

International Economic and Political Economy
(20 sessions)
PGPX 2019-20

Instructor

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Objectives

The course seeks to introduce the student to the international economy, trade and investment theories and to the institutional arrangements governing international investment and trade. The focus is on conceptual perspectives that could help managers understand the international economy. The course is meant for practical managers and policy makers who desire deeper and fundamental understanding of the international political and economic environment. The course covers perspectives from economics, strategy, international relations and sociology.

Contents in Brief

- Core theories of international trade – comparative advantage, the infant industry argument, optimal tariffs. Effective protection rates. Gravity models of trade. Trade blocks and unions. Trade policies.
- The technology factor in international trade.
- Foreign direct investment and the multinational corporation. Core theories underlying international investment. The advantage concept, product and industry cycle theories. The OLI Framework. Various parities.
- Capital market theories of foreign direct investments (FDI) and portfolio flows. Multinationals from emerging economies.
- WTO, the negotiation process, reciprocity, the notion of MFN, TRIMS, TRIPs. Dispute Settlement under WTO. Social and environmental clauses.
- Dynamic comparative advantage. Export led growth (ELG). Multinationals from emerging economies. Late industrialisation and emerging economies. Macroeconomics of ELG. Aggressive exchange rates as growth strategy. Rapid economic transformation.
- Culture (Country of origin factors) in competitiveness
- China's rise in the world economy. The space for China in the world economy.
- Network effects, clusters and innovative IT industries.

Pedagogy

A selected set of readings from both standard texts and important conceptual articles form the basis of discussions in class and the issues raised by the facts and arguments in the same are discussed in the class. Some of the more facts oriented readings would be quickly presented by the students and then discussed. The emphasis is on readings that bring out the core concepts. In the sessions with cases, the core case facts would be brought out and then discussed. The readings provide the backdrop. All sessions would be video recorded and made available to the students.

Prerequisites

“Open Economy Macroeconomics” and “Firms and Markets” are prerequisites for PGPX. MEP and Microeconomics for PGP/ABM/FPM.

Evaluation

Class participation and presentations: 30%; Examination 30%; Group Assignment 40%.

Group assignment would be on well-defined topic with the questions posed clearly. Not more than 5 students would be in each group.

The topic for the group assignment would have to be selected building on the advantages of the group members to work on the topic, and the availability of materials (data, information, and secondary studies, news material), besides “do-ability”. Group members are encouraged to check the topic with the instructor. A brief proposal outlining the objective, the questions (sharply posed) and the possible sources of data is expected to be submitted by the end of the second week from the start of the course. Besides being an element of evaluation it is expected that the report would be briefly presented to the class over two separate sessions. Each group will have a total of 30 minutes for presentation. Some illustrative topics have are listed below. Groups are welcome and encouraged to work on a topic that is outside this list.

Illustrative List of Topics for the Group Assignment

- India’s anti-dumping cases against China and what they indicate about its competitiveness
- Internationalisation of Chinese automobile industry
- Foreign direct investments from India in recent times – trends and patterns
- Determinants of FDI using panel data – study of FDI inflows
- Brownfield investments into infrastructure sector in India
- Quantitative easing, forward guidance and unconventional macroeconomic policies – their impact on the emerging economies
- Extend of inward migration and its significance for growth in the US/ Germany /EU
- Foreign portfolio flows into emerging economies since the GFC
- India’s agriculture related cases in the WTO
- The future of electric vehicle manufacture in India –Policy, market, and constraints.
- India telecom industry abroad – the case of Bharti Airtel
- What happened to Flipkart? Its rise and takeover by Walmart
- Analysis of the China US trade – patterns and trends and an explanation for the same
- Performance of resource dependence economies in Africa since the slowdown of China – The case of Nigeria/ Congo (Kinshasa)/ Angola
- The Thai economy since the GFC
- Brexit – The implications for the auto industry in the UK
- Brexit – The implications for the City of London (London as a financial centre)
- Phyto-sanitary regulations and India’s export of agricultural products to EU/Japan/US since the WTO.
- India’s biotech firms – Where do they stand globally
- Exports of high-technology products and services from China, India and Korea/Taiwan – A comparison
- India’ arms imports – trends and patterns; and an explanation for the same
- FDI into on-line space in India
- Venture fund (foreign) investments in India –Sources and deployment patterns
- The Pakistan India trade –estimating the potential under MFN and normal relations using a gravity model
- Using a gravity model to estimate the relative openness of the BRICS economies

- The rise of Vietnam in the global economy in recent times
- China's exchange rates since the open-door policy- Does it explain its spectacular export performance?
- A survey of various views on the implications of ultra-low interest rate regime in the US and Europe
- Ethnic minorities and conflict across nations – survey of trends
- Remittances in the economy of certain countries – Philippines / Nigeria/ Jamaica/ Pakistan
- Reading and summarising important books (after checking with the instructor)

Books

Sawyer, Charles W. and Richard L. Sprinkle (2009), *International Economics*. Pearson.

