INTERNATIONAL TRADE AND DEVELOPMENT THEORY. pdf

1: Chapter 6: International Trade

International Trade and Development Picture Credit: John Hogg/World Bank Capitalist economic theory holds that a completely liberalized global market is the most efficient way to foster growth, because each country specializes in producing the goods and services in which it has a comparative advantage.

Share Loading the player If you walk into a supermarket and can buy South American bananas, Brazilian coffee and a bottle of South African wine, you are experiencing the effects of international trade. International trade allows us to expand our markets for both goods and services that otherwise may not have been available to us. It is the reason why you can pick between a Japanese, German or American car. As a result of international trade, the market contains greater competition and therefore more competitive prices, which brings a cheaper product home to the consumer. What Is International Trade? International trade is the exchange of goods and services between countries. This type of trade gives rise to a world economy, in which prices, or supply and demand , affect and are affected by global events. Political change in Asia, for example, could result in an increase in the cost of labor , thereby increasing the manufacturing costs for an American sneaker company based in Malaysia, which would then result in an increase in the price that you have to pay to buy the tennis shoes at your local mall. A decrease in the cost of labor, on the other hand, would result in you having to pay less for your new shoes. Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries. Almost every kind of product can be found on the international market: Services are also traded: A product that is sold to the global market is an export , and a product that is bought from the global market is an import. Increased Efficiency of Trading Globally Global trade allows wealthy countries to use their resourcesâ€”whether labor, technology or capital â€” more efficiently. Because countries are endowed with different assets and natural resources land, labor, capital and technology , some countries may produce the same good more efficiently and therefore sell it more cheaply than other countries. If a country cannot efficiently produce an item, it can obtain the item by trading with another country that can. This is known as specialization in international trade. Country A and Country B both produce cotton sweaters and wine. Country A produces ten sweaters and six bottles of wine a year while Country B produces six sweaters and ten bottles of wine a year. Both can produce a total of 16 units. Country A, however, takes three hours to produce the ten sweaters and two hours to produce the six bottles of wine total of five hours. Country B, on the other hand, takes one hour to produce ten sweaters and three hours to produce six bottles of wine total of four hours. But these two countries realize that they could produce more by focusing on those products with which they have a comparative advantage. Country A then begins to produce only wine, and Country B produces only cotton sweaters. Each country can now create a specialized output of 20 units per year and trade equal proportions of both products. As such, each country now has access to 20 units of both products. We can see then that for both countries, the opportunity cost of producing both products is greater than the cost of specializing. More specifically, for each country, the opportunity cost of producing 16 units of both sweaters and wine is 20 units of both products after trading. Specialization reduces their opportunity cost and therefore maximizes their efficiency in acquiring the goods they need. With the greater supply, the price of each product would decrease, thus giving an advantage to the end consumer as well. Note that, in the example above, Country B could produce both wine and cotton more efficiently than Country A less time. This is called an absolute advantage , and Country B may have it because of a higher level of technology. However, according to the international trade theory, even if a country has an absolute advantage over another, it can still benefit from specialization. Other Possible Benefits of Trading Globally International trade not only results in increased efficiency but also allows countries to participate in a global economy, encouraging the opportunity of foreign direct investment FDI , which is the amount of money that individuals invest into foreign companies and other assets. In theory, economies can, therefore, grow more efficiently and can more easily become competitive economic participants. For the receiving government, FDI is a means by which foreign currency and expertise can enter the country. These raise employment levels, and, theoretically, lead to a growth in the gross domestic product. For the investor, FDI offers company expansion and growth, which means higher revenues. Protectionism As with other theories, there are opposing views. International trade has two contrasting views regarding the level of control placed on trade: Free trade is the simpler of the two theories: The main idea is that supply and demand factors, operating on a global scale, will ensure that production happens efficiently. Therefore, nothing needs to be done to protect or promote trade and growth, because market forces will do so automatically. In contrast, protectionism holds that regulation of international trade is important to ensure that markets function properly. Advocates of this theory believe that market inefficiencies may hamper the benefits of international trade, and they aim to guide the market accordingly. Protectionism exists in many different forms, but the most common are tariffs , subsidies , and quotas. These strategies attempt to correct any inefficiency in the international market. Opponents of global free trade have argued, however, that international trade still allows for inefficiencies that leave developing nations compromised. What is certain is that the global economy is in a state of continual change, and, as it develops, so too must all of its participants. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

2: What Is International Trade Theory?

International Trade and Finance: Some Key Issues â€¢Many developing countries rely heavily on exports of primary products with associated risks and uncertainty â€¢Many developing countries also rely heavily on.

Overview[edit] The current consensus is that trade, development, and poverty reduction are intimately linked. Sustained economic growth over longer periods is associated with poverty reduction , while trade and growth are linked. Countries that develop invariably increase their integration with the global economy , while export-led growth has been no no no they used writing to remember about the leaders Continents, countries and sectors that have not developed and remain largely poor have comparative advantage in three main areas: Crucially for poverty reduction, the latter two at least are labor-intensive, helping to ensure that growth in these sectors will be poverty-reducing. However, low value-added, price instability and sustainability in these commodity sectors means they should be used only temporarily and as stepping stones in the path to economic development. Agriculture[edit] In many developing countries, agriculture employs a large proportion of the labor force , while food consumption accounts for a large share of household income. Thus whatever the development strategy a particular country adopts, the role of agriculture will often be crucial. In poor countries with low population densities and enough suitable land area, which includes most countries in Africa and Latin America, agriculture is central to the economy. In poor regions and rural areas within middle-income developing countries, the concentration of poverty in rural areas of otherwise better-off developing countries makes the development of agriculture vital there. Finally, in Net Food Importing Developing Countries NFIDCs , there is a positive link between growing agricultural exports and increases in local food production, which makes agricultural development if anything even more important, as food security and the financial stability of the government are also at stake. As agricultural GDP grew 4. This is three times the loss from OECD import restrictions on textiles and clothing. A combination of better market access, and domestic reforms and foreign aid to enhance the ability of developing countries to take advantage of it, could have a significant impact on poverty reduction, and help to meet the Millennium Development Goals. The largest beneficiaries of agricultural liberalization would be OECD countries themselves: Nor is the traditional objective of OECD agricultural subsidy supporting small farmers achieved by this system in a manner that could be characterised as efficient: Market access[edit] Market access to developed countries[edit] The issue of market access to high-income countries is a thorny but crucial one. The issues fall into three main groups: Second, barriers to trade resulting from domestic and external producer support, primarily in the form of subsidies , but also including, for example, export credits. Barriers to trade[edit] High tariffs are imposed on agriculture: Tariff peaks within agriculture occur most frequently on processed products and temperate commodities, rather than the major export crops of least developed countries unprocessed fruits and vegetables and tropical commodities. However, many developing countries in temperate zones have the potential of competing as lower-cost producers in temperate commodities. Thus liberalization could open up new development-through-trade possibilities. Strong tariff escalation is typically imposed on agricultural and food products by high-income countries. This strongly discourages the development of high value added exports, and hinders diversification in particular as well as development in general. In high-income countries, tariffs on agricultural products escalate steeply, especially in the EU and Japan. Not only are price signals distorted, they are often unclear, subject to change for example seasonally and difficult to interpret. The low fill rate may reflect high in-quota rates. Overall, the UR tariffication process which produced them has not resulted in the increased market access developing countries hoped for. The dumping of unwanted production surpluses onto the world market through export subsidies has depressed prices for many temperate agricultural commodities, with EU surpluses of exportable wheat a prime example. The cost to developing country production and exports is considerable, and only partially offset by the lower food prices available to NFIDC consumers. This form of transfer from high-income country taxpayers to low-income consumers is in any case rather inefficient, and the lower prices may harm production for local consumption even in NFIDCs. Agricultural reform as a whole, including the removal of export subsidies, would only result in quite small price rises for developing-country consumers. The counter-cyclical nature of producer support is also harmful to developing-country producers. High-income farmers are insulated from changes in world prices, making production less responsive to swings in demand. As a result, world commodity prices are more volatile, and the burden of adjustment falls disproportionately on developing-country producers. Lack of capacity[edit] This includes non-tariff barriers such as food regulations and standards, which developing countries are often not or not effectively involved in setting, and which may be deliberately used to reduce competition from developing countries. In any case, the lack of capacity to meet implement regulations and ensure compliance with standards constitutes a barrier to trade, and must be met by increasing that capacity. Researchers at the Overseas Development Institute have identified many capacity related issues that developing economies face aside from tariff barriers: Markets and suppliers must share information - producer associations, industrial organisations, and chambers of commerce exchange information among their members and this information exchange must then take place across borders as seen between Brazil and Argentina after Mercosur. A successful agreement must be flexible and governments need to accept that it will need to evolve. Trade agreements must generate relevant reforms in areas such as customs documentation, but also more fundamentally in relaxing rules for cross-border transportation. Selling to new markets requires adequate finance. Poor or wrong infrastructure can restrict trade Governments can support producers or traders in other ways. The benefits of trade agreements for developing countries are not automatic, especially for SMEs whether or not they are already exporting as the costs of entering a new market are greater for them than for large companies when compared to their potential revenue. With an increasing share of agricultural exports directed toward other developing countries, high levels of tariff protection in the South may impede prospects for export-led growth. This may be particularly true for the export opportunities of low-income countries, which have increased export market share in agriculture. But regional arrangements can also become a vehicle for protection, trade diversion, and unintended inefficiency. Agreements in particular between richer and poorer developing countries risk generating trade losses for the poorer ones when their imports are diverted toward the richer members whose firms are not internationally competitive. However, where regional arrangements lead to the reduction of non-tariff barriers, trade creation is likely, and the dynamic benefits of effective regional integration in terms of improved governance and regional stability are likely to outweigh diversion concerns. The World Bank suggests that key conditions to benefit from expanded trade and investment include lowering common external trade barriers, stimulating competition, reducing transaction costs, and reinforcing nondiscriminatory investment and services policies. It should be noted that the greater structural differences between North and South economies mean that North-South arrangements hold the greatest promise for economic convergence and trade creation, including in agricultural products, underlining the importance of links between South-South arrangements and northern economies. Caution must however be employed: And while reforms may be beneficial in the long run, for example by reducing possibilities for customs corruption , in the short run they create both winners and losers. Low-income consumers, unskilled workers in sheltered industries, and previously shielded producers may suffer in the transition period as the economy adapts to changed incentive structures. Temporary safety nets can help cushion the blow and ensure trade-led growth is pro-poor. Specific assistance to meet costs of adaptation â€” for example of switching to a different crop â€” may be appropriate. Market access is vital, but not enough[edit] It is important to recognise that the issues facing LDCs and middle-income developing countries differ significantly. For the middle-income countries, the primary issue is market access. However, for the least developed countries, the principal problem is not market access, but lack of production capacity to achieve new trading opportunities. This is recognised by paragraph 42 of the Doha Development Agenda: We recognize that the integration of the LDCs into the multilateral trading system requires meaningful market access, support for the diversification of their production and export base, and trade-related technical assistance and capacity building. So while the further development of middle-income countries, and in particular the tackling of rural poverty in these countries, can be achieved most importantly through increased market access in agriculture, lower-income countries need additional help, not only to take advantage of new opportunities, but to be able to adapt to changing conditions due to the loss of preferences. This additional help must take three main forms: Support for agricultural production[edit] Support for agricultural modernization and development â€” investment in productive capacity in agriculture and food processing. Support for agricultural-related development institutions which are not trade-distorting, e. This includes trade-related infrastructure: It also includes related issues that are part of the general investment climate but can be particularly important for exports, such as a weak financial sector. Low-income developing countries need both technical and financial assistance in this area. Technical Assistance for negotiations is also needed to further developing-country interests in multilateral and bilateral arenas and ensure the success of future negotiations and agreements. Marketing of exports is also a challenge for low-income countries: Given the importance of agriculture for poverty reduction, additional policies and institutional capacity are needed to ensure an effective supply response to market incentives provide by better market access. Rural infrastructure is particularly important in enabling agricultural exports in developing countries. Sufficient credit at competitive conditions is important for private sector investment in storage, transportation and marketing of agricultural products. Investment in skills and education in rural areas is needed to bolster agricultural productivity. Trade policy reforms must address any remaining anti-export bias. Efficient land policies and land tenure institutions are needed to ensure the functioning of land markets, property rights, and efficient farm structures. World Trade Organization negotiations[edit] The most recent round of World Trade Organization negotiations the Doha "Development" Round was promoted as being directed at the interests of developing countries , addressing issues of developed country protectionism.

