Econ 340

Lecture 1
Overview of the World Economy
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.

• I will not be holding my usual office hour this Thursday, Sep 12.
Clicker Question

Are you here?

✓ a) Yes
   b) No
   c) I’m not sure
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
World Merchandise Exports by Level of Development, 2012Q1 – 2017Q4
(Volume index, 2012Q1=100)

Source: WTO

- **2015-16 Slowdown**
- **2017 Growth**
Chart 2: Volume of world merchandise trade, 2015Q1-2019Q4

Seasonally-adjusted volume index, 2005=100

Source: WTO and UNCTAD, WTO Secretariat estimates.
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

NAFTA and the Auto Supply Chain

NAFTA and the Auto Supply Chain

NAFTA and the Auto Supply Chain

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• Ways that Countries Interact
  – Trade
  – Capital Flows
  – Migration

• Policies that Affect Others

• 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

• 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
Chart 2: Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2018

% change and ratio

Source: WTO

Trade growth faster than GDP
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><strong>World</strong></td>
<td><strong>19,475</strong></td>
<td><strong>100.0</strong></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><strong>World</strong></td>
<td><strong>19,867</strong></td>
<td><strong>100.0</strong></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”
Lecture 1: Overview
## Who Trades with Whom?
($ b., 2014, \text{Intra- and inter-regional merchandise trade})

<table>
<thead>
<tr>
<th>Origin:</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><strong>1251</strong></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><strong>179</strong></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><strong>4665</strong></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><strong>3093</strong></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><strong>98</strong></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><strong>273</strong></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
Figure B.15.A: **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 53% of world trade in 1990.
Figure B.15.B: **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 54% 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>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)
Top Export Country for Each U.S. State (2016)

Source: US Census Bureau

Source: Perry and Balliou (2017)
International Trade as a Share of State GDP (2016)

Source: Perry (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

Lecture 1: Overview
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>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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  – Trade
  – Capital Flows
  – Migration

• Policies that Affect Others

• Institutions
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)
Overview of the World Economy

• Ways that countries interact economically
  – Capital Flows
    • Financial (holdings of financial assets abroad)
    • 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 “Own” US Assets</th>
<th>We “Owe” US Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total*</td>
<td>25.24</td>
<td>34.80</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>
</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
Clicker Question

Which category of goods is largest in world trade

✓ a) Manufacturers
   b) Fuels and mining
   c) Agriculture
Clicker Question

Which is the world’s largest importer?

a) China
b) European Union

✓ c) US
d) Germany
Clicker Question

Where does the largest share of Michigan’s imports come from?

a) Canada
b) China
✓ c) Mexico
d) European Union
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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
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)
      – (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
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.
  – Some 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,
    • 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
Clicker Question

Compared to the 1940s, US tariffs today (as of 2017) are?

a) Higher
b) About the same, on average
c) Half as large
✓ d) Only about 1/10 as large
e) Gone
Clicker Question

Which institution also goes by the acronym IBRD?

a) International Monetary Fund
✓ b) World Bank
  c) World Trade Organization

IBRD = International Bank for Reconstruction and Development
Next Time

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