

# Small States and International Trade

**Steve L. Monroe**

YSS4274

That small states embrace open markets is a truism in the study of small states.

This week we discuss why.

We will explore the political consequences of open markets on small (and large) states.

We will also discuss and debate theories on the determinants of small states' economic success.

# Seminar Objectives: To Discuss

- State size and open markets
- Reading Presentation: The Paradox of Vulnerability
- Size and Development Strategy

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- Size and Development Strategy (**Campbell and Hall; Katzenstein; Miller**)

# Outline of Seminar

- 1 Announcements
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- 4 Strategies for Small State Prosperity
  - Case Study: Chip Wars
  - Case Study 2: Albert Winsemius
- 5 Next Seminar: To Dos



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# Capstone 2024

Congrats!!

# New Syllabus (Version 5)

See Canvas.

## Op-ed 2: Due April 12th

- Themes: climate change, conflict, international organizations, empire, trade or war
- Worth 12.5 percent of final grade
- Word Count: 800
- See Rubric on Canvas
- See feedback from Op-ed 1
- Can be “stepping stone” for research paper (next slide)

# Research Paper: Due April 30th

- Independent academic research about one (or many) small states
- Worth: forty percent of final grade
- Can use secondary sources
- Word Count: 6000
- Students are encouraged to discuss their paper with Prof. Monroe
- Look over slides from 8.2
- See Rubric on Canvas!

# Research Paper: Due April 30th

Prof. Monroe will look at *one* draft before April 23rd.

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- What economic advantages do larger states have over smaller ones?

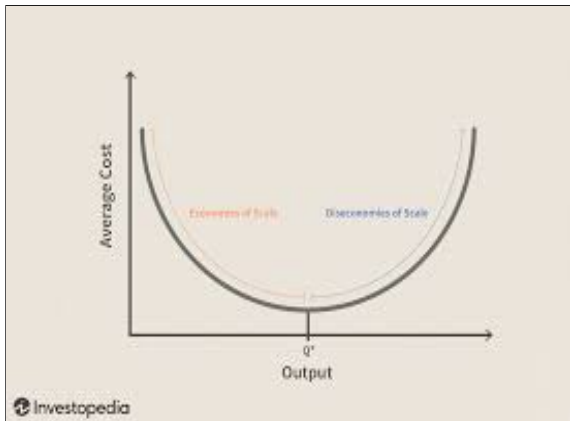


# The Blessings of Size

- Economies of Scale
- Resources
- Insurance and Diversification
- Standardization

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- **Economies of Scale**
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Source: Investopedia

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# Trade Lingo

- Free Trade: The indiscriminate movement of goods and services across international border
- Protectionism: The opposite of free trade
- Tariff: Tax on imports
- Most Favored Nation (MFN): WTO clause that trade agreement standards applied to on WTO member must be applied to all

- How do open markets (free trade) help businesses (and consumers) in small states enjoy economies of scale?

- How can small states open their markets?

# International Trade Organization





# Currency Union



# Customs Union

## Customs Union

European Union Customs Union

***A European free-trade area.  
Member states trade with no  
internal tariffs and quotas, but  
add a common external tariff.***

### Customs Union Members

<i>Austria</i>	<i>Germany</i>	<i>Poland</i>
<i>Belgium</i>	<i>Greece</i>	<i>Portugal</i>
<i>Bulgaria</i>	<i>Hungary</i>	<i>Romania</i>
<i>Croatia</i>	<i>Ireland</i>	<i>Slovakia</i>
<i>Cyprus</i>	<i>Italy</i>	<i>Slovenia</i>
<i>Czech Rep</i>	<i>Latvia</i>	<i>Spain</i>
<i>Denmark</i>	<i>Lithuania</i>	<i>Sweden</i>
<i>Estonia</i>	<i>Luxembourg</i>	<i>UK</i>
<i>Finland</i>	<i>Malta</i>	
<i>France</i>	<i>Netherlands</i>	



*Some small territories and states are also in the Customs Union through separate agreements. These include Monaco, Andorra, San Marino, Isle of Man, Jersey, and Guernsey. (Map: adapted from Wikipedia)*

# Free Trade Agreement



- What are some risks of open markets for small states?

