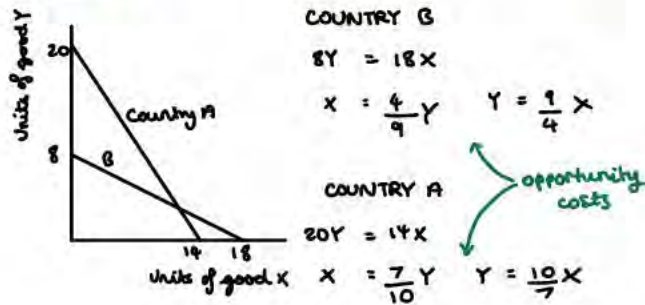


## The Benefits of Free Trade

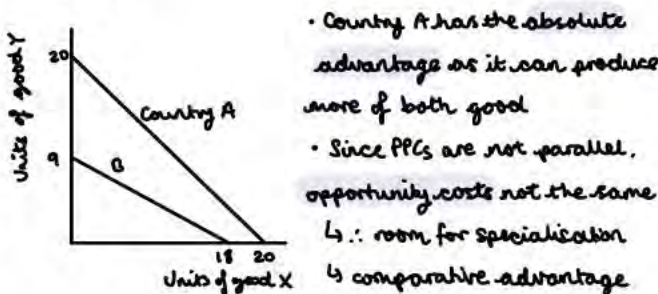
- Low prices for consumers } increases competition
- Greater choices for consumers }
- Producers can benefit from economies of scale
- More efficient allocation of resources
- Countries can consume combinations of goods outside their production possibilities curve through specialisation
- Transfer of knowledge; diffusion of technology
- Political benefits: 'peace dividend'

## Absolute and Comparative Advantage

- **Absolute advantage** — the ability of a country to produce a greater amount of a good with the same resources



- Assuming inputs are the same, country B should specialise and export good X, and country A should specialise and export good Y
- **Comparative advantage** — the ability to produce a particular good at a lower opportunity cost than other countries



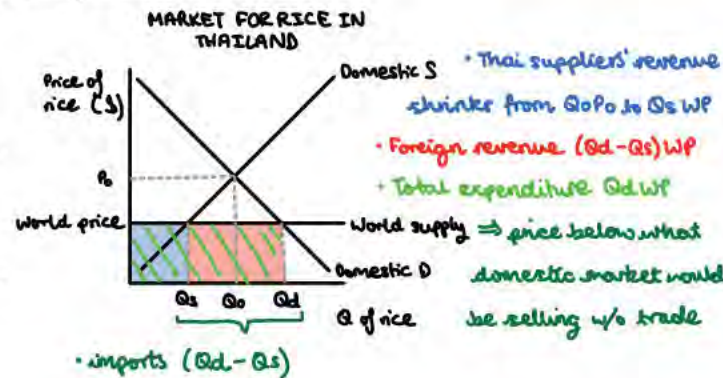
## ASSUMPTIONS OF COMPARATIVE ADVANTAGE THEORY

- Only two countries
- Assumes homogenous goods
- No transport costs
- Perfect competition in all markets; perfect information
- Free trade (no trade barriers)

## The World Trade Organisation

- World Trade Organisation (WTO) — an international institution aiming at promoting free trade by persuading countries to abolish import tariffs and other barriers
- Functions:
  - promotes trade liberalisation
  - sets trade rules and ensures they are followed
  - arbitrator of trade-related disputes
- Criticisms:
  - biased towards US and EU
  - inconsiderate to needs of developing countries
  - pays insufficient attention to child labour, health, environment, and worker's rights

## Types of Trade Protectionism



- **Tariff** — a tax imposed on imports aimed at restricting their flow into the country
- **Quota** — a quantitative restriction on the volume of imports
- **Subsidy** — a payment made by governments to firms as a form of financial aid

## TARIFF



## QUOTA



- Domestic producer's revenue: from B to A+B+E+F+G
- Foreign producer's revenue: from D+E+I to C+D  
 ↳ better for foreign producer than tariffs

## SUBSIDY



- Domestic producer's revenue: from D to A+B+C+D+E
- Foreign producer's revenue: from E+F to F
- Consumer paying the same before and after subsidy

## Economic Growth and Economic Development

- **Economic development** - a multidimensional qualitative concept that refers to an improvement in living standards in an economy encompassing education and health, poverty reduction, raising living standards, reducing income inequality, and increasing employment opportunities
- **Economic growth** - a quantitative concept referring to increases in real GDP (total output) of an economy over a specific time period (usually over a year)
- limited economic development is possible in the absence of economic growth, but in long-term, economic growth is usually necessary for economic development
- A country can grow without economic development (e.g. jobless, ruthless, futureless, voiceless growth)

### SOURCES OF LONG-TERM GROWTH

- More or improved **natural resources** (↑ natural capital)
- Investment in **physical capital**
- Investment in **human resources**
- **Technological progress**
- **Institutional changes**

## Common Characteristics of Economically Less Developed Countries

- LDCs often share common characteristics such as:
  - ↳ **low levels of real income per capita**
    - ↳ results in low savings and low investments leading to low productivity gains and so low incomes ⇒ creates **poverty cycle**, ill health, malnutrition, ↑ infant mortality rates
  - **Absolute poverty** - the specific minimum income needed to satisfy basic physical needs

- ↳ **High population growth rates and/or size**
  - ↳ ↑ birth rates (fertility) coupled with a reduction in death rates (mortality) because of improved health conditions
- ↳ **High unemployment and underemployment**
  - ↳ unemployment may affect 10-20% of labour force; may suffer from seasonal variations (tourism, weather) ⇒ difficult to reduce
- ↳ **Dependence on primary sector**
  - ↳ agricultural sector usually contributes to about 30% of GDP in LDCs compared to less than 2% in MEDCs
- ↳ **Large urban informal sectors**
  - ↳ large proportion of the population is attracted to urban centres (cities) where ↑ levels of economic activity takes place in informal sector (neither officially registered or regulated)
- **Poverty cycle or trap** - where poor communities are unable to invest in physical, human and natural resources due to **low/no savings**; poverty is therefore transmitted from generation to generation and there is a need for intervention to break out of cycle

## Diversity Among Economically Less Developed Countries

- LDCs can vary enormously with each other due to:
  - resource endowments
  - climate
  - history (e.g. colonial)
  - political systems
  - degree of political stability

## International Development Goals

- 17 UN sustainable development goals (SDGs) (e.g. no poverty, zero hunger, quality education, gender equality, affordable clean energy)