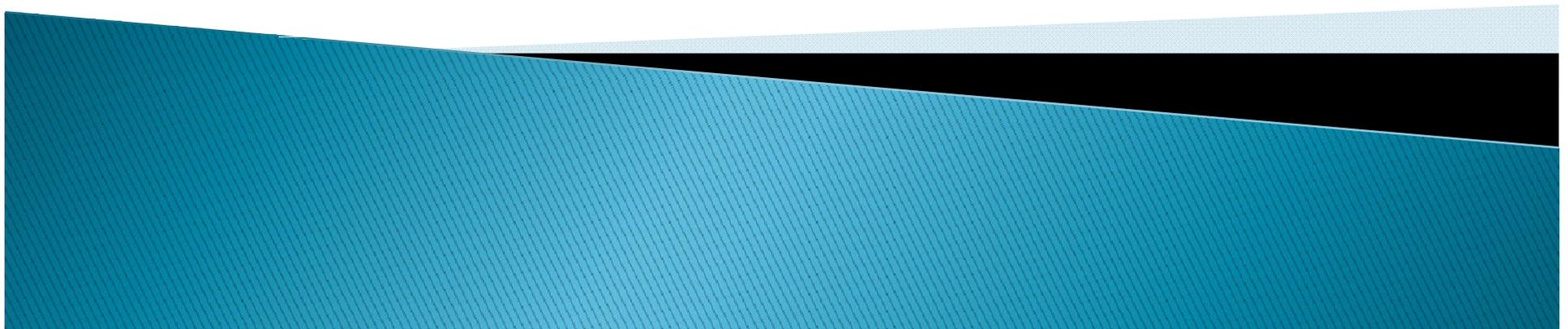


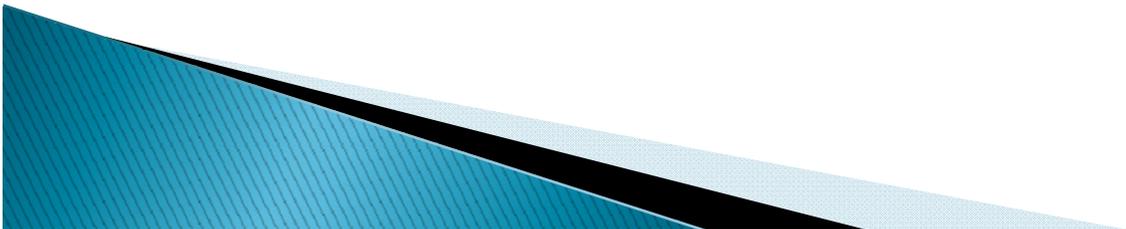
# International Trade

Professor Hisahiro Naito  
College of International Studies  
University of Tsukuba



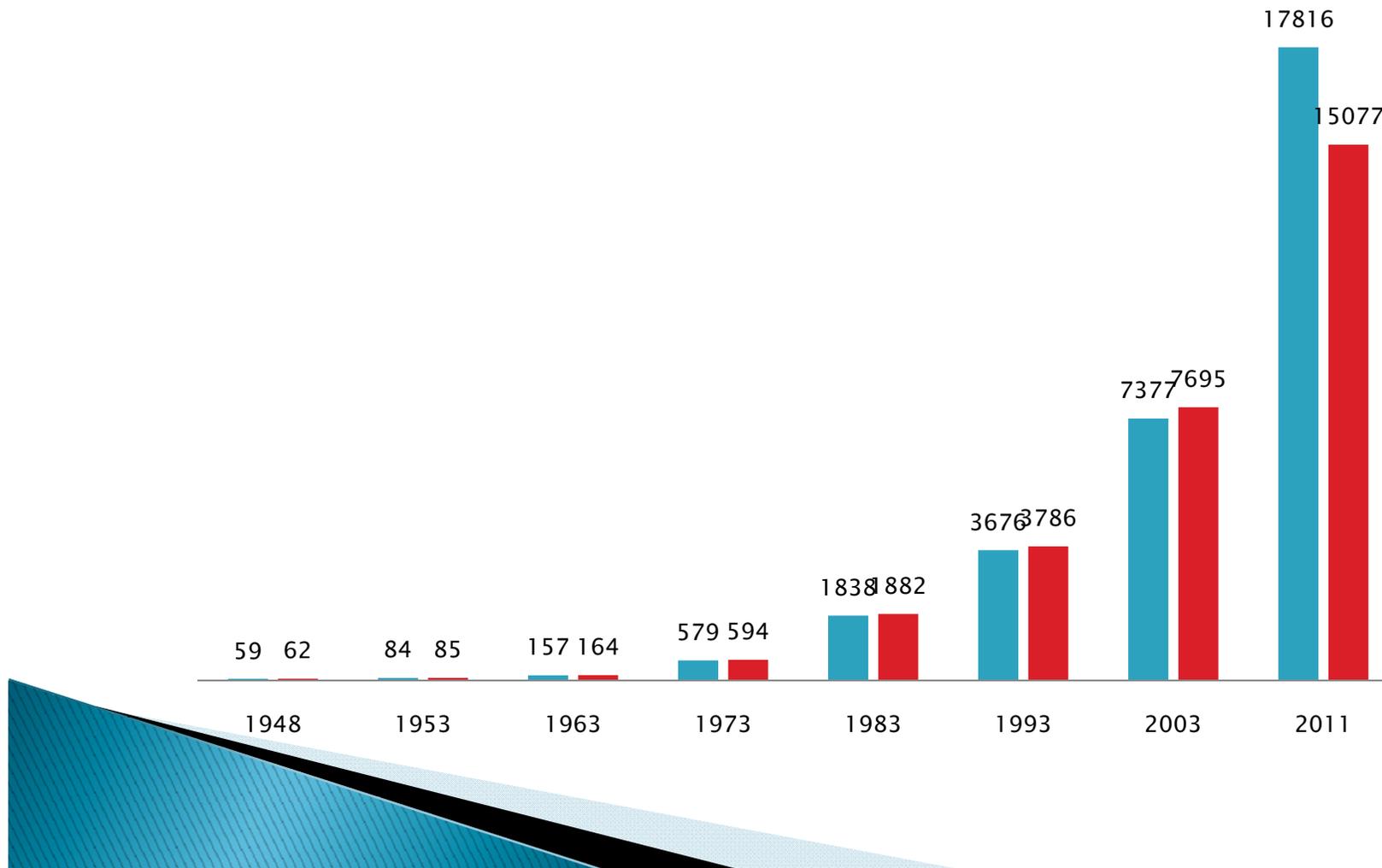
# Overview of International Trade

- ▶ International Trade grew with a surprising pace in both export and import in the past 50 years



