

# International Trade Policy

5<sup>th</sup> module, 2017-2018

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## Course information

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**Course Website:** my.nes.ru

**Instructor's Office Hours:** TBA

**Class Time:** TBA

**Room Number:** TBA

**TAs:** TBA

## Course description

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**The objective of this course:** the course is designed to provide students with the ability to conduct an economic analysis of policy issues related to international trade.

**The learning goal:** at the end of the course the students will be able to analyze the economic implications of various instruments of trade policy, trace the origins of various processes of international (global or regional) economic integration, and to discuss their implications for the international patterns of product specialization.

**Course methodology:** the course begins with a discussion of the effects of various trade policy instruments and includes applications of several cases. It proceeds to a discussion of the arguments for and against protection and managed trade. Special attention is paid to issues of trade policy and political economy of trade protection. We analyze the rationale for a World Trade Organization, custom unions and actual experience, and whether preferential trade agreements undermine or promote the multilateral trading system.

**The following methods and forms of study** are used in the course

- lectures (2 lectures per week)
- seminars (1 per week)
- written home assignments (2-3 per course)
- presentation and discussion of a trade policy issue

## Course requirements, grading, and attendance policies

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The prerequisite for the course is "International Trade".

### **Presentation on trade policy issue**

Group of 3-4 (tbc) students prepares and argues their position on the pre-approved trade policy topic. The rest of class and the audience will challenge their arguments. Both the presentation and Q&A will be accounted for the grade.

Possible topics

- Russia and WTO
  - Russia and Eurasian Economic Space
  - Import substitution policy
- etc.

Important dates for presentation

- 4<sup>th</sup> week of the module – the topic of the presentation should be approved
- Last week of the module – presentation

Students sit final exam. The final grade for the course consists of 20% of the grade for the home assignments, 20% for presentation and discussion (conditional on the presence during presentation seminar) and of 60% of the grade for the end-of-term exams.

Participation in classes: less than 70% of lectures – no make up in case of failure on final exam.

Final exam format: closed book+ A4; 2 hours; exit – no; questions – yes.

### **Sample tasks for course evaluation**

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#### **Sample: topics of presentations in 2012-2013**

Liberalization of financial market

Ukraine and CU

Small country in PTA

Turkey and EU

WTO & Environment

Liberalization and employment

#### **Sample: Final exam, 2012-2013**

You have 2 hours. please, keep your answers brief and clear.

Necessary conditions for a satisfactory grade:

- 1) Positive points for three questions,
- 2) Sum of points bigger than 35.

Good luck!

#### **Problem 1. (20 points)**

Russia uses export taxes on several products. These are typically applied on raw material products, such as oil and gas. In this question, you are asked to examine the impacts of an export tax. Take the case of crude oil for example. Suppose that Russia is a small country on world markets for crude oil—that is, Russia is unable to affect the world export price of crude oil. Assume that crude oil for the domestic market and export market is homogeneous.

1. Draw a partial equilibrium diagram in which you show the impact of imposing an export tax. Show in terms of areas labeled on your diagram the changes in consumers' and producers' surplus and the changes in government revenues. Derive the change in welfare due to the export tax from areas of your diagram and provide the summary of the effects of the export tax on Russian economy.

2. Draw a relevant general equilibrium diagram for the analysis of export tax on crude oil. Indicate the changes in producers' income, consumers' utility, and governments' revenues. Be careful to specify in terms of what prices you measure the values.

**Problem 2. (40 points)**

In a trade dispute between Viet and Cina the government of Viet argues that Cina has hidden barriers to imports of rice from Viet. The rice industry is competitive in both countries and the economists agree that the current level of imports,  $m_F$ , is the equilibrium level under free trade. Nevertheless, the governments of the two countries have agreed that Cina will increase its imports of rice to  $\bar{m} > m_F$ .

To implement the agreement, trade experts propose to choose one of the following methods:

- (i) The government of Cina will buy  $\bar{m}$  units of rice in Viet and sell it at a competitive price in Cina;
  - (ii) The government of Cina will install an import subsidy that will raise imports to  $\bar{m}$  ;
  - (iii) The government of Cina will tax its producers of rice at a level that will lead to imports of  $\bar{m}$  units of rice.
- A) Which method is best for Viet?
  - B) Which method is best for Cina?
  - C) If producers of rice in Cina were to organize into a lobby group, what sort of policy would they seek to implement?

