

Chapter 9 World trade and the international competitive environment

Case study 9.1 The impact of oil in world trade

How does the price of oil affect world trade?

The price of oil is important in business planning, particularly in production and transport costs. The oil crises of the 1970s should be outlined: the world's industrial countries, especially the US, had become accustomed to cheap oil, and the steep rises in costs affected economic growth and led to global recession.

What is the role of the OPEC governments in influencing the price of oil?

OPEC is the cartel of oil-producing countries, whose grip on oil production was key to the crises of the 1970s. While they grew rich from oil revenues, two developments emerged: the search for alternative energy supplies and the growth of non-OPEC oil producers. OPEC therefore no longer has the same stranglehold on world oil prices.

Case study 9.2 The US-EU trade dispute over bananas

What are the essential elements of the banana dispute and why did it become so protracted and so bitter?

- Preferential treatment given by the EU to ACP countries which produce bananas
- Objections by the US and by Latin-American banana producers, who alleged their (much cheaper) bananas were being denied access to EU markets
- Role of the WTO dispute resolution procedure – found against the EU, which prompted the EU to modify the ACP banana regime, and introduce a timetable for phasing it out
- Retaliatory trade sanctions by the US, which were imposed unilaterally
- The dispute became bitter as the process lengthened – reasons included the perception by Europeans that Americans were acting solely in the interests of the large American multinational fruit companies. A further cause of bitterness was the tariff regime imposed by the US on a variety of other products imported from the EU
- The US negotiators, for their part, were bitter over the EU's apparent use of delaying tactics.

What are the implications for the dispute resolution procedure in future?

- The fragility of dispute resolution procedure when perceived national interests are at stake
- Possible need to reform procedure in order to reduce the scope for delays
- The need to maintain respect for the authority of WTO's dispute settlement process, in order to avert unilateral action.

Case study 9.3 China and the WTO

What are the implications of China joining the WTO for international export business?

The opening up of the Chinese market to goods and services is the key development, but this is a gradual process. Prosperous coastal regions, with their more affluent populations, will be the main markets. The huge discrepancy in wealth and lifestyles between urban and rural areas is therefore an important factor for exporters to take into account.

What are the doubts about China's ability to deliver on trade liberalization commitments?

China's liberalization to date has been impressive – state-owned businesses have been sold off to the private sector, and many have gone to foreign investors and joint ventures. However, to become competitive, firms must reduce inefficiencies, and this entails laying off workers. Unemployment, especially rural unemployment is a major problem, and welfare systems, formerly provided by employers, are now seen to be inadequate. Social unrest is likely, and the government might slow down privatization and liberalization of markets to lessen the blow of painful adjustments.

Case study 9.4 NAFTA and the blessings of free trade for Mexico

Why do Mexicans have mixed feelings about NAFTA?

As an introduction, a summary of what NAFTA is, and its objectives, should be outlined.

NAFTA has brought export-oriented enterprises to Mexico, but has not brought the rise in living standards that most Mexicans had expected. Mexico remains a low-wage economy, and conditions in the areas where factories are concentrated remain poor. A consequence is the flow of illegal immigrants into the US.

On the other hand, the growth of FDI in Mexico has opened the way for free trade agreements with other regions, such as the EU. There is evidence that Mexican firms are acquiring expertise needed to become suppliers (note the example of Volkswagen). With growing Latin American markets, Mexican firms are therefore well placed to gain new business independently, raising hopes of greater economic prosperity. The new government of Vicente Fox in Mexico is pushing ahead with reform of NAFTA, and looks to negotiate a new visa system with the US, which would allow Mexican workers limited visas to work in the US. This should reduce the illegal immigration and possibly promote new work opportunities for Mexicans both at home and in the US.

Assignment 1

For developed countries, global trade liberalization offers greater export opportunities as barriers such as tariffs are lowered. However, in some countries, notably the US, the prospect of cheap imports is seen as a threat to US jobs. Strong lobbies, such as the farming communities, have exerted protectionist pressures on government.

Industrializing countries stand to benefit from trade liberalization. Many rely on foreign investors whose operations are an export platform (for example, the industrializing countries of China and South East Asia). These are low-cost producers, and their products (usually low-tech products) find markets in the industrialized world.

Developing countries lack the industrial infrastructure of the industrializing economies, and the poorest are dependent on primary commodities such as agricultural produce. These products typically face tariff barriers in the developed world, which GATT hardly touched. Some developing countries, such as India, have been able to attract investors in services. Developing countries therefore stand to gain from the increasing trade in services.

Assignment 2

A definition of regionalism and regional trade agreements is a useful starting point. They typically take the form of an organization, but these organizations vary considerably in their institutional structure and degree of rule-making authority. These agreements all aim to dismantle barriers to trade among members, but do not extend to members' trade with outsiders. For this reason, they are often thought of as obstacles to free trade. The political dimension is strong, as these groups usually have one or more key political players, who see the trading bloc as important in global politics. Key regions:

- The EU is the most highly developed regional grouping, in which economic and political integration have advanced the farthest. It has a developed structural framework, and administrative and legal institutions
- NAFTA is above all a free trade area, with little formal organization. (Refer to Balassa's categories.) In contrast to the EU, it has no common external trade policy and no institutions for dealing with exchange rates
- In Asia, ASEAN and APEC are two groupings, but progress towards a free-trade area has been slow. Shifting power balances in Asia are taking place, as Japan, traditionally the economic centre of the region, is conscious of China's increasing economic presence.

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