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
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
• Convergence hypothesis: does it hold?

• Comments on trade flows and growth for specific countries.
• Growth of services trade
• Determinants of trade volumes and patterns:

<table>
<thead>
<tr>
<th>Country</th>
<th>GNI per capita (PPP)</th>
<th>Average Real GDP</th>
<th>Total Merchandise Trade (% of GDP)</th>
<th>Exports ($billion)</th>
<th>Imports ($billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$12,150</td>
<td>$45,840</td>
<td>3.1</td>
<td>17</td>
<td>23</td>
</tr>
<tr>
<td>Canada</td>
<td>$10,770</td>
<td>$35,500</td>
<td>2.8</td>
<td>48</td>
<td>61</td>
</tr>
<tr>
<td>Mexico</td>
<td>$3,830</td>
<td>$13,910</td>
<td>2.6</td>
<td>21</td>
<td>56</td>
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<tr>
<td>United Kingdom</td>
<td>$8,210</td>
<td>$34,250</td>
<td>2.5</td>
<td>42</td>
<td>38</td>
</tr>
<tr>
<td>Germany</td>
<td>$9,870</td>
<td>$34,740</td>
<td>2.0</td>
<td>48</td>
<td>72</td>
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<tr>
<td>Australia</td>
<td>$8,990</td>
<td>$33,400</td>
<td>3.3</td>
<td>30</td>
<td>37</td>
</tr>
<tr>
<td>Japan</td>
<td>$8,920</td>
<td>$34,750</td>
<td>2.3</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>South Korea</td>
<td>$2,600</td>
<td>$24,840</td>
<td>6.7</td>
<td>62</td>
<td>75</td>
</tr>
<tr>
<td>Singapore</td>
<td>$6,720</td>
<td>$47,950</td>
<td>7.0</td>
<td>370</td>
<td>349</td>
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<tr>
<td>China</td>
<td>$250</td>
<td>$5,420</td>
<td>10.0</td>
<td>20</td>
<td>68</td>
</tr>
<tr>
<td>India</td>
<td>$420</td>
<td>$2,740</td>
<td>6.1</td>
<td>13</td>
<td>31</td>
</tr>
<tr>
<td>Brazil</td>
<td>$3,500</td>
<td>$9,270</td>
<td>2.4</td>
<td>19</td>
<td>22</td>
</tr>
<tr>
<td>South Africa</td>
<td>$3,930</td>
<td>$9,450</td>
<td>2.4</td>
<td>56</td>
<td>57</td>
</tr>
</tbody>
</table>
Market size
Geographic distance from major markets
We need more insight from sectoral data on trade (Table 1.2)

<table>
<thead>
<tr>
<th>Major Net Export Goods</th>
<th>Major Net Import Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2007</td>
</tr>
<tr>
<td>MATERIALS; SCI EQUIP; IND MACH; CHEMICALS</td>
<td>PETROLEUM; APPAREL; BEVERAGES</td>
</tr>
<tr>
<td>MATERIALS; PETROLEUM; EDIBLE OILS</td>
<td>APPAREL; ELECTRICAL MACHINERY; BEVERAGES</td>
</tr>
<tr>
<td>BEVERAGES; PETROLEUM; APPAREL; TRANSP</td>
<td>EDIBLE OILS; CHEMICALS; SCI EQUIP; IND MACH</td>
</tr>
<tr>
<td>IND MACH; CHEMICALS; BEVERAGES</td>
<td>APPAREL; FOOD; EDIBLE OILS</td>
</tr>
<tr>
<td>TRANSP; IND MACH; SCI EQUIP</td>
<td>PETROLEUM; EDIBLE OILS; APPAREL</td>
</tr>
<tr>
<td>MATERIALS; FOOD; BEVERAGES</td>
<td>APPAREL; TRANSP; IND MACH; ELEC MACH</td>
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<tr>
<td>TRANSP; IND MACH; SCI EQUIP</td>
<td>PETROLEUM; APPAREL; FOOD; BEVERAGES</td>
</tr>
<tr>
<td>TRANSP; SCI EQUIP; ELEC MACH</td>
<td>EDIBLE OILS; FOOD; MATERIALS; PETROLEUM</td>
</tr>
<tr>
<td>CHEMICALS; MISC. MFG.</td>
<td>FOOD; TRANSP; APPAREL</td>
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<tr>
<td>APPAREL; MISC. MFG; FOOD</td>
<td>MATERIALS; PETROLEUM; EDIBLE OILS</td>
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<tr>
<td>APPAREL; MISC. MFG; FOOD; BEVERAGES</td>
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<td>SCI EQUIP; ELEC MACH; CHEMICALS; PETROLEUM</td>
</tr>
<tr>
<td>MATERIALS; BEVERAGES; FOOD</td>
<td>EDIBLE OILS; ELEC MACH; SCI EQUIP</td>
</tr>
</tbody>
</table>

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
### Table 1.3 Foreign Direct Investment Stocks and Technology Payments and Receipts

<table>
<thead>
<tr>
<th>Country</th>
<th>Inward Stock/GDP</th>
<th>Outward Stock/GDP</th>
<th>Technology Receipts ($m)</th>
<th>Technology Payments ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>3</td>
<td>13</td>
<td>7.8</td>
<td>16.4</td>
</tr>
<tr>
<td>Canada</td>
<td>20.4</td>
<td>31.6</td>
<td>8.9</td>
<td>35.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.6</td>
<td>27.3</td>
<td>0.1</td>
<td>3.6</td>
</tr>
<tr>
<td>UK</td>
<td>11.8</td>
<td>37.1</td>
<td>15</td>
<td>56.2</td>
</tr>
<tr>
<td>Germany</td>
<td>3.9</td>
<td>18</td>
<td>4.6</td>
<td>34.6</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7.9</td>
<td>46.9</td>
<td>20</td>
<td>107.4</td>
</tr>
<tr>
<td>Australia</td>
<td>7.9</td>
<td>29.8</td>
<td>1.4</td>
<td>22.5</td>
</tr>
<tr>
<td>Japan</td>
<td>0.3</td>
<td>2.2</td>
<td>1.8</td>
<td>8.5</td>
</tr>
<tr>
<td>R of Korea</td>
<td>2.1</td>
<td>8</td>
<td>0.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>52.9</td>
<td>158.6</td>
<td>31.7</td>
<td>94.1</td>
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<tr>
<td>China</td>
<td>0.5</td>
<td>14.3</td>
<td>0</td>
<td>2.1</td>
</tr>
<tr>
<td>India</td>
<td>0.2</td>
<td>5.8</td>
<td>0</td>
<td>1.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>7.4</td>
<td>25.4</td>
<td>16.4</td>
<td>9</td>
</tr>
<tr>
<td>South Africa</td>
<td>20.5</td>
<td>29</td>
<td>7.1</td>
<td>16.1</td>
</tr>
</tbody>
</table>

- What is trade in technology?

Channel Three: International Labor Migration
• 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

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.