Announcements

- We will start discussing news next week, on Monday Sep 16. You should be watching now for international economic news.
- Be sure to register your clicker on the Canvas site for this course.

Lecture 1 Outline

Overview of the World Economy
- “Globalization”
- Elements of the World Economy
- Ways that Countries Interact
  - Trade
  - Capital Flows
  - Migration
- Policies that Affect Others
- Institutions
Overview of the World Economy

• “Globalization”
  – Means different things to different people
  • My definitions (see my online Glossary):
    1. The increasing world-wide integration of markets for goods, services and capital.
    2. Also the role of MNCs, IMF, WTO, World Bank.
  • Some see good, others see bad

Overview of the World Economy

• “Globalization”
  – Some aspects of globalization, especially trade,
    • Declined with the world recession of 2008, then recovered
    • Slowed down in 2015-16
    • Resumed growth in 2017
  – What’s next? We don’t know!

World trade plateaued around the start of 2015

Source: Centre for Economic Policy Research

FT
Lecture 1: Overview

World Merchandise Exports by Level of Development, 2012Q1 – 2017Q4
(Volume index, 2012Q1=100)

Source: WTO

Slowdown

Growth

Overview of the World Economy

- Globalization Backlash
  - There is growing opposition to globalization
  - This happened before, with the “First Globalization” (See Swanson)
    • Both trade and migration grew strongly up to World War I in 1914
    • Inequality also grew
    • Trade and migration both declined for decades after

Source: WTO and UNCTAD. WTO Secretariat estimates.
Globalization of Supply Chains

- Much trade today is intermediate inputs.
- Supply chains cross national borders multiple times
- Example from Black

NAFTA and the Auto Supply Chain


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  - Institutions

Overview of the World Economy
- International Economics
  - Is NOT about countries
  - It IS about interactions among countries
Overview of the World Economy

- World Economy consists of
  - Countries: a few hundred
    (CIA lists about 240)
    (WTO has 164 members)
  - People: over 7.5 billion
    (7.504 billion 9/6/19, compare 329 million US)
  - Land: about 15 times the US

(Aside, on getting information)

An excellent source of information about countries is the CIA World Fact Book
(Just Google “factbook”)

Overview of the World Economy

- World Economy consists of
  - GDP (2017 est., per CIA, in US$)
    - World: Total = $80.27 trillion per capita = $17,500
    - US: Total = $19.49 trillion per capita = $59,800
Overview of the World Economy

• Implication
  – US is very unusual
    • Very rich
      – US has less than 5% of world population but almost 25% of world income
        » (This changes, as measured here in official exchange rates, as the exchange rates change.)

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Overview of the World Economy
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• Ways that Countries Interact
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  – Capital Flows
  – Migration
• Policies that Affect Others
• Institutions

Overview of the World Economy

• Ways that countries interact economically
  – Trade (per CIA, 2017 est.)
    • World exports: $17.31 trillion
      (compare world GDP of $80 trillion)
      (That’s at official exchange rates)
      (Exports = 22% of GDP)
    • World trade has grown faster than world GDP most years
      – But not during 2008-9, due to world recession
      – Or during 2015-16
      – But resumed in 2017
Overview of the World Economy

- See tables below for
  - Who trades most?
  - Who trades with whom?
  - Share of trade in GDP
  - US:
    - What do we export/import?
    - To/from whom?
Who Trades the Most?
($ b. & % share, 2018)

<table>
<thead>
<tr>
<th>Exporters</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2487</td>
<td>12.8</td>
</tr>
<tr>
<td>US</td>
<td>1664</td>
<td>8.5</td>
</tr>
<tr>
<td>Germany</td>
<td>1561</td>
<td>8.0</td>
</tr>
<tr>
<td>Japan</td>
<td>738</td>
<td>3.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>723</td>
<td>3.7</td>
</tr>
<tr>
<td>World</td>
<td>19,475</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Importers</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>2614</td>
<td>13.2</td>
</tr>
<tr>
<td>China</td>
<td>2136</td>
<td>10.8</td>
</tr>
<tr>
<td>Germany</td>
<td>1286</td>
<td>6.5</td>
</tr>
<tr>
<td>Japan</td>
<td>749</td>
<td>3.8</td>
</tr>
<tr>
<td>UK</td>
<td>674</td>
<td>3.4</td>
</tr>
<tr>
<td>World</td>
<td>19,867</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: WTO, World Trade Statistical Review, 2019, Table A6

