

**Economics 4413 International Trade Maskus
Fall 2009**

Chapter One: Introduction

Some comments on who I am.

And on who you are.

Go through syllabus and expectations.

Comments on “textbook”.

Current Trade Picture

Look at some recent trends for US, Japan, China

Figure 1A. USA Exports, Imports, and Trade Balance

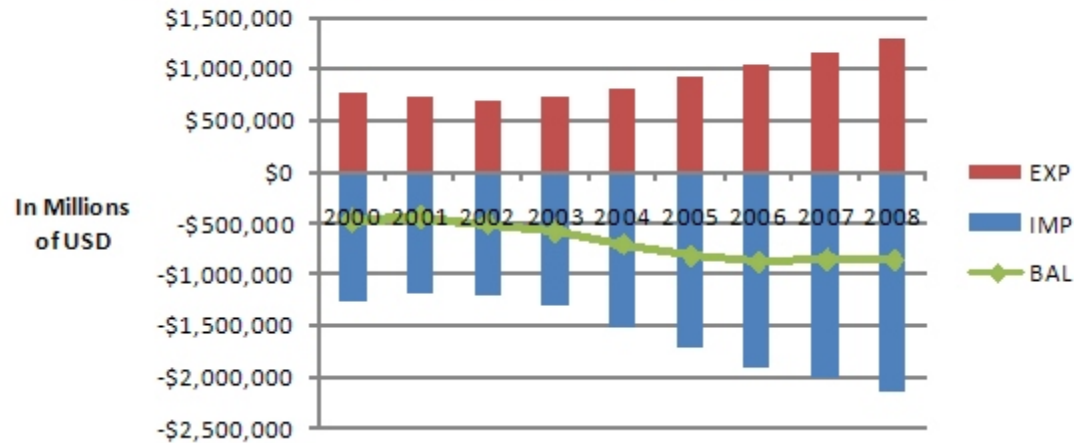
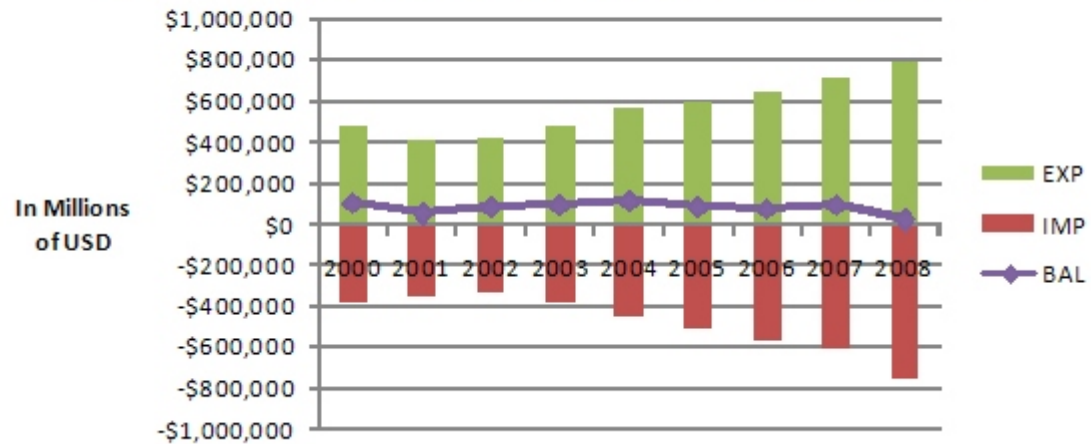
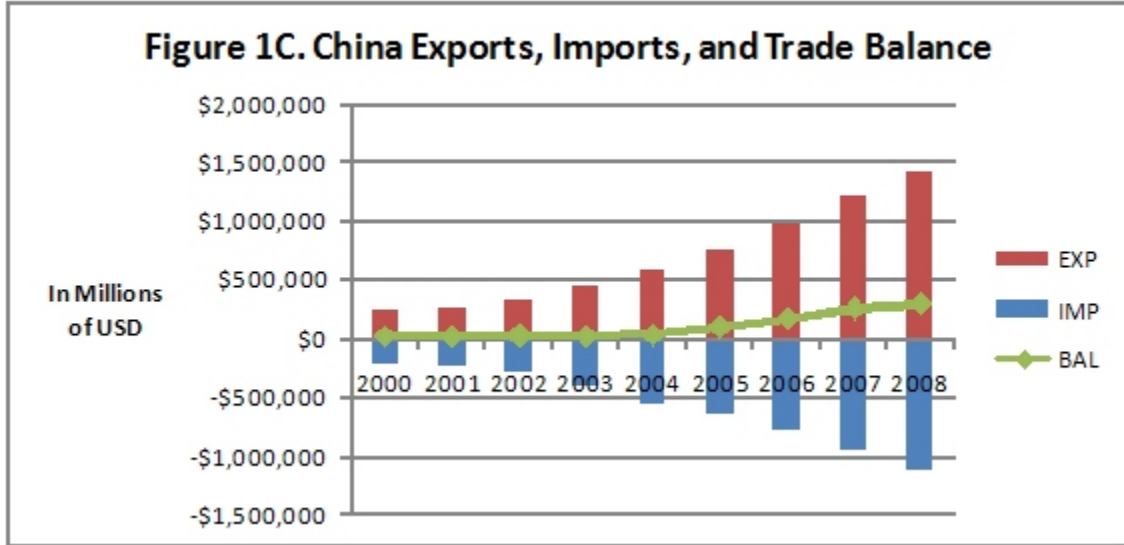
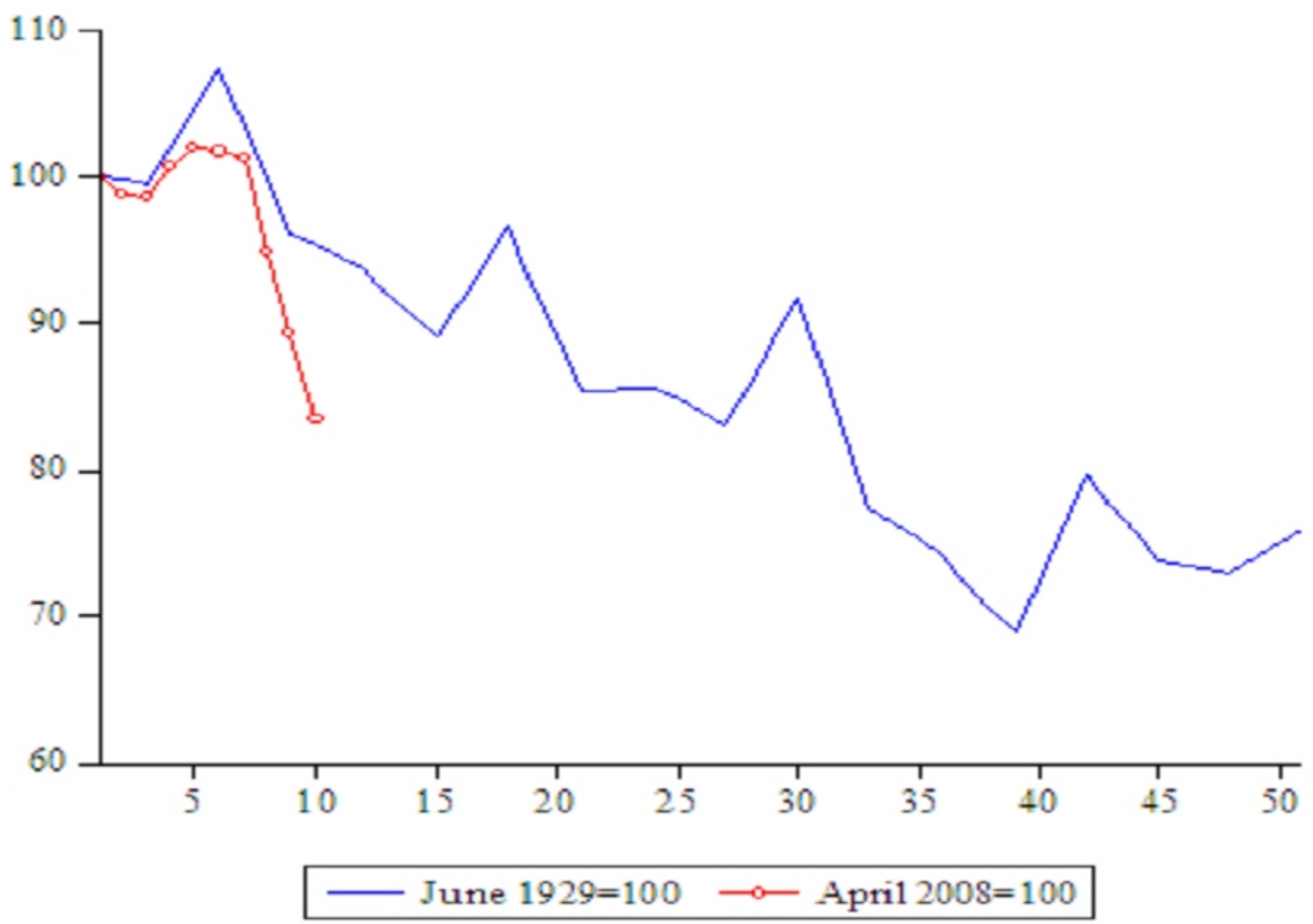


