

International Trade Outsourcing and Foreign Direct Investment

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Chapter 10

Q5. Explain in your own words why a bilateral agreement with another country that opens a nation's borders to both imports from and exports to that country might not necessarily reduce the domestic nation's employment of labour.

A bilateral agreement between two countries means that there is an agreement on trade (import and export), which minimises the tax quota and trade tariffs. When a bilateral agreement occurs between two countries, it means that there are no trade boundaries on the border. However, the labour force in the domestic country remains stable. This is because the infrastructure of the domestic country is governed by the same rules as it was before the agreement. Sometimes, labourers want to move to another country for better employment, but a bilateral agreement only regulates the trade boundaries, and the employment of labour is not affected by it.

Q12. Explain why the short-term effects of outsourcing on US wages and employment tend to be more ambiguous than the long-term effects.

The long-term effects of outsourcing mean that a company is operating more effectively, with a chance of competitive advantage in the industry. The results gained by international trade in labour enable the resources to generate revenue from other resources, which ultimately boosts wages and employment worldwide. The short-term effects of outsourcing in the US remain unclear because every country tends to hire domestic labour from the domestic market, which creates unemployment in the parent country. For example, if the US is working on a project in Mexico, the country will hire Mexican labour instead of using US labour. It directly affects the employment balance in the US, which is not clear in many terms.

Chapter 12

Q4. In your own words, distinguish horizontal foreign direct investment from vertical foreign direct investment.

Foreign Direct Investment (FDI) is classified into two forms: horizontal FDI and vertical FDI. Horizontal foreign direct investment is when a company invests in the same business while working abroad as a domestic company. Vertical FDI is when a company becomes another entity and invests in it. These entities can be suppliers or distributors in the foreign company.

Q8. A domestic industry has been able to prove that a foreign product reengaged in dumping. The foreign producer's counterargument is that it has charged higher prices in its home market simply because this is its profit-maximizing strategy in its home market where barriers to entry have given it monopoly pricing power, whereas it faces considerable competition in the domestic market and hence charges a lower price for its product in that market. Explain why this might be a reasonable economic argument yet do little to fend off the imposition of antidumping penalties under current international anti-dumping rules.

The dumping rule is applied to a company which is doing international business. It regulates the company to charge lower prices in the foreign market than the price in the home market. The situation here clearly describes that the producer is violating the rules of dumping by charging higher prices than the home market. So, according to the anti-dumping duties, in such a situation, the company will be charged double duty because of violating the dumping terms.

Q. What is Inter-industry and Intra-industry trade? How do economies of scale and product variety provide an explanation for Intra-industry trade?

Inter-industry trade is a form of product trade that belongs to different industries. For example, the production of automobiles in one country and electronic equipment in another country. Companies acquire inter-trade according to their competitive advantage. At the same time, intra-industry trade is termed as a trade of products/services in the same industry. Being in the same industry between different countries creates more opportunity costs and enables the company to enter or leave the industry at any time. In such a situation, the company is playing monopoly, and if there is more

competition, it can also lower the prices to observe economies of scale.

Chapter 13

Q1. Discuss the key rationales for governmental regulation reviewed in this chapter. Why do you suppose that national governments may disagree about the appropriate scope of consumer protection regulations?

Government regulators protect consumers' rights to exchanges by providing minimal standards of service and quality. From the consumer exchange perspective, there should be the best possible quality, and the producer wants it at minimum standards. The government might disagree with the standards because there is the appropriate right of a customer to be given the best quality product, and disagreeing with the regulators, the government can set agencies to ensure those standards.

Q2. A source of conflict in international trade is a potential trade-off between free trade and a desire to protect domestic residents from potentially harmful products, such as substandard drugs. Briefly outline one way that nations might cooperatively deal with this problem within the context of online trade in pharmaceuticals.

Protecting residents from harmful products through international trade is the primary concern and issue for countries. However, the most suitable way of protecting the residents from this issue might be by incorporating taxes on pharmaceutical products or increasing taxes on such products. So, if any drug is being traded into the country under the name of medicine, it will be equally charged with tax, which might prevent future trading of drugs.

Q5. If a national government chooses to limit itself to issuing only patents, copyrights, or trademarks in the electronic marketplace, which form of intellectual-property-right protection should it choose to enforce?

If a government choose to limit the patents, copyrights, and trademarks in the online market only, the best stance to consider is the protection of the trademarks. The online market has a huge threat of replicability, and it serves the fraudulents to copy almost everything. Protecting the IP addresses and trademarks through it will be the best protection strategy for the government to implement.

Chapter 14

Q2. List three benefits of portfolio capital and three benefits of foreign direct investment. Give one negative aspect of each. Explain why it is undesirable to rely on portfolio capital only. Explain why it is undesirable to rely on FDI only.

Benefits of portfolio capital:

1. Portfolio diversification (opportunity for international investors to invest in more assets)
2. International credit (access to more foreign credit base)
3. Access to bigger markets (more opportunities for business)

This topic is examined further in [Benefits and Disadvantages of Foreign Direct Investment by multi-national Corporations](#).

Benefits of FDI:

1. Ease in international trade.
2. Increase in employment and economy.
3. Transfer of resources.

Relying only on portfolio capital might destabilize the country's economy, as it is based on a short-term maturity of capital. While relying only on FDI might have a stabilized influence on the country's economy, it can result in a bad domestic economy.

Q. Write a brief note on IMF.

International Monetary Fund (IMF) is an international economic organization that is owned and governed by almost 180 nations. IMF serves to promote economic growth (globally) by establishing monetary cooperation and exchange agreements. It also provides long-term financial assistance to nations that cannot balance payments for any external reason. IMF does not reveal complete information about the requirements of the loans and the placing of finances. However, this is beneficial for the loan borrowers to use the IMF funds for their projects, which ultimately increases the space of moral problems in international financing markets.

References

Daniels, Joseph P., and David D. VanHoose. *Global economic issues and policies*. Routledge, 2017.