EE451

Chapter 1: Introduction

Nitinant Wisaweisuan

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What is International Economics About?

- International economics deals with economic interactions that occur between independent countries.
- Two main areas:
  - International trade
  - International monetary economics

Importance of International Economics

- The world is getting smaller everyday.
  - Speedy and easy transportation and communications.
  - Cross-border transactions: purchase of goods, services provision, travel, investment, media, marketing, working abroad, etc.

Importance of International Economics

- Exports generate foreign exchange to a country, encouraging domestic production, and contributing to higher economic growth and income.
- A country’s economic growth is largely dependent of global demand.
- In turn, higher level of income may encourage more imports and produce some adverse effects.
- Trade balance can bring about an ultimate impact on macroeconomic environment as well as welfare changes.

Principal Questions in Trade Theory

- Why does the US export cars to Germany? Why doesn't it export coffee to Colombia? Why doesn't Colombia export VCR to Japan? etc. These are all questions about the ***pattern of trade.***
- If Thailand exports rice to the US, and the US exports auto to Thailand, what determines how many autos can be gotten in exchange for it? This is a question of relative prices of exports and imports, or the ***terms of trade***.
- When countries trade, do they benefit? Or are they harmed by it? Do some countries gain at the expenses of others? Will they be best off with free trade or by implementing restrictions? How do we decide which measure is appropriate? These are questions regarding the ***welfare*** and the potential for improving it via policy.

Coverage of Trade Theory

- What determines the basis for trade?
- The Pattern of Trade (who sells what to whom?)
- What determines the value and volume of trade?
- What factors impede trade flows?
- What are the effects of trade?
- What is the impact of public policy that attempts to alter the pattern of trade?
- Goals:
  - To understand how international trade affects our country
  - To be able to evaluate the implications of government policies that are undertaken to influence the level and direction of international transactions.

TABLE 1 **Growth in Volume of World Goods Production and Trade, 1963–2014 (average annual percentage change in volume)**

	1963–1973	*1970–1979*	*1980–1985*	*1985–1990*	*1990–1998*	*1995–2000*	*2000–2006*	*2005–2010*	*2010–2014*	*2014*
Production										
All commodities	6.0%	4.0%	1.7%	3.0%	2.0%	4.0%	2.5%	2.0%	2.5%	2.0%
Agriculture	2.5	2.0	2.9	1.9	2.0	2.5	2.0	2.0	2.5	1.5
Mining	5.5	2.5	−2.7	3.0	2.0	2.0	1.5	0.5	1.5	2.5
Manufacturing	7.5	4.5	2.3	3.2	2.0	4.0	3.0	2.5	2.5	2.5
Exports										
All commodities	9.0%	5.0%	2.1%	5.8%	6.5%	7.0%	5.5%	3.5%	3.5%	2.5%
Agriculture	14.0	4.5	1.0	2.2	4.0	3.5	4.0	3.5	3.5	2.5
Mining	7.5	1.5	−2.7	4.8	5.5	4.0	3.0	1.5	1.5	1.0
Manufacturing	11.5	7.0	4.5	7.0	7.0	8.0	6.0	4.0	4.0	4.0

Sources: General Agreement on Tariffs and Trade, *International Trade 1985–86* (Geneva: GATT, 1986), p. 13; GATT, *International Trade 1988–89*, I (Geneva: GATT, 1989), p. 8; GATT, *International Trade 1993: Statistics* (Geneva: GATT, 1993), p. 2; GATT, *International Trade 1994: Trends and Statistics* (Geneva: GATT, 1994), p. 2; World Trade Organization, *Annual Report 1999: International Trade Statistics* (Geneva: WTO, 1999), p. 1; WTO, *International Trade Statistics 2003* (Geneva: WTO, 2003), p. 19; WTO, *International Trade Statistics 2007* (Geneva: WTO, 2007), p. 7; WTO, *International Trade Statistics* 2011 (Geneva: WTO, 2011), p. 19; and WTO, *World Trade Report 2015*, p. 39, all obtained from www.wto.org.

