

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, Chapter 5)

Purpose

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

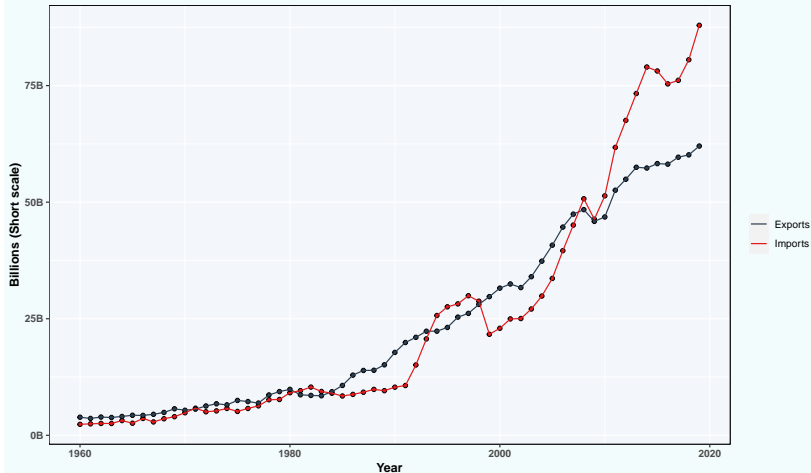
Volume of international trade

Colombia imports and exports: 1960–2019

Variables Units: constant USD Base Year 2010

Imports WDI code : NE.IMP.GNFS.KD

Exports WDI code : NE.EXP.GNFS.KD



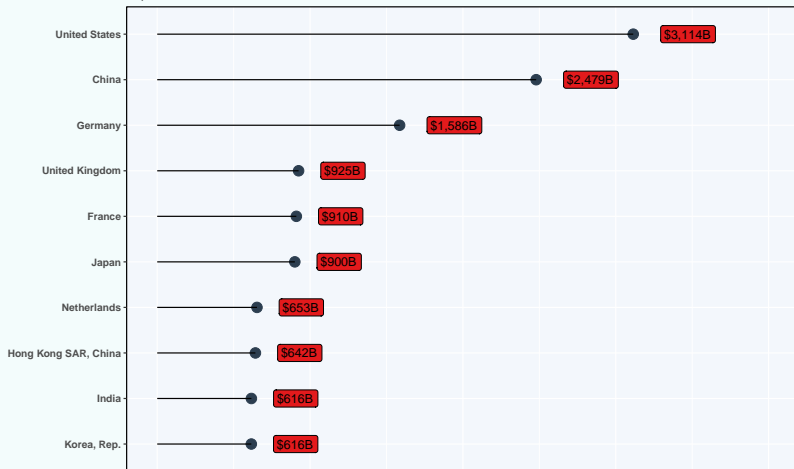
Source: World Development Indicators – World Bank,
Last update: 2020-07-01

Volume of international trade

Top 10 exporters in year 2019

Variables Units: current USD Billions (Long scale)

Exports WDI code : BX.GSR.GNFS.CD



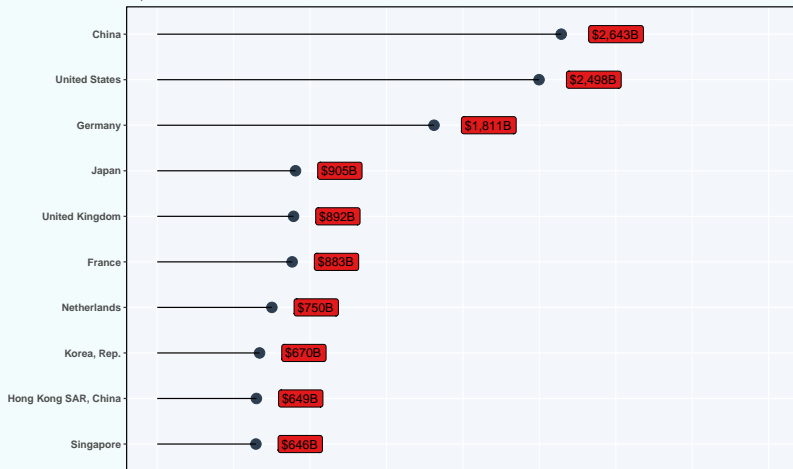
Source: World Development Indicators – World Bank,
Last update: 2020-07-01