Figure 1B. Japan Exports, Imports, and Trade Balance





What's happening to global trade in the recession?





Globalization and trade: initial comments.

- What do you think is the most significant change in the global economy in your lifetimes?
- What are some examples of globalization?
- What does it take to make a men's suit and get it to a retail store?
- Have you ever heard of Li & Fung, Ltd.?

Defining globalization

- Multiple definitions; depending on what you try to explain.
- Economics definition.

Sources of globalization

- Reductions in trade and investment barriers since 1940s.
GATT/WTO
Unilateral liberalization trends
Adjustment programs under IMF & World Bank

Opening of some service markets

Regional trading agreements

Elephants in the room: China and India

- Reductions in transportation costs
 - Within-country transport infrastructure
 - Containerization, air cargo
 - Competition in freight services and trade credits
- Technological changes
 - Information technology and software
 - Telecommunications
 - R&D in product quality development
 - Outsourcing and offshoring (fragmentation of production)

Channels of Globalization

- Some data on growth and globalization (Table 1.1)
- Astonishing performance of East Asia

Channel One: International Trade

Country	GNI per capita (PPP)		Average	Total Merchandise		Exports (\$billion)		Imports (\$billion)	
	1980	2007	Real GDP	Trade (% of GDP)		Goods	Services	Goods	Services
			Growth %	1980	2007	2007	2007	2007	2007
United States	\$ 12,150	\$ 45,840	3.1	17	23	\$ 1,162	\$ 456	\$ 2,020	\$ 336
Canada	\$ 10,770	\$ 35,500	2.8	48	61	\$ 419	\$ 61	\$ 390	\$ 80
Mexico	\$ 3,830	\$ 13,910	2.6	21	56	\$ 272	\$ 18	\$ 296	\$ 24
United Kingdom	\$ 8,210	\$ 34,250	2.5	42	38	\$ 438	\$ 273	\$ 620	\$ 194
Germany	\$ 9,870	\$ 34,740	2.0	48	72	\$ 1,326	\$ 206	\$ 1,059	\$ 250
Australia	\$ 8,990	\$ 33,400	3.3	30	37	\$ 141	\$ 40	\$ 165	\$ 38
Japan	\$ 8,920	\$ 34,750	2.3	26	30	\$ 713	\$ 127	\$ 621	\$ 149
South Korea	\$ 2,600	\$ 24,840	6.7	62	75	\$ 371	\$ 62	\$ 357	\$ 83
Singapore	\$ 6,720	\$ 47,950	7.0	370	349	\$ 299	\$ 67	\$ 263	\$ 70
China	\$ 250	\$ 5,420	10.0	20	68	\$ 1,218	\$ 122	\$ 956	\$ 129
India	\$ 420	\$ 2,740	6.1	13	31	\$ 145	\$ 90	\$ 217	\$ 77
Brazil	\$ 3,500	\$ 9,270	2.4	19	22	\$ 161	\$ 23	\$ 127	\$ 35
South Africa	\$ 3,930	\$ 9,450	2.4	56	57	\$ 70	\$ 13	\$ 91	\$ 16

