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.

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 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

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

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

(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

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

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

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Who Trades the Most?

(Excluding intra-EU-28)

($ b. & % share, 2015)

<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>2263</td>
<td>16.2</td>
<td>US</td>
<td>2410</td>
<td>16.9</td>
</tr>
<tr>
<td>EU-28*</td>
<td>2122</td>
<td>15.2</td>
<td>US</td>
<td>1842</td>
<td>14.7</td>
</tr>
<tr>
<td>US</td>
<td>1547</td>
<td>11.1</td>
<td>China</td>
<td>2097</td>
<td>12.9</td>
</tr>
<tr>
<td>Japan</td>
<td>698</td>
<td>5.0</td>
<td>Japan</td>
<td>672</td>
<td>4.7</td>
</tr>
<tr>
<td>Korea, S.</td>
<td>574</td>
<td>4.1</td>
<td>Hng Kng</td>
<td>590</td>
<td>4.1</td>
</tr>
<tr>
<td>World</td>
<td>13,949</td>
<td>100.0</td>
<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

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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>179</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 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

WTO, World Trade Report 2013

Figure B.15.1: Share of total trade between geographic regions in world trade, 1990 (percentage)

Source: WTO Secretariat estimates.
Note: World trade includes intra-EU trade. Arrow weights based on shares in 1990. Trade within regions and with unspecified destinations represented 59% of world trade in 1990.

WTO, World Trade Report 2013

Figure B.15.2: Share of total trade between geographic regions in world trade, 2011 (percentage)

Source: WTO Secretariat estimates.
Note: World trade includes intra-EU trade. Arrow weights based on shares in 2011. Trade within regions and with unspecified destinations represented 59% of world trade in 2011.
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>1,765</td>
</tr>
<tr>
<td>Fuels &amp; Mining</td>
<td>3,789</td>
</tr>
<tr>
<td>Manufactures</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>2,235.8</td>
<td>1,497.4</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>319.8</td>
<td>496.4</td>
</tr>
<tr>
<td>Capital goods, exc. auto</td>
<td>513.4</td>
<td>493.2</td>
</tr>
<tr>
<td>Automotive</td>
<td>255.2</td>
<td>133.1</td>
</tr>
<tr>
<td>Other non-ag</td>
<td>685.1</td>
<td>234.6</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 Ballou (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>634.8</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>1322.9</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.

Importance of Trade for Countries?
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>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>3.9</td>
<td></td>
</tr>
<tr>
<td>Burma</td>
<td>9.1</td>
<td></td>
</tr>
<tr>
<td>Syria</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

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

- Ways that countries interact economically
  - Capital Flows
    - Financial (holdings of financial assets abroad)
    - Real (international ownership of real assets)

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)

US Investment Position

<table>
<thead>
<tr>
<th></th>
<th>We &quot;Own&quot; US Assets</th>
<th>We &quot;Owe&quot; US Liabilities</th>
</tr>
</thead>
<tbody>
<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)

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

- Other ways that countries interact economically
  - Migration
    - Temporary
    - Guest workers
    - Day workers
  - Permanent
  - In practice, most (all?) countries limit migration severely.

Outline

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

- Policies that affect other countries
  - Direct
  - 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

• 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