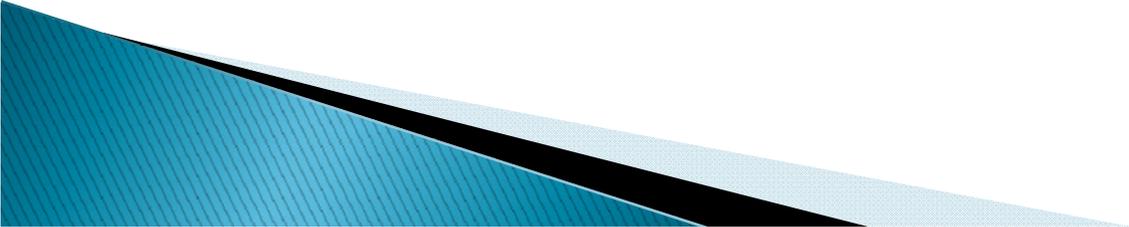
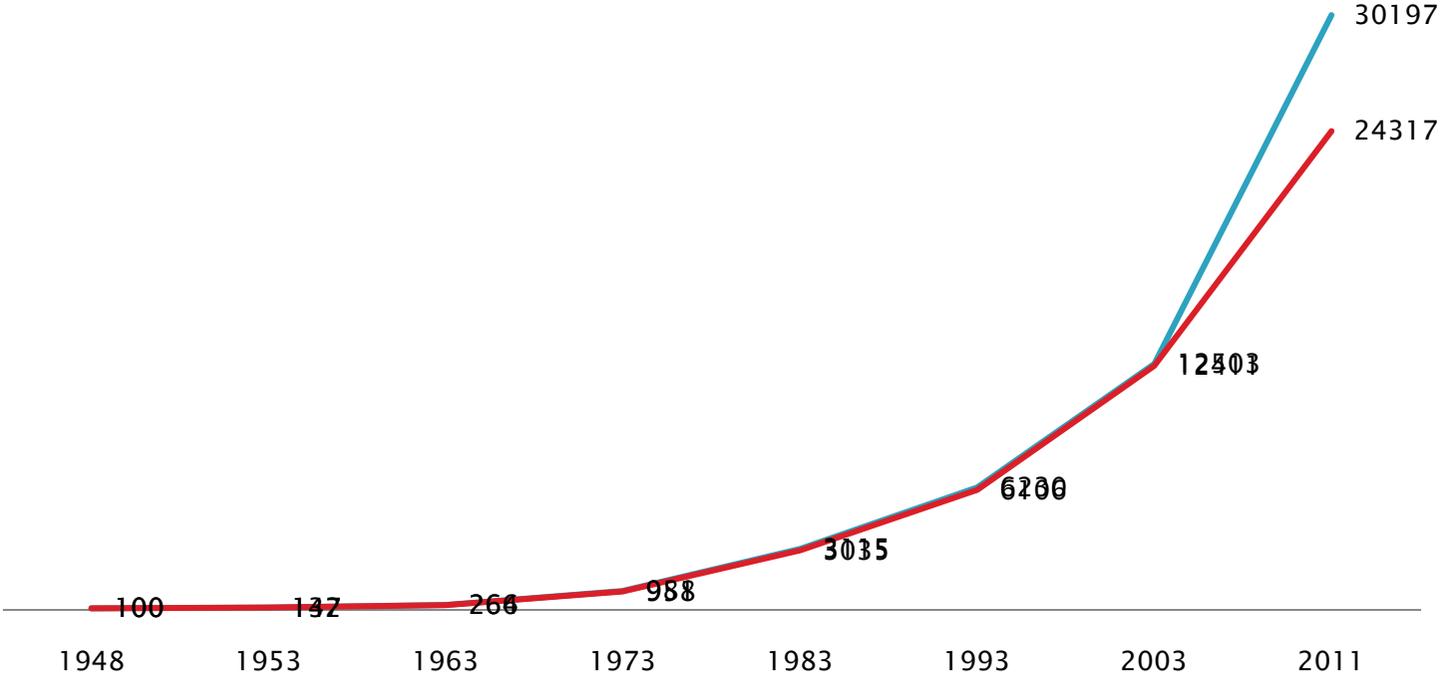
# world trade development from 1948–2011 (US billion dollars)

■ export ■ import



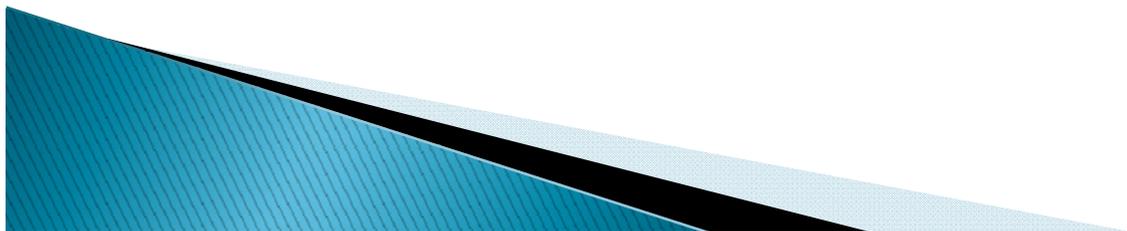
# World trade development 1948=100%

— export — import



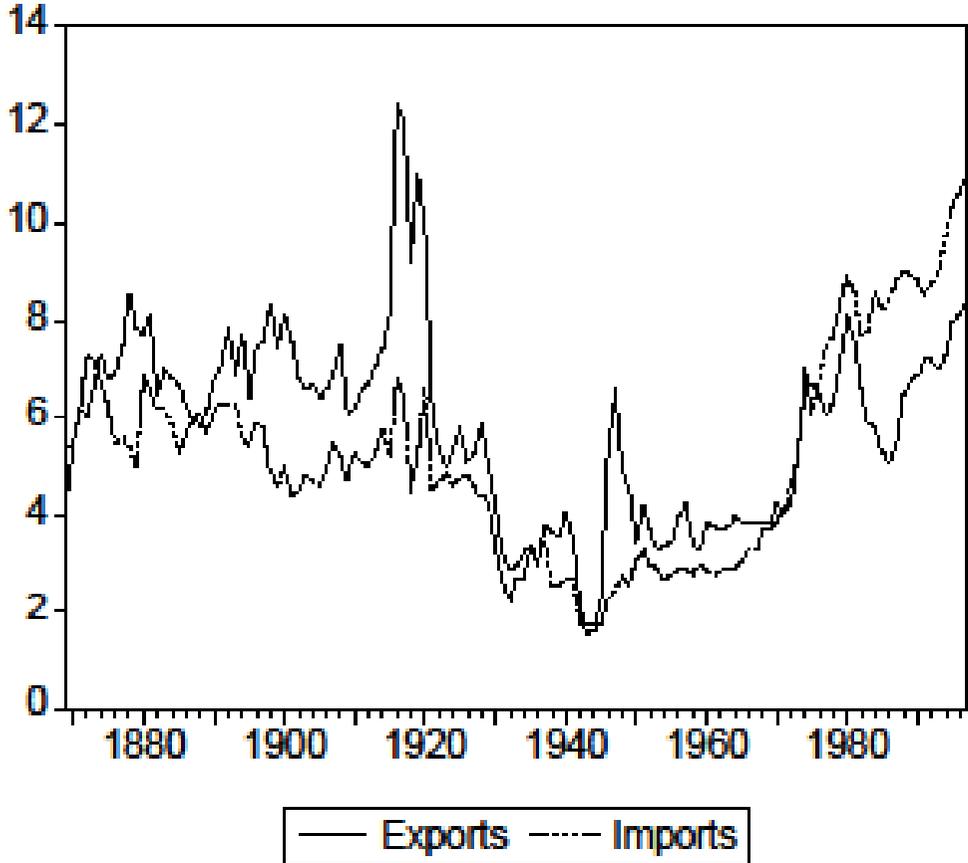
# A look from a longer term

- ▶ A closer look from the point of the long term will give a different view
- ▶ WWII drastically reduced the world trade
- ▶ Before WWII, the world is quite integrated (as almost as today)
- ▶ The following is based on figure from Bord, Eichengreen and Irwin (1997)



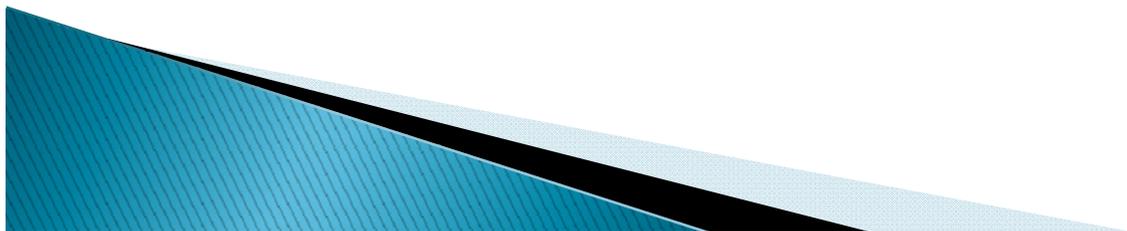
# US Merchandise Trade in the past 100 years