- Convergence hypothesis: does it hold?
- Comments on trade flows and growth for specific countries.
- Growth of services trade
- Determinants of trade volumes and patterns:

Market size

Geographic distance from major markets

We need more insight from sectoral data on trade (Table 1.2)

Major Net Export Goods 2007	Major Net Import Goods 2007
MATERIALS; SCI EQUIP; IND MACH; CHEMICALS	PETROLEUM; APPAREL; BEVERAGES
MATERIALS; PETROLEUM; EDIBLE OILS	APPAREL; ELECTRICAL MACHINERY; BEVERAGES
BEVERAGES; PETROLEUM; APPAREL; TRANSP	EDIBLE OILS; CHEMICALS; SCI EQUIP; IND MACH
IND MACH; CHEMICALS; BEVERAGES	APPAREL; FOOD; EDIBLE OILS
TRANSP; IND MACH; SCI EQUIP	PETROLEUM; EDIBLE OILS; APPAREL
MATERIALS; FOOD; BEVERAGES	APPAREL; TRANSP; IND MACH; ELEC MACH
TRANSP; IND MACH; SCI EQUIP	PETROLEUM; APPAREL; FOOD; BEVERAGES
TRANSP; SCI EQUIP; ELEC MACH	EDIBLE OILS; FOOD; MATERIALS; PETROLEUM
CHEMICALS; MISC. MFG.	FOOD; TRANSP; APPAREL
APPAREL; MISC. MFG; FOOD	MATERIALS; PETROLEUM; EDIBLE OILS
APPAREL; MISC. MFG; FOOD; BEVERAGES	EDIBLE OILS; PETROLEUM; IND MACH; SCI EQUIP
MATERIALS; FOOD; BEVERAGES; APPAREL	SCI EQUIP; ELEC MACH; CHEMICALS; PETROLEUM
MATERIALS; BEVERAGES; FOOD	EDIBLE OILS; ELEC MACH; SCI EQUIP

Other important determinants:

Factor endowments

Technology

- Note the prospects for *inter-industry* vs. *intra-industry trade*.

Channel Two: FDI and Technology

- Extraordinary expansion of FDI (Table 1.3)
- Inward versus outward FDI
- General types of FDI:
 - Resource-seeking (minerals, oil)
 - Market-seeking (horizontal FDI)
 - Cost-reducing (vertical FDI; offshoring)
- Comments on individual countries

Country	Inward Stock/GPD		Outward Stock/GDP		Technology Receipts (\$m)		Technology Payments (\$m)	
	1980	2005	1980	2005	1981	2005	1981	2005
United States	3	13	7.8	16.4	\$ 7,284	\$ 74,826	\$ 650	\$ 31,851
Canada	20.4	31.6	8.9	35.3	\$ 157	\$ 2,474	\$ 416	\$ 1,222
Mexico	3.6	27.3	0.1	3.6	\$ 33	\$ 180	\$ 274	\$ 2,094
UK	11.8	37.1	15	56.2	\$ 965	\$ 30,676	\$ 798	\$ 14,867
Germany	3.9	18	4.6	34.6	\$ 934	\$ 34,307	\$ 1,479	\$ 29,756
Switzerland	7.9	46.9	20	107.4	na	\$ 9,799	na	\$ 10,900
Australia	7.9	29.8	1.4	22.5	\$ 14	\$ 2,578	\$ 143	\$ 3,566
Japan	0.3	2.2	1.8	8.5	\$ 794	\$ 18,403	\$ 1,177	\$ 6,385
R of Korea	2.1	8	0.2	4.6	na	\$ 1,625	na	\$ 4,525
Singapore	52.9	158.6	31.7	94.1	na	na	na	na
China	0.5	14.3	0	2.1	na	na	na	na
India	0.2	5.8	0	1.2	na	na	na	na
Brazil	7.4	25.4	16.4	9	na	na	na	na
South Africa	20.5	29	7.1	16.1	na	\$ 45	na	\$ 1,071