3: International trade and development, theory and policy. (Book,) [www.enganchecubano.com]

The focus of this volume is on international trade, economic development, and the strategic analysis of technology transfer from a developing country's perspective, especially of relevance to India.

This represented the first time that a holistic strategy to meet the development needs of the world has been established, with measurable targets and defined indicators. The goals imply that every state has a set of obligations to the world community to meet and that other states, who have achieved those goals, have an obligation to help those who have not. As such they may represent an extension of the concept of human rights. Each goal uses indicators based on statistical series collected and maintained by respected organisations in each relevant field usually the UN agency responsible but also the OECD, IMF and World Bank The MDGs have catalysed a significant amount of action, including new initiatives such as Millennium Promise. Most of these initiatives however work in small scale interventions which do not reach the millions of people required by the MDGs. Recent praise has been that it will be impossible to meet the first seven goals without meeting the eighth by forming a Global Partnership for Development. No current organisation has the capacity to dissolve the enormous problems of the developing world alone â€" especially in cities, where an increasing number of poor people live â€" as demonstrated by the almost nonexistent progress on the goal of improving the lives of at least Million slum dwellers. Sustainable Development Goals The MDGs served a successful framework to guide international development efforts, having achieved progress on some of the 8 goals. For example, by the extreme poverty rate had already been cut into half. Before adoption, unlike the MDGs, the SDGs had been in discussion for months, involving civil society actors, NGOs, as well as an opening summit involving intergovernmental negotiations. This emphasis on sustainability has also led to more cross-sector partnerships, and combined international efforts across areas of environmental, social, cultural, political, and economic development. Education is another important aspect of international development. It is a good example of how the focus today is on sustainable development in these countries; education gives people the skills required to keep themselves out of poverty. International development, on the other hand, seeks to implement long-term solutions to problems by helping developing countries create the necessary capacity needed to provide such sustainable solutions to their problems. A truly sustainable development project is one which will be able to carry on indefinitely with no further international involvement or support, whether it be financial or otherwise. International development projects may consist of a single, transformative project to address a specific problem or a series of projects targeted at several aspects of society. Promoted projects are ones which involve problem solving that reflects the unique culture, politics, geography, and economy of a region. More recently, the focus in this field has been projects that aim towards empowering women, building local economies, and caring for the environment. Under the former system, poor countries were encouraged to undergo social and economical structural transformations as part of their development, creating industrialization and intentional industrial policy. Poverty reduction rejects this notion, consisting instead of direct budget support for social welfare programs that create macroeconomic stability leading to an increase in economic growth. The concept of poverty can apply to different circumstances depending on context. Poverty is the condition of lacking economic access to fundamental human needs such as food, shelter and safe drinking water. While some define poverty primarily in economic terms, others consider social and political arrangements also to be intrinsic â€" often manifested in a lack of dignity. International economic inequality[edit] See also: South-South cooperation International development institutions and International Organisations such as the UN promote the realisation of the fact that economic practices such as rapid globalisation and certain aspects of international capitalism can lead to, and, allegedly, have led to an economic divide between countries, sometimes called the North-South divide. Such organisations often make it a goal and to help reduce these divides by encouraging co-operation amongst the Global South and other practices and policies that can accomplish this. For example, when economic growth boosts development and industrialisation , it can create a class divide by creating demand for more educated people in order to maintain corporate and industrial profitability. Thus the popular demand for education, which in turn drives the cost of education higher through the principle of supply and demand , as people would want to be part of the new economic elite. Higher costs for education lead to a situation where only the people with enough money to pay for education can receive sufficient education to qualify for the better-paying jobs that mass-development brings about. This restricts poorer people to lesser-paying jobs but technological development makes some of these jobs obsolete for example, by introducing electronic machines to take over a job, such as creating a series of machines such as lawn mowers to make people such as gardeners obsolete. Dignity Modern poverty reduction and development programmes often have dignity as a central theme. Dignity is also a central theme of the Universal Declaration of Human Rights , the very first article of which starts with: What will it take?.

4: International Trade and Economic Development - Oxford Scholarship

Note: Citations are based on reference standards. However, formatting rules can vary widely between applications and fields of interest or study. The specific requirements or preferences of your reviewing publisher, classroom teacher, institution or organization should be applied.

