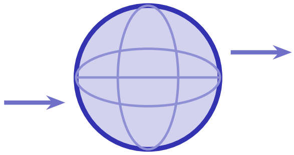
International Trade & Globalisation

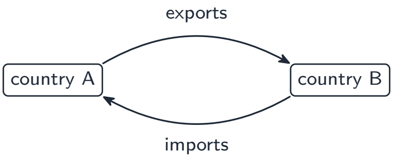
IGCSE Economics ▪ Topic 6

IGCSE Economics



What we will cover

1. Specialisation & free trade
2. Globalisation & MNCs
3. Trade protection
4. Tariffs
5. Exchange rates
6. Balance of payments



exports & imports

1 Trade

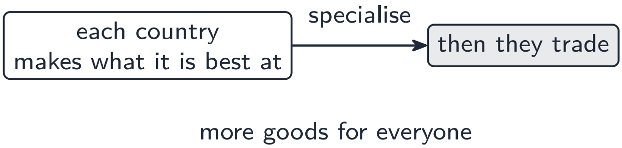
Specialisation and free trade

Countries **specialise** 专业化 in what they make best, sell **exports** 出口 & buy **imports** 进口.

> **Free trade** 自由贸易 gives cheaper goods & more choice, but home firms may struggle to compete.

Specialisation and trade raise living standards

Specialisation and free trade – gains



Countries **trade** 贸易 with each other: they sell some goods and buy others.

> Just as one worker can focus on one task, a whole country can focus on making the goods it is best at.

Globalisation and MNCs

- **globalisation** 全球化 – economies joined by trade, travel & the internet
- **MNCs** 跨国公司 – bring jobs & investment, but profits may flow abroad

Trade and capital link national economies

Trade protection

Protection 贸易保护 shields home firms:

- **tariffs** 关税 – a tax on imports
- **quotas** 配额 – a limit on imports
- **subsidies** 补贴 & rules

Trade protection, in detail

Tariff a tax on imports	**Quota** a limit on import amount	**Subsidy** money to home firms	**Embargo** a total ban on trade

Exam: tariff = tax; quota = quantity limit; subsidy = home support; embargo = ban

> The four main methods of trade protection

The arguments for protection, and the tools

Infant industry	The **infant industry** 幼稚产业 argument: protect a young industry until it is large enough to compete – and the hard part is ever removing the protection.
Dumping	**Dumping** 倾销: selling exports below cost to drive out **domestic** 国内的 rivals. Protection here is a response, not an aggression.
Subsidy	A **subsidy** 补贴 lowers a home producer's costs, so it undercuts imports without a tariff appearing anywhere.
The cost	Every tool raises prices or taxes at home, and invites retaliation – so the country becomes less **dependent** 依赖的 on trade, and poorer.

State who gains and who pays. Protection is always a transfer, never a free rescue.

Multinational companies

A **multinational company 跨国公司** (MNC) is a firm that produces in more than one country – for example, a car maker with factories in several countries.

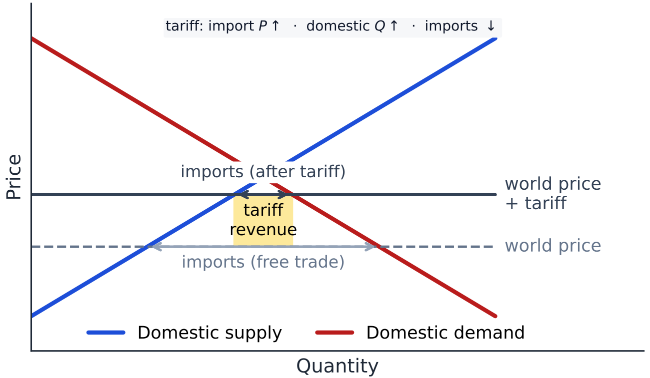
- **Benefits** to the host country: new jobs, investment, new skills and technology, and more tax.
- **Drawbacks**: profits may flow back to the MNC's home country; local firms may be pushed out; and some MNCs pay low wages or pollute (for example.

Tariffs

A **tariff** 关税 raises the import price above the world price.

> This protects home producers & raises tax, but raises prices for consumers.

Tariffs, in detail



A **tariff** 关税 raises the import price above the world price.

2 Currency and payments

Exchange rates

Appreciation 升值 (a stronger currency) makes exports dearer & imports cheaper.
Depreciation 贬值 does the reverse.

Appreciation	**Depreciation**
(currency rises in value)	*(currency falls in value)*
exports dearer, imports cheaper → exports fall, imports rise	exports cheaper, imports dearer → exports rise, imports fall

Exam: appreciation hurts export competitiveness; depreciation can boost net exports (SPICED)

Balance of payments

The **balance of payments** 国际收支 records money in & out.