Volume of international trade

Top 10 importers in year 2019

Variables Units: current USD Billions (Long scale)

Imports WDI code : BM.GSR.GNFS.CD



Source: World Development Indicators – World Bank,
Last update: 2020-07-01

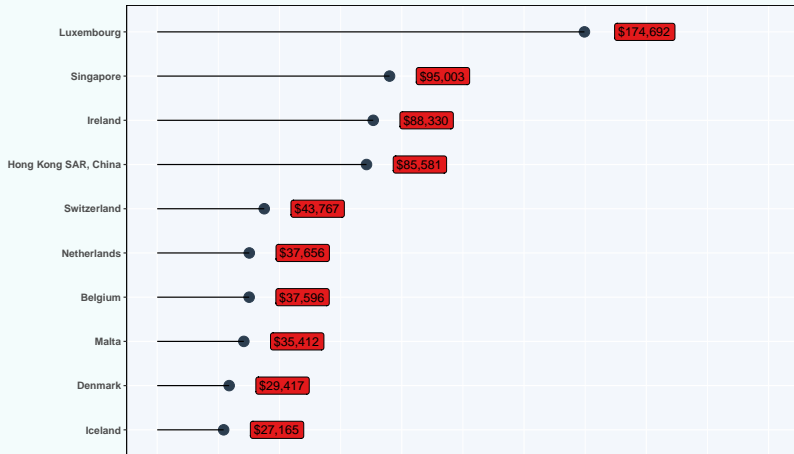
Volume of international trade

Top 10 per-capita exporters in year 2019

Variables Units: current USD per inhabitant

Exports WDI code : BX.GSR.GNFS.CD,

Populations WDI code : SP.POP.TOTL



Source: World Development Indicators – World Bank,
Last update: 2020-07-01

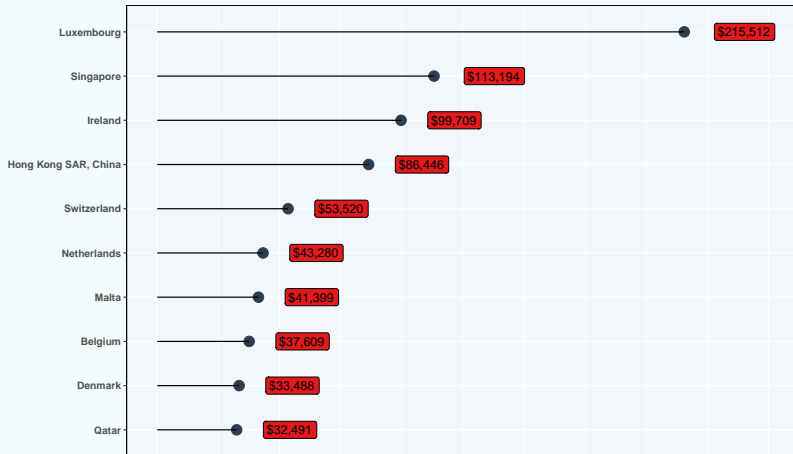
Volume of international trade

Top 10 per-capita importers in year 2019

Variables Units: current USD per inhabitant

Imports WDI code : BM.GSR.GNFS.CD,

Populations WDI code : SP.POP.TOTL



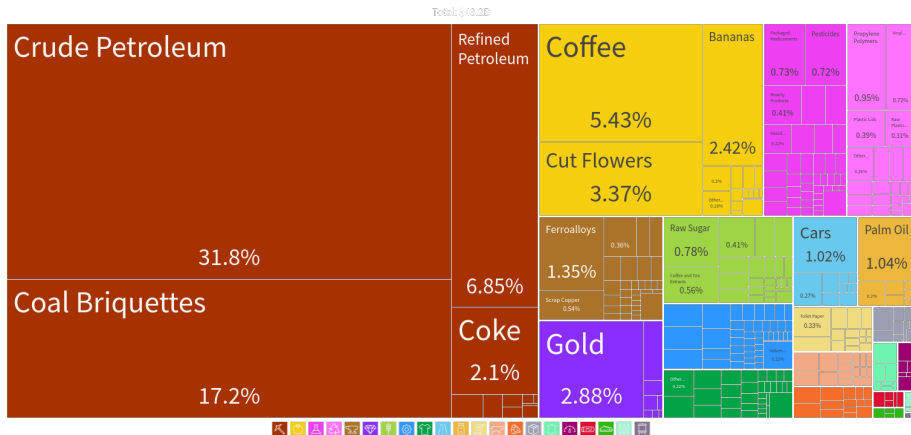
Source: World Development Indicators – World Bank,
Last update: 2020-07-01