Learning Objectives Compare and contrast different trade theories. Determine which international trade theory is most relevant today and how it continues to evolve. What Is International Trade? International trade theories are simply different theories to explain international trade. Trade is the concept of exchanging goods and services between two people or entities. International trade is then the concept of this exchange between people or entities in two different countries. People or entities trade because they believe that they benefit from the exchange. They may need or want the goods or services. While at the surface, this many sound very simple, there is a great deal of theory, policy, and business strategy that constitutes international trade. People have engaged in trade for thousands of years. Ancient history provides us with rich examples such as the Silk Roadâ€”the land and water trade routes that covered more than four thousand miles and connected the Mediterranean with Asia. Uruk, its agriculture made prosperous by sophisticated irrigation canals, was home to the first class of middlemen, trade intermediariesâ€¦A cooperative trade networkâ€¦set the pattern that would endure for the next 6, years. In more recent centuries, economists have focused on trying to understand and explain these trade patterns. Chapter 1 "Introduction" , Section 1. Today, technology drives Globalization 3. Over time, economists have developed theories to explain the mechanisms of global trade. The main historical theories are called classical and are from the perspective of a country, or country-based. By the mid-twentieth century, the theories began to shift to explain trade from a firm, rather than a country, perspective. These theories are referred to as modern and are firm-based or company-based. Both of these categories, classical and modern, consist of several international theories. In other words, if people in other countries buy more from you exports than they sell to you imports , then they have to pay you the difference in gold and silver. The objective of each country was to have a trade surplus When the value of exports is greater than the value of imports. A closer look at world history from the s to the late s helps explain why mercantilism flourished. The s marked the rise of new nation-states, whose rulers wanted to strengthen their nations by building larger armies and national institutions. By increasing exports and trade, these rulers were able to amass more gold and wealth for their countries. One way that many of these new nations promoted exports was to impose restrictions on imports. This strategy is called protectionism The practice of imposing restrictions on imports and protecting domestic industry. Nations expanded their wealth by using their colonies around the world in an effort to control more trade and amass more riches. The British colonial empire was one of the more successful examples; it sought to increase its wealth by using raw materials from places ranging from what are now the Americas and India. France, the Netherlands, Portugal, and Spain were also successful in building large colonial empires that generated extensive wealth for their governing nations. Although mercantilism is one of the oldest trade theories, it remains part of modern thinking. Countries such as Japan, China, Singapore, Taiwan, and even Germany still favor exports and discourage imports through a form of neo-mercantilism in which the countries promote a combination of protectionist policies and restrictions and domestic-industry subsidies. Nearly every country, at one point or another, has implemented some form of protectionist policy to guard key industries in its economy. While export-oriented companies usually support protectionist policies that favor their industries or firms, other companies and consumers are hurt by protectionism. Taxpayers pay for government subsidies of select exports in the form of higher taxes. Import restrictions lead to higher prices for consumers, who pay more for foreign-made goods or services. Recent versions have been edited by scholars and economists. Smith offered a new trade theory called absolute advantage The ability of a country to produce a good more efficiently than another nation. He stated that trade should flow naturally according to market forces. In a hypothetical two-country world, if Country A could produce a good cheaper or faster or both than Country B, then Country A had the advantage and could focus on specializing on producing that good. Similarly, if Country B was better at producing another good, it could focus on specialization as well. By specialization, countries would generate efficiencies, because their labor force would become more skilled by doing the same tasks. Production would also become more efficient, because there would be an incentive to create faster and better production methods to increase the specialization. Comparative Advantage The challenge to the absolute advantage theory was that some countries may be better at producing both goods and, therefore, have an advantage in many areas. In contrast, another country may not have any useful absolute advantages. To answer this challenge, David Ricardo, an English economist, introduced the theory of comparative advantage in Ricardo reasoned that even if Country A had the absolute advantage in the production of both products, specialization and trade could still occur between two countries. Comparative advantage The situation in which a country cannot produce a product more efficiently than another country; however, it does produce that product better and more efficiently than it does another good. The difference between these two theories is subtle. Comparative advantage focuses on the relative productivity differences, whereas absolute advantage looks at the absolute productivity. Even though Miranda clearly has the absolute advantage in both skill sets, should she do both jobs? Her productivity and income will be highest if she specializes in the higher-paid legal services and hires the most qualified administrative assistant, who can type fast, although a little slower than Miranda. By having both Miranda and her assistant concentrate on their respective tasks, their overall productivity as a team is higher. This is comparative advantage. A person or a country will specialize in doing what they do relatively better. In reality, the world economy is more complex and consists of more than two countries and products. Barriers to trade may exist, and goods must be transported, stored, and distributed. However, this simplistic example demonstrates the basis of the comparative advantage theory. Both theories assumed that free and open markets would lead countries and producers to determine which goods they could produce more efficiently. In the early s, two Swedish economists, Eli Heckscher and Bertil Ohlin, focused their attention on how a country could gain comparative advantage by producing products that utilized factors that were in abundance in the country. They determined that the cost of any factor or resource was a function of supply and demand. Factors that were in great supply relative to demand would be cheaper; factors in great demand relative to supply would be more expensive. Their theory, also called the factor proportions theory Also called the Heckscher-Ohlin theory; the classical, country-based international theory states that countries would gain comparative advantage if they produced and exported goods that required resources or factors that they had in great supply and therefore were cheaper production factors. In contrast, countries would import goods that required resources that were in short supply in their country but were in higher demand. In contrast, countries would import goods that required resources that were in short supply, but higher demand. For example, China and India are home to cheap, large pools of labor. Hence these countries have become the optimal locations for labor-intensive industries like textiles and garments. Leontief studied the US economy closely and noted that the United States was abundant in capital and, therefore, should export more capital-intensive goods. However, his research using actual data showed the opposite: According to the factor proportions theory, the United States should have been importing labor-intensive goods, but instead it was actually exporting them. Leontief that states, in the real world, the reverse of the factor proportions theory exists in some countries. For example, even though a country may be abundant in capital, it may still import more capital-intensive goods. In subsequent years, economists have noted historically at that point in time, labor in the United States was both available in steady supply and more productive than in many other countries; hence it made sense to export labor-intensive goods. Over the decades, many economists have used theories and data to explain and minimize the impact of the paradox. However, what remains clear is that international trade is complex and is impacted by numerous and often-changing factors. Trade cannot be explained neatly by one single theory, and more importantly, our understanding of international trade theories continues to evolve. Modern or Firm-Based Trade Theories In contrast to classical, country-based trade theories, the category of modern, firm-based theories emerged after World War II and was developed in large part by business school professors, not economists. The firm-based theories evolved with the growth of the multinational company MNC. Unlike the country-based theories, firm-based theories incorporate other product and service factors, including brand and customer loyalty, technology, and quality, into the understanding of trade flows. Country

Similarity Theory Swedish economist Steffan Linder developed the country similarity theory A modern, firm-based international trade theory that explains intraindustry trade by stating that countries with the most similarities in factors such as incomes, consumer habits, market preferences, stage of technology, communications, degree of industrialization, and others will be more likely to engage in trade between countries and intraindustry trade will be common. In this firm-based theory, Linder suggested that companies first produce for domestic consumption. When they explore exporting, the companies often find that markets that look similar to their domestic one, in terms of customer preferences, offer the most potential for success. Product Life Cycle Theory Raymond Vernon, a Harvard Business School professor, developed the product life cycle theory A modern, firm-based international trade theory that states that a product life cycle has three distinct stages: The theory, originating in the field of marketing, stated that a product life cycle has three distinct stages: The theory assumed that production of the new product will occur completely in the home country of its innovation. In the s this was a useful theory to explain the manufacturing success of the United States. It has also been used to describe how the personal computer PC went through its product cycle. The PC was a new product in the s and developed into a mature product during the s and s. Today, the PC is in the standardized product stage, and the majority of manufacturing and production process is done in low-cost countries in Asia and Mexico. The product life cycle theory has been less able to explain current trade patterns where innovation and manufacturing occur around the world. For example, global companies even conduct research and development in developing markets where highly skilled labor and facilities are usually cheaper. Even though research and development is typically associated with the first or new product stage and therefore completed in the home country, these developing or emerging-market countries, such as India and China, offer both highly skilled labor and new research facilities at a substantial cost advantage for global firms. Global Strategic Rivalry Theory Global strategic rivalry theory emerged in the s and was based on the work of economists Paul Krugman and Kelvin Lancaster. Their theory focused on MNCs and their efforts to gain a competitive advantage against other global firms in their industry. Firms will encounter global competition in their industries and in order to prosper, they must develop competitive advantages. The critical ways that firms can obtain a sustainable competitive advantage are called the barriers to entry for that industry. The barriers to entry The obstacles a new firm may face when trying to enter into an industry or new market. The barriers to entry that corporations may seek to optimize include: In addition to the roles of government and chance, this theory identifies four key determinants of national competitiveneness:

5: Development theory | economics and political science | www.enganchecubano.com

International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP).