U.S. Merchandise Trade as Percent of GNP  
1869 - 1997



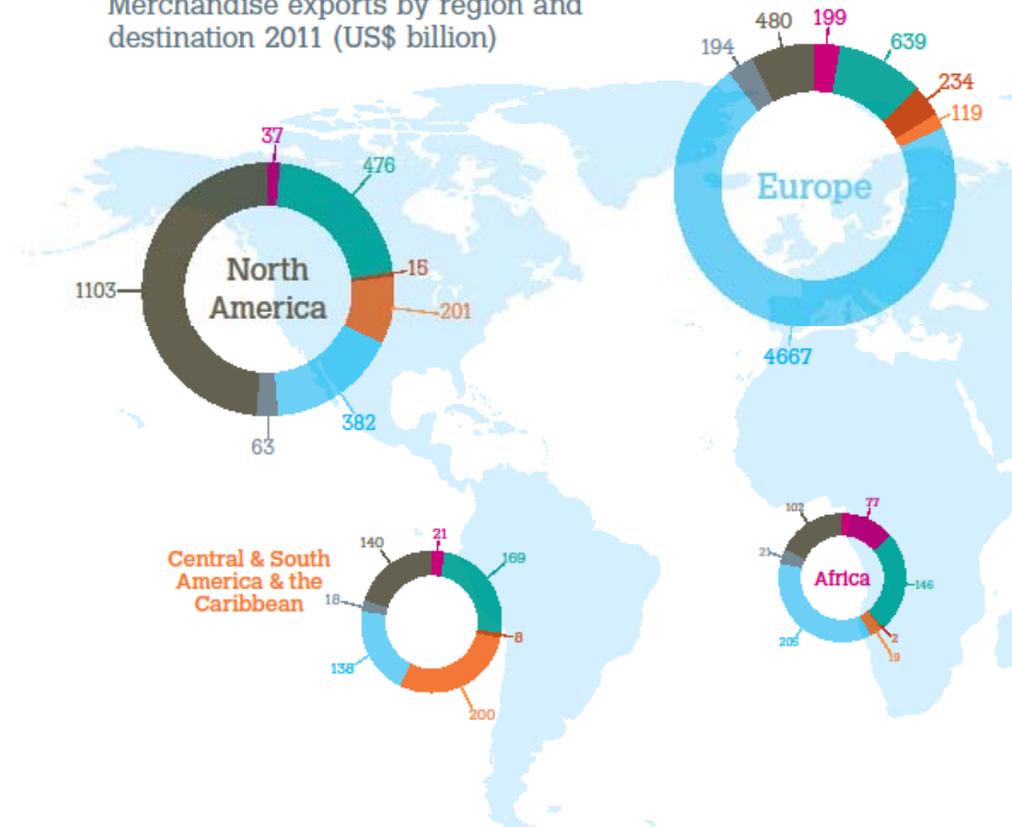
# How is the world trading?

- ▶ The following PDF is from WTO documents and Data
- ▶ First, it is not like that each country is trading with every country equally.
- ▶ The trade partners of each country are geographically unevenly located.



## Merchandise trade flows within regions outperform flows between regions

Merchandise exports by region and destination 2011 (US\$ billion)



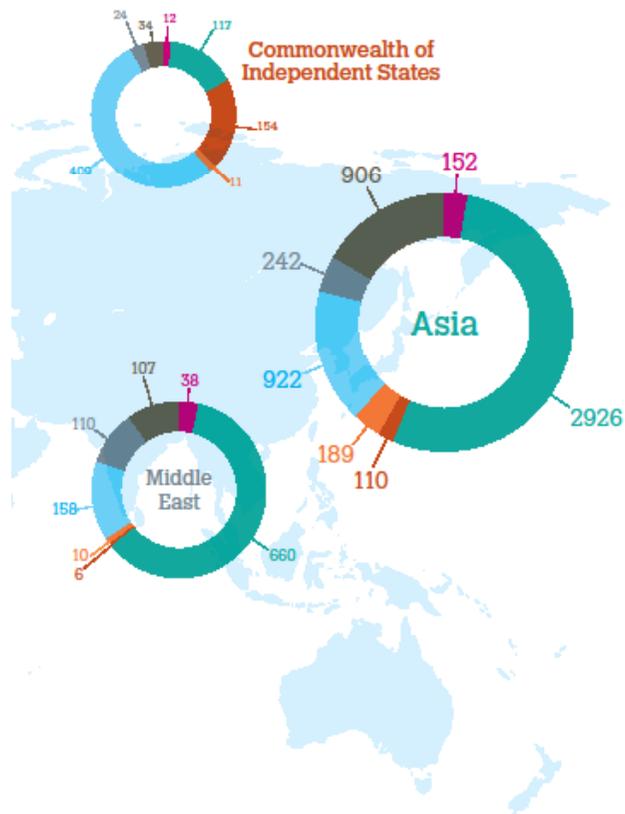
**24%** of Central and South America exports sent to North America in 2011

**50%** of total world exports are from North America and Europe

Where to find more:  
Tables L4 and A10

Download the data:  
[www.wto.org/statistics](http://www.wto.org/statistics)

World Trade Organization  
International Trade Statistics 2012



**53%** of Middle East products were exported to Asia in 2011

- Trade within regions remains strong in North America, Europe and Asia. Europe has the highest level of intra-regional trade, with 71 per cent of its exports remaining within Europe in 2011. A total of 53 per cent of Asian trade is exported to Asian countries while nearly 48 per cent of North America's exports are to members of the North American Free Trade Agreement.
- In South and Central America, 27 per cent of exports went to other countries in the region in 2011. In the Commonwealth of Independent States (CIS), Africa and the Middle East, the totals were 20 per cent, 13 per cent and 9 per cent respectively.
- Africa's main destination market for export is the European Union, followed by Asia and North America. A little over half of CIS exports go to Europe and the Middle East's main market is still Asia. Less than a quarter of South and Central America's total exports go to North America and 22 per cent go to Asia.



All figures are in US\$ billion

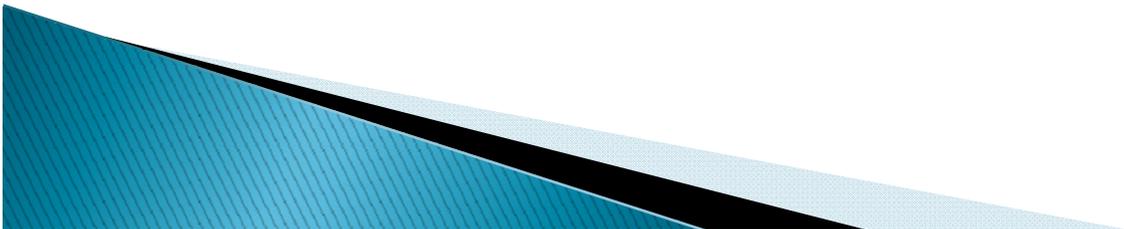
# Cont'

- ▶ In other words, each region is trading within each region heavily.



# Recent trade trend

- ▶ Please see the next figure



## Moderate recovery for merchandise exports in 2011

- World merchandise exports increased by 5 per cent in volume terms in 2011. World gross domestic product (GDP) expanded by 2.4 per cent.
- Since 2005, world merchandise trade has grown by 3.7 per cent annually while GDP has risen by 2.3 per cent.
- Some of the growth in merchandise trade is due to trade in intermediate products that criss-cross national borders before being processed into final products.

