

Advanced International Trade Theory II Syllabus

This is a graduate course in international trade theory and policy analysis for M.A. and Ph.D. students in economics. A modest background in mathematics and microeconomic theory will be assumed. The objective is to provide a self-contained introduction to modern work on international trade theory and policy. Specific topics include: strategic trade policy, the policy economy of trade policy, administrated protection, gravity model, direct foreign investment and multinational firms. Grading of the course will be based on the class discussion (20%), individual presentation (40%), and group presentation (40%).

Office Hours: Wednesday 4:00-6:00 pm or by appointment (SS D411; phone: 5540; email: clin@mail.ndhu.edu.tw).

Required text

Feenstra, R.C. (2004), "Advanced International Trade: Theory and Evidence," Princeton University Press, Princeton, NJ.

Supplementary texts

Markusen, J.R., J.R. Melvin, W.H. Kaempfer, and K.E. Maskus (1995), "International Trade: Theory and Evidence," McGraw-Hill (referred to as MMKM).

Grossman, G. and K. Rogoff (eds.) (1995), "Handbook of International Economics: Volume 3," Amsterdam: North-Holland, 1995 (referred to as GR).

Topics and Related Readings

1 Import Tariffs and Welfare

1.1 Basic Review

1.2 Tariffs under GATT/WTO

1.3 Tariffs and Social Welfare

1.4 Tariff Setting under Some Circumstances

– Feenstra, chap. 7 and 8

– MMKM, chap. 15 and 16

1.5 Discussions

- Feenstra, R.C. (1992), “How costly is protectionism?” *Journal of Economic Perspectives*, 6:3, 159-178.
- Lockwood, B. and K.Y. Wong (2000), “Specific and ad valorem tariffs are not equivalent in trade wars,” *Journal of International Economics*, 52, 183-195.

2 Imperfect Competition and Strategic Trade Policy

2.1 Introduction

2.2 Export Subsidies with Imperfect Competition: A Third Market Model

- Feentstra, chap. 7
- Brander, J.A. (1995), “Strategic trade policy,” in G. Grossman and K. Rogoff (1995), 1395-1455.
- Brander, J.A. and B.J. Spencer (1985), “Export subsidies and international market share rivalry,” *Journal of International Economics*, 18, 83-100.

2.3 Strategic Subsidies and Industry Conduct

- Eaton, J. and G.M. Grossman (1986), “Optimal trade and industrial policy under oligopoly,” *Quarterly Journal of Economics*, 100, 383-406.

2.4 Strategic Trade Policy in the Reciprocal-Markets Model

- Brander, J.A. and P. Krugman (1983), “A ‘reciprocal dumping’ model of international trade,” *Journal of International Economics*, 15, 313-321.

2.5 Repeated Game in Intra-industry Trade

2.6 Discussions

- Zhou, D., B.J. Spencer and I. Vertinskyc, (2002), “Strategic trade policy with endogenous choice of quality and asymmetric costs,” *Journal of International Economics*, 56, 205-232.

3 The Political Economy of Trade Policy

3.1 Introduction

3.2 The Tariff-Formation Function Approach

- Rodrik, D. (1995), “Political economy of trade policy,” in Grossman, G. and Rogoff, K. eds., *Handbook of International Economics*, Vol. III (for all sub-topics in 3)

- Feenstra, chap. 9 (for all sub-topics in 3)
- Findlay, R. and S. Wellisz (1982), “Endogenous tariff, the political economy of trade restrictions, and welfare,” in Bhagwati, J.N. ed., *Import Competition and Response*, The University of Chicago Press, Chicago and London.

3.3 The Median-Voter Model

- Mayer, W. (1984), “Endogenous tariff formation,” *American Economic Review* 74, 970-985.

3.4 The Political Support Approach

- Hillman, A.L. (1989), *The political economy of protection* (Harwood Academic Publishers, Chur).
- Hillman, A.L. (1991), “Protection, politics and market structure,” in: E. Helpman and Razin, eds., *International trade and trade policy*, MIT Press, Cambridge. MA.

3.5 The Campaign Contributions Approach

- Magee, S.P., W.A. Brock, and L. Young (1989), *Black hold tariffs and endogenous policy theory*, Cambridge University Press, Cambridge and New York..

3.6 The Political Contributions Approach

- Grossman, G.M. and E. Helpman (1994), “Protection for sale,” *American Economic Review*, **84**, 833-850.

3.7 Discussions

- Conconi, P. (2003), “Green lobbies and transboundary pollution in large open economies,” *Journal of International Economics*, 59, 399-422.
- Goldberg, P. and G. Maggi (1999), “Protection for sale: An empirical investigation,” *American Economic Review*, 89, 1135-1155.
- Konishi, H., K. Saggi and S. Weber (1999), “Endogenous trade policy under foreign direct investment,” *Journal of International Economics*, **49**, 289-308.
- Lin, C.C. (2004), “Strategic trade policies revisited: A political economy approach,” *Taiwan Economic Review*, **32:3**, 347-367.