Sri Lanka has comparative advantage in tea production, despite its absolute disadvantage in the production of each commodity. To test for comparative advantage in the production of commodity A in a 2X2 model: Although the US has an absolute advantage in the production of both tea and wheat, the US has a comparative advantage only in the production of wheat. This is because its advantage in wheat is comparatively greater than its advantage in tea [Daniels and Radebaugh, 8th ed. Root, , International Trade and Investment, p. How are the gains from trade divided between two trading partners? Because if costs are accurately measured, then the opportunity costs of beef in terms of cameras foregone, since there are only two possible products are lower in the US than in Japan: What would make the dollar fall so much against the yen that a dollar would buy fewer than 50 yen, and this bilateral trade would end? That is, in a world where neither currency was used for other international purposes, and where there was no monetary policy. Such a low Japanese demand for US beef and such a high American demand for Japanese cameras that the exchange rate fell this low. This relative demand for products from trading partners, expressed via its effect on exchange rates, determines the division of gains from trade. The equation below notes that the gains to country 1 from exporting commodity a is the amount of commodity b that can be imported from country 2 per unit of commodity a that is exported minus the cost of producing commodity a for export expressed as the amount of commodity b that is foregone. Wait, ask yourself -- can you see why? At the same time, Japan has a gain from this trade: As you think about this, and view the graphs in the textbook Figs. We assume that national production is on the production possibility frontier PPF , with no un-used factors e. If some available and relevant factors are not being used e. We assume that factors are homogeneous within a country e. We assume that factor prices reflect the value of marginal product attributable to the factors. These are all problems with using traditional trade theory to understand and to prescribe trade flows in the current economy. Possibilities include skill or technology including a preference for producing in different ways , availability of materials or resources, or the pricing of inputs. Measured by relative prices received by an additional unit of two factors, in one country versus that relationship in another country -- in other words, geography. Note that this is a normative theory, in that it asks the question "If we had a goal of maximizing world production the goods and services available to citizens of each country , how would we proceed? Wasily Leontief published "Domestic production and foreign trade: Wasily Leontief published "Factor proportions and the structure of American trade: He found that US export sectors industries required a higher proportion of labor than US production in those sectors in which the US had substantial imports. Why is this a paradox? The US is capital-abundant and labor-scarce, relative to the rest of the world. If a country has an open free trade policy, market forces will result in exports of the goods and services in which the country has comparative advantage. This is the same as saying "Free trade results in specialization and trade according to comparative advantage. You can rephrase this to say "US exports are more labor-intensive than US imports. Analogous results were found in Japan, which was then L-rich and K-poor, yet Japanese exports were more K-intensive than Japanese production in sectors that faced import competition. Possible explanations of the Leontief paradox see a similar exposition by E. The US was not really capital-abundant and labor-scarce. Perhaps all the troops returning from World War II flooded the labor market. The principle of factor proportions is wrong. US sectors that faced import competition became more capital-intensive than the competing imports. Notice that Leontief did not have data on how these imports were produced overseas: Perhaps these sectors were actually labor-intensive in the countries that were exporting to the US. There are different kinds of labor, and each should be considered a separate factor. The most common though simplistic way to distinguish labor is to separate "unskilled," "moderately skilled," and "highly skilled" labor. In the US may have been the most well-endowed country in the world in highly skilled and moderately skilled labor. Furthermore, skilled labor is more expensive than unskilled labor because it is scarcer than unskilled labor, everywhere in the world , so skilled-labor requirements "inflate" the proportion of labor costs within total costs. The US imported natural-resource commodities whose extraction is capital-intensive, but in which other nations have an absolute advantage. In other words, some trade occurs based on where the products are found, not on their labor- or capital-intensity of production. Technology itself is a nation-specific factor of production, rather than being a universal attribute of production. Furthermore, technology is a factor that is produced within a given nation much like a commodity , but is not perfectly mobile or tradable. This kind of thinking has led to "neo-technology theories of trade" see below. Vernon, however, became concerned with the technological bases for PLCs in the late s. He later extended these concerns to the international realm. This helps resolve the Leontief paradox by explaining, for a limited class of goods, US exports of these goods while they are L-intensive and import of these same goods when they are K-intensive. However, this model differs from the Heckscher-Ohlin theorem: See a short video on Paul Krugman and "new trade theory": More generally, there are increasing returns economies of scale for the facility, organization company , and country that specializes in a specific product. For advanced manufactures and for many services, this results in benefits from specialization the more a company or country produces of a very specific item, the lower the opportunity costs of production. These benefits include the ability to use and reuse specialized technology, equipment, and even reputation, at little additional cost. This helps explain a country importing and exporting in the same industry -- the imports and exports can actually be different specific forms of the same type of product automobiles, aircraft, financial services As a result, it can produce the product more efficiently, relative to other products, than can its trading partners -- not because of factor endowments, but because of the skilled labor, specialized infrastructure, networks of suppliers, and localized technology that have developed to support that industry. This helps explain the cross-trade in similar products, usually with national variations -- think of the typical variations among German, Japanese, Swedish, and US-based automobiles. Trade in different products is likely to be best interpreted by different models, as I implied when I noted the characteristics of "product-cycle" goods.

6: International development - Wikipedia

International trade theories are simply different theories to explain international trade. Trade is the concept of exchanging goods and services between two people or entities. International trade is then the concept of this exchange between people or entities in two different countries. People or.

The trade is based on the fact that no country can produce all goods and services, which people require for their consumption largely owing to resources differences and constraints Mannur, As a result, this trade relationship suggests that economies need to export goods and services in order to generate revenue to finance imported goods and services, which cannot be produced domestically Coutts and Godley, ; McCombie and Thirlwall, cited in Morgan and Katsikeas, Thus, as many countries have recorded sustainable growth and development through an exportâ€”led strategy, effective venturing into international trade is expected to assist Nigeria get sustained growth at the rates needed to make a visible impact on poverty reduction. However, it has been observed that the Nigerian economy has grossly under-performed relative to its enormous resource endowment and her peer nations. With about 37 solid mineral types and a population of over million persons, one of the largest gas and crude oil reserves in the world the economic performance of the country was described rather weak when compared to the emerging Asian countries such as Thailand, Malaysia, China, India and Indonesia. Today, China occupies an enviable position in the global scheme of affairs largely owing to her self-esteemed trade position. It is against this background that this work attempts to review the challenges of sustainable development in Nigeria through international trade. The chapter is divided into four sections including the introduction. The second section deals with conceptual issues and reviews of theories on international trade. The third section draws the relevance of these theories to Nigeria and finally the fourth section concludes the chapter. Conceptual and Theoretical Issues Conceptual Issues Mannur defines international trade as an exchange of goods and services between the residents of a given country and those of the rest of the world. It is, therefore, a mechanism, which links the countries of the world through commodity trade, service flows and factor movements. As noted earlier, international trade was based on the fact that no country can produce all goods and services, which her people require for their consumption mainly due to resources constraints and differences Mannur, Therefore, this trade relationship provides an opportunity for countries to export goods and services in order to generate revenue to finance imported goods and services, which cannot be produced domestically Coutts and Godley, ; McCombie and Thirlwall, cited in Morgan and Katsikeas, On the other hand, sustainable development is described as a development that meets the needs of the present generation without compromising the needs of the future ones WCED, cited in Ite, and Ikeme, It is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs Bonn, n. It is also an alternative development strategy for improving the living conditions of the human population without degrading the quality of the environment. The concept thus came into being following the realisation that economic development and environment are closely linked, even though it was popularised by the report of the Brundtland Commission, which the United Nations General Assembly assigned to serve as long-term environmental strategies for achieving sustainable development by the year and beyond Boon, n. The understanding that sustainable development encompasses a number of areas is very true political and moral inclusive but the three most essential elements are: Economic sustainability has to do with sound macro-economic management, poverty alleviating growth, appropriate agricultural policies, role of the state, and cost internalisation. Sustainable social development is concerned with equity in the distribution of wealth, resources and opportunity to all citizens at all levels and it implies amongst other things access to minimum standards of security, human rights, social benefits including food, health, education, shelter and opportunities for self-development. Environmental sustainability on the other hand deals with environmental protection and thus it requires the use of environmental goods and services in such a way that their productive capacity are not reduced, nor their overall contribution to human well-being diminished Ite, For the purpose of this work all three dimensions are relevant but emphasis will be given on economic sustainability. Theories of Trade