### Volume of world merchandise exports and gross domestic product, 2005-2011



6%

Asia's merchandise export volumes grew by 6% in 2011

5%

World merchandise import volumes grew by 5% in 2011



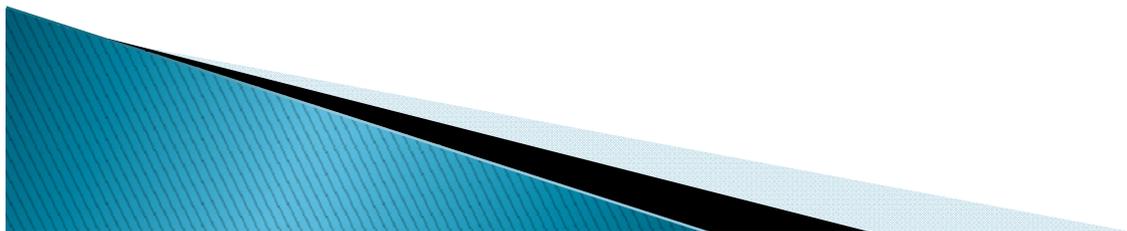
Where to find more:  
Table I.2



Download the data:  
[www.wto.org/statistics](http://www.wto.org/statistics)

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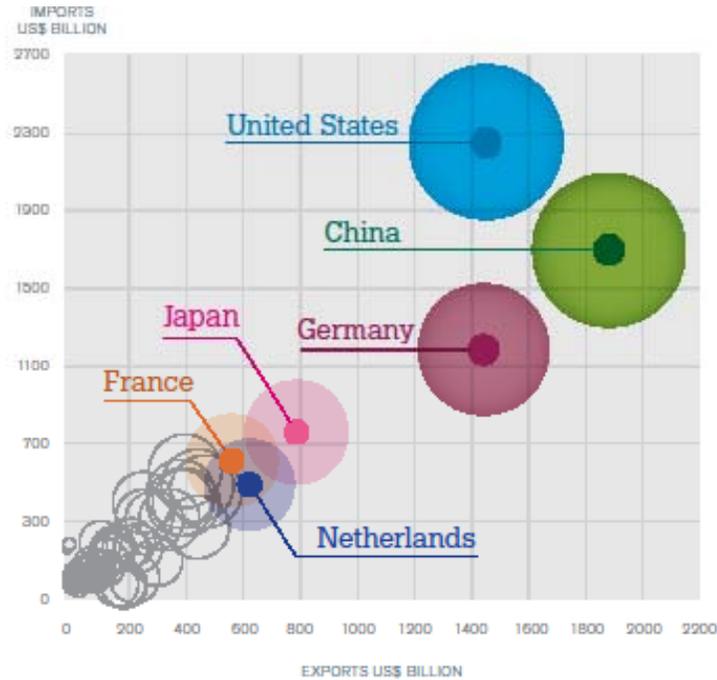
- ▶ In the world's economy, US, China, Germany are top trading countries



of its GDP.

- China and Germany rank second and third respectively in merchandise trade. Their trade surpluses were US\$ 155 billion and US\$ 218 billion respectively in 2011, 2.1 per cent and 6.1 per cent of their GDP.
- In contrast to 2010, Japan incurred a trade deficit in 2011, amounting to US\$ 32 billion. With imports and exports totalling US\$ 1,678 billion, it remains the fourth-largest trader in the world.

## Leading economies of merchandise trade, 2011



40%

Germany's trade surplus is 40% higher than China's

The United States was the world's biggest merchandise trader in 2011

US\$ 1,480 bn  
Exports

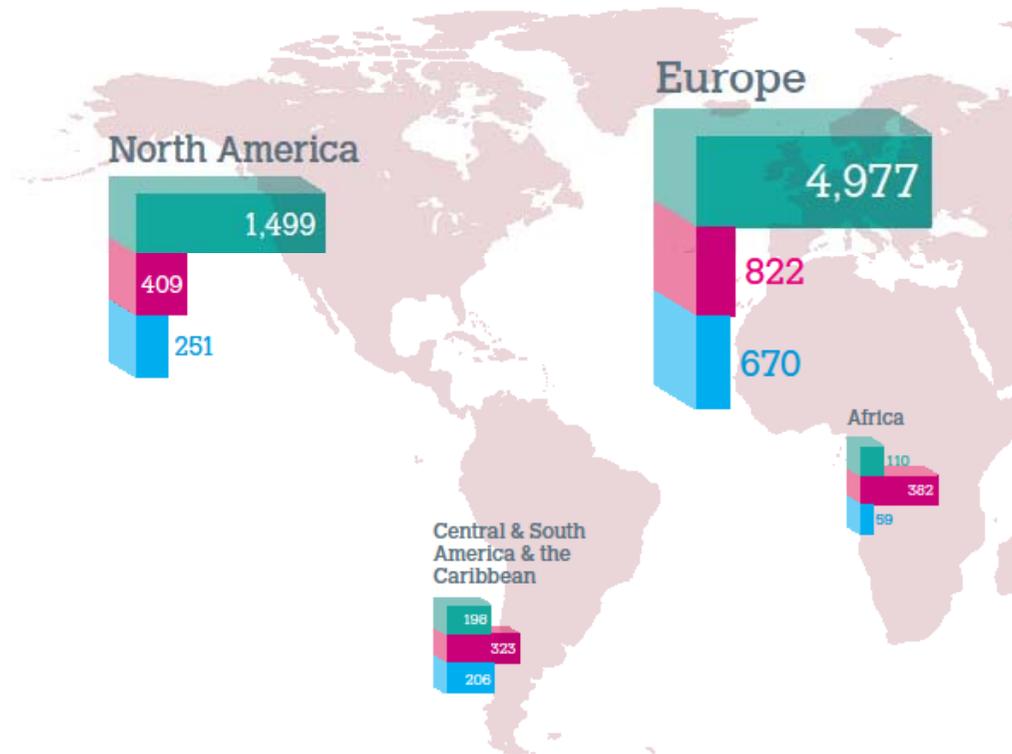
US\$ 2,266 bn  
Imports

Where to find more:  
Tables A6 and A7

Download the data:  
[www.wto.org/statistics](http://www.wto.org/statistics)

## Europe's exports of manufactured goods reach nearly US\$ 5 trillion

Merchandise exports by region and product 2011 (US\$ billion)



**15%** increase in Europe's exports of manufactured goods in 2011

Where to find more:  
Table A10

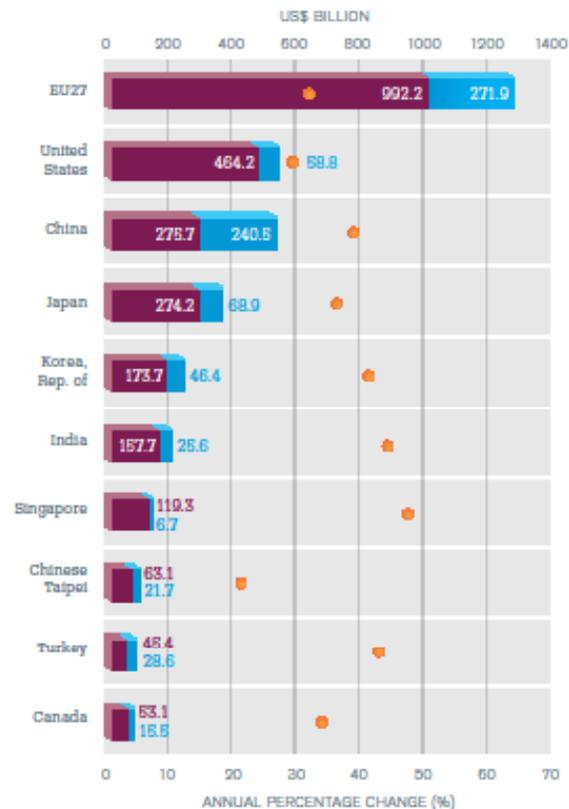
Download the data:  
[www.wto.org/statistics](http://www.wto.org/statistics)

World Trade Organization  
International Trade Statistics 2012

## China overtakes Japan as third-largest importer of fuel

- The European Union's imports of fuels and mining products increased by 32 per cent in 2011 to US\$ 1.3 trillion. Europe supplied 40 per cent of the EU's imports while the CIS, Africa and the Middle East provided 29 per cent, 12 per cent and 10 per cent respectively. The United States' imports of fuels increased by 28 per cent to US\$ 464 billion but this still falls short of the pre-crisis value of US\$ 502 billion in 2008.
- China is the second-largest importer after the European Union of mining products. Its imports increased by 29 per cent in 2011 to US\$ 240 billion, while those of the European Union increased by 20 per cent to US\$ 340 billion.