4 International Trade Institutions and Rules

4.1 Multilateralism: The GATT/WTO

4.2 Unitateralism: Section 301 in U.S. Trade Law

4.3 The Move Toward Free Trade Zones

4.4 Strategic Interaction and the Benefits from International Trade Agreements

4.5 Discussions

- Deardorff, A.V. and R.M. Stern (2002), “What you should know about globalization and the WTO,” *Review of International Economics*, **10-3**, 400-423.
- Fung, K.C., I. Hitomi, C.C. Lin, and F. Ng (2004), “Multilateral Trade Negotiations in the GATT and the WTO: Lessons for Asia,” *Asian Economic Papers*, 3:2, 79-96.
- Saggi, K. (2004), “Tariffs and the most favored nation clause,” *Journal of International Economics*, 63, 341-368.
- Maggi, G. (1999), “The role of multilateral institutions in international trade cooperation,” *American Economic Review*, **89:1**, 190-214.
- MMKM, Chpt. 20

5 The Gravity Model

5.1 The Basic Gravity Equation

5.2 The Theorem

- Feenstra, Chpt. 5
- Helpman, E. (1987), “Imperfect competition and international trade:evidence from fourteen industrial countries,” *Journal of The Japanese and International Economies*, **1**, 62-81.
- Krugman, P. (1991), “Increasing returns and economic geography,” *Journal of Political Economy*, **99**, 483-499.

5.3 Estimation and Evidences

- Anderson J.E. and E. Wincoop (2003), “Gravity with Gravitas: A Solution to the Border Puzzle,” *American Economic Review*, 93:1, 170-192.
- Debaere, P. (2005), “Monopolistic competition and trade, revisited: testing the model without testing for gravity,” *Journal of International Economics*, vol. 66:1, 249-266.
- McCalman, J. (1995), “National Borders Matter,” *American Economic Review*, 85, 615-623

6 [Discussion Topic] Trade and Investment: China, Hong Kong and Taiwan

- Fung, K.C. (2005), “Trade and Investment among China, the United States, and the Asia-Pacific Economies: An Invited Testimony to the U.S. Congressional Commission.
- Fung, K.C., H. Iizaka, C.C. Lin and A. Siu (2005), “An econometric estimation of locational choices of foreign direct investment,” in: Y. Kwan and E. Yu, eds, *Critical Issues in China’s Growth and Development*, 97-107, Ashgate Publishing.
- Fung, K. and J. Lawrence (2001), “New estimates of the united states-China bilateral Trade Balances,” *Journal of the Japanese and International Economics*, **15**, 102-130.

7 [Discussion Topic] Direct Foreign Investment and Multinationals

7.1 Vertical and Horizontal Multinationals

7.2 The Theorem

- Feenstra, chpt. 11
- MMKM, chpt. 22
- Markusen, J.R. (1995), “The boundaries of multinational enterprises and the theory of international trade,” *Journal of Economic Perspectives*, **9:2**, 169-89.

7.3 Some FDI Issues

- Branstetter, L.G., and R.C. Feenstra (2002), “Trade and foreign direct investment in China: a political economy approach,” *Journal of International Economics*, **58**, 335-358.
- Cheng, L.K. and Y.K. Kwan (2000), “What are the determinants of the location of foreign direct investment? The Chinese experience,” *Journal of International Economics*, **51**, 379-400.
- Hanson, G.H., R. Mataloni, and M.J. Slaughter (2001), “Expansion strategies of U.S. multinational firms,” NBER Working Paper 8433.
- Grunfeld, L.A. (2003), “Meet me halfway but don’t rush: absorptive capacity and strategic R&D investment revisited,” *International Journal of Industrial Organization*, **21**, 1091-1109.
- Lipsey, R.E. (2001), “Foreign direct investment and the operations of multinational firms: concepts, history, and data,” NBER Working Paper 8665.
- Sanna-Randaccio, F. (2002), “The Impact of Foreign Direct Investment on Home and Host Countries with Endogenous R&D,” *Review of International Economics*, **10**, 278-298.

8 [Discussion Topic] Outsourcing

- Antras, P., and E. Helpman (2003), “Global Sourcing,” *Journal of Political Economy*, 112, 552-580.
- Chen, Y., J. Ishikawa and Z. Yu (2004), “Trade Liberalization and Strategic Outsourcing,” *Journal of International Economics*, 63, 419-436.
- Shy, O. and R. Stenbacka (2003), “Strategic outsourcing,” *Journal of Economic Behavior & Organization*, 50, 203-224.

Course Website

A class website will be created under <http://faculty.ndhu.edu.tw/~clin/trade.htm>. The website will contain this syllabus (and any updates) plus announcements, assignments for presentation, and other useful information (e.g., links to some required readings and related websites). You are responsible for accessing the class website regularly.