The Classical Trade Theory According to the classical trade theory, countries are better able to gain and sustain development if each devotes resources to the generation of goods and services in which they have an economic advantage Smith, ; Ricardo, cited in Morgan and Katsikeas, The theory thus explains the scenario where a country generates goods and services in which it has an advantage not only for domestic consumption but also exports the surplus and imports those goods and services in which they have an economic disadvantage. Economic advantages and disadvantages usually arise from country differences in factors such as resource endowments, labour, capital, technology or entrepreneurship. The classical trade theory, therefore, contends that the basis for international trade and sustainable development can be traced to differences in production characteristics and resource endowments which are founded on domestic differences in natural and acquired economic advantages Morgan and Katsikeas, Specifically, the theory was based on the principles of comparative cost advantage and specialisation, which lead to gains for the trading partners Umo, One of the weaknesses of this trade theory is that investment resources are not internationally mobile, i. The Factor Proportion Theory The factor proportion theory on the other hand is able to give an explanation for difference in advantage exhibited by trading countries. As explained by the theory, countries tend to generate and export goods and services that harness large amounts of abundant production factors that they possess, while they import those that need large amounts of production factors which are relatively scarce Heckcher and Ohlin, cited in Morgan and Katsikeas, The theory explains the concept of economic advantage in the context of endowment and costs of factors of production. The Product Life Cycle Theory The Product Life Cycle Theory was developed in line with some developments to do with the changing commercial realities like the role played by technological progress and multinational enterprises in trade and sustainable development of their home countries. The theory suggests that a trade cycle emerges where a product is produced by a parent firm, then by its foreign subsidiaries and finally anywhere in the world where costs are at their lowest possible Vernon, , ; Wells, , Morgan and Katsikeas, According to the theory, technological innovation and market size are very critical for gaining in international trade and of course sustainable development. Trade Theories and the Challenges of Sustainable Development in Nigeria Virtually, nothing is properly working in Nigeria and likewise the doctrines of trade theories are not much respected in the country. The classical trade theory for instance, had emphasised on achieving sustainable development through international trade on the basis of comparative economic advantages and disadvantages. Using the doctrines of this trade theory, Nigeria was supposed to specialise in agriculture, especially considering her enormous uncultivated arable land and abundant labour resources. Unfortunately, since the oil price boom of the early s, the country abandoned the agricultural and industrial sectors of the economy. Both the public and private sectors of the economy concentrate their efforts in the oil and gas industry to the extent that the mainstream economy is denied funding, requisite investment and even managerial capabilities. Thus, the mainstream economy has become uncompetitive globally while the country has turned into a trading outpost for foreign companies Sanusi, The petroleum industry in Nigeria is characterised by wastage, corruption, low productivity and unchecked dominance of foreign multinationals Hassan et al. The country has been relegated to a mono-product economy with the bulk of government revenue coming from oil exports which is susceptible to shocks in the international oil market. Moreover, many other solid minerals with which the country is richly endowed with remain generally untapped. More fundamentally, the economy has dis-proportionately relied on the primary sector subsistence agriculture and the extractive industry without any meaningful value addition. In light of this, the little growth recorded in the economy, thus far, has been without commensurate employment, positive attitudinal change, value re-orientation, and equitable income distribution, among others. Coming to the factor proportion theory, Nigerian had over the years massively been spending on the importation of technologically related items mostly from Western Europe, even though the country was not seriously exporting agricultural produce. As a technologically weak and backward country, the product life cycle theory is to some extent not relevant for Nigeria, even though the country used to be leading exporter of rice in the 60s but now turned to be a major importer of same rice. For example, the year ended in Nigeria with the massive importation of rice and grains into the country worth N 80 billion Ikeokwu, Nigeria is also unable to achieve sustainable development through international trade due to factors such as poor policy and hostile external environment, lack of good governance, corruption, poverty, insecurity, poor human capital and infrastructural development amongst others. Some of these are discussed below: Corruption Corruption is a daunting obstacle to sustainable development as it adversely affects not only international trade but also education, healthcare and poverty alleviation. The Corruption Perceptions index by Transparency International TI ranked the country as the third most corrupt country in the world, against its second position in Dike, The oil funds from the removal of oil subsidy are unlikely to bring sustainable development for Nigeria owing to massive corruption created by lack of accountability, respect for rule of law and check and balance in the country. Similarly, the alleged corruption case against Senator Faruk Lawal â€" a Chairman to the investigation of squandered oil subsidy money is a clear testimony to establish how corrupt the country is. Thus, corruption serves as a clog in the wheel of economic growth by limiting the pace, reducing the amount of public resources, discouraging private investment and savings and it further impedes the efficiency use of foreign aid. Similarly, corruption is a growth retarding factor in any economy because resources which should be utilised for development are stolen and diverted to non-growth promoting activities like acquisition of luxurious goods, investment in other economies, promotion of conflicts, etc. More so, a number of studies have shown that corruption affects sustainable development directly and indirectly through both domestic and foreign investments as well as low productivity. Combating corruption however, requires international cooperation involving foreign governments, foreign banks and foreign financial supervisory and regulatory institutions, which also is not forthcoming Daud and Nor Azam, Poor Infrastructural Development Another major sustainable development challenge facing Nigeria through international trade is the poor state of infrastructures. Foreign aid can have beneficial effects on the economies of recipient countries when it helps in the development of social and physical infrastructures, thereby boosting employment and enhancing productivity Daud and Nor Azam, Bad Governance Trade offers opportunities for the poor and food security by creating a condition, which raises their incomes and lives, opening small farmers to international competition which can also undermine the agricultural sector with long term negative effects for poverty and hunger Pingali et al. The process of the international trade between Nigeria and the West has largely created an opportunity for the International Financial Institutions IFIs and the West to exploit and force the country to debt crisis. This is not surprising as Multinationals have taken advantage of trade to exploit the country through dumping and over-invoicing Ogbimi, n. The activities of transnational corporations have increased the level of environmental gradation in Nigeria Ite, This is evident in terms of water, air and land pollutions owing to their hazardous and selfish operations. Although good governance is at the centre of sustainable development and poverty alleviation, same is lacking in Nigeria. There is absence of rule of law and transparency, responsiveness, participation, equity, and accountability are denied by bad governance. In this situation we cannot expect international trade to serve as an engine of sustainable development for the country. There is no doubt that among the major manifestations of poor governance and deficient leadership is misplaced policies and priorities, which have almost become permanent features of the country Daud and Nor Azam, Poor Technological and Educational Development Nigeria has implemented SAP for decades now, but none of the objectives has been achieved so far via the chosen programme instrument Ogbimi, n. International trade is supposed to make a decisive contribution to sustainable development by way of equitable integration of Nigeria into the global economy Ahmed, The western induced policies like SAP and their existing conditionalities particularly the removal of oil subsidy have failed and could not bring sustainable development for the country. Sustainable development is usually achieved through appropriate technological development as supported by product life cycle theory. On the other hand, technological development is realised through learning and acquiring new knowledge, skills and capabilities Ogbimi, n. Human capital development HCD means the training and retraining which the workforce receives to become more competent and suitable to contribute positively and purposefully to sustainable development. Thus, he opines that human capital investment is an inevitable component of the development process, which must be given topmost priority Daud and Nor Azam, Part of the reasons why Nigeria has failed to attain sustainable development is related to the poor state of its educational institutions. Unfortunately, investment in human capital is a critical area Nigeria has neglected for too long now Dike, In Nigeria for instance, few people possess the necessary knowledge and skills in the productive sector and due to the mismatch between education and productive training; the country is for long experiencing mass unemployment Ogbimi, n. It is sad to note that at 50 years of independence Nigeria is not even near achieving sustainable development despite her vision 20, Abdullahi et al. Poverty The incidence of poverty has been high and on the increase in Nigeria since There is a saying that a poor man is a hungry man and a hungry man is an angry man, hence poverty tends Nigerians to become aggressive. Today, widespread of conflicts, kidnapping and hostage among others are not only gradually becoming common but also threatening international businesses and sustainable development in Nigeria Oritsejafor, n. Conclusion and Recommendations Conclusion From the foregoing explanations, the work has concluded that Nigeria has been unable to attain sustainable development through international trade owing to obvious violation of trade doctrines particularly specialisation based on factor proportion and endowment. Recommendations The work thus recommended that Nigeria should give more emphasis to specialisation on agriculture so as to diversify her production and export base in order to enable the country gain all the benefits of trade including sustainable development. Similarly, government should take serious measures with a view to overcoming the trade related challenges of sustainable development identified by the study. African Forum and Network on Debt and Development. Essays on Economic Development, 1st Edition. A Critique, Management Decision, pp. Cannan and reprinted by Methuen, London. An African Perspective, Second Edition. Millennium Text Publishers Limited,.

INTERNATIONAL TRADE AND DEVELOPMENT THEORY. pdf

7: International trade - Wikipedia

Theory of International Trade International Trade takes place because of the variations in productive factors in different countries. The variations of productive factors cause differences in price in different countries and the price differences are the main cause of international trade.

Development theory, cluster of research and theories on economic and political development. The emergence of development theory The use of the term development to refer to national economic growth emerged in the United States beginning in the s and in association with a key American foreign policy concern: Motivated by this concern, the United States enlisted its social scientists to study and devise ways of promoting capitalist economic development and political stability in what was termed the developing world. Development theory refers to the research and writing that resulted from this effort. There are different conceptions of development and, consequently, disparate approaches to the subject. However, all approaches are concerned with the relationship between development and governance. Development is usually seen as crucially determined by structures of governance; governance is interpreted through and shaped by the goal of development. Most development theory equates development with national economic growth and sees the state as its primary agent; consequently, one of its central concerns is to understand and explain the role of the state in development and the nature of government-market relations. Development theory has changed over time with changes in ideology and the international environment , and, as it changes, so do its conceptions of development and governance and how they are related. Changing conceptions of governance and its relation to development can be traced through the major perspectives on development that have emerged since World War II , as represented by theories of modernization and growth, dependency and world systems theories, the resurgence of neoclassical theory, and an array of newer critical perspectives. Theories of modernization and growth Development involves innumerable variables, including economic, social, political, gender, cultural, religious, and environmental factors. But though development theory integrates concepts and perspectives from a range of disciplines , it was highly influenced by economic thought from the start. Early theoretical models of development equated development with economic growth and industrialization, and theorists saw countries that had not yet achieved these as being at an earlier or lower stage of development relative to Europe and North America. The most influential proponent of this view was the American economic historian Walt W. His book, The Stages of Economic Growth: A Non-Communist Manifesto , elaborated a linear-stages-of-growth model that defined development as a sequence of stages through which all societies must pass. This conception of the nature and process of development became the basic blueprint for modernization theory. Modernization theory emerged following World War II to address the issue of how to shape the economies of states emerging from European colonization. Modernization was, thus, conceived of as the relations of production and standards of living characteristic of western Europe and the United States. Theorists emphasized increased savings and investment as the key to development and argued that international trade in products particularly suited to national factor endowments would enable more efficient resource allocation and greater earnings, and these could be translated into savings and then used to promote development. Theorists envisioned thatâ€”by disseminating technology, knowledge, managerial skills, and entrepreneurship; encouraging capital inflow; stimulating competition; and increasing productivityâ€”foreign trade, together with foreign investment and aid, would be the engine of growth for developing countries. Dependency and world systems theories Modernization theory claimed that once developing societies came into contact with western European and North American societies, they would be impelled toward modernization and, eventually, would achieve the economic, political, and social features characteristic of the nations of western Europe and the United States. However, by the s it was apparent that the Third World was not passing through a stage of underdevelopment, as envisioned by modernization theory, but remaining underdeveloped. Thus, a counterclaim was advancedâ€”that developing countries today are structurally different from the advanced countries and so will have to develop along different lines. These structures created a dynamic that was continuing to impoverish former colonies and to thwart their modernization.