### Major importers of fuels and mining products, 2011



US\$ 240 bn

China's imports of mining products in 2011

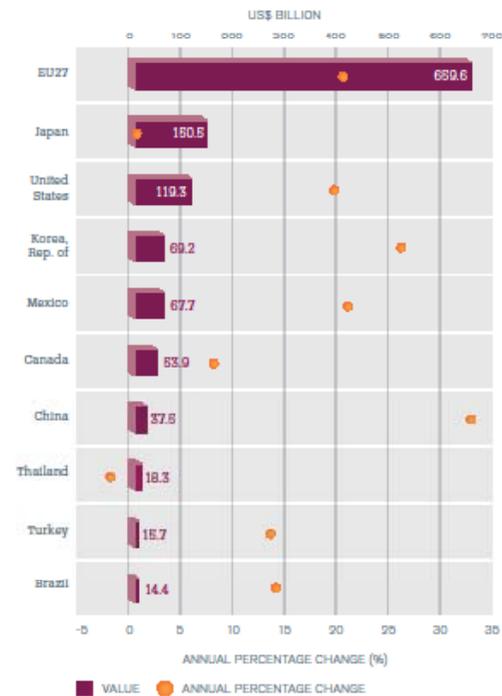
31%

share of EU in world fuel imports in 2011

## EU dominates world exports of automotive products

- More than half (51 per cent) of world exports of automotive products originate from the European Union. EU exports increased by 21 per cent in 2011, exceeding the world average of 17 per cent.
- The Republic of Korea overtook Mexico as the fourth-largest exporter of automotive products in 2011. Exports of automotive products stagnated in Japan as a result of a massive earthquake and contracted by 2 per cent in Thailand due to flooding.

### Major exporters of automotive products, 2011



**51%**  
share of EU exports  
in world exports of  
automotive products

**34%**  
increase in China's  
exports of automotive  
products in 2011

Where to find more:  
Table II.59

Download the data:  
[www.wto.org/statistics](http://www.wto.org/statistics)

## Clothing exports register strongest growth since 2000

- World exports of textiles and clothing grew by 17 per cent in 2011. The top ten exporters each registered 13 per cent growth or more.
- Bangladesh recorded the highest increase (27 per cent) while the lowest among the top ten was recorded by the United States with 13 per cent.
- The order for the top ten exporters remains the same as in 2010. China was the leading exporter of textiles and clothing in 2011 with a 32 per cent share in world exports of textiles and 37 per cent in clothing. The European Union and the United States are the major markets for clothing, accounting for 45 per cent and 21 per cent respectively of world imports.

### Major exporters of textiles & clothing, 2011



20%

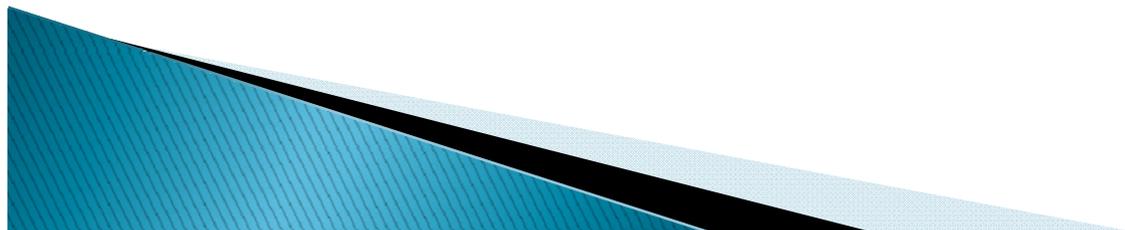
increase in China's exports of textiles and clothing in 2011

US\$ 706 bn

world exports of textiles and clothing in 2011

# Trade pattern of the world(percent)

Origin	Destination								World	
	North America	South and Central America	Europe	CIS	Africa	Middle East	Asia			
Share of regional trade flows in each region's total merchandise exports										
World	16.4	4.2	38.6	3.0	3.0	3.8	28.8	100.0		
North America	48.3	8.8	16.7	0.7	1.6	2.8	20.9	100.0		
South and Central Am	24.2	26.7	18.3	1.1	2.8	2.4	22.5	100.0		
Europe	7.3	1.8	70.6	3.5	3.0	2.9	9.7	100.0		
Commonwealth of Inc	5.5	1.4	51.8	19.5	1.6	3.0	14.8	100.0		
Africa	17.1	3.3	34.5	0.3	13.0	3.6	24.5	100.0		
Middle East	8.6	0.8	12.6	0.5	3.0	8.8	52.8	100.0		
Asia	16.4	3.4	16.7	2.0	2.8	4.4	52.8	100.0		



# Leading Exporter and Importer

(Billion dollars and percentage)

Rank	Exporters	Value	Share	Rank	Importers	Value	Share
1	China	1898	10.4	1	United States	2266	12.3
2	United States	1480	8.1	2	China	1743	9.5
3	Germany	1472	8.1	3	Germany	1254	6.8
4	Japan	823	4.5	4	Japan	855	4.6
5	Netherlands	661	3.6	5	France	714	3.9
6	France	596	3.3	6	United Kingdom	638	3.5
7	Korea, Republic of	555	3.0	7	Netherlands	599	3.2
8	Italy	523	2.9	8	Italy	557	3.0
9	Russian Federation	522	2.9	9	Korea, Republic of	524	2.8
10	Belgium	477	2.6	10	Hong Kong, China	511	2.8
					retained imports	130	0.7
11	United Kingdom	473	2.6	11	Canada	463	2.5
12	Hong Kong, China	456	2.5	12	India	463	2.5
	domestic exports	17	0.1				
	re-exports	439	2.4				
13	Canada	452	2.5	13	Belgium	461	2.5
14	Singapore	410	2.2	14	Spain	374	2.0
	domestic exports	224	1.2				
	re-exports	186	1.0	15	Singapore	366	2.0
15	Saudi Arabia, Kingdom of	365	2.0		retained imports	180	1.0
16	Mexico	350	1.9	16	Mexico	361	2.0

# Trading with Japan( by region)

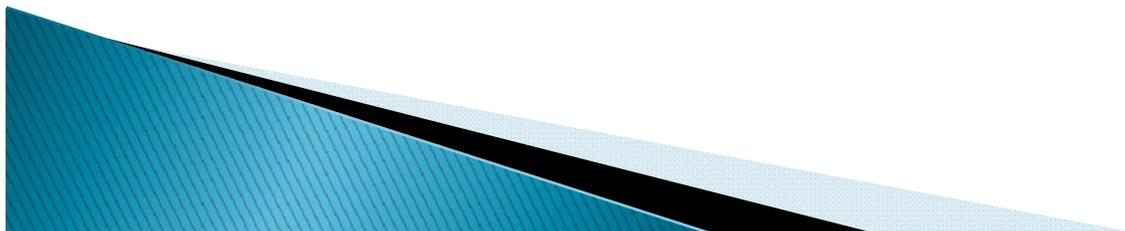
Exports			Imports			
Destination	Value		Origin	Value	Share	
	2011	2011			2011	2005
Region	Region					
World	822564	100.0	World	854998	100.0	100.0
Asia	482969	58.7	Asia	442550	49.9	51.8
North America	146824	17.8	Middle East	161154	16.9	18.8
Europe	109819	13.4	North America	93078	14.9	10.9
South and Central America	17843	2.2	Europe	91331	12.7	10.7
Middle East	24562	3.0	South and Central America	29275	2.4	3.4
Africa	9899	1.2	CIS	20005	1.3	2.3
CIS	13760	1.7	Africa	17106	1.9	2.0