**Problem 3. (20 points)**

Discuss arguments for and against government intervention in trade

- A) in statics;
- B) in dynamics.

**Problem 4. (20 points)**

- A. In 2010 Russia created Customs Union with Kazakhstan and Belarus. Two years later Russia became WTO member. What is the relation between the current Common External Tariffs in CU and the maximum tariff rates Russia committed to according to accession package? Why?
- B. Currently Kazakhstan negotiates WTO accession conditions and it already finalized the tariff rate schedule which on average provides lower tariff protection than the current Common External Tariffs. How it might affect the Common External Tariff rates of CU and tariff protection of Russian economy after Kazakhstan enters WTO? Why? What is the current Russian proposal for WTO with regard to this issue?

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**Course materials**

**Required textbooks and materials**

There is no formal textbook for the course, I will refer in some cases to the following monographs and papers:

- Krugman, P., M. Obstfeld, M. Melitz, International Economics: Theory and Policy, Pearson Education, 2011 (KO)
- N. Vousden , The economics of protection, Cambridge University Press, 1990 (V)
- Feenstra R. (F), Advanced International Trade, 2004
- P. Krugman (K), Rethinking International Trade,
- R. Jones, P. Kenen, Handbook in International Economics, Vol. I (JK)
- G. Grossman, K. Rogoff, Handbook in International Economics, Vol. 3, North Holland, 1996 (GR)
- Gopinath, G., E. Helpman and K. Rogoff (eds.), Handbook of International Economics, Vol. IV, (Amsterdam, North Holland), 2-14 (HB4)
- E. Helpman and P. Krugman (HK) Trade policy and market structure, MIT Press, 1989 (HK)
- M. Morkre and D. Tarr (MT) (1980) The Effects of Restrictions on United States Imports: Five Case Studies and Theory, Bureau of Economics Report to the Federal Trade Commission, Washington, D.C.: U.S. Government Printing Office, June, 1980
- Bernard, Jensen, Redding, Schott (2011), "The empirics of firm heterogeneity and international trade", NBER WP17627
- Costinot, Rodríguez-Clare (2013) "Trade Theory with Numbers: Quantifying the Consequences of Globalization", in Gopinath, Helpman, Rogoff (eds.) Handbook of International Economics, vol. IV, forthcoming
- Bagwell, Staiger (2010) "The World Trade Organization: Theory and Practice", Annual Review of Economics, 2:223-56

## **Course contents and additional materials**

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### **Pareto Gains from Trade**

- Dixit, Avinash and Victor Norman, Chapter 3, pp. 74-81.
- Akerlof, George, Andrew Rose, Janet Yellen and Helga Hessenius, "East Germany in from the Cold: The Economic Aftermath of Currency Union," *Brookings Papers on Economic Activity*, 1991, vol. 1.
- Costinot, Rodríguez-Clare (2013) "Trade Theory with Numbers: Quantifying the Consequences of Globalization", in Gopinath, Helpman, Rogoff (eds.) Handbook of International Economics, vol. IV, forthcoming

### **Import Tariffs, Dumping**

- Feenstra, Ch. 7
- Brander, James and Barbara Spencer, "Trade Warfare: Tariffs and Cartels"
- Feenstra, Robert, 1989, "Symmetric Pass-through of Tariffs and Exchange Rates under Imperfect Competition: An Empirical Test", *Journal of International Economics*, 27(1-2), 25-45
- Lerner, A. 1936. The Symmetry between Export and Import Taxes. *Economica* 3: 306-313.
- Feenstra, Ch. 7
- Brander, James and Paul Krugman, 1983, "A 'Reciprocal Dumping' Model of International Trade", *Journal of International Economics*, 15(3-4), 313-321,
- Hansen, Wendy and Thomas Prusa, 1995, "The Road Most Traveled: The Rise of Title VII Protection", *The World Economy*, 18(2), 295-313

### **Import Quotas, Export Subsidies**

- Feenstra, Ch. 8
- Feenstra, Robert, 1992, "How Costly is Protectionism?", *Journal of Economic Perspectives*, 6: 159-78

Feenstra, Robert, 1988, "Quality Change under Trade Restraints: Theory and Evidence from Japanese Autos", [\*The Quarterly Journal of Economics\*](#), vol. 103(1), pages 131-46

Eaton, Jonathan and Gene Grossman, 1986, "Optimal Trade and Industrial Policies under Oligopoly", *The Quarterly Journal of Economics*, 101(3).