Who Trades the Most?
(Excluding intra-EU-28)
($ b. & % share, 2018)

<table>
<thead>
<tr>
<th>Exporters</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2487</td>
<td>16.2</td>
</tr>
<tr>
<td>EU-28*</td>
<td>2309</td>
<td>15.1</td>
</tr>
<tr>
<td>US</td>
<td>1664</td>
<td>10.9</td>
</tr>
<tr>
<td>Japan</td>
<td>738</td>
<td>4.8</td>
</tr>
<tr>
<td>Korea, S.</td>
<td>605</td>
<td>3.9</td>
</tr>
<tr>
<td>World</td>
<td>15,319</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Importers</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>2614</td>
<td>16.6</td>
</tr>
<tr>
<td>EU-28*</td>
<td>2337</td>
<td>14.9</td>
</tr>
<tr>
<td>China</td>
<td>2136</td>
<td>13.6</td>
</tr>
<tr>
<td>Japan</td>
<td>749</td>
<td>4.8</td>
</tr>
<tr>
<td>Hng Kng</td>
<td>628</td>
<td>4.0</td>
</tr>
<tr>
<td>World</td>
<td>15,710</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*EU external only
Source: WTO, World Trade Statistical Review, 2019, Table A7

Who Trades the Most?

- Developed countries are most of the biggest traders
- China has caught up, in trade volume
  - It was the #3 exporter ten years ago when I taught the course; now it’s #1.
  - Others are gaining as well: Six years ago Canada was #5 exporter. Five years ago that was S Korea.
Who Trades the Most?

• See Economist from five years ago: “Trading Up: Picking the world champion of trade”
  – China claimed to have surpassed US. True only for goods, not goods + services
    • But with time China will pass US in both
  – China’s trade per GDP was much larger than the US, but below world average
  – Much of the value in China’s exports is imported inputs, thus low “value added.”

Who Trades the Most?

• “Emerging Markets” in general are catching up to, or surpassing, the developed countries
  – In GDP, trade, and more
  – See Economics Focus from The Economist, “Why the Tail Wags the Dog”
Who Trades with Whom?  
($ b., 2014, Intra- and inter-regional merchandise trade)

<table>
<thead>
<tr>
<th>Destination:</th>
<th>North Amer.</th>
<th>Latin Amer.</th>
<th>Eur.</th>
<th>Asia</th>
<th>Africa</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Amer.</td>
<td>1251</td>
<td>214</td>
<td>379</td>
<td>504</td>
<td>43</td>
<td>97</td>
</tr>
<tr>
<td>Latin Amer.</td>
<td>173</td>
<td>170</td>
<td>114</td>
<td>170</td>
<td>18</td>
<td>26</td>
</tr>
<tr>
<td>Europe</td>
<td>540</td>
<td>119</td>
<td>4665</td>
<td>738</td>
<td>221</td>
<td>447</td>
</tr>
<tr>
<td>Asia</td>
<td>1065</td>
<td>185</td>
<td>900</td>
<td>3093</td>
<td>207</td>
<td>428</td>
</tr>
<tr>
<td>Africa</td>
<td>39</td>
<td>29</td>
<td>201</td>
<td>152</td>
<td>98</td>
<td>20</td>
</tr>
<tr>
<td>Other</td>
<td>128</td>
<td>18</td>
<td>532</td>
<td>828</td>
<td>51</td>
<td>273</td>
</tr>
<tr>
<td>World</td>
<td>3195</td>
<td>744</td>
<td>6792</td>
<td>5485</td>
<td>639</td>
<td>1292</td>
</tr>
</tbody>
</table>

Source: WTO, International Trade Statistics, 2015, Table I.4

Note: This source is no longer published, and its replacement lacks these data.