# Trading with Japan(by economy)

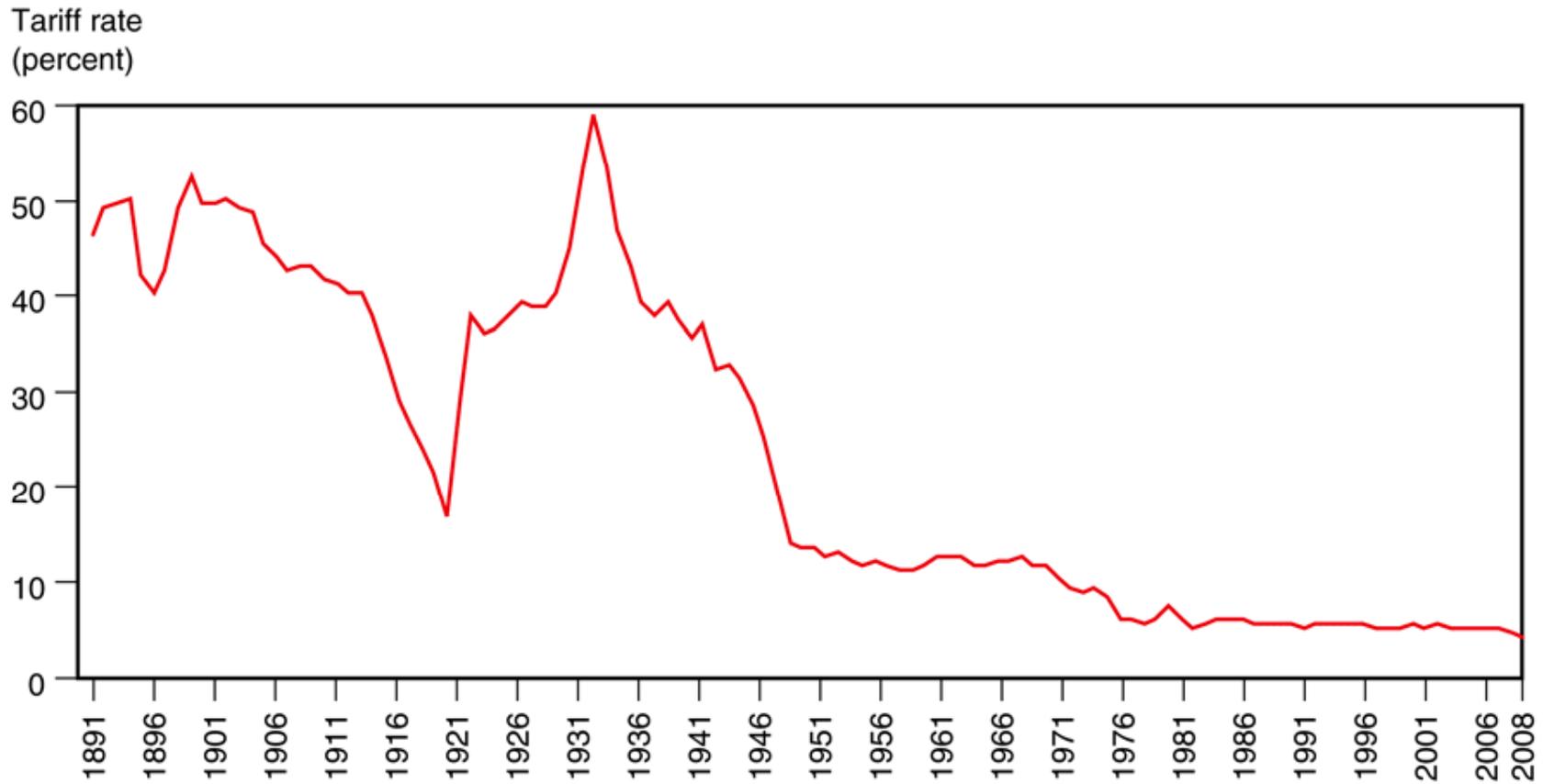
Exports			Imports		
Destination	Value		Origin	Value	
	2011	2011		2011	2011
Economy			Economy		
China	162062	19.7	China	183818	21.5
United States	127679	15.5	European Union	80228	9.4
European Union	95909	11.7	United States	76141	8.9
Korea, Republic	66167	8.0	Australia	56472	6.6
Taipei, Chinese	50961	6.2	Saudi Arabia, K	50514	5.9
<b>Above 5</b>	<b>502778</b>	<b>61.1</b>	<b>Above 5</b>	<b>447173</b>	<b>52.3</b>
Hong Kong, Chi	42954	5.2	United Arab Em	42909	5.0
Thailand	37531	4.6	Korea, Republic	39798	4.7
Singapore	27265	3.3	Indonesia	34061	4.0
Malaysia	18796	2.3	Malaysia	30463	3.6

# International Negotiations of Trade Policy

- ▶ After rising sharply at the beginning of the 1930s, the average U.S. tariff rate has decreased substantially from the mid-1930s to 1998.
- ▶ Since 1944, much of the reduction in tariffs and other trade restrictions has come about through international negotiations.
  - The General Agreement of Tariffs and Trade was begun in 1947 as a provisional international agreement and was replaced by a more formal international institution called the World Trade Organization in 1995.

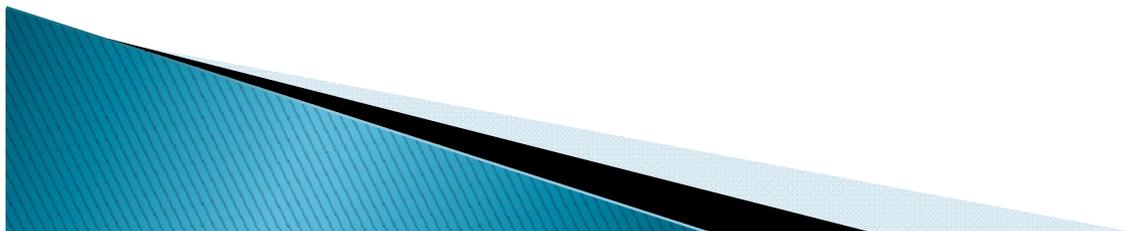


# Historical the U.S. Tariff Rate



# International Trade Agreements: A Brief History

- ▶ In 1930, the United States passed a remarkably irresponsible tariff law, the Smoot–Hawley Act.
  - Tariff rates rose steeply and U.S. trade fell sharply.
- ▶ Initial attempts to reduce tariff rates were undertaken through bilateral trade negotiations:
  - U.S. offered to lower tariffs on some imports if another country would lower its tariffs on some U.S. exports.
- ▶ Bilateral negotiations, however, do not take full advantage of international coordination.
  - Benefits can “spill over” to countries that have not made any concessions.



# GATT and Round

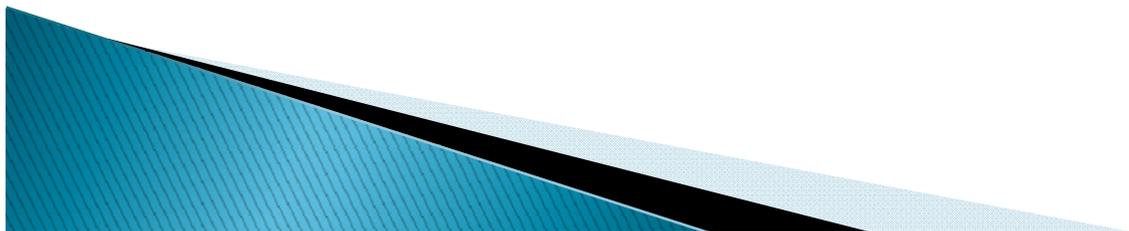
- In 1947, a group of 23 countries began trade negotiations under a provisional set of rules that became known as the General Agreement on Tariffs and Trade, or GATT.