Geographical Regions

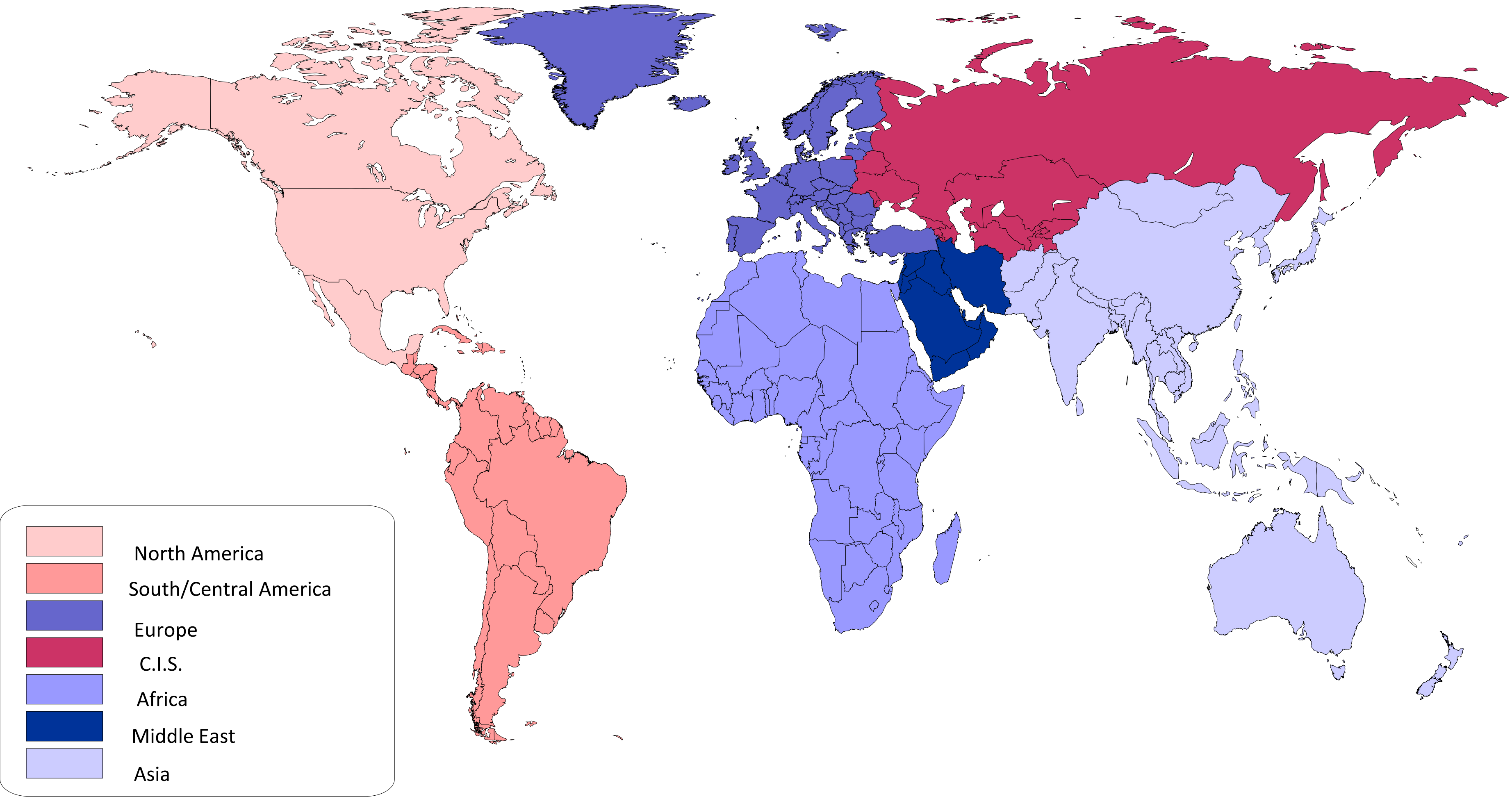


TABLE 2 **Merchandise Exports and Imports by Region, 2014 (billions of dollars and percentage of world totals)**

	Exports		*Imports*	
	(billions of dollars, f.o.b.)*	*Share (%)*	*(billions of dollars, c.i.f. *)*	*Share (%)*
North America[†]	$ 2,493	13.2%	$ 3,300	17.4%
South and Central America	695	3.7	739	3.9
Europe	6,739	35.6	6,722	35.3
(European Union)[‡]	(6,162)	(32.6)	(6,133)	(32.2)
Commonwealth of Independent States (CIS)[§]	735	3.9	506	2.7
Africa	555	2.9	642	3.4
Middle East	1,288	6.8	784	4.1
Asia	6,426	33.9	6,325	33.3
World	$18,930	100.0%	$19,018	100.0%

Note: Components may not sum to totals because of rounding.