- What is trade in technology?

Channel Three: International Labor Migration

Country	1980	1990	2000	2005
United States	6.2	7.9	11	12.6
Germany	9.5	10.1	12.5	12.9
United Kingdom	6.2	6.7	7.9	9.7
Australia	21.1	22.8	23.0	23.8

- Migration is a global phenomenon:
 South to North
 South to South
 Within countries

Effects of Globalization

- How economists think
- How “everybody else” thinks

Gains from globalization:

- Specialization raises aggregate incomes and living standards.
- Greater variety of goods available.
- Larger market size and opportunities for exporters (Vietnamese rice story; massive reductions in poverty in Korea, Taiwan, China, Malaysia, etc.).
- “Pro-competitive gains” from breaking down monopolies.
- “Rationalization gains” from forcing out inefficient domestic firms.
- More access to international technological information.
- “Spillovers” of technologies into domestic firms.
- These effects may raise growth rates.
- Income gains from migration and remittances.
- Skilled worker migration brings expertise.

Problems with globalization:

- Rationalization often implies painful job losses and regional income

losses.

- Income distribution effects and income inequality.
- Expansion of trade (same for output growth) may put stresses on resource use and environment.
- Globalization can dilute local cultural preferences.
- Closer contact of people can spread “bads” as well as goods.
- Competition and global rules can pressure governments to change policies in ways that may be controversial. “Race to the bottom?”

Can Globalization be Reversed?

Largely a speculative question, but consider recent US attitudes (WSJ poll December 2007):

“Do you think the fact that the U.S. economy has become increasingly global is good because it has opened up new markets for American products and resulted in more jobs, or bad because it has subjected American companies and employees to unfair competition and cheap labor?”

- June 2007: 42% said “good” vs 48% “bad”.
- December 2007: 28% “good” vs 58% “bad”.

And this (WSJ/NBC March 2007): “Are you personally benefiting from today’s global economy?”

- High school graduates and below saying “yes”: 20%
- College graduates and above saying “yes”: 35%

What is the political economy of all this? Remarkable growth in income inequality, with stagnant real wages for middle-income and lower-income households.

- 1999 median household nominal income: \$50,641
- 2007 median household nominal income: \$50,233
- Growth in average real total earnings, 2000-2007:
Less than HS: -3.2%; HS grad: -3.5%; College grad: -4.5%; MBA, JD, MD:
+5.9%

- Share of US gross personal income to top 1% of earners: 8.2% in 1980; 22.9% in 2006.