SESSION WISE OUTLINE

Session 1: International Trade Some Concepts (gravity model, the factor proportions theory)

Basic ideas in “pure” trade theory. Comparative Advantage. The Gravity “law” of interactions and its role in trade volumes. Free trade.

Readings

1. Sawyer, Charles W. and Richard L. Sprinkle (2003) “Why Countries Trade”, *International Economics* by Sawyer and Sprinkle, pp.18-47.
2. Sawyer, Charles W. and Richard L. Sprinkle (2003) Chapter 3: Comparative Advantage and the Production Possibilities Frontier and Appendix 4.1, in *International Economics* by Sawyer and Sprinkle

Sessions 2-3 : Customs Unions, Tariffs Tariff Policy, Protection and Regional Arrangements.

Tariffs. Quotas and other non-tariff barriers. Effective Protection. Tariff and price based calculations. Optimal tariffs. MFN, Reciprocity. Regional economic trade agreements.

Readings

3. Sawyer, Charles W. and Richard L. Sprinkle (2003) “Tariffs”, *International Economics*, pp126-147. In in *International Economics* by Sawyer and Sprinkle
4. Sawyer, Charles W. and Richard L. Sprinkle (2003) “Non tariff distortions to trade” *International Economics*, pp149-165, in *International Economics* by Sawyer and Sprinkle
5. Sawyer, Charles W. and Richard L. Sprinkle (2003) “International Trade Policy”, Chapter 9, *International Economics*, pp166-182, in *International Economics* by Sawyer and Sprinkle
6. Sawyer, Charles W. and Richard L. Sprinkle (2003), Chapter 10, “Regional Economic Arrangements”, *International Economics*, pp 183-197, in *International Economics* by Sawyer and Sprinkle

Session 4: Dynamic Comparative Advantage and Export Led Growth

The Listian infant industry argument. Comparative advantage reconsidered. Notion of dynamic comparative advantage. Conceptualising Export led growth.

Readings

7. Morris, Sebastian, Understanding Export Led Growth and Late Industrialisation to Explain the Differences in the Post Reform Performance of India and China (March 2005). Indian Institute of Management Working Paper No. 2005/03/02. Available at SSRN: <https://ssrn.com/abstract=1755458> or <http://dx.doi.org/10.2139/ssrn.1755458>
8. Lall, Sanjaya (2004), "Reinventing Industrial Strategy: The Role of Government Policy in Building Industrial Competitiveness", G-24 Discussion Paper Series UNITED NATIONS 277, April. <http://www.freetradedoesntwork.com/research/ReinventingIndustrialStrategy.pdf>

Sessions 4-5: The Technology Factor in International Trade, Foreign Direct Investments the Mainstream Paradigm

Technology and neo-factor trade theories. The Leontief "paradox". Product cycle approaches for both trade and international (direct) investment. Distinguishing between direct and portfolio investments. "Brownfield" investments. The Advantage concept. The OLI Framework (Ownership, location and internalisation) in explaining FDI.

Readings

9. Kindleberger, Charles P. (1969), "American Business Abroad: Six Lectures", Lecture 1. UK, Penguin Books
10. Vernon, Raymond (1966), "International Investment and International Trade in the Product Cycle", *The Quarterly Journal of Economics*, Vol.80, pp.190-207.

Recommended Readings

11. Magee, Stephen (1977), "Multinational Corporations, the Industry Technology Cycle and Development", *Journal of World Trade Law*, pp.297-321, part 1.

Session 6(part): The International Capital Market and Various Parities.

Covered and uncovered interest parities. Absolute and relative purchasing power parity. What does the violation of uncovered interest parity mean? Law of one price and its violation. Relationship with macroeconomic models. The dollar and reserve currencies.

Readings

12. Gandolfo, Giancarlo (2004), "Exchange Rate Regimes and the International Monetary System", Chapter 3 in *Elements of International Economics*, Giancarlo Gandolfo, Springer, 2004, Berlin, Heidelberg, New York.
13. Gandolfo, Giancarlo (2004), "International Interest Rate Parity Conditions" Chapter 4, in *Elements of International Economics*, Giancarlo Gandolfo, Springer, 2004, Berlin, Heidelberg, New York.