*Exports are recorded f.o.b. (free on board) and imports are recorded c.i.f. (cost, insurance, and freight).

[†]Including Mexico.

[‡]Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, and United Kingdom.

[§]Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Source: World Trade Organization, *World Trade Report 2015,* pp. 24, 26, obtained from www.wto.org.

TABLE 3 Regional Structure of World Merchandise Exports, 2014 (percentage of each origin area's exports going to each destination area)

	Destination							
Origin	*North America*	*South and Central America*	*Europe*	*CIS*	*Africa*	*Middle East*	*Asia*	*World*
North America	50.2%	8.6%	15.2%	0.7%	1.7%	3.2%	20.2%	100.0%
South and Central America	24.8	25.8	16.4	1.4	2.5	2.4	24.5	100.0
Europe	7.9	1.7	68.5	3.2	3.3	3.4	10.8	100.0
CIS	3.9	0.9	52.4	17.8	2.1	3.1	18.2	100.0
Africa	7.0	5.1	36.2	0.4	17.7	3.3	27.3	100.0
Middle East	7.7	0.8	11.5	0.5	2.8	8.8	53.9	100.0
Asia	18.0	3.1	15.2	2.1	3.5	5.1	52.3	100.0
World	*17.3*	*4.0*	*36.7*	*2.8*	*3.5*	*4.2*	*29.7*	*100.0*

Note: Destination percentages for any given origin area do not sum to 100.0% because of rounding and/or incomplete specification.

Source: World Trade Organization, *International Trade Statistics 2015,* p. 41, obtained from www.wto.org.

A2. Growth in the volume of world merchandise trade by selected region and economy, 2010-2016

(Annual percentage change)

Exports				Imports		
2010-16	2015	2016		2010-16	2015	2016
2.8	**2.4**	**1.3**	**World**	**2.7**	**2.9**	**1.2**
3.2	0.7	0.5	North America	3.4	6.7	0.4
3.8	4.4	1.1	Canada	2.2	0.7	-1.2
4.9	4.0	1.6	Mexico	6.3	13.4	0.8
2.6	-1.0	0.0	United States of America	3.2	6.8	0.6
1.8	2.5	2.0	South and Central America and the Caribbean	-0.1	-5.8	-8.7
2.5	3.6	1.4	Europe	1.9	4.3	3.1
2.6	3.9	1.5	European Union (28)	1.9	4.5	3.0
-0.3	3.9	-0.7	Norway	1.2	3.9	-2.7
...	-1.3	-1.1	Switzerland	...	0.4	1.9
0.0	-0.2	-3.0	Commonwealth of Independent States (CIS), including associate and former member States	-1.7	-23.4	7.1
0.4	4.9	1.2	Africa	4.2	3.2	-4.0
4.1	6.9	1.9	Middle East	2.0	0.2	-5.4
3.6	1.1	1.8	Asia	3.8	2.9	2.0
4.2	2.9	6.9	Australia	2.2	4.6	-1.8
4.6	-0.9	0.0	China	4.2	-1.8	3.1
4.2	-2.0	2.9	India	5.1	14.9	-2.0
0.5	2.2	3.0	Japan	2.5	2.6	2.1
3.2	1.6	2.1	Six East Asian traders a	2.5	1.4	-0.1