- North America, Europe, and Asia trade mostly within their group
- Poorer regions – Latin America, Africa – trade mostly with the richer regions
- This reflects what is not so clear in the table and charts:
  - Rich countries trade most with each other
  - Poor countries trade most with rich countries
    - But their trade with each other is growing
What Does the World Trade? ($ b. 2014 merchandise exports)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Products</td>
<td>17,797</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1,785</td>
</tr>
<tr>
<td>Fuels &amp; Mining</td>
<td>3,789</td>
</tr>
<tr>
<td>Manuf.</td>
<td>12,243</td>
</tr>
</tbody>
</table>

Source: WTO, International Trade Statistics, 2015, Table II.1
Note: This source is no longer published, and its replacement lacks these data.

What Does the World Trade?

- Biggest traded category: manufactures
- Fastest growing, then shrinking, then growing: “fuels & mining”
  Why?
  - Because this is the value of trade, and prices of oil and other raw materials were rising, and then falling.

What Does the US Trade? ($ b. 2011)

<table>
<thead>
<tr>
<th>Category</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,497.4</td>
<td>2,235.8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>140.0</td>
<td></td>
</tr>
<tr>
<td>Petroleum</td>
<td></td>
<td>462.3</td>
</tr>
<tr>
<td>Industrial supplies</td>
<td>496.4</td>
<td>319.8</td>
</tr>
<tr>
<td>Capital goods, exc. auto</td>
<td>493.2</td>
<td>513.4</td>
</tr>
<tr>
<td>Automotive</td>
<td>133.1</td>
<td>255.2</td>
</tr>
<tr>
<td>Other non-ag</td>
<td>234.6</td>
<td></td>
</tr>
<tr>
<td>Other non-petrol</td>
<td></td>
<td>685.1</td>
</tr>
</tbody>
</table>

Source: Economic Report of the President, Feb 2013, Table B-104.
What Does the US Trade?

- US imports are much larger than US exports
  - (We’ll see what that means later in the course.)
- US is a big…
  - Exporter of agricultural products
  - Importer of oil (but that’s been falling)
  - Exporter and importer of capital goods (i.e., machines for making things)

Trade of US States

- US states differ substantially in the importance of international trade to them

Source: Perry and Balliou (2017)
Importance of Trade for Countries?
(GDP in US$ b., Exports % of GDP, Selected countries, 2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th>Exports/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>1553.0</td>
<td>8%</td>
</tr>
<tr>
<td>Japan</td>
<td>688.9</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>1434.0</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>423.5</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>304.1</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>409.8</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>555.6</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>396.8</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>48.2</td>
<td></td>
</tr>
<tr>
<td>Nepal</td>
<td>0.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: CIA World Fact Book
Importance of Trade for Countries?

- Even though we trade more than most, US trade is a smaller part of US GDP than for many other countries
- Others that are low: Japan, Nepal (even lower than US)
- Note Singapore: Exports can be more than GDP.
  - Reason: Exports are made using imported inputs, so value of exports includes imports.

A Few More of Interest

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP</th>
<th>Exports/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2216.0</td>
<td>18%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>537.8</td>
<td></td>
</tr>
<tr>
<td>Korea, South</td>
<td>577.4</td>
<td></td>
</tr>
<tr>
<td>Korea, North (2013)</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>Burma</td>
<td>9.8</td>
<td></td>
</tr>
<tr>
<td>Syria</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Israel</td>
<td>58.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: CIA World Fact Book

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Overview of the World Economy

• Ways that countries interact economically
  – Capital Flows
    • Financial (holdings of financial assets abroad)
    • Real (international ownership of real assets)
      » Currency
      » Bank deposits
      » Bonds – private and government
      » Stocks
      » Bank loans
    • Real (international ownership of real assets)
      » Real estate
      » Capital assets (plant and equipment)
      » Stocks (equities) if ownership share is large
      » Other

Data, below, are stocks (i.e, amounts at a point in time)
US Investment Position
($ trillion at market value, end of 2018)