Recommended Readings

14. Sawyer, Charles W. and Richard L. Sprinkle (2003) "International Transactions and Financial Markets" International Economics, pp. 221-240, in *International Economics* by Sawyer and Sprinkle
15. Sawyer, Charles W. and Richard L. Sprinkle (2003) "International Monetary Arrangements" International Economics, pp. 390-408, in *International Economics* by Sawyer and Sprinkle

Session 6 (part): Foreign Direct Investments and the Monetary theory

Beyond mainstream theory to a financial theory of multinational investments. The relationship between portfolio and direct investment. Capital cost advantages.

Readings

16. Aliber, Robert Z (1970) "A Theory of Direct Foreign Investment, C.P. Kindleberger (ed.) *The International Corporation: A Symposium*, MIT Press pp. 17-34.

Sessions 7-8: The WTO Agreement on Trade - MFA, Agriculture and TRIMS, TRIPS, social and environment clauses and emerging negotiation complexities

GATT, Uruguay Round and the WTO. India in the WTO. The various agreements. The experience of WTO until 2016. TRIMS, TRIPS, social and environment clauses. Phyto-sanitary conditions and standards.

Readings

17. WTO (2009), http://www.wto.org/english/thewto_e/whatis_e/tif_e/understanding_e.pdf.
18. Watal, J. (2007). Patents. In Kaushik Basu (Ed.), *The Oxford Companion to Economics in India* (pp.388-391). New Delhi: Oxford University Press.

Sessions 9: Dispute Settlement under the WTO

International trade disputes. US in trade disputes. WTO as a mediator. East Asian competitiveness.

Case

19. "The Delta Blues: US – Vietnam Catfish Trade Dispute (A)", Harvard Business School, 9-706-003, Nov.22, 2005.

Recommended Readings

20. Davey, William (2005), "The WTO Dispute Settlement System: The First Ten Years", *Journal of International Economics Law*, Vol. 8, No.1, pp. 17-50.

Session 10: Sustainable Growth Measures and WTO, Public Procurement and the WTO – India and Solar Cells in WTO

The impending challenge of climate change and environmental clauses. Why India lost the solar cells dispute thrice? Implications for state capability in negotiations and exercise of strategy.

Readings

21. Karttunen and Moore (2018) "India - Solar Cells: Trade Rules, Climate Policy and Sustainable Development Goals", *World Trade Review*, Vol.17, No.2, pp215-237.

Session 11-12: Foreign Direct Investments from Emerging Economies. Emerging Economy Challenges.

The nature of technological capability in emerging economies – the Case of India and China. Scale scope, R&D. Late industrialisation in firm competitiveness.

Cases

22. Enright, Michael, Venkat Subramanian (2007), “BIOCON: From Generics Manufacturing to Biopharmaceutical Innovation”, Asia Case Research Centre, The University of Hong Kong.
23. Palepu, Krishna, Tarun Khanna and Ingrid Vargas (2006), “Haier: Taking a Chinese Company Global”, Harvard Business School, 9-706-401.

Session 13: Country of Origin Influences on Preferences- Westernisation and “Nationalisms”

Modernisation, westernisation and “Sankritisation”. Nationalism as complimentary and competing sociological processes. Life style associated products. Implications for country of origin of brands in the determination of their value.

Cases

24. Jerath, Deepti and Mohan Pandey (2002) “The Coca Cola Company”, IIMA Case /Eco-347.
25. Rao, Adapa Srinivasa and G. V. Muralidhara (2016), “Patanjali Ayurved -Will the growth momentum sustain?”, IBS Centre for Management Research. 516-0154-1

Session 14: Understanding Laissez-faire, Import Substitution, and Export-Led Growth

Neo-mercantilism. The limitations of the notion of dynamic comparative advantage. Underutilised resources and economic theory. Export led growth characterised as simultaneous promotion of import substitution and export promotion. Aggressive exchange rates in ELG. ELG as late industrialisation. Macroeconomics of ELG. ELG since the Global Financial Crisis.

Reading

26. Lall, Sanjaya (2004), “Re-inventing Industrial Strategy – The Role of Government Policy in Building Industrial Competitiveness”, G-24 Discussion paper series. UNCTAD No.28. April
27. Morris, Sebastian (1977), “Why not push for a 9% growth rate?”, *Economic and Political Weekly*, May 17-24, 1997, pp. 1153-1166.

