UNIVERSITY OF JOHANNESBURG

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SCHOOL OF ECONOMICS

INTERNATIONAL TRADE: THEORY AND POLICY ISSUES

EKN4811/ITP8X01/ ITP8X02

Examination: November 2018

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Duration: 3 HOURS

TOTAL MARKS: 100

Instructions:
1. Number of pages: **4**
2. The paper consists of **four (4)** questions.
3. Each question carries 25 marks.
4. Answer ALL the questions
5. Write **neatly** and **legibly (We strongly discourage SMS style of writing)**

<u>Question 1</u> **[25 marks]**

Article title: ***Davies, 'don't be chicken over Agoa'*** Sunday Times Business Times 5 August 2018

South African poultry industry has threatened court action against the government if the industry minister Rob Davies does not suspend an arrangement for United States chicken to enter the country duty-free.

African Growth and Opportunity Act (AGOA) was enacted in the United States in 2000 and renewed in 2015. The arrangement allows duty free market access of exports from Sub-Saharan Africa. <u>In return, South Africa agreed to allow in 65,000 tonnes of United States poultry per year (quid pro quo) for continued benefits of other industries under the programme.</u> One of the industries that benefits from the exchange is the steel and aluminium and motor vehicles industries in South Africa. However, the arrangement is under threat after President Donald Trump raised tariffs on steel and aluminium imports.

Assume that the South African poultry industry succeeds in persuading the Minister of Trade and Industry Dr Rob Davies to impose restrictions on United States chicken imports. Assuming that markets are competitive, <u>discuss the welfare effects of an import quota</u> on South African economy by looking at:

(i) Efficiency (4)

(ii) The welfare of consumers and producers, and (8)

(iii) Income distribution (3)

(iv) Briefly explain the effect on the domestic economy if a tariff were to be imposed instead of a quota, assuming that markets are competitive. (10)

<u>Question 2</u> **[25 marks]**

According to UNCTAD report, Least Developed Countries (LDCs) are characterised by a relatively high level of trade integration and on average are more open than other developing countries. Many LDCs have undertaken very rapid and deep trade *liberalisation.* ***Among the LDCs, African commodity exporters are the most open. Yet poverty levels remain very high, particularly among commodity-producing countries***. UNCTAD 2010.

a) Explain how commodity-dependence and the composition of trade may have contributed to the high levels of poverty in African countries. (10)

b) The Stolper-Samuelson theorem in the Heckscher-Ohlin (H-O) model is very important and quoted very often in the trade and poverty debates. Briefly explain the income distributional effects of trade according to this theorem. (6)

c) Explain three flaws in the use of cross-sectional models to analyse the link between trade and poverty. (6)

d) What is the role of inequality in the link between poverty and growth. (3)

<u>Question 3</u> **[25 marks]**

(a) What are some of the weaknesses or problems of using the neo-classical trade theory to explain FDI? (5)

(b) Explain Hymer's theory of FDI. (7)

(c) Explain the OLI framework by Dunning. (8)

(d) Comment on the usefulness of Dunning's eclectic paradigm in explaining FDI in Africa. (5)

<u>Question 4</u> **[25 marks]**

(a) Explain the internalization theory of FDI. (10)

(b) Explain the usefulness or relevance of the internalization theory in explaining FDI in developing countries. (5)

(c) Discuss the drawbacks of the internalization theory. (10)

<u>END OF PAPER</u>