<table>
<thead>
<tr>
<th></th>
<th>We &quot;Own&quot;</th>
<th>We &quot;Owe&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct investment</td>
<td>7.50</td>
<td>8.48</td>
</tr>
<tr>
<td>Portfolio investment</td>
<td>11.49</td>
<td>18.72</td>
</tr>
<tr>
<td>Other investment</td>
<td>4.30</td>
<td>6.14</td>
</tr>
<tr>
<td>Reserve assets</td>
<td>0.45</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25.24</td>
<td>34.80</td>
</tr>
</tbody>
</table>

Compare: US GDP in 2017 = $19.39 trillion

*Excludes financial derivatives other than reserves. Would add net +0.06.
Source: Bureau of Economic Analysis, U.S. Net International Investment Position

US Investment Position

• (Qualification: "Owe" may not be quite right. This may include all assets in the US owned by foreigners, including land, buildings, etc. Not just what we've borrowed.)

• Lessons:
  – US is a large net "debtor" (result of our spending more than we earn)

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Overview of the World Economy

• Other ways that countries interact economically
  – Migration
    • Temporary
      – Guest workers
      – Day workers
    • Permanent
      • In practice, most (all?) countries limit migration severely.
Overview of the World Economy

• Other ways that countries interact economically
  – Policies that affect other countries
    • Direct
      – Trade policies (tariffs, quotas)
      – Foreign aid
      – Capital controls
      – Exchange rate management
      – Immigration restrictions
    • Indirect

Aside on Tariffs

– We will be dealing a lot with these
  • US tariffs are much lower than they used to be
    (average less than 4% now, vs. 40% in 1946)
    – (Tariffs have gone up under Trump, but average is still low.)
  • US has gained a great deal from lowering tariffs
  • US still has much to gain from further lowering
  • But there are also severe costs for some people and firms who compete with imports

Aside on Tariffs

– Tariffs could go up, even legally:
  • WTO enforces only upper limits on tariffs
  • Actual tariffs in many countries are below these limits, and could legally rise
  • There was danger that the world recession of 2008 would push countries to do that.
    – They didn’t – at least not much.
  – Tariffs have gone up this year under Trump
  • We’ll see more next time
Overview of the World Economy

• Aside on Tariffs
  – US tariffs are much higher against developing countries than against developed countries

• Aside on Tariffs
  – Until recently, much trade policy has been through Trade Agreements, by countries that reduce tariffs.
  – This trend has now stalled for the US under President Trump,
    • though he is trying for “deals” with EU and Japan.
  – But other countries are continuing it without Trump.

Overview of the World Economy

• Other ways that countries interact economically
  – Policies that affect other countries
    • Indirect
      – Subsidies (esp. agriculture)
        » US farm subsidies > foreign aid
      – Macro policies (monetary, fiscal)
      – Environmental policies
      – Standards
        » Labor
        » Health & safety
        » Norms
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The Three Main Institutions

• Functions
  – IMF (International Monetary Fund): Financial Assistance
  – World Bank: Development Assistance
  – WTO (World Trade Organization): Trade Policy Regulation and Negotiation

The Three Main Institutions

• History
  – Before World War II
    • Great Depression
    • High Tariffs on trade
    • Competitive Devaluations of Currencies
  “Beggar Thy Neighbor Policies” (we'll see why later)
The Three Main Institutions

• History
  – End of World War II
    • Bretton Woods Meeting (Bretton Woods, NH)
      – IMF
      – World Bank
      – GATT (General Agreement on Tariffs and Trade)
        » Succeeded by WTO in 1995

The Three Main Institutions

• History: Changes since 1940s
  • IMF
    – Originally enforced pegged exchange rates
    – IMF now provides financial assistance
      > E.g., Argentina just asked IMF for help
  • World Bank (=IBRD, International Bank for Reconstruction and Development)
    – Originally intended for reconstruction from war
    – Now mainly assists development
  • GATT/WTO
    – Rules of international trade policy
    – Ministerial Meetings

Next Time

• Current Tensions in the International Economy
  – NAFTA
  – Brexit
  – Trade War
  – WTO
  – Currencies