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!
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

NAFTA and the Auto Supply Chain


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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

Overview of the World Economy

• 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.)

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

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(Aside, on getting information)

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

Lecture 1 Outline
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>
<th>Importers</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2487</td>
<td>12.8</td>
<td>US</td>
<td>2614</td>
<td>13.2</td>
</tr>
<tr>
<td>US</td>
<td>1664</td>
<td>8.5</td>
<td>China</td>
<td>2136</td>
<td>10.8</td>
</tr>
<tr>
<td>Germany</td>
<td>1561</td>
<td>8.0</td>
<td>Germany</td>
<td>1286</td>
<td>6.5</td>
</tr>
<tr>
<td>Japan</td>
<td>738</td>
<td>3.8</td>
<td>Japan</td>
<td>749</td>
<td>3.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>723</td>
<td>3.7</td>
<td>UK</td>
<td>674</td>
<td>3.4</td>
</tr>
<tr>
<td>World</td>
<td>19,475</td>
<td>100.0</td>
<td>World</td>
<td>19,867</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*EU external only

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>
<th>Importers</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2487</td>
<td>16.2</td>
<td>US</td>
<td>2614</td>
<td>16.6</td>
</tr>
<tr>
<td>EU-28*</td>
<td>2309</td>
<td>15.1</td>
<td>EU-28*</td>
<td>2337</td>
<td>14.9</td>
</tr>
<tr>
<td>US</td>
<td>1664</td>
<td>10.9</td>
<td>China</td>
<td>2136</td>
<td>13.6</td>
</tr>
<tr>
<td>Japan</td>
<td>738</td>
<td>4.8</td>
<td>Japan</td>
<td>749</td>
<td>4.8</td>
</tr>
<tr>
<td>Korea, S.</td>
<td>605</td>
<td>3.9</td>
<td>Hng Kng</td>
<td>628</td>
<td>4.0</td>
</tr>
<tr>
<td>World</td>
<td>15,319</td>
<td>100.0</td>
<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.”

- “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?

<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>179</td>
<td>114</td>
<td>170</td>
<td>18</td>
<td>26</td>
</tr>
<tr>
<td>Europe</td>
<td>540</td>
<td>4665</td>
<td>738</td>
<td>221</td>
<td>447</td>
<td></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>16</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?

- 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 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>1,765</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 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

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.

<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>56.7</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)

- 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 2018)

<table>
<thead>
<tr>
<th>We &quot;Own&quot; US Assets</th>
<th>We &quot;Owe&quot; US Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total*</td>
<td></td>
</tr>
<tr>
<td>Direct investment</td>
<td>7.50</td>
</tr>
<tr>
<td>Portfolio investment</td>
<td>11.49</td>
</tr>
<tr>
<td>Other investment</td>
<td>4.30</td>
</tr>
<tr>
<td>Reserve assets</td>
<td>0.45</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

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

### 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
      - Trade policies (tariffs, quotas)
      - Foreign aid
      - Capital controls
      - Exchange rate management
      - Immigration restrictions
    - Indirect

Overview of the World Economy

- 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)
    - 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

Overview of the World Economy

- 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
  - 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,
    - though he is trying for “deals” with EU and Japan.
  - But other countries are continuing it without Trump.
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Lecture 2: 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)

• 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