Recommended Reading

28. Swanson, Ana (2015), “30 charts and maps that explain China today -China's mind-boggling size, economy and history, visualized”, Washington Post, https://www.washingtonpost.com/news/wonk/wp/2015/09/24/china-explained-simply-with-charts/?utm_term=.d384cded8a78 , September 24, 2015.

Session 15: Competition, “Cooperation” and the State in Strategic Industries

The competent state in strategic industries. Advanced country cases. Strategic economic policies in late industrialisation. China’s high tech industries. Cooperation and competition in strategic industries. The role of “global” regulators. The weakening Indian state in contrast.

Cases:

29. Chan, Isabella, “Ready to Take Off (A) – The Global Large Civil Aircraft Industry”, Asia Case Research Centre, Univ of Hong Kong, 608-042,1

Recommended Readings

30. Crane, Kieth (2014)” The Effectiveness of China’s Industrial Policies in Commercial Aviation Manufacturing, RAND Office of External Affairs, CT-416, July 2014.

31. Niosi, George and Jing Yuan Zhao (2013), “China’s Catching up in Aerospace”, *International Journal of Technology and Globalisation*, Vol.7., Nos. 1&2.

Sessions 16 and 17: Global Economic Leadership – The Current Struggles

Would the dominance of the US give way in technology trade? The trade wars today. Why is the US willing to disrupt global agreements? How would the world economy be affected?

Case

32. HBR Case, May 24, 2019 “The US-China Trade War”, HBS 9-719-034

Readings

33. Jiming and Posen (2018), “Economic Truths Towards resolving China-US Conflict”, Chapter 1 in Jiming and Posen (Eds.) (2018, June). PIIE *Briefing, 18-1, US-China Economic Relations: From Conflict to Solutions*”, Pieterseon Institute for International Economics
34. Jiming and Posen (2018), “Economic Truths Towards resolving China-US Conflict”, Chapter 1 in Jiming and Posen (Eds.) (2018, June). PIIE *Briefing, 18-1, US-China Economic Relations: From Conflict to Solutions*”, Pieterseon Institute for International Economics
35. Bown (2018), “The Accumulating Self Inflicted Wounds from Trump’s Unilateral Trade Policy”, chapter 2 in Jiming and Posen (Eds.) op.cit.
36. Lawrence (2018) “US-China Trade Frictions and the Global Trading System”, Chapter 3 in Jiming and Posen (Eds.) op.cit.

Session 18 and 19: Region, Clusters and Competitiveness and International Location

Locational advantages. Why are some industries clustered? The idea of path dependency and what it means to competitiveness? Would location itself be influenced by the strategies of MNCs in their international division of labour? Interfirm linkages in high technology industries and the impact they have on clusters, competition and location. The idea of regional and national systems of innovation. The special case of IT and innovative electronics industries. Global urban hierarchies and location of highly skilled employment. National strategies.

Readings

37. Morris, Sebastian (2003) “Competition, Regulation and Strategy: The IT Industry”, *Economic and Political Weekly*, August 16, 2003, pp.
38. Hymer, Stephen (1971), “The Multinational Corporation and the International Division of Labour” Chapter 6 in *The Multinational Corporation – A Radical Approach (Papers by Stephen Hymer)*, ed. Cohen et al Cambridge Univ. Press

Recommended Readings

39. Morosini, Piero (2003), “Industrial Clusters, Knowledge Integration and Performance”, *World Development*, Vol.32, No. 2, pp.305-326.
40. Porter, Michael E. (1998), “Clusters and Competition – New Agendas for Companies, Governments and Institutions” from *On Competition*, by Porter, Michael E. Harvard Business Review Book.

Session 20: International Migration and Remittances

Export of factor services. Mode 4 and the WTO. International migration and growth of advanced countries. The impact of remittances of emerging economies. Factor versus Production in global economic transactions. Can migrations and remittances provide an “escape” route for small countries?

41. Alonso, Jose Antonio (2011), "International Migration and Development – A Review in the Light of the Crisis", December. ST/ESA/CDP/11(E). Committee for Development Policy, UNESC.
42. Tumbbe, Chinmay, Remittances in India: Facts & Issues (December 22, 2011). IIM Bangalore Research Paper No. 331. Available at SSRN: <https://ssrn.com/abstract=2122689> or <http://dx.doi.org/10.2139/ssrn.2122689>.