other companies in other countries

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- To the **Linux kernel community** for allowing me the possibility to use some **Linux distributions** as my main **OS** without paying for a license

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