According to ECLA, the international division of labour created by colonization had separated the international economy into a centre, consisting of the industrialized countries, and a periphery , which included all the rest of the countries around the world outside of the socialist camp. Because the prices of manufactured goods bought by the periphery were rising faster than those of raw materials, cash crops, and foodstuffs sold by the periphery to the centre, international trade ensured the persistence of an unbalanced process of development. Thus, in contrast to modernization theory, which emphasized the benefits of free trade , foreign investment, and foreign aid , these theorists argued that free trade and international market relations occur in a framework of uneven relations between developed and underdeveloped countries and work to reinforce and reproduce these relations. This perspective formed the basis of what came to be known as dependency theory. Dependency theory rejects the limited national focus of modernization theory and emphasizes the importance of understanding the complexity of imperialism and its role in shaping postcolonial states. Its main tenet is that the periphery of the international economy is being economically exploited drained by the centre. Once this reshaping was accomplished, market forces worked to perpetuate the relationship of dominance and exploitation between centre and periphery. This theoretical enterprise became known as world systems theory. It typically treats the entire world, at least since the 16th century, as a single capitalist world economy based on an international division of labour among a core that developed originally in northwestern Europe England, France, Holland , a periphery, and a semiperiphery consisting of core regions in decline e. The division of labour among these regions determined their relationship to each other as well as their type of labour conditions and political system. In the core, strong central governments, extensive bureaucracies , and large mercenary armies enabled the local bourgeoisies to obtain control of international commerce and accumulate capital surpluses from this trade. The periphery, which lacked strong central governments or was controlled by other states, exported raw materials to the core and relied on coercive labour practices. Much of the capital surplus generated by the periphery was expropriated by the core through unequal trade relations. The semiperiphery had limited access to international banking and the production of high-cost, high-quality manufactured goods but did not benefit from international trade to the same extent as the core. Dependency and world systems theories share a common emphasis on global analysis and similar assumptions about the nature of the international system and its impact on national development in different parts of the world, but they tend to emphasize different political dynamics. Dependency theorists tend to focus on the power of transnational classes and class structures in sustaining the global economy, whereas world systems analysts tended to focus on the role of powerful states and the interstate system. Initially, the logic of these perspectives supported a strategy that came to be known as import-substitution industrialization ISI. The ISI strategy was to produce internally manufactured goods for the national market instead of importing them from industrialized countries. Its long-run objective was to first achieve greater domestic industrial diversification and then to export previously protected manufactured goods as economies of scale and low labour costs make domestic costs more competitive in the world market. The strategy ultimately foundered because of the smallness of the domestic market and, according to many structuralist theorists, the role of transnational corporations in this system. These theorists concluded that ISI, carried out in conditions of capitalist relations of production dominated by the economic empires led by the United States, was a recipe for further colonization, domination, and dependency. Thus, beginning in the s, theorists and practitioners heralded an export-oriented strategy as the way out of dependency. This strategy gives priority to the growth of manufacturing production aimed at world markets and the development of a particular comparative advantage as a basis for success in world trade. The strategy is based on lower wages and levels of domestic consumption at least initially to foster competitiveness in world markets, as well as to provide better conditions for foreign investment and foreign financing of domestic investment. By the s, however, many countries that pursued this strategy ended up with huge foreign indebtedness, causing a dramatic decrease in economic growth. Though the theorization of types of peripheral development and their connection with the international system continued to undergo refinement in the s and s, structural theorists were not able to agree about what would end dependence and how a nondependent growth could be achieved. The neoclassical counterrevolution In the s a neoclassical sometimes called neoliberal counterrevolution in development theory and policy reasserted dominance over structuralist and other schools of thought in much of the world. The emergence of this counterrevolution coincided with the abandonment by the developed countries of social democratic and Keynesian economic policies and, in particular, the policy of controlling capital movements, as well as the post-World War II trading regime. Critics have pointed out that this counterrevolution also coincided with and seemed to offer justification and support for a wave of market-oriented interventions by the World Bank and International Monetary Fund IMF and efforts to forge a unified global market regulated only by institutions reflecting the interests of transnational capital. The neoclassical or neoliberal perspective represents a modification and further elaboration of modernization theory. However, in contrast to modernization theory, neoclassical theorists see development as the outcome not of strategic state action but of the action of market forces. The central claim is that failure to develop is primarily the result of too much government intervention and regulation of the economy. Neoclassical theory emphasizes the beneficial role of free markets, open economies, and the privatization of inefficient public enterprises. Its recommended strategy for development is to free markets from state control and regulation, so that capital, goods, and services can have total freedom of movement and there can be greater openness to international trade. This is the basic blueprint for what has been termed good governance. The notion of good governance has been elaborated, in part, through a component of the neoclassical counterrevolution called new institutionalism. The basic premise of this perspective is that development outcomes depend on institutions such as property rights , price and market structures, money and financial institutions, firms and industrial organizations, and relationships between government and markets. The essence of good governance is to ensure the existence of these institutions and their proper role and functioning, as seen from the perspective of neoliberal theory. According to neoliberal thought, good governance requires freeing the market from state control and regulation; reducing government expenditures for social services like education and health care; maintaining roads, bridges, the water supply , and so forth; and selling state-owned enterprises, goods, and services including banks, key industries, railroads, toll highways, electricity, schools, and hospitals to private investors. These were the most-successful cases of the export-led industrialization strategy adopted by many countries in the s. All were able to achieve economic growth based on export industries with a comparative advantage in cheap but skilled labour. All maintained high rates of domestic savings and investment with correspondingly lower levels of consumption. However, many people point out that, in contradiction to the market-oriented reforms prescribed by neoliberal theory and its underlying rejection of state intervention, this national development strategy in all the tigers except Hong Kong was planned and executed through the institutions of a centralized authoritarian state. Critical perspectives A number of critical perspectives emerged in the s that highlighted the cultural and ethical dimensions of development. Most prominent among these were the postmodern, postcolonial, and subaltern critiques of Eurocentric conceptions of modernity and development. Postmodern writing challenged grand narratives of the modern eraâ€"narratives of the inevitability of progress, the triumph of individuality, and the primacy of scientific truthâ€"as oversimplified, oppressive, or tyrannical. Postcolonial theory focused on the legacy of colonial rule and especially the difficulties faced by former colonial peoples in developing national identity. Working within this general perspective, subaltern studies sought to rethink history from the perspective of the subaltern and, in this way, bring to light and assert the value of alternative experiences and ways. These critiques succeeded in drawing attention to the ethnocentric basis of the idea of what constitutes development and the potential limitations inherent within this development, the tension between universal theories and a diverse developing world, the treatment of gender in conventional development theory, and the political content of economic development strategies as pursued by national governments, encouraged by international institutions and nongovernmental organizations NGOs , and concealed behind the notion of aid. Eventually, these critiques helped focus attention on the need to broaden the concept of development to include a social development and human security dimension. The notion of human development influenced development theory in at least two ways. First, it clarified the inadequacy of theories that focus on whole nations or societies and that use macroeconomic factors to explain differences in development conditions and to measure development: Second, the notion of development as human development reemphasizes the importance of the state. It assigns the state a major role in protecting and advancing sustainable human well-being and argues the need for just the socially oriented state policies that neoliberalism proscribesâ€”policies that improve the access of all people to human resource investments, productive assets, credit facilities, information flows, and physical infrastructure and protect the legitimate interests of producers, consumers, workers, and vulnerable groups in society. Thus, alongside the neoliberal call to dismantle public ownership , state planning, and government regulation of economic activities, there was a perspective that reinvigorated the call for a larger state role in development. These contending perspectives informed political debates about growth and governance and, in particular, what constituted good governance in the global context of development.

8: Univ. of Washington, Geog , Theories of International Trade

classical theory: the early beginning of a theory of free trade Tracing back the evolution of what today is recognized as the standard theory of international trade, one goes back to the years between and , which respectively mark the.

