

AGRICULTURAL, ENVIRONMENTAL, AND DEVELOPMENT ECONOMICS 734
INTERNATIONAL AGRICULTURAL TRADE POLICY

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Class Location: Agricultural Administration, Rm. 246
Time: Monday/Wednesday, 8.00 a.m.-10.00 a.m.

AED 734 is an intermediate, four-credit hour course that focuses on international trade theory and its application to trade and policy issues in the food and agricultural sector. The course will expose students both to traditional economic analysis relevant to understanding issues relating to trade in agricultural commodities and also to new trade theories and their application to trade issues in the processed food sector.

Course Objectives/Description:

- to understand the gains from and causes of trade in agricultural commodities;
- to analyze the linkages between agricultural commodity programs and trade policies;
- to examine the welfare implications of agricultural and trade policies for the U.S. and other countries in an interdependent world;
- to understand the role of imperfect competition in explaining trade patterns;
- to analyze the effects of trade policies when markets are imperfectly competitive.

Prerequisites:

Economics 501 and 502 or equivalent

Course Organization:

The course is organized into two 2-hour lectures per week. The course grade will be assigned on the basis of one term paper, a mid-term examination (Nov.3, in class) and a final examination (Dec. 11, 7.30-9.18 am), with weights of 30%, 35% and 35% respectively. The term paper, which should be 6-10 pages in length, is due before the final examination, and should cover a trade topic of your choice. Late term papers will result in a grade penalty. (Some guidelines for the term paper are given at the end of the course outline).

Academic Misconduct:

Plagiarism and other forms of cheating will not be tolerated. University rules provide severe penalties for academic misconduct, ranging from course failure to dismissal from the university. University rules are found in the handbook used in all survey courses: "University Survey-A Guidebook and Readings for New Students."

Disability:

Students with disabilities that have been certified by the Office for Disabilities Services will be appropriately accommodated, and should inform the instructor as soon as possible of their needs.

Text:

The basic text for the course is: J.R. Markusen, J.R. Melvin, W.H. Kaempfer, and K.E. Maskus (1995). International Trade: Theory and Evidence, McGraw-Hill. In addition, the following are regarded as important background texts, all of which will be placed on reserve in the Agricultural Library. Remaining chapters in books will be photocopied and placed on reserve.

Bhagwati, J.N., Panagariya, A., and Srinivisan, T.N. (1998). Lectures on International Trade, MIT Press.

Tyers, R. and Anderson, K. (1992). Disarray in World Food Markets: A Quantitative Assessment, Cambridge University Press.

Tweeten, L. (1992). Agricultural Trade: Principles and Policies, Westview Press.

Journal Articles:

Some of the assigned reading will come from selected journals. A copy of each article will be placed on reserve in the Agriculture Library. In the bibliography for each section of the course, the number assigned to each article will correspond to the folder number on reserve.

AED 734 COURSE OUTLINE:

Part 1: Trade and Trade Policy in Agricultural Commodities

I. Neoclassical Trade Theory

(i) Basic Background:

- (a) General Equilibrium in Open and Closed Economies
- (b) The Gains from Trade

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapters 2-5.

(ii) The Causes of Trade:

- (a) Ricardian Theory
- (b) Heckscher-Ohlin-Samuelson Model
- (c) The Specific-Factors Model

Reading¹:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapters 6-9.

Bhagwati, J.N., Panagariya, A., and Srinivisan, T.N. (1998). Lectures on International Trade, Chapters 2,3 and 4.

Tweeten, L. (1992). Agricultural Trade: Principles and Policies, Chapter 2.

(1) Bhagwati, J. (1964). "The Pure Theory of International Trade: A Survey", Economic Journal, 74, pp.1-26.

¹ The numbered references refer to photocopies held on open reserve in the Agriculture Library

- (2) Dornbusch, R., Fischer, S. and Samuelson, P.A. (1977). "Comparative Advantage, Trade, and Payments in Ricardian Model with a Continuum of Goods", American Economic Review, 67, 823-839.
- (3) Jones, R.W and Neary, J.P. (1984). "The Positive Theory of International Trade", in Handbook of International Economics, pp.1-21.

