Announcements

• We will start discussing news next week, on Monday Sep 17. You should be watching 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
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 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!
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
Globalization of Supply Chains

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

At what times will the classes start and stop?

a) 8:40-10:00
b) 8:30-10:00
✓ c) 8:30-9:50
d) 8:40-9:50

Lecture 1 Outline

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

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 billion (7.495 billion 8/28/18, compare 328 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 “fact book”)

Overview of the World Economy

- World Economy consists of
  - GDP (2017 est., per CIA, in US$)
    - World: Total = $79.45 trillion
      per capita = $17,300
    - US: Total = $19.39 trillion
      per capita = $59,500
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

• Ways that countries interact economically
  – Trade (per CIA, 2017 est.)
    • World exports: $17.31 trillion
      (compare world GDP of $79 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, 2017)

<table>
<thead>
<tr>
<th>Exporters</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2263</td>
<td>12.8</td>
</tr>
<tr>
<td>US</td>
<td>1547</td>
<td>8.7</td>
</tr>
<tr>
<td>Germany</td>
<td>1448</td>
<td>8.2</td>
</tr>
<tr>
<td>Japan</td>
<td>698</td>
<td>3.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>652</td>
<td>3.7</td>
</tr>
<tr>
<td>World</td>
<td>17,730</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>2410</td>
<td>13.4</td>
</tr>
<tr>
<td>China</td>
<td>1842</td>
<td>10.2</td>
</tr>
<tr>
<td>Germany</td>
<td>1167</td>
<td>6.5</td>
</tr>
<tr>
<td>Japan</td>
<td>672</td>
<td>3.7</td>
</tr>
<tr>
<td>UK</td>
<td>644</td>
<td>3.6</td>
</tr>
<tr>
<td>World</td>
<td>18,024</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: WTO, World Trade Statistical Review, 2018, Table A6

Who Trades the Most?
(Excluding intra-EU-28) ($ b. & % share, 2015)

<table>
<thead>
<tr>
<th>Exporters</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2263</td>
<td>16.2</td>
</tr>
<tr>
<td>EU-28*</td>
<td>2122</td>
<td>15.2</td>
</tr>
<tr>
<td>US</td>
<td>1547</td>
<td>11.1</td>
</tr>
<tr>
<td>Korea, S.</td>
<td>574</td>
<td>4.1</td>
</tr>
<tr>
<td>World</td>
<td>13,949</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>2410</td>
<td>16.9</td>
</tr>
<tr>
<td>EU-28*</td>
<td>2097</td>
<td>14.7</td>
</tr>
<tr>
<td>China</td>
<td>1842</td>
<td>12.9</td>
</tr>
<tr>
<td>Japan</td>
<td>672</td>
<td>4.7</td>
</tr>
<tr>
<td>HKG</td>
<td>590</td>
<td>4.1</td>
</tr>
<tr>
<td>World</td>
<td>14,243</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*EU external only
Source: WTO, World Trade Statistical Review, 2018, 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 nine years ago when I taught the course; now it’s #1.
  - Others are gaining as well: Five years ago
    Canada was #5 exporter. Four years ago that was S Korea
Who Trades the Most?

• See Economist from four 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 is 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>Value</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All Products</td>
<td>17,797</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1,766</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>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,497.4</td>
</tr>
<tr>
<td>Agriculture</td>
<td>140.0</td>
</tr>
<tr>
<td>Petroleum</td>
<td>462.3</td>
</tr>
<tr>
<td>Industrial supplies</td>
<td>496.4</td>
</tr>
<tr>
<td>Capital goods, exc. auto</td>
<td>493.2</td>
</tr>
<tr>
<td>Automotive</td>
<td>133.1</td>
</tr>
<tr>
<td>Other non-ag</td>
<td>234.6</td>
</tr>
<tr>
<td>Other non-petrol</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>GDP</th>
<th>Exports/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>1456.0</td>
<td>8%</td>
</tr>
<tr>
<td>Japan</td>
<td>634.9</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>1322.0</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>393.5</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>268.6</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>374.3</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>495.4</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>361.6</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>43.4</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.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP</th>
<th>Exports/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1990.0</td>
<td>18%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>502.5</td>
<td></td>
</tr>
<tr>
<td>Korea, South</td>
<td>511.8</td>
<td></td>
</tr>
<tr>
<td>Korea, North (2013)</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>Burma</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Israel</td>
<td>56.2</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)
      » 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 2017)

<table>
<thead>
<tr>
<th></th>
<th>We “Own”</th>
<th>We “Owe”</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total*</td>
<td>27.80</td>
<td>35.52</td>
</tr>
<tr>
<td>Direct investment</td>
<td>8.91</td>
<td>8.93</td>
</tr>
<tr>
<td>Portfolio investment</td>
<td>12.54</td>
<td>19.48</td>
</tr>
<tr>
<td>Other investment</td>
<td>4.27</td>
<td>5.52</td>
</tr>
<tr>
<td>Reserve assets</td>
<td>0.45</td>
<td></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.

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Overview of the World Economy

- Other ways that countries interact economically
  - Policies that affect other countries
    - Direct
    - Indirect
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 4% now, vs. 40% in 1946)
  - 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

Overview of the World Economy

• Aside on Tariffs
  – Until recently, much trade policy has been Trade Agreements, by countries that reduce tariffs.
  – This trend has now stalled for the US under President Trump.
  – 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
Next Time

- Current Tensions in the International Economy
  - NAFTA
  - Brexit
  - Trade War
  - Currencies