

Fulbright School of Public Policy and Management

Spring 2018

TRADE POLICY (4 CREDITS)

Teaching Team

Instructors: Vũ Thành TỰ Anh E-Mail : anh.vu@fuv.edu.vn
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Teaching Fellow: Đào Thị Ngọc E-Mail : ngoc.dao@fuv.edu.vn

Class Meetings

Mon, Wed, and Fri @ 10:15 – 11:45 AM

Office Hours

	Mon	Tue	Wed	Thurs	Fri
Vũ Thành TỰ Anh	16:30–17:30		16:30–17:30		16:30–17:30
James Riedel					
Đào Thị Ngọc	15:00-16:30				15:00-16:30

Meeting can also be arranged by appointment.

Course Overview and Objectives:

To provide students with the basic theories of international trade to understand national trade policy and explain trade patterns between countries. This course emphasizes an understanding of the institutional environment for international trade, both at the global, regional, and national level and the role of economic integration and GATT/WTO in removing trade barriers. Emphasis is placed on the analysis of trade policies used in developed and developing countries and the movement from trade policy to industrial policy to practice comparative advantages and promote sustainable trade. This course also examines Vietnam's trade performance and policies to promote them.

The course will be consisted of two parts. Part 1, International Trade Theories, discusses main concepts and approaches in international trade with real life application. The comparative model of David Ricardo, Heckscher-Ohlin, and trade model given economies of scale. Part 2, International Trade Policy, presents comparative analysis from welfare perspective; trade policy in a distorted domestic market; regional, bilateral and multilateral trade agreements; cost and benefit of maintaining exchange rate; and ongoing debates on international trade policy.

Objectives

By the end of the course, students will be able:

- To flexibly apply theoretical frameworks in international trade by merging different models and approaches; to explain linkages among Ricardian, Heckscher-Ohlin and specific factors models.
- To discuss and explain trade policy issues in developed and developing countries such as protectionism, infant-industry policy, export-oriented policy, exchange rate regimes, political economics of trade policy...
- To apply international trade theories and understanding into analysis of Vietnam's integration policy, its consequences in terms of welfare and impacts on industrial policy.

Course Requirements

This is a highly practical and analytical course. Students must apprehend concepts, tools, and models in international trade and their applicability to explain trade policy issues in real life. In doing so, students are required to read course materials, complete assignment, follow (critically) related media debates, and apply the knowledge into real world situations.

The course is structured such that following concepts and chapters are built upon previous ones, therefore continuous learning and review are needed. Participants are expected to attend class regularly, participate in class discussions, do all problem sets and an essay, and read the assigned literature before class.

Students need to refer to Student's Handbook regarding Guidelines on assignment submission, complaining, plagiarism, and special needs.

Textbooks and readings

The required reading of the course is:

- Krugman, Obstfeld, and Melitz (2014), *International Economics*, 9th ed., Addison-Wesley. (referred to as **KOM**)

while other readings are optional

Additional reference readings include free online materials in English by Suranovic:

- International Trade: Theory and Policy.
<http://internationalecon.com/Trade/tradehome.php>
- International Finance: Theory and Policy.
<http://internationalecon.com/Finance/financehome.php>

There are three types of reading. Required readings are chapters in the main textbook as indicated in the class detailed schedule. Completion of the required readings is critical. The instructor during class lecture may ask a student to explain a concept term discussed in the reading and present his or her perspective accordingly.

Next are readings for discussion, serving as feeds for class discussion. These include articles (from local or international sources) or mini cases. Distribution of these readings will be either before or during classes.

The last type of readings is in-depth or extended readings. They provide insights or expansion on a particular issue, or just context for better policy discussion. This might be helpful to those who want to learn more about the issues covered in class. Students are encouraged to discuss with faculty members on reference readings for their own research interest.

Assignments

There will be four individual assignments that help students review and apply basic concepts and analytical tools acquired from the course into real world. Students must complete the assignments their own and submit them before 8:20 as required. Copying of other's work is not allowed. Please read the Student's Handbook carefully to avoid violation.