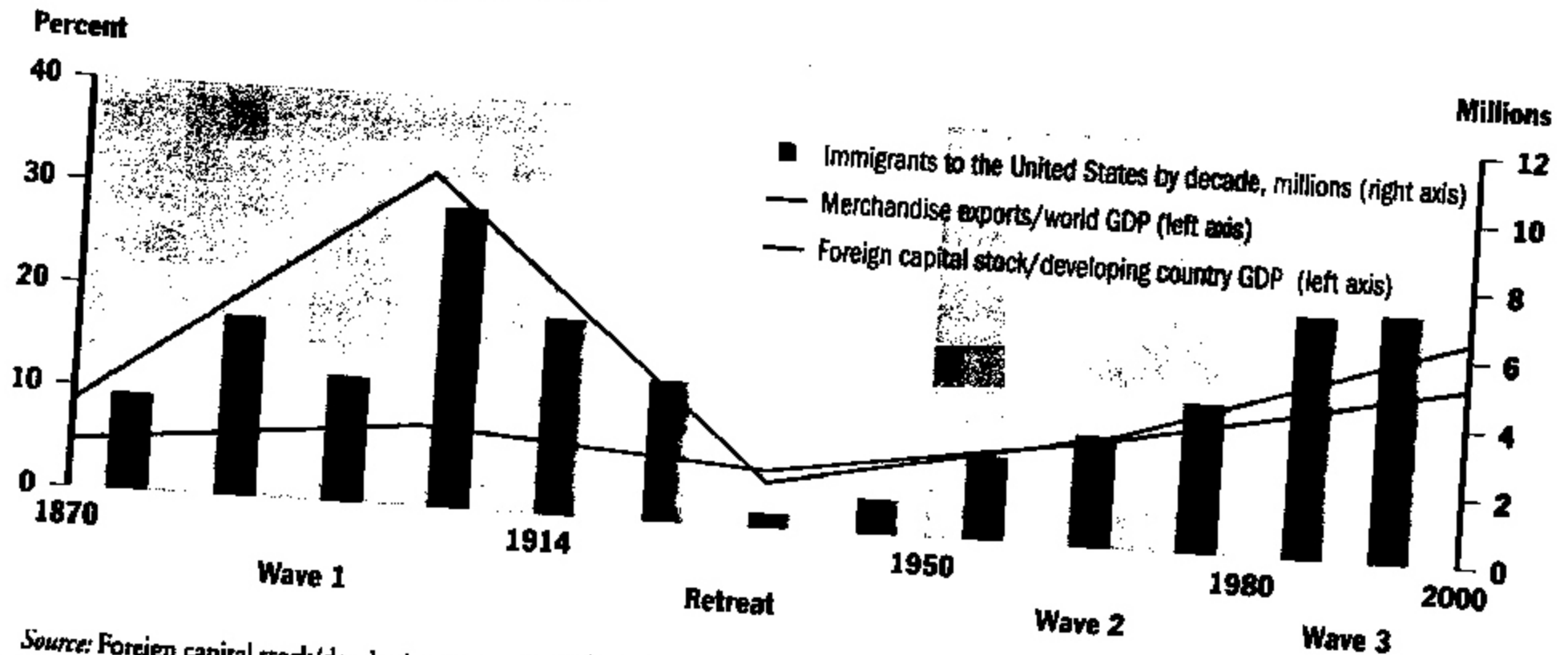
So the politics of trade liberalization are increasingly difficult in US and elsewhere.

Historical precedent?

“First Wave” of globalization: 1870-1915

- Countries involved
- Shift of economic activities
- Heavy investments to finance growth in US, Canada, etc.
- Impacts on incomes and outputs in “old world”
- Massive migration of labor to “new world”
- Extensive globalization resulted, just as today.

Figure 1.1 Three waves of globalization



Source: Foreign capital stock/developing country GDP: Maddison (2001), table 3.3; Merchandise exports/world GDP: Maddison (2001), table F-5; Migration: Immigration and Naturalization Service (1998).

What caused this process to collapse?

- World War I
- Great Depression:
rapidly declining output and trade, Smoot-Hawley tariff

“Second Wave”: 1948-1980

- Bretton Woods institutions
- Successive trade and investment liberalization
- Involved mainly the developed economies

“Third Wave”: 1980-now

- Technological change.
- Brought in most of developing world.
- Massive labor-market impacts of China, India, Brazil entering global markets.
- Proliferation of regional FTAs.

What is different now from 1915?

- Much of developing world is dependent on exports and access to technology.
- MNEs are really global rather than national in character.
- WTO and FTAs place limits on ability of countries to retreat from open trade.