II. Agricultural Trade and Trade Policy

(i) Agricultural and Food Trade

- (a) Patterns of Food and Agricultural Trade
- (b) Nature of Distortionary Policies in Agricultural Trade

Reading:

- Tyers, R. and Anderson, K. (1992). Disarray in World Food Markets: A Quantitative Assessment, Chapters 1-2.
- Tweeten, L. (1992). Agricultural Trade: Principles and Policies, Chapter 1.
- (47) Anderson, K. and Martin, W. (2005). "Agricultural Trade Reform and the Doha Development Agenda", World Economy, 28, 1301-1327.

(ii) Analysis of Agricultural Trade Policy

- (a) Tariffs and Export Subsidies
- (b) Tariffs and Distortions
- (c) Optimal Tariffs and Monopoly
- (d) Quotas and Non-Tariff Barriers
- (e) Immiserizing Growth
- (f) Political Economy of Tariffs

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapters 15 and 16.

Bhagwati, J.N., Panagariya, A., and Srinivisan, T.N. (1998). Lectures on International Trade, Chapters 12, 13, 14, 21, 29 and 34.

Tyers, R. and Anderson, K. (1992). Disarray in World Food Markets: A Quantitative Assessment, Chapters 4-7.

Tweeten, L. (1992). Agricultural Trade: Principles and Policies, Chapters 4 and 5.

(34) Grossman, G.M. and Helpman, E. (1994). "Protection for Sale", American Economic Review, 84, 833-850.

(iii) The GATT/WTO and Agriculture

(a) The Economics of GATT

(b) The Uruguay Round of GATT and Agriculture

(c) Tariffication and Tariff-Rate Quotas

(d) Agricultural Issues in the WTO

(e) Development and Globalization

Reading:

Bhagwati, J. Free Trade Today.

Irwin, D.A. Free Trade Under Fire.

Stiglitz, J.E. Globalization and Its Discontents.

Tweeten, L. (1992). Agricultural Trade: Principles and Policies, Chapter 9.

(4) Anderson, K. (1994). "Multilateral Trade Negotiations, European Integration, and Farm Policy Reform", Economic Policy, 18, 13-52.

- (5) Moschini, G. (1991). "Economic Issues in Tarriffication: An Overview", Agricultural Economics, 5, 101-120.
- (6) Abbott, P.C. and Paarlberg, P.L. (1998). "Tariff Rate Quotas: Structural and Stability Impacts in Growing Markets", Agricultural Economics, 19, 257-267.
- (7) Skully, W. D. (1999). "The Economics of TRQ Administration", IATRC Working Paper, 99-6.
- (8) USDA/ERS. (1998). "Agriculture in the WTO", International Agriculture and Trade Report, WRS-98-4.
- (26) Boughner, D.S., de Gorter, H., and Sheldon, I.M. (2000). "The Economics of Two-Tier Tariff-Rate Import Quotas", Agricultural and Resource Economics Review, 29, 58-69.
- (27) International Agricultural Trade Research Consortium (2001). "Issues in Reforming Tariff-Rate Import Quotas in The Agreement on Agriculture in the WTO", Commissioned Paper, 13.
- (28) International Agricultural Trade Research Consortium (2001). "Market Access: Issues and Options in the Agricultural Negotiations", Commissioned Paper, 14.
- (29) International Agricultural Trade Research Consortium (2001). "Export Competition: Issues and Options in the Agricultural Negotiations", Commissioned Paper, 15.
- (30) International Agricultural Trade Research Consortium (2001). "Domestic Support: Issues and Options in the Agricultural Negotiations", Commissioned Paper, 16.
- (31) International Agricultural Trade Research Consortium (2001). "The Role of Product Attributes in the Agricultural Negotiations", Commissioned Paper, 17.
- (32) Bagwell, K. and Staiger, R.W. (1999). "An Economic Theory of GATT", American Economic Review, 89, 215-248.
- (33) Bagwell, K. and Staiger, R.W. (2001). "The WTO as a Mechanism for Securing Market Access Property Rights: Implications for Global Labor and Environmental Issues", Journal of Economic Perspectives, 15, 69-88.
- (39) Watkins, K. (2003). "Northern Agricultural Policies and World Poverty: Will the Doha 'Development Round' Make a Difference?" Oxfam.
- (40) Oxfam (2003). "Running into the Sand: Why Failure at the Cancun Trade Talks Threatens the World's Poorest People." Oxfam Briefing Paper.

(41) World Bank (2003). "Global Economic Prospects: Realizing the Development Promise of the Doha Agenda." World Bank.