There might be short quiz, about 5-10 minutes at the beginning of a class to check on the students' reading and understanding of materials.

Final term project: Policy application

This is the course essay. Students will work in groups to apply concepts, models, and knowledge acquired during the course into analyzing a policy issue found in real world or faced at their own work place.

Course Assessment

- Class participation: 10%
- Assignments: 20%
- Midterm exam: 40%
- Final project: 30%

COURSE SCHEDULE

Week 1

Mon (26/02/2018)

Introduction

- KOM, Chapter 1

Overall of Vietnam's international trade

Wed (28/02/2018)

Gravity model and international trade pattern

- KOM, Chapter 2
 - J.E. Anderson and E. van Wincoop (2003). Gravity with gravitas: A solution to the border puzzle. *American Economic Review*, 93(1):170-192.
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Fri (02/03/2018)

Đào Thị Ngọc

Review

Distribute PS 1

Week 2

Mon (05/03/2018)

Productivity and the Comparative Advantage: Ricardo Model

- KOM, Chapter 3
 - Krugman, "Ricardo's Difficult Idea"
-

Wed (07/03/2018)

Trade impact on distribution in the specific factor model

- KOM: Chapter 4
-

Fri (09/03/2018)

Đào Thị Ngọc

Review

Week 3

Mon (12/03/2018)

Factor endowment and ratio in the Heckscher-Ohlin model

- KOM: Chapter 5
-

Wed (14/03/2018)

The normative trade model

- KOM: Chapter 6
 - Athukorala and Riedel, “Export Growth and the Terms of Trade: The Case of the Curious Elasticities”.
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Fri (16/03/2018)

Đào Thị Ngọc

Review

PS 1 due, Distribute PS 2

Week 4

Mon (19/03/2018)

External economies of scale and international trade

- KOM: Chapter 7
 - Krueger and Tuncer, “An Empirical Test of the Infant Industry Argument”
-

Wed (21/03/2018)

Internal economies of scale, imperfect competition and trade of discriminated goods

- KOM Chapter 8
-

Fri (23/03/2018)

Đào Thị Ngọc

Review

Week 5

Mon (26/03/2018)

WTO impact on Vietnam's economy

“Does WTO Accession Help Domestic Reform? The Political Economy of SOE Reform Backsliding in Vietnam,” *World Trade Review*, Volume 16 (1), January 2017, pp. 85-109.

Wed (28/03/2018)

TPP impact on Vietnam's economy

Fri (30/03/2018)

Midterm Review

PS 2 due

Week 6: reading and preparation of group work

Thurs (12/4/2018): MIDTERM EXAM

Week 8

Mon (16/4/18)

Welfare effects of trade policy in small open economies

- KOM: Chapter 9
 - A.O. Kruger. “The Political Economy of the Rent-Seeking Economy,” *American Economic Review*, 1974. 64(30). 291-303 (
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Wed (18/4/18)

Welfare effects of trade policy in large open economies

- KOM: Chapter 9 Appendix and Chapter 10 (pp. 220-233)
 - Hochman, G and D. Zilberman, “The political economy of OPEC” November 2010—Sections 1&2 (pp. 1-9) and Section 9 (p. 32)
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Fri (20/04/2018): NO CLASS

Distribute PS 3

Week 9

Mon (23/4/18)

Measuring the welfare cost of protection

- **Required reading:** R.C.Feenstra, “How Costly is Protectionism,” *Journal of Economic Perspectives*, 6 (3), 1992, 159-78.
- Nguyen Trong Hoai, Nguyen Truong Toan and Pham Hoang Van, 2017. “Evidence of Trade Diversion: Effects of Anti-dumping Duties on Vietnamese Footwear,” *World Economy*, Vol. 40(6), June 2017, 1128-1154
- Prema-Chandra Authukorala, “Trade Policy Reforms and the Structure of Protection in Vietnam,” 2005

