Policies and Trade - Part III: Export Subsidies

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International Commerce
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Export Subsidies

- Governments promote or subsidize exports more often than they restrict or tax them
- Export subsidies often highly transparent, e.g., those given to agricultural commodities by EU (Figure 1)
- Since inception of WTO, focus on any policy that acts as an export subsidy in agriculture, e.g., Brazil won case in 2009 against US in WTO relating to cotton
- WTO members agreed in 2015 to abolish their use
- Export subsidies often good for those who complain about them, bad for those who use them
EU Export Subsidies

Figure 1: EU Agricultural Export Subsidies, 1990-2010

Source: OECD
Export Subsidy: Large Country

**Exporter**

- $P_w'$ and $P_w'$
- $Q_D'$ and $Q_D$
- $Q_s$ and $Q_s'$

**World Market**

- $P_w'$ and $P_w'$
- $Q$ and $Q'$
- $S_w$ and $S_w'$
- $D_w$ and $D_w'$

Points:
- $e$, $f$, $g$, $h$, $i$, $j$, $k$, $l$, $m$, $n$, $r$, $t$, $u$
Terms of Trade Effects

- Large exporter faces supply curve, $S_w$
- With $s$, exports rise to $Q_s'$, or equivalently $Q'$, and world price falls to $P_w'$
- Exporter deadweight net loss is $-(f+h+i+j+k+l+m)$, made up of consumption effect $-(f)$, production effect $-(h)$, and terms of trade effect $-(i+j+k+l+m)$
- In world market, importer benefits due to fall in world price by extra consumer surplus of $+(n+r+t)$
- Overall, world worse off by $-(f+h+u)$, i.e., too much of good is exported