- exports > imports – a **surplus** 顺差
- imports > exports – a **deficit** 逆差

exports (money in) > imports (money out)
= a surplus

imports > exports = a deficit

The four parts of the current account, and free trade's cost

trade in goods	visible exports minus visible imports
trade in services 服务贸易	exports and imports of services – tourism, banking, shipping
primary income 初次收入	wages, interest and profit earned from abroad
secondary income 二次收入	money sent with nothing given in return – aid, and remittances
a surplus 经常账户盈余	the total is positive; a deficit means the country buys more from abroad than it sells
free trade's cost	new, small industries may never grow if they face strong foreign rivals from the start – the infant-industry argument

> A deficit is not automatically bad. It matters how it is financed and whether the imports build future capacity – which is what an evaluation question wants.

Correcting a deficit

A country with a large deficit must borrow money or sell assets to pay for it.

- cut total demand, so people buy fewer imports.
- let the currency depreciate, to make exports cheaper and imports dearer.
- use trade protection (tariffs and quotas) to cut imports.
- use supply-side policy to improve the **competitiveness 竞争力** of its firms, so exports rise.

Exam tips

- To convert currency: pounds $\rightarrow$ dollars, *multiply* by the rate; dollars $\rightarrow$ pounds, *divide* by the rate.
- When a currency **appreciates**, its exports become dearer and its imports cheaper (so exports fall, imports rise); a **depreciation** does the opposite.
- **Trade protection** (tariffs, quotas, subsidies, embargoes) can protect jobs and infant industries, but it raises prices, cuts choice, and can start a trade war.
- A **current account deficit** means more money flows out than in. It can be reduced by cutting demand, letting the currency depreciate, or improving competitiveness.

3 Recap

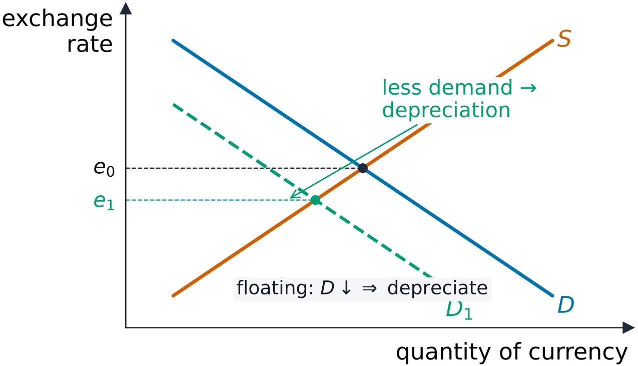
Worked example – using an exchange rate

$£1 = \$1.30$. (a) A UK machine costs $£2{,}000$ – price to a US buyer? (b) A US laptop costs $\$650$ – cost to a UK buyer?

- (a) Going from pounds to dollars: multiply.
- $2{,}000 \times 1.30 = \$2{,}600$
- (b) Going from dollars to pounds: divide.
- $650 \div 1.30 = £500$

Check the answer is sensible: $£1$ buys more than a dollar, so a pound price becomes a bigger dollar number. If it looks wrong, you divided instead of multiplying.

How the rate is set



The exchange rate is set where demand for the currency meets supply. If demand falls ($D \to D_1$), the rate falls – a depreciation.

Exchange rates and the current account

Floating exchange rate	A **floating exchange rate** 浮动汇率 is set by demand for and supply of the currency, and moves every day.
Fixed	A fixed rate is held by the central bank buying and selling its own currency – which needs reserves.
Depreciation	A weaker currency makes exports cheaper abroad and imports dearer at home.
Current account surplus	A **current account surplus** 经常账户盈余 means the country sells more abroad than it buys; a deficit is the reverse.

> A depreciation improves the current account only if demand is elastic enough on both sides – the Marshall–Lerner condition.

Topic 6 – key takeaways

1 **Free trade**

specialise; cheaper goods & more choice

2 **Protection**

tariffs, quotas & subsidies

3 **Exchange rates**

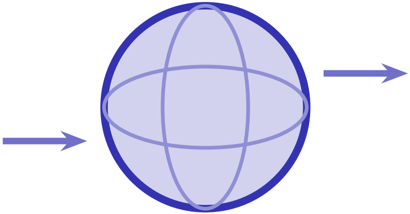
appreciation: dear exports, cheap imports

4 **Payments**

exports vs imports: surplus or deficit

Check yourself

1. What is a good a country buys from abroad?
2. What is a tariff?
3. What does a stronger currency do to exports?
4. When is the balance of payments in surplus?



Answers **1.** an import **2.** a tax on imports **3.** makes them dearer **4.** when exports exceed imports