Wed (25/04/2018): NO CLASS

Fri (27/04/2018)

Review

Week 10

Mon (30/04/2018): NO CLASS

Wed (02/5/2018)

Trade policy and domestic distortions (i.e. externalities)

- KOM Chapter 10, pp. 219-233
- H. G. Johnson, “Optimal Trade Intervention in the Presence of Domestic Distortions” in J.N. Bhagwati, *International Trade: Selected Readings*, 1981. 142-170.
- J.N. Bhagwati, “The Generalized Theory of Distortions and Welfare,” in J.N. Bhagwati, *International Trade: Selected Readings*, 1981. 171-189.

Friday (04/05)

Review

PS 3 due, Distribute PS 4

Week 11

Mon (07/5/18)

Trade policy and non-economic objectives

- KOM Chapter 10, pp. 219-233
- H. G. Johnson, “Optimal Trade Intervention in the Presence of Domestic Distortions” in J.N. Bhagwati, *International Trade: Selected Readings*, 1981. 142-170.
- J.N. Bhagwati, “The Generalized Theory of Distortions and Welfare,” in J.N. Bhagwati, *International Trade: Selected Readings*, 1981. 171-189.

Wed (09/5/2018)

What to do about the price of rice in “Annam” (a policy exercise)

- T. Kompas, et.al. “Food security and the Poor: Regional Effects of Rice Export policy on Households in Vietnam, ANU Crawford School Research Paper No. 12-44, December 2012.
- J.P. Warr and Frances Wollmer. “The International Demand for Thai Rice Exports,” <https://crawford.anu.edu.au/wp1996/9610.pdf>

Fri (11/05/2018)

Đào Thị Ngọc

Week 12

Mon (14/5/2018)

The infant industry protection

- KOM, Chapter 11
- R.E. Baldwin, “The Case against the Infant Industry Protection,” *Journal of Political Economy*, 77(3), 1969. 295-305.
- A.O. Krueger and B. Tuncer, “An Empirical Test of the Infant Industry Argument,” *American Economic Review*, Vol. 72, No.5, (December 1982) 1142-1152

Wed (16/5/2018)

Trade liberalization

- KOM Chapter 10, pp. 234-254

- **Required reading:** R. Baldwin. “Multilateralising 21st Century Regionalism,” OECD, Feb. 2014.
- **Required reading:** J. Bhagwati, P. Krishna and A. Panagariya, “The World Trade System: Trends and Challenges* Columbia University May 3, 2014
- Yeats, A.J. “Does Mercosur's Trade Performance Raise Concerns About the Effects of Regional Trade Arrangements?” World Bank Policy Research Paper No. 1729, 199H.
- Cabalu and C. Alfonso, “Does AFTA Create or Divert Trade?” mimeo. <https://www.researchgate.net/publication/46555081>

Fri (18/05/2018)

Review

PS 4 due

Week 13

Mon (21/5/2018)

Exchange rate protection

- **Required reading:** J. Riedel, “The Costs and Benefits of Exchange Rate Protection in China” *Asia Pacific Economic Literature*, March 2018.
- W. M. Corden, “Exchange Rate Protection,” in W. Max Corden, ed., *Protection, Growth and Trade, Essays in International Economics*, London: Basil Blackwell, 1981: 271-287.

Wed (23/5/2018)

Strategic trade policy and other controversies

- KOM, Chapter 12
- **Required reading:** J. Riedel. “A Tale of Two Firms—Notes on Strategic Trade Policy”
- Brown, D., “Labor Standards: Where Do They Belong in International Trade Agreements?” *Journal of Economic Perspectives*, 2001. 15 (3) 89-112.
- Esty, D. “Bridging the Trade-Environment,” *Journal of Economic Perspectives*, 15 (3) 8-112

Fri (25/05/2018)

Final term Review

Week 14: Reading week

Thứ 3 (05/06/2018): Group Project Presentation