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

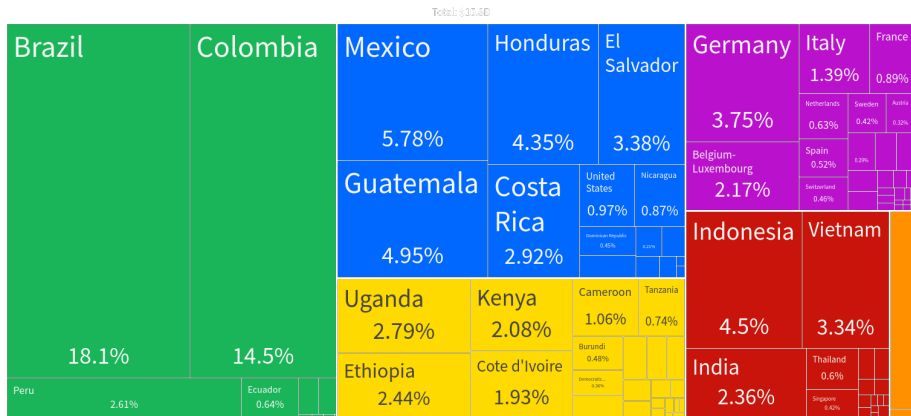
Patterns of international trade

- Colombian exports **HS 4 digits** year 2018 (OEC 2020)



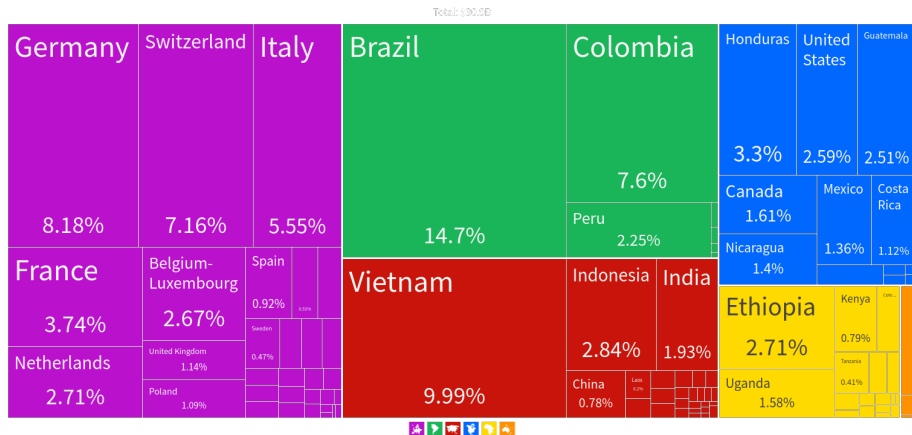
Patterns of international trade

- Coffee exporters **HS 4 digits (0901)** year 1997 (OEC 2020)



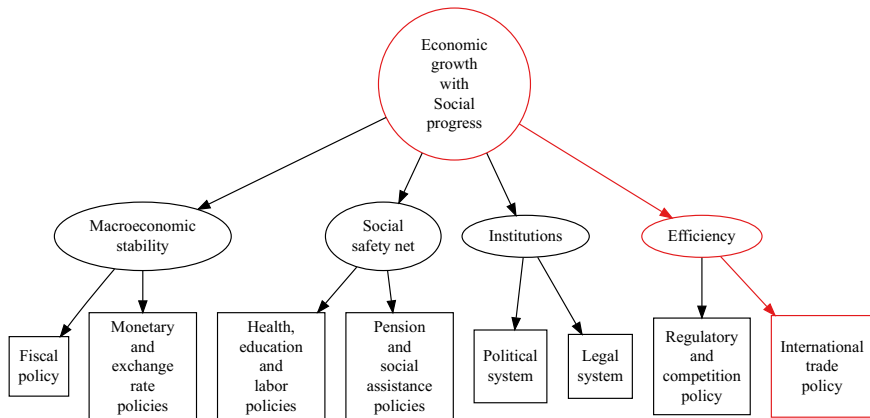
Patterns of international trade

- Coffee exporters **HS 4 digits (0901)** year 2018 (OEC 2020)



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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