(47) Anderson, K. and Martin, W. (2005). "Agricultural Trade Reform and the Doha Development Agenda", World Economy, 28, 1301-1327.

(iv) Regionalism vs. Multilateralism

(a) Preferential Trading Arrangements

(b) Spaghetti Bowls and Trade

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapter 18.

Bhagwati, J. Free Trade Today. Lecture 3.

(48) Panagariya, A. (2000). "Preferential Trade Liberalization: The Traditional Theory and New Developments", Journal of Economic Literature, 38, 287-331.

(49) Baldwin, R.E. (2006). "Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade", World Economy, 29, 287-331.

Part 2: Trade and Imperfect Competition

I. Imperfect Competition and Trade

(a) Imperfect Competition and Gains from Trade

(b) Economies of Scale

(c) Intra-Industry Trade

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapters 11-13.

(10) Henderson, D.R., Sheldon, I.M. and Pick, D.H. (1996). "International Commerce in Processed Foods: Patterns and Curiosities", IATRC Working Paper, 96-3.

- (11) Sheldon, I.M. (1998). "Trade and Overseas Investment in the Food Processing Industry", Paper presented at conference, The Economic Future of Agriculture in the Northern Plains.
- (12) Hirschberg, J.G., Sheldon, I.M. and Dayton, J.R. (1994). "An Analysis of Bilateral Intra-Industry Trade in the Food Processing Sector", Applied Economics, 26, 159-167.
- (13) McCorriston, S. and Sheldon, I.M. (1991). "Intra-Industry Trade and Specialization in Processed Agricultural Products: The Case of the US and EC", Review of Agricultural Economics, 13, 173-184.
- (14) Carter, C.A. and Yilmaz, A. (1996). "What Do We Know about Intra-Industry Trade in Processed Food?", IATRC Conference Paper.
- (15) Markusen, J.R. (1995). "The Boundaries of Multinational Firms and the Theory of Trade", Journal of Economic Perspectives, 9, 169-189.
- (16) Krugman, P.R. (1995). "Increasing Returns, Imperfect Competition and the Positive Theory of International Trade", in Handbook of International Economics.
- (50) Sheldon, I. (2006). "Monopolistic Competition and Trade: Does the Theory Carry any Empirical Weight?" Journal of International Agricultural Trade and Development, 2, 1-32.

II. Imperfect Competition and Trade Policy/Other Policy Issues

(i) Strategic Trade Theory

- (a) Export Subsidies and Oligopoly
- (b) Import Tariffs and Oligopoly

Reading:

- Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapter 17.
- (17) Bhagwati, J. (1989). "Is Free Trade Passé After All?", Weltwirtschaftliches Archiv, 125, 17-44.
- (18) Grossman, G. (1988). "Strategic Export Promotion: A Critique", in Strategic Trade Policy and the New International Economics, edited by P.R. Krugman.

- (19) Krishna, K. and Thursby, M. (1990). "Trade Policy with Imperfect Competition: A Selective Survey", in Carter, C., McCalla, A. and Sharples, J. (eds) Imperfect Competition and Political Economy: The New Trade Theory in Agricultural Trade Research. Westview Press.
- (20) Krugman, P.R. (1987). "Is Free Trade Passé?", Journal of Economic Perspectives, 1, 131-144.
- (21) Thursby, M. (1988). "Strategic Models, Market Structure and State Trading: An Application To Agriculture" in Trade Policy Issues and Empirical Analysis edited by R.E. Baldwin, NBER, University of Chicago Press: Chicago.
- (22) McCorrison, S. and Sheldon, I.M. (1993). "Optimal Trade Policies: An Application to the UK Fertilizer Market", Oxford Economic Papers, 45, 118-129.
- (23) McCorrison, S. and Sheldon, I.M. (1994). "Is Strategic Trade Theory Relevant to Agricultural Trade Policy Research?" in Agricultural Trade and Economic Integration in Europe and in North America edited by M. Hartmann, P. Michael Schmitz and H. von Witzke, Wissenschaftsverlag: Kiel.
- (24) McCorrison, S. and Sheldon, I.M. (1995). "Changes in Firm Behavior and Alternative Trade Policy Instruments" in Industrial Organization and Trade in the Food Industries edited by I.M. Sheldon and P.C. Abbott, Westview Press: Boulder, CO.
- (25) Brander, J.A. and Spencer, B.J. (1985). "Export Subsidies and International Market Rivalry", Journal of International Economics, 2, 83-100.
- (37) Sheldon, I.M., Pick, D.H., and McCorrison, S. (2001). "Export Subsidies and Profit-Shifting in Vertical Markets", Journal of Agricultural and Resource Economics, 26, 125-141.