# GATT and Round

v · d · e <span style="float: right;">[hide]</span>					
GATT and WTO trade rounds <sup>[2]</sup>					
Name	Start	Duration	Countries	Subjects covered	Achievements
<b>Geneva</b>	April 1947	7 months	23	Tariffs	Signing of GATT, 45,000 tariff concessions affecting \$10 billion of trade
<b>Annecey</b>	April 1949	5 months	13	Tariffs	Countries exchanged some 5,000 tariff concessions
<b>Torquay</b>	September 1950	8 months	38	Tariffs	Countries exchanged some 8,700 tariff concessions, cutting the 1948 tariff levels by 25%
<b>Geneva II</b>	January 1956	5 months	26	Tariffs, admission of Japan	\$2.5 billion in tariff reductions
<b>Dillon</b>	September 1960	11 months	26	Tariffs	Tariff concessions worth \$4.9 billion of world trade
<b>Kennedy</b>	May 1964	37 months	62	Tariffs, <a href="#">Anti-dumping</a>	Tariff concessions worth \$40 billion of world trade
<b>Tokyo</b>	September 1973	74 months	102	Tariffs, non-tariff measures, "framework" agreements	Tariff reductions worth more than \$300 billion dollars achieved
<b>Uruguay</b>	September 1986	87 months	123	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc	The round led to the creation of WTO, and extended the range of trade negotiations, leading to major reductions in tariffs (about 40%) and agricultural subsidies, an agreement to allow full access for <b>textiles</b> and clothing from developing countries, and an extension of intellectual property rights.
<b>Doha</b>	November 2001	?	159	Tariffs, non-tariff measures, agriculture, labor standards, environment, competition, investment, transparency, patents etc	The round is not yet concluded.

# WTO

- ▶ In 1995, the World Trade Organization, or **WTO**, was established as a formal organization for implementing multilateral trade negotiations (and policing them).



# World Trade Organization

- WTO negotiations address trade restrictions in at least 3 ways:
  1. Reducing tariff rates through multilateral negotiations.
  2. **Binding tariff rates:** a tariff is “bound” by having the imposing country agree not to raise it in the future.

# World Trade Organization (cont.)

3. **Eliminating nontariff barriers:** quotas and export subsidies are changed to tariffs because the costs of tariff protection are more apparent and easier to negotiate.
  - Subsidies for agricultural exports are an exception.
  - Exceptions are also allowed for “market disruptions” caused by a surge in imports.

# World Trade Organization (cont.)

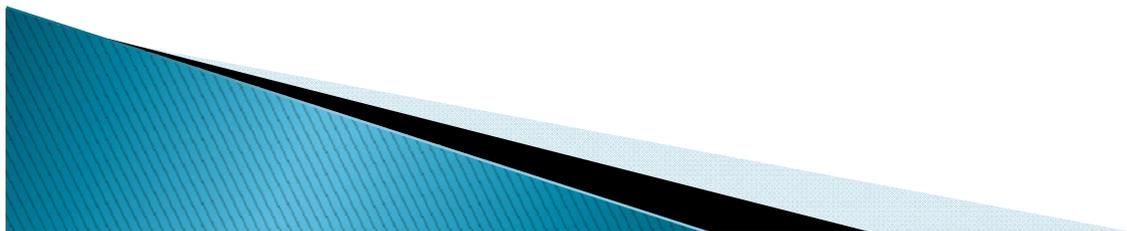
- ▶ The World Trade Organization is based on a number of agreements:
  - *General Agreement on Tariffs and Trade*: covers trade in goods.
  - *General Agreement on Tariffs and Services*: covers trade in services (ex., insurance, consulting, legal services, banking).
  - *Agreement on Trade-Related Aspects of Intellectual Property*: covers international property rights (ex., patents and copyrights).

# World Trade Organization (cont.)

- *The dispute settlement procedure:* a formal procedure where countries in a trade dispute can bring their case to a panel of WTO experts to rule upon.
  - The panel decides whether member countries are breaking their agreements.
  - A country that refuses to adhere to the panel's decision may be punished by the WTO allowing other countries to impose trade restrictions on its exports.

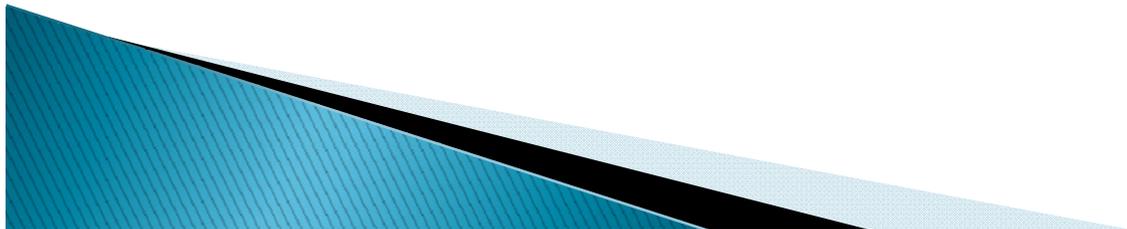
# World Trade Organization (cont.)

- ▶ The GATT multilateral negotiations in the Uruguay Round, ratified in 1994:
  - agreed that all quantitative restrictions (ex., quotas) on trade in textiles and clothing as previously specified in the Multi-Fiber Agreement were to be eliminated by 2005.
- ▶ Quotas on imports from China had to be temporarily reimposed due to surge in Chinese clothing exports when MFA expired.



# World Trade Organization (cont.)

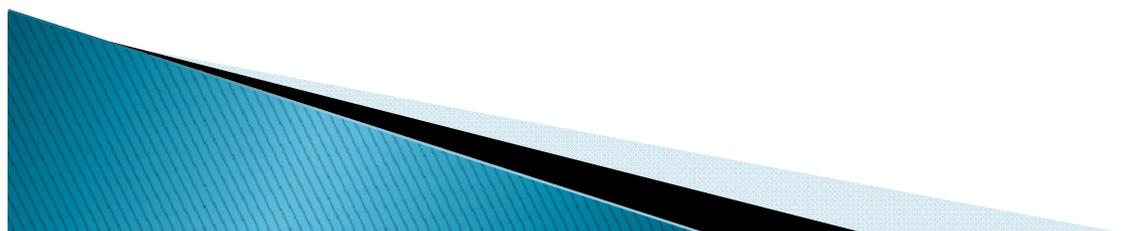
- ▶ In 2001, a new round of negotiations was started in Doha, Qatar, but these negotiations have not yet produced an agreement.
  - Most of the remaining forms of protection are in agriculture, textiles, and clothing—industries that are politically well organized.