Irwin, Douglas, 1991, "Mercantilism as Strategic Trade Policy: The Anglo-Dutch Rivalry for the East India Trade", [\*Journal of Political Economy\*](#), 99(6), 1296-314,

### **Trade Policy and Perfect Competition**

Baldwin, R. 1969. The Case Against Infant Industry Protection. [\*Journal of Political Economy\*](#) 77: 295-305.

Bhagwati, J. 1965. On the Equivalence of Tariffs and Quotas. In R. Baldwin, ed., *Trade, Growth, and the Balance of Payments*, North-Holland.

Bhagwati, J. 1971. The Generalized Theory of Distortions and Welfare. In J. Bhagwati, R. Mundell, R. Jones, and J. Vanek, eds., *Trade, Balance of Payments, and Growth*, pp. 69-90.

Bhagwati, J. 1982. Directly-unproductive, Profit-seeking (DUP) Activities, [\*Journal of Political Economy\*](#), 90: 988-1002.

Corden, M. 1984. The Normative Theory of International Trade. In Jones and Kenen, eds., *Handbook of International Economics*, Vols. 1 and 2. North-Holland.

### **Trade Policy and Imperfect Competition**

Feenstra, R. 1988. Quality Change under Trade Restraints in Japanese Autos. [\*The Quarterly Journal of Economics\*](#), 103: 131-146.

Knetter, M. 1989. Price Discrimination by U.S. and German Exporters. *American Economic Review*, 79: 198-210.

Brander, J. 1995. Strategic Trade Policy. In Grossman and Rogoff, eds., *Handbook of International Economics*, Vol. 3. North-Holland.

Koujianou, P. 1995. Product Differentiation and Oligopoly in International Markets: The Case of the U.S. Automobile Industry. *Econometrica*, 63: 891-951.

Berry, S., J. Levinsohn, and A. Pakes. 1999. Voluntary Export Restraints on Automobiles: Evaluating a Strategic Trade Policy. *American Economic Review*, 89(3): 400-430.

Felbermayr, G., B. Jung and M. Larch, "Optimal Tariffs, Retaliation, and the Welfare Loss from Tariff Wars in the Melitz Model," *Journal of International Economics*, 89: 13-25, 2013.

Balistreri, E.J., R.H. Hillberry and T.F. Rutherford, "Structural Estimation and Solution of International Trade Models with Heterogeneous Firms," *Journal of International Economics*, 83: 95-108, 2011.

Ossa, Ralph, 2014, "Trade Wars and Trade Talks with Data," *American Economic Review* 104(12): 4104-46.

### **Preferential Trade Areas**

Feenstra, Ch. 6

R. Baldwin and A. Venables, "Regional Economic Integration," in G. Grossman and K. Rogoff, eds, *Handbook of International Economics*, vol.3, North Holland, 1996.

K. Bagwell and R.W. Staiger, "An Economic Theory of the GATT", *American Economic Review*, 1999

M. Kemp and H. Wan, "An Elementary Proposition Concerning the Formation of Custom Unions", *Journal of International Economics*, 1976

M. Kemp and H. Wan, "The Comparison of Second-Best Equilibria, The Case of Custom Unions", *Journal of International Economics*, 1981

Dee, Gali "The Trade and Investment Effects of Preferential Trading Agreements", 2003, NBER 10160.

Antràs, Staiger (2012) "Offshoring and the Role of Trade Agreements", *American Economic Review*, 102(7): 3140-3183

### **WTO, history and principles**

- Helpman, E., 1995, "Politics and Trade Policy", NBER Working Paper 5309
- Bagwell, K., Staiger, R. W., 2004, "Enforcement, Private Political Pressure And The GATT/WTO Escape Clause", NBER Working Paper 10987
- Horn, H., Mavroidis P. C., 2001, "Economic and Legal Aspects of the Most Favoured Nation Clause", CEPR Discussion Paper Series 2859
- P. Krugman, "Is Bilateralism Bad?", in E. Helpman and A. Razin, *International Trade and Trade Policy*, The MIT Press, 1991.
- P. Krugman, "Regionalism Versus Multilateralism: Analytical Notes" in J. De Melo and A. Panagariya eds., *New Dimensions in Regional Integration*, Cambridge University Press, 1993
- Maggi, Staiger (2012) "Trade Disputes and Settlement." Working paper
- Bagwell, Staiger (2011) "What Do Trade Negotiators Negotiate About? Empirical Evidence from the World Trade Organization", *American Economic Review*, 101 : 1238–1273