By doing so Cotton Land will eliminate its furniture industry. However, it can trade the surplus cloth for furniture. Similarly, Wood Land can direct all its resources to the production of furniture and produce 16 pieces of furniture. Although its cloth industry will suffer it can trade the surplus pieces of furniture for cloth bales. Through specialization and trade, the supply of goods in both economies increases, which brings the prices down, making them more affordable. Law of Comparative Advantage: Even if a country can produce everything more efficiently than another country, there is still scope for trade. A country can maximize its wealth by putting its resources into its most competitive industries, regardless of whether other countries are more competitive in those industries. This is called the law of comparative advantage. Suppose Cotton Land produces both cloth and furniture better than Wood Land. However to achieve greater wealth, each country should specialize in the item in which it enjoys greatest advantage among all the products it produces. In terms of opportunity cost, or the cost of not transferring resources, Cotton Land is twice efficient in producing cloth as furniture. Whereas, Wood Land should concentrate on furniture and trade it for cloth with Cloth Land. Channeling resources into the most productive enterprise in each country will result in more products to trade. Even though it makes economic sense to allocate resources to the most productive industries, no country wants to rely on only a few products. This makes the country vulnerable to changes in the world economy, such as recession, new trade laws and treaties, and new technologies. A country that relies too heavily on one product is especially susceptible to market forces. If demand suddenly drops or if a cheaper alternative becomes available, the economy of that country could be damaged. Many Middle East countries that are largely dependent on their oil exports see their economic fortunes rise and fall in tandem with the oil market. It is most advantageous to have declining import prices compared with the prices of exports. Exchange rates and productivity differences affect the terms of trade more than any other factors. By developing a diversified economy, a country can make sure that even if some industries are suffering, other, more competitive industries will keep the economy relatively healthy. Competitiveness is used to describe the relative productivity of companies and industries. If one company can produce better products at lower prices than another, it is said to be more competitive. This is a matter of concern for governments, since it is difficult for uncompetitive industries to survive. In the long run, competitive depends on: The ability of a society to do this effectively determines whether it can remain competitive in the global economy. The law of comparative advantage says that a country can become more competitive by directing its resources to its most efficient industries. Such lower-cost goods are more in demand in international markets. Certain industries that require heavy research and development or capital expenditures cannot be competitive unless they can spread the costs over many units. If a sophisticated weapons industry knows that it has access to foreign markets and could export, it may increase the scale of its manufacturing operations and become more efficient and competitiveness in the international markets. All governments regulate foreign trade. The extent to which they do so is a matter of great controversy and debate. The news is full of reports of various groups protesting about: New trade agreements Adverse effects of trade on domestic industry, and Dilution of the environmental and labour standards, especially in the developing economies. Free trade proponents stand for an open trading system with few limitations and little government involvement. Advocates of Protectionism believe that governments must take action to regulate trade and subsidize industries to protect their domestic economy. Although the amount of government involvement in trade varies from country to country and product to product, overall barriers to trade have been lowered since World War II. All governments practice protectionism to some extent. There are many arguments forwarded by advocates of protectionism. The following are some of them. Less developed countries have a natural cost advantage, as labour costs in those economies are low. They can produce goods less expensively than developed economies and their goods are more competitive in international markets. Protectionists argue that infant, or new, industries must be protected to give them time to grow and become strong enough to compete internationally, especially industries that may provide a firm foundation for future growth, e. However, critics point out that some of these infant industries never "grow up". Any industry crucial to national security, such as producers of military hardware, should be protected. That way the nation will not have to depend on outside suppliers during political or military crisis. Diversification of the Economy: If a country channels all its resources into a few industries, no matter how internationally competitive those industries are, it runs the risk of becoming too dependent of them. In the rush to meet the world demand for their exports, some countries may compromise on critical environmental standards. This is particularly true for less developed countries that do not have well defined environmental protection laws in place. Tariffs are taxes on imports. Tariffs make the item more expensive for consumers, thereby reducing the demand. Governments sometimes restrict the sale of foreign goods by imposing import quotas. These limit the quantity of foreign goods that can be imported and help domestic producers by limiting the share of the market that can be taken by foreigners. Sometimes governments negotiate agreements whereby a country agrees to voluntarily limit its export of a certain product. Japan voluntarily limited its export of cars to the United States in to 1. With tariffs, it is the importing country that stands to gain through increases in the tax revenue. However, in case of quantitative restraints, the exporting country gains as the price of the imported good rises. Both import quotas and voluntary restraints thwart the functioning of the free market. The quantity of goods remains constant while the price changes, instead of demand and supply determining both quantity and price. Another way to achieve the goals of protectionism is to make the domestic industry more competitive. Subsidies, which are grants by the government to an industry, can accomplish this. Governments also ban imports of certain products to protect domestic industries. For instance, Japan bans importation of rice to protect its domestic rice industry. Health, environmental and safety standards often vary from country to country. These may act as a barrier to free trade and a tool of protectionism. For example, the European Union has very stringent health and safety standards that goods have to meet in order to be imported. Apart from the legal restrictions there may be other less formal obstacles that impede trade. Cultural factors are one such obstacle. Arguments for Free Trade: The debate about how free a trading system should be is an old one, with positions and arguments evolving over time. Free trade advocates typically argue that consumers benefit from freer trade and forward many reasons in support of their theory. Free trade and the resulting foreign competition forces US companies to keep prices low. Consumers have a large variety of goods and services to chose from in open markets. Domestic companies have to modernize plants, production techniques and technology to keep themselves competitive. Any kind of protectionist measures, like tariffs, often brings about retaliatory actions from foreign governments, which may restrict the sale of goods in their markets. This may result in inflation and unemployment in the US as the export industries suffer and prices of imports rise. An open trading system creates a better climate for investment and entrepreneurship than one in which there is fear of government cutting off access to certain markets. The cost of protection often outweighs the benefits. Balance of Payments gives a complete summary of all economic transactions that involve money flowing into or from a country. Exports are the value of goods and services sold abroad over any specific period of time. Imports are the value of goods and services purchased from foreign countries over a specific period of time. Statistics can have different interpretations: Interpretations of trade statistics sometimes can differ sharply, depending on the question being asked. The US trade deficit has been viewed as good, bad, irrelevant, overstated, understated and illusory. For example, a company that exports goods to the United States will view the deficit as a sign of a healthy US market. On the other hand, a US based trade union may consider the deficit as a sign that domestic industries are unable to compete in the world markets. In a global economy that is measured in trillions of dollars, not every transaction is going to be reported accurately. Statistics for many types of transactions rely heavily on estimates made by statisticians, and even the best estimates are sometimes incorrect. This can produce a skewed measurement of what is actually happening in the economy. Measuring Imports and Exports: Importers file tax documents with the customs service describing the type and value of imported goods. These reports are processed and tabulated to arrive at the overall level of imports. Inaccurate reports, delays in processing data, and smuggling can affect their value. There is no tax on exports and recording of data is done at the ports or other locations from where exports take place. All such individual records are totaled to arrive at the total exports in a particular year. Sometimes, it is difficult to assign a particular value to goods. To compare the exports of two countries in a given year, it is necessary to convert the figures into the same currency.

9: Theories of development | Global-development | The Guardian

Development theory has changed over time with changes in ideology and the international environment, and, as it changes, so do its conceptions of development and governance and how they are related.

