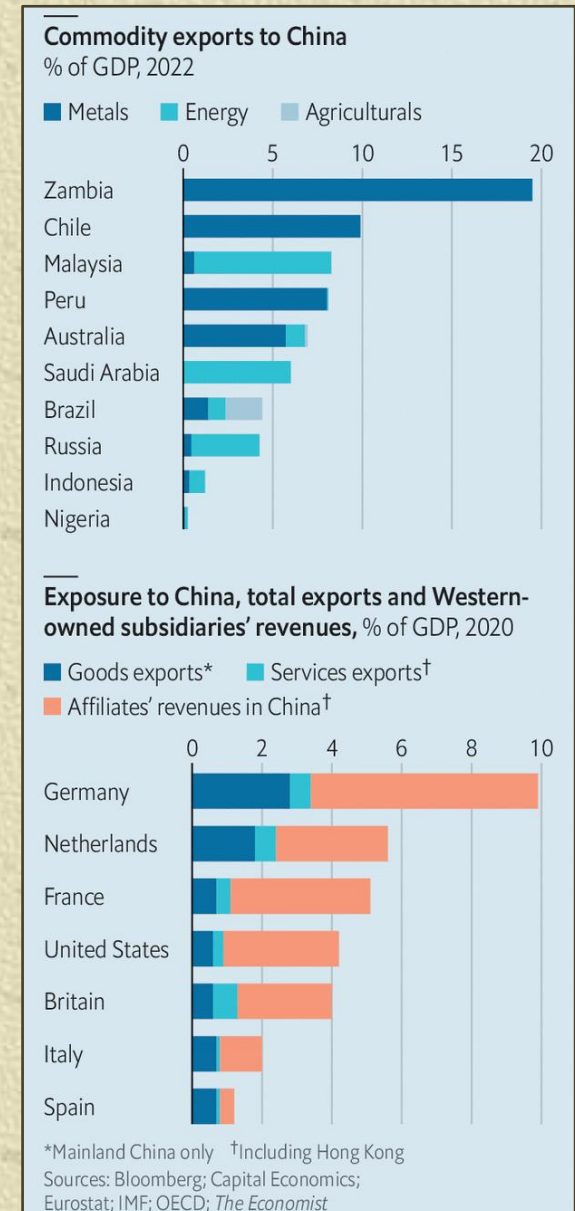
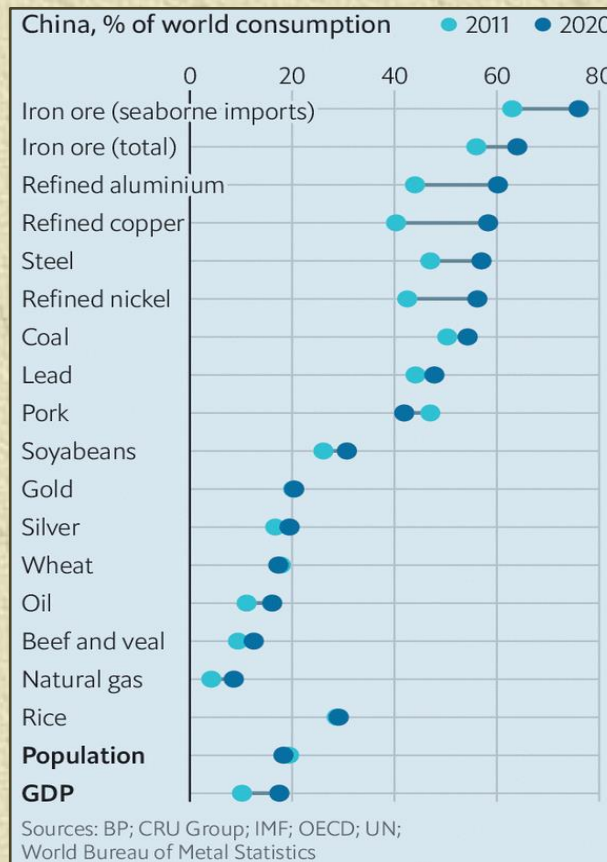


4. H-O-S trade model and extensions

✦ Large-country case: China

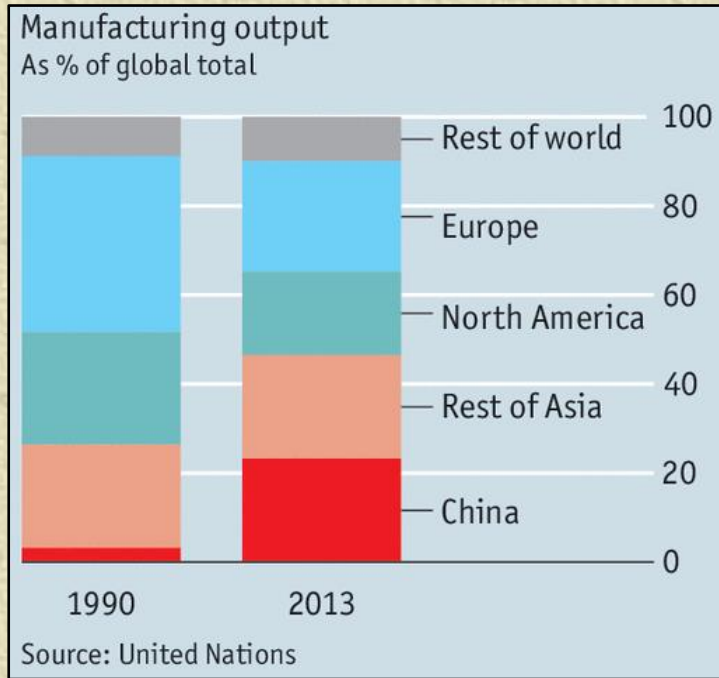
- ✦ China's share of world consumption and terms of trade



Economist, “China and commodities: Material clout”, 20 Nov 2021, p. 65-6; and “Global spillovers: Aftershocks”, 26 Aug 2023, p. 57.

Implication of large country, continued . . .

♦ TOT: China's manufacturing and relation to commodity prices



China's manu production is large relative to world. There is co-movement between $[P_{\text{manu}}]_{\text{China}}$ and $[P_{\text{commod}}]_{\text{Wld}}$. An $\uparrow [Q_{\text{manu}}]_{\text{China}}$ implies $\uparrow D$ for commodity inputs which $\rightarrow \uparrow [P_{\text{commod}}]_{\text{Wld}}$. This suggests a large-country case.

Relation of China's producer price and world commodity price index, % change on a year earlier



Economist, "Free exchange: Inflated claims", 5 Sep 2015, p. 67.

Economist, "Briefing – The future of factory Asia: A tightening grip", 14 Mar 2015, p. 61-2.

Implication of large country, continued . . .

◆ China-Australia commodity trade, 2019

Use of size (market power) to affect TOT

China's foreign policy increasingly uses trade sanctions (i.e., some form of penalty to affect trade) on countries with which it has foreign policy disagreements. In 2020, China's foreign policy clashes with Australia involved: (1) Australia's call for an inquiry into the origins of Covid-19; (2) rejection of China's claims in the South China Sea; and (3) its role in holding joint naval exercises with the US, Japan and India.

China's sanctions against Australia came in the form of restrictions on imports of commodities), or indirect restrictions from the authorities discouraging Chinese firms buying Australian goods (e.g., coal, cotton, and timber products). The choice of sanction is related to China's relative economic size and its ability to inflict pain thru TOT.



Implication of size, continued . . .

- ✦ Declining TOT from a commodity exporter's perspective
 - ◆ Industrial commodity-price index, real * \$ terms