### **Russian WTO Accession**

- Jesper Jensen, Thomas Rutherford and David G. Tarr (2007), "The Impact of Liberalizing Barriers to Foreign Direct Investment in Services: The Case of Russian Accession to the World Trade Organization," *Review of Development Economics*, 11 (3), pp. 482-506
- Thomas Rutherford and David G. Tarr, 2008, Regional Household and Poverty Effects of Russia's Accession to the World Trade Organization, [World Bank Policy Research Working Paper No. 4570](#)
- David Tarr (2007), "Russian WTO Accession: What has been Accomplished, What can be expected?" *Eurasian Geography and Economics*,
- David Tarr, Natalya Volchkova, 2010, "Russian Trade and Foreign Direct Investment Policy at the Crossroads" , in Ausland in S.Guriev, A. Aslund and A. Kuchins (eds.) *Russia after the Global Economic Crisis*

### **Political Economy of Protection**

- Feenstra, Ch.9
- V, pp. 177-203
- D.Rodrik, "The political Economy of Trade Policy", in GR Helpman, E., 1995, "Politics and Trade Policy", NBER Working Paper 5309
- P. Goldberg and G. Maggi, "Protection for Sale: An Empirical Investigation," *American Economic Review*, Dec. 1999, ctp. 1135-1155.
- Trefler (1993) "Trade liberalization and the theory of endogenous protection: an econometric study of US import policy", *Journal of Political Economy*, Vol. 101, N. 1
- Gawande and Bandyopadhyay (2000) "Is protection for sale? Evidence on the Grossman-Helpman theory of endogenous protection", *Review of Economics and Statistics* 82 (1)
- Grossman, Gene M. and Elhanan Helpman, "Protection for Sale," *American Economic Review*, 1994.
- Grossman, Gene M. and Elhanan Helpman, "The Politics of Free Trade Agreements," *American Economic Review*, 1995.
- Helpman, Elhanan, "Politics and Trade Policy," in David M. Kreps and Kenneth F. Wallis (eds.), *Advances in Economics and Econometrics: Theory and Applications* (New York and Cambridge: Cambridge University Press), 1997, pp. 19-45.
- Grossman, Gene M. and Elhanan Helpman, 2005, "A Protectionist Bias in Majoritarian Politics," [The Quarterly Journal of Economics](#), 120(4), 1239-1282

Mitra, Daveshin, Dimitrios D. Thomakos and Mehmet A. Ulubasoglu, 2002, “Protection for Sale’ in a Developing Country: Democracy versus Dictatorship,” *Review of Economics and Statistics*, 84(3), 497-508

### **Global Value Chains**

Global value chains in a changing world, Deborah K. Elms and Patrick Low (eds), WTO, 2013

Autor, D.H.; Levy, F.; Murnane, R.J. 2003. “The Skill Content of Recent Technological Change: An Empirical Exploration”, *Quarterly Journal of Economics*, 118(4): 1279–333.

Johnson, R.C.; Noguera, G. 2011. “Accounting for Intermediates: Production Sharing and Trade in Value Added”, *Journal of International Economics*

### **Natural resource curse: economic policy challenges**

Auty, R.M. (2001), ‘The Political Economy of Resource-Driven Growth’, *European Economic Review* 45, p. 839-846

Bravo-Ortega, C. and De Gregorio, J. (2003), ‘The Relative Richness of the Poor? Natural Resources, Human Capital and Economic Growth’, World Bank Working Paper

Hutchison, M.M. (1994), ‘Manufacturing Sector Resiliency to Energy Booms: Empirical Evidence from Norway, the Netherlands, and the United Kingdom’, *Oxford Economic Papers*, New Series, 46 (2), p. 311-329

Sachs, J. and A. Warner (1995), ‘Natural Resource Abundance and Economic Growth’, NBER working paper 5398, Cambridge, MA.

Sachs, J. and A. Warner (1999b), ‘The Curse of Natural Resources’, *European Economic Review* 45, p. 827-838

Sala-i-Martin, X. and Subramanian, A, (2003), ‘Addressing the Natural Resource Curse: An Illustration from Nigeria’, IMF Working Paper 03/139

Suslova E., N. Volchkova (2007) “Human Capital, Industrial Growth and Resource Curse” , CEFIR WP

Wijnbergen, S. (1984a), ‘The “Dutch Disease”: A Disease After All?’, *The Economic Journal* 94, p. 41-55

### **Academic integrity policy**

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Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.