(ii) Trade and the Environment

Reading:

- (9) Anderson, K. and Blackhurst, R. (1992). The Greening of World Trade Issues, Chapter 2.
- (35) Copeland, B.R. and Taylor, M. Scott. (1994). "North-South Trade and the Environment", Quarterly Journal of Economics, 109, 755-787.
- (36) Antweiler, W., Copeland, B.R., and Taylor, M. Scott. (2001). "Is Free Trade Good for the Environment?" American Economic Review, 91, 877-908.
- (38) McCorrison, S. and Sheldon, I.M. (2005). "Market Access and WTO Border Tax Adjustments for Environmental Taxes under Imperfect Competition", Journal of Public Economic Theory, 7, 579-592.

- (42) Ulph, A. (1994). "Environmental Policy and International Trade – A Survey of Recent Economic Analysis." University of Southampton Working Paper.
- (45) Sheldon, I.M. (2006) "Trade and Environmental Policy: A Race to the Bottom?" Journal of Agricultural Economics, 57, 365-392.

(iii) Trade, Development and Market Access

Reading:

- (43) McCorriston, S. and Sheldon, I.M. (2003). "Successive Oligopoly, Market Access and Tariff Escalation."
- (44) McCorriston, S. and Sheldon, I.M. (2003). "Globalization, Food Industry Consolidation and Market Access: Implications for Developing Countries."
- (51) Sexton, R.J., Sheldon, I., McCorriston, S., and Wang, H. (2007). "Agricultural Trade Liberalization and Economic Development: The Role of Downstream Market Power", Agricultural Economics, 36, 251-268.

(iv) Outsourcing

Reading:

- (46) Bhagwati, J., Panagariya, A. and Srinivasan, T.N. (2005). "The Muddles over Outsourcing." Journal of Economic Perspectives, 18, 93-114.
- (52) Amiti, M. and Wei, S-J. (2005). "Fear of Service Outsourcing: Is it Justified?" Economic Policy, 309-347.
- (53) Grossman, G.M. and Rossi-Hansberg, E. (2006). "The Rise of Offshoring: It's Not Wine for Cloth Anymore".
- (54) Leamer, E. E. (2007). "A Flat World, a Level Playing Field, a Small World After All, or None of the Above? A Review of Thomas L. Friedman's *The World is Flat*." Journal of Economic Literature, XLV, 83-126.

Guidelines for Term Paper

(i) The only binding constraint in terms of your choice of topic is that it be related in some way to issues of international trade. Some broad (but not exclusive) possibilities are:

- take a specific paper from the reading list, and write a critical assessment of the paper, i.e. motivate the topic, set it in the context of the broader literature, and then discuss the paper
- discuss a policy issue such as the interaction between trade and environmental policy
- pick a specific country, and discuss its current international trading position, and assess its future trading outlook from joining a free trade agreement
- review the history of a country's trade in an important agricultural commodity, and evaluate its current position as its own and international markets become more liberalized
- compare and contrast the economic analysis of trade to other approaches to analyzing trade in the social sciences

(ii) The broad structure of the paper should be as follows, within the 6-10 page constraint:

- provide a motivation for the specific topic you have chosen, i.e., why is it an interesting trade issue; is it theoretical or empirical; how will you approach analyzing the topic?
- given the introduction, provide the core of your analysis, i.e., outline of the theory; analysis of the relevant data; discussion of the policy issue. Pay attention in this section to the connection between your topic and trade theory; e.g., if you are analyzing a country's overall trade or trade in a specific commodity, consider what, in theory, might explain that trade - alternatively if you are examining different models of trade in the social sciences, highlight the key differences between the theories, and the paradigm on which they are based.
- conclude the paper with a summary of your analysis, and discuss the implications; e.g., if you believe the paper you have criticized has some important weaknesses, say what they are and how they might be addressed; if your analysis say of trade and environmental issues indicates trade liberalization is "bad" for the environment, offer some policy prescriptions; if you analyzed trade in a specific commodity, offer a perspective on the future, and the role of policy makers in affecting that future; if you believe other social scientists have something useful to add to the economic theory of trade, consider how these ideas might be incorporated in neoclassical theory.