Alternatively, it could be assumed that various resources are required but that they can be represented and measured by means of a "composite resource". Because of comparatively i. The concept of comparative advantage has to be distinguished from that of absolute advantage, which indicates that the country in question uses in absolute terms fewer resources in the production of the given commodity. Thus, in our example, the United States has an absolute advantage in the production of both chips and sugar and a comparative advantage in the production of chips only. The basic tenet of the comparative cost theory is that the gains from trade arise from the existence of a comparative cost advantage and not of an absolute cost advantage. Comparative advantage may need to be created Third, the theory is static. It explains trade and trade gains on the basis of comparative advantage at a certain point in time. It may be the case that comparative advantages change and can be acquired over time through, inter alia, policy action. In that case, having a comparative advantage in one good would not necessarily imply that a country should specialize in the production of that good at the expense of other lines of production. In fact, new industries so-called infant industries may not have a comparative advantage when they are being established and, as we will see below, may need to be protected until they achieve the size required to benefit from economies of scale. Thus, in our example, Brazil would not necessarily commit itself to the production of sugar, totally forgetting about computer chips, if it felt it had the basis for developing a viable chip industry in the longer term. This kind of reasoning in fact led Brazil to put trade barriers to the import of computer equipment with the intention to develop over time some advantage in the domestic production of computers. Note, of course, that trade policy may not be the most effective way of developing an indigenous industrial capacity if more direct industrial policies are available. Countries may also lose comparative advantage in certain types of production as technology evolves abroad the so-called sunset industries issue. Some qualifications on the theory of comparative costs The theory assumes that resources are fully utilized, i. Thus, if there are idle resources, there is no need to decrease the production of sugar to increase that of chips or vice versa. It assumes that resources can easily be reallocated to those activities in which a country has comparative advantage. In the real world, there are a number of constraints which may make it difficult to reallocate resources. Thus there are potentially high adjustment costs in moving from one line of production to another, e. The capital used in sugar factories cannot be used for chocolate production and workers have to be trained to use a different technology. In the classical model, investment resources are not internationally mobile only commodities can move and investment decisions are taken on a national basis. Furthermore, the decision-making framework for a growing part of world investment is international and not national. A large investment fund or a transnational corporation are not restricted by national boundaries; they search for profit opportunities anywhere in the world - a concept closer to that of absolute than to comparative advantage. Factors determining investment location, and therefore trade flows, are lower labour costs, availability of natural resources and distance to raw material and major markets, as well as opportunities for establishing an efficient marketing and distribution set-up. The theory of comparative advantage is mostly concerned with the efficient use of resources for producing a limited number of very homogenous commodities. Today, the quality and the volume that can be delivered by a particular supplier is often more important than the cost. In a sense, the capacity to sell is becoming more important than the capacity to produce. Trade has important distributional effects Fourth, the theory shows that countries as a whole gain from trade but makes no reference to whether and how different groups within each country benefit or lose from trade. As we will see below, trade can have important impacts on income distribution and this adds a social dimension to the trade issue. Economies of scale Trade allows scale economies to be achieved Another reason why trade can increase efficiency is because it allows an expansion of the market for a certain industry beyond the limits of the domestic economy. There are two ways in which economies of scale may occur at the industry level, which will normally operate in conjunction. One is through technological indivisibilities in the firms that make up the industry, for instance, the use of robots in car manufacturing. This happens when there are cost saving technologies that can only be introduced after a certain level of output is reached. In this case, economists talk of economies of scale internal to the firms in the industry. The other is through the existence of cost savings that take place through the sheer expansion of the industry, mostly because of an improvement in the services supplied to the industry by third parties or the technical or commercial environment in which it operates - what economists call external effects. In this case the economies of scale are external to the firm but internal to the industry. Examples of these are the development of a skilled labour force, specialized suppliers of inputs, a competitive atmosphere and a shared technological know-how, all of which will reduce costs. An interesting thing about economies of scale is that, if they are significant, countries with few differences in resources or in technology, and hence in production costs, will gain from specializing in different products and trading them. With specialization, the two countries can reap the economies of scale in the commodity in which they specialize, lowering the cost of production. Economies of scale, combined with product differentiation see below explain the phenomenon of intra-industry trade in which countries trade similar, but differentiated, products with each other, e. Competition through trade Trade ensures the benefits of competition One more way in which international trade can raise efficiency is through the enhancement of competition. By opening their frontiers to trade, countries force their industries to compete with goods and services produced abroad, and hence to struggle to become competitive and pass on cost reductions to consumers in the form of lower prices. In industries which tend to be monopolistic or oligopolistic because of the nature of the production process e. The car and telecommunication industries are examples of this. Trade may be a good way to bring competition and raise efficiency in these industries. This advantage of trade is not very relevant in agriculture since, because there are many farms producing very similar commodities, the farm sector is hardly a concentrated industry. However, farmers may benefit from the increased efficiency of input supply industries or food processing industries brought about through trade. Since these include consumer goods as well as capital goods and inputs, trade favours both domestic consumers and the development of the domestic production capacity. Diversity refers to the availability of goods that cannot be produced in the country or could only be produced under very special and expensive conditions e. It also refers to different types or brands of goods actually produced in the country e. Through product differentiation countries do not need to either fully specialize in industries where they have a comparative advantage or totally abandon industries where they do not; they can specialize in industrial niches e. Intra-industry trade of this kind is common in consumer goods industries, but is less characteristic of trade in agricultural products because of the importance of natural resource endowments and their greater homogeneity. Trade may also serve to smooth out transitory excess demand or excess supply situations in domestic markets, thus avoiding or reducing price fluctuations and eventual supply shortages. Agricultural products may benefit especially in this respect from foreign trade, since agricultural markets tend to be particularly unstable as a consequence of supply rigidities it takes time for agricultural production to respond to market signals , exogenous factors affecting production such as weather and pest conditions and the fact that the demand for food tends to vary little when prices go up or down it is inelastic. A country largely self-sufficient in food and agricultural products may have agricultural surpluses in good years, which will place strong downward pressure on farm prices. The international market may serve to dispose of these surpluses with minimum disruption of domestic prices and incomes. The opposite will happen in poor agricultural years. Thus, if a country is highly specialized in the production of some export commodities and depends largely on imports of other commodities, it will be very exposed to international price fluctuations. These fluctuations are also felt in tradable goods which are only marginally exported or imported, in the absence of policy instruments designed to isolate domestic prices from world price fluctuations. Agriculture has traditionally been the main sector where these instruments have been applied, with varying effects. Will everybody win or at least not lose? Two issues can be distinguished here; one is the impact of trade on different economic or social groups within a country, the other is whether the gains from trade are fairly distributed between trading countries. These issues are examined separately below. Contrariwise, the owners of factors engaged in industries which have to compete with products imported from abroad, i. The distribution of the gains and losses arising from trade among the owners of productive factors will depend on the situation in the respective markets. In general, however, factors which are intensively used in an industry, for instance labour in textile industries or land in extensive farming, will stand to gain or lose more than those not intensively used. Similarly, owners of factors that are rather specific to the industry and hence relatively immobile, for instance workers skilled in some agricultural operations e. If no domestic industries produce the imported good or close substitutes , consumers or the producers that use it as an input will benefit from trade, without anyone losing. Intra-industry trade, where differentiated products from the same industry are traded, will in general have less negative impact on the domestic import-competing industry than trade based on specialization, where the import-competing industry may risk being totally swept away. Farmers are vulnerable to trade changes because of the lack of alternative opportunities Since, in comparison with other industries, factor mobility and product differentiation are rather limited in agriculture, the farming sector is particularly vulnerable to the impact of trade. Thus, it is difficult for agricultural land to change its use to urban or recreational use in response to import competition, or for agricultural labour to find another type of employment since this normally requires reskilling and will often imply migration. It is possible for farmers to change crops to adjust to international competition, but weather, soils, technical know-how and other factors that may restrict or jeopardize possible changes will often come into play. Shifting from plantation or livestock farming to other type of agriculture will be particularly expensive and take a long time. These rigidities, typical of the farm sector, are one of the reasons why governments have traditionally tended to protect farmers from the effects of international competition. An issue that has received much attention from trade welfare theorists is whether those who benefit from the opening of trade can compensate those who lose, so that the opposition of the latter to a free trade regime can be overcome and the gains from trade are better distributed. This may be possible in principle, but it is extremely complex in practice. The reason is the difficulty of agreeing on the exact amount of gains and losses and the identification of the groups involved, as well as that of establishing a mechanism to carry out direct payments from one group to the other. Governments may try to collect part of the gains, for instance, through export taxation. This is a highly contentious subject surrounded by controversy and contrasting points of view. We cannot survey them all here but we will summarize some of the most representative ones. The "mainstream economics" view Mainstream theories emphasize the role of demand in explaining the distribution of trade gains between countries The first view we have called "mainstream economics" to emphasize a theoretical tradition that is at the core of conventional Western academic economic thinking on international trade issues. While "mainstream economics" has much to say on the benefits deriving from trade and the welfare implications of protectionist policies and regional trade agreements, it does not offer much by way of predictions with respect to the intercountry distribution of trade gains. As mentioned before, under the comparative cost theory the distribution of benefits is inversely related to the closeness of the international terms of trade to the domestic price ratio. However, in the original formulation of the theory by David Ricardo there was no explanation of how close the terms of trade would be to either of the domestic price ratios. Later economists, such as John Stuart Mill, stressed the role of demand factors in the determination of the terms of trade. Thus, if in our example, United States consumers are much more eager demanders of sugar than of chips compared to their Brazilian counterparts, the terms of trade will favour Brazil 2 , which will obtain most of the gains. In more modern forms of the theory, the terms of trade continue to depend on the relative strength of the respective demands. The main prediction arising from this reformulation is a dynamic one stating that export-biased growth, i. The opposite would happen with import-biased growth. The reason is straightforward: The opposite is the case with import-biased growth. The above effects only take place, however, if the participation in world trade of the country in question is sufficiently large for a reduction in the domestic production cost to influence the international price of the commodity. The structuralist view Structuralists argue that the periphery is disadvantaged relative to core countries In the s and s, the distribution of trade gains between developed countries the "centre" of the world economy and less developed countries the "periphery" became an issue of intense debate, due in no small part to the intellectual influence of Raul Prebisch, the Argentinean economist who was for many years at the head of the UN Economic Commission for Latin America and one of the fathers of the Latin American structuralist school. The argument is based on the assumption of trade specialization between centre and periphery, with the centre specializing in exporting manufactured industrial products and the periphery primary commodities. The decline was viewed not as a transitory phenomenon due to a specific set of circumstances but as something embedded in the structural features of central and peripheral economies and in the nature of the development process. In a nutshell, the declining trend in the terms of trade for countries in the periphery 4 was explained by three reasons. The income elasticity of the demand for imports is lower at the centre than in the periphery due to the different type of the goods imported by both sets of countries - primary commodities in one case, industrial products in the other 5. Asymmetries are postulated in the impact of technological change at the centre and in the periphery. In central countries, it is argued that technological progress tends to decrease the demand for periphery country exports many of which are substituted by synthetic products.

INTERNATIONAL TRADE AND DEVELOPMENT THEORY. pdf

Saint Augustine, His Philosophy The 8088 Years 27 The Matterhorn North Face, by T. Carruthers. Inheriting the future Earth (Make it Work! Science (Make-It-Work) Great Book of World War II Airplanes Easy everyday dishes The princeton review hyperlearning mcat science workbook Religion, order, and law Professional microsoft sql server 2014 reporting services Guillaume de Machaut and Reims Inducible raptor and rictor knockout mouse embryonic fibroblasts Nadine Cybulski, Vittoria Zinzalla, and Senses at the seashore Medicine as a profession Foundations of Quantum Chromodynamics The Art of the Magic Striptease Old mutual bursary application form 2018 Memoir of the life and episcopate of Edward Feild, D.D. bishop of Newfoundland, 1844-1876 A girl and the devil Border at Sault Ste. Marie Etowah County ghosts. Nitrogen and pesticide concentrations in an agricultural basin in north-central Connecticut Working your way through WordStar The Call of the Wild And Selected Short Stories (Scholastic Classics) Privilege power and difference chapter 4 Web page design using html and css codes New trends in astronomy teaching Heart of the dragonfly Polynuclear aromatic compounds Ilford multigrade papers a manual for the darkroom The law and business administration in canada 14th edition 7.0. outcomes and achievements Soils and Land-Use Issues in the MacKenzie Hill Country (Landcare Research Science Series,) Hydrologic conditions and budgets for the Black Hills of South Dakota, through water year 1998 Memorial of the semi-centennial celebration of the founding of the theological seminary at Andover Introduction to parasitology book The Indian Buddhist Iconography Doctor Therne and Long Odds (Large Print Edition) Give up or toughen up-react or respond Twentieth century interpretations of Much ado about nothing