- What can small states do to hedge against the vulnerabilities of open markets?

# Small States in World Markets

INDUSTRIAL POLICY IN EUROPE

Peter J. Katzenstein

## Argument

Small (European) states adjust to open markets through economic flexibility and political stability.

# How?



# Argument (Part 1)

State, capital and labor work together to reach policy compromises that benefit all actors.

## Argument (Part 2)

These compromises entail open markets *and* support for workers' harmed by international competition.

# Support

- Social Services
- Training
- Barriers to immigration
- Worker representation

# Definition: Democratic Corporatism (Katzenstein, pg. 30 - 34)

The “political inclusion of business and unions as well as conservative and progressive political parties.”

# Characteristics: Democratic Corporatism (Katzenstein, pg. 30 - 34)

- Social partnership on economic and social policy
- Centralized and concentrated interest groups (sometimes state supported, very top down)
- Voluntary, informal, continuous bargaining between state, capital and labor

# Corporatism in Singapore



# Simplified Comparisons

- Market: Capital vs. Labor (State is referee)
- State: State is leader, Capital and Labor follow
- Corporatist: State + Capital + Labor

Why are small (European) states more likely to have corporatist arrangements?



# Argument (Part 3)

Outside threats are the “foundations” of corporatism in small states.

# Argument (Part 3)

“All members of society are in the same small boat, that the waves are high, and that everyone must help pull the oars.” - (Katzenstein, pg. 35)

What are other domestic factors that might make it easier for state, capital and labor to get along in small states?

# The Blessings of Smallness

- More (ethnic, linguistic, social) homogeneity
- Similar preferences
- More trust
- Less tension

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Campbell, John and Hall, John. The Paradox of Vulnerability:  
States, Nationalism and the Financial Crisis.

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According to Katzenstein and Campbell and Hall, small states prosper through “controlled” integration into the global economy.



They don't prosper through innovation. Why do small states struggle to promote Research and Development (R and D)?

# Small States Struggles: R and D

- R and D is risky. Need to accept lots (and lots) of failures for one “unicorn.”
- R and D is labor intensive. Need lots of scientists.
- R and D is expensive.

# Small States Solutions: R and D

- R and D collaborations: larger states or international organizations
- R and D replication: copy larger states (ie grab)

# Small States Startups: R and D

S'pore tops Asia-Pacific in ranking for start-ups, 7th in the world



Singapore was also ranked 22nd out of 1,000 cities. ST PHOTO: KUA CHEE SIONG

Source: Straits Times

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# Check In: Chip Wars

- Group A: How did Taiwan overcome constraints in size to become a pioneer in chipmaking R and D in the late 20th century?
- Group B: What obstacles prevented China from capitalizing on its economies of scale to become a leader in chipmaking R and D in the late 20th century?

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## *Case Study (2): Albert Winsemius (1910 - 1996)*



Source: Wikipedia



# Case Study: Albert Winsemius (1910 - 1996)

- Bio

- ▶ Dutch Economist
- ▶ Led United Nations Survey Mission to Singapore
- ▶ Chief economic advisor of Singapore
- ▶ Lane in Clementi named after him

- Recommendations

- ▶ Advocated for aggressively attracting foreign direct investment (FDI)
- ▶ Focus on low skill manufacturing first, then upgrade to high skill manufacturing and services
- ▶ Keep Raffles Statue
- ▶ Expansive public housing, let wages increase over time

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# Next Seminar (April 11th)

- Small States and War!
  - ▶ Jesse and Dreyer; Long
  - ▶ Books are on reserves
  - ▶ To think about: security vs. economic vulnerabilities and opportunities

Have a great week!