# Percentage Distribution of Potential Gains from Free Trade

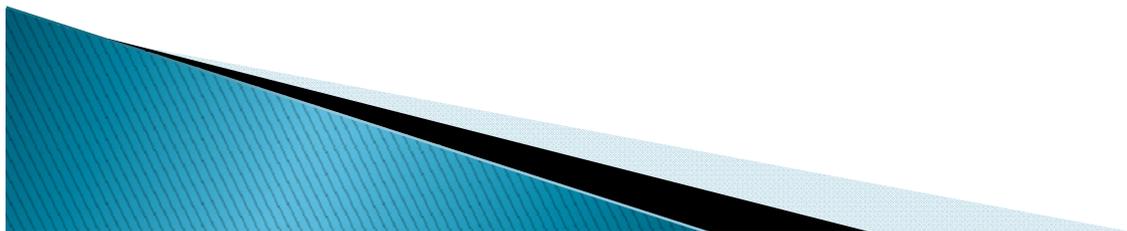
<b>TABLE 10-4 Percentage Distribution of Potential Gains from Free Trade</b>				
<b>Economy</b>	<b>Full Liberalization of:</b>			
	<b>Agriculture and Food</b>	<b>Textiles and Clothing</b>	<b>Other Merchandise</b>	<b>All Goods</b>
Developed	46	6	3	55
Developing	17	8	20	45
All	63	14	23	100

**Source:** Kym Anderson and Will Martin, "Agricultural Trade Reform and the Doha Agenda," *The World Economy* 28 (September 2005), pp. 1301–1327.



# Do Agricultural Subsidies in Rich Countries Hurt Poor Countries?

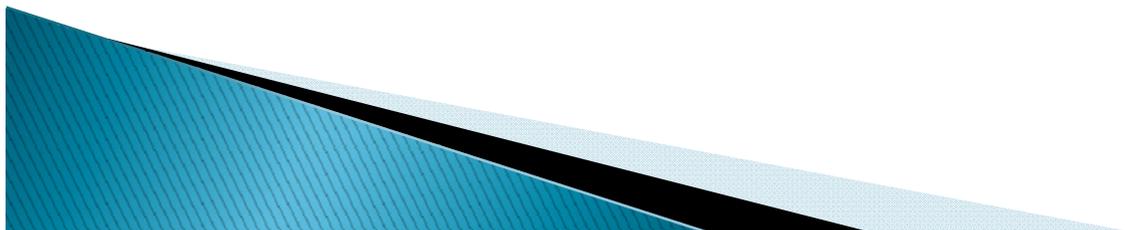
- ▶ We will learn that subsidies lower the *world* price of products.
  - Since importing countries benefit from cheaper food, why would poor countries want rich countries to remove their agricultural subsidies?
  - Subsidies harm farmers in poor countries who compete with farmers in rich countries.



# Percentage Gains in Income under Two Doha Scenarios

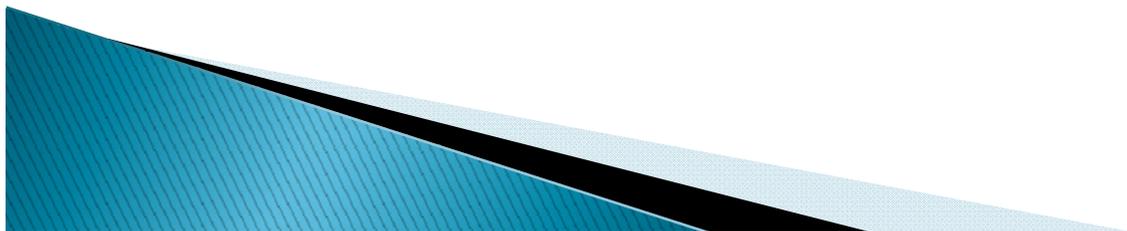
<b>TABLE 10-5 Percentage Gains in Income under Two Doha Scenarios</b>		
	<b>Ambitious</b>	<b>Less Ambitious</b>
High-income	0.20	0.05
Middle-income	0.10	0.00
China	-0.02	-0.05
Low-income	0.05	0.01
World	0.18	0.04

**Source:** See Table 10-4.



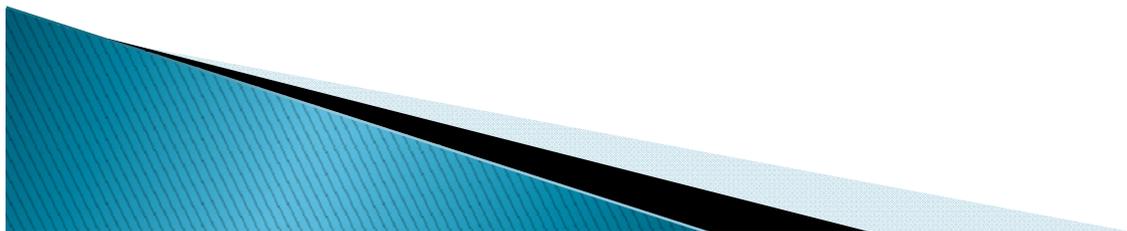
# Preferential Trading Agreements

- ▶ Preferential trading agreements are trade agreements between countries in which they lower tariffs for each other but not for the rest of the world.
- ▶ Under the WTO, such discriminatory trade policies are generally not allowed:
  - Each country in the WTO promises that all countries will pay tariffs no higher than the nation that pays the lowest: called the “most favored nation” (MFN) principle.
  - An exception is allowed only if the lowest tariff rate is set at zero.



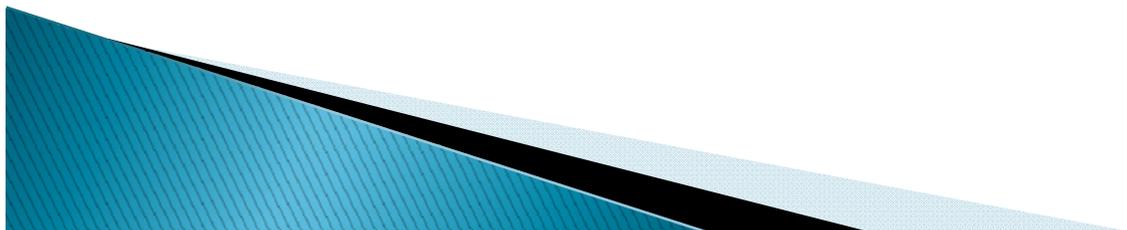
## Preferential Trading Agreements (cont.)

- ▶ There are two types of preferential trading agreements in which tariff rates are set at or near zero:
  1. **A free trade area:** an agreement that allows free trade among members, but each member can have its own trade policy towards non-member countries.
    - An example is the North America Free Trade Agreement (NAFTA).



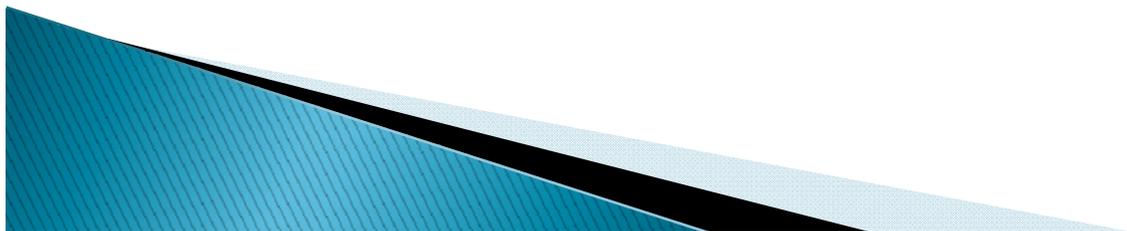
## Preferential Trading Agreements (cont.)

2. A **customs union**: an agreement that allows free trade among members and requires a common external trade policy towards non-member countries.
  - An example is the European Union.



## Preferential Trading Agreements (cont.)

- ▶ Are preferential trading agreements necessarily good for national welfare?
- ▶ No, it is possible that national welfare decreases under a preferential trading agreement.
- ▶ How? Rather than gaining tariff revenue from inexpensive imports from world markets, a country may import expensive products from member countries but not gain any tariff revenue.



## Preferential Trading Agreements (cont.)

- ▶ Preferential trading agreements increase national welfare when new trade is created, but not when existing trade from the outside world is diverted to trade with member countries.
- ▶ Trade creation
  - occurs when high-cost domestic production is replaced by *low-cost imports from other members*.
- ▶ Trade diversion
  - occurs when low-cost imports from nonmembers are diverted to *high-cost imports from member nations*.