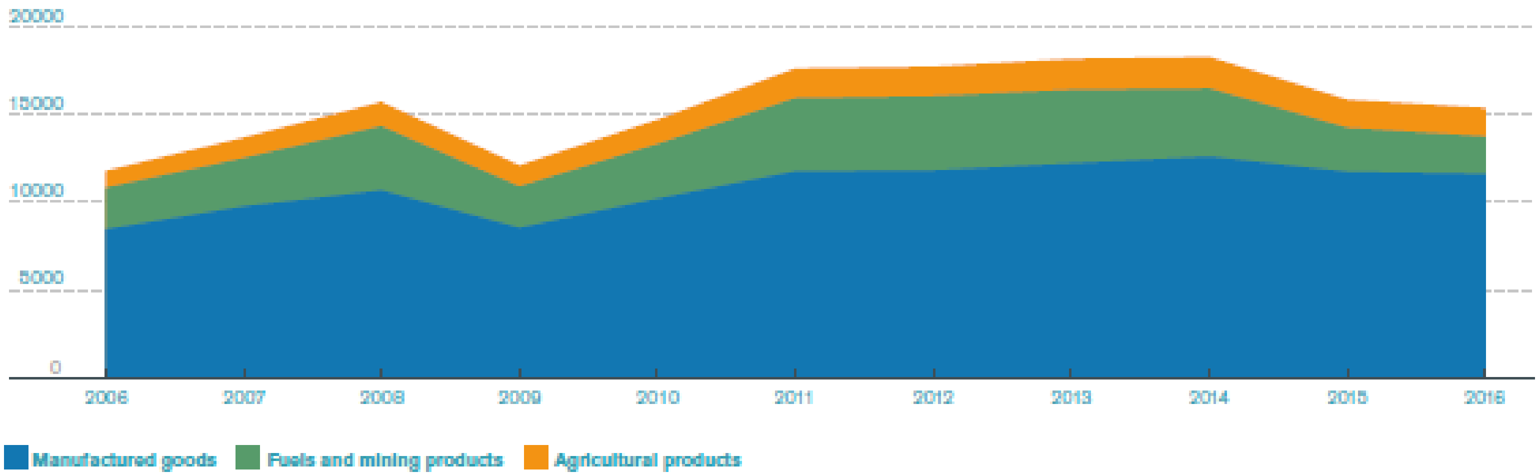
a Hong Kong, China; Malaysia; Republic of Korea; Singapore; Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu

Merchandise trade

World exports of manufactured goods increased from US$ 8 trillion in 2006 to US$ 11 trillion in 2016.

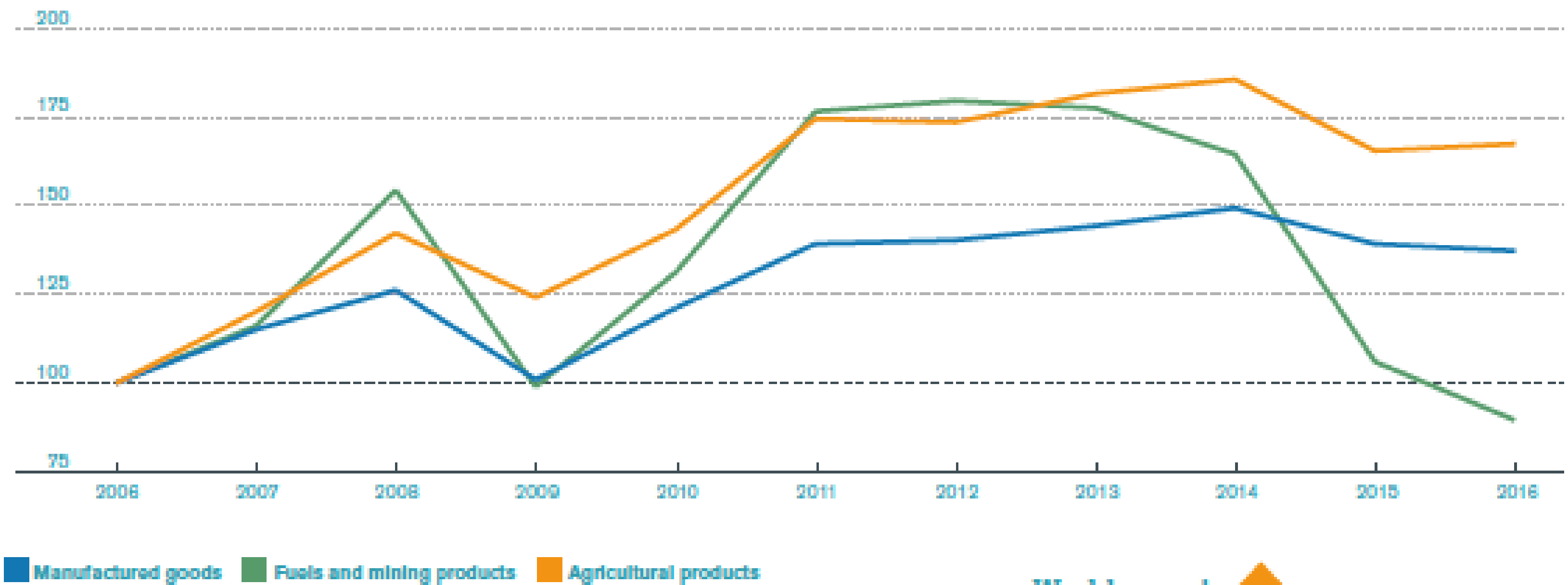
World exports of agricultural products increased by an average of **5%** per year.

World merchandise trade by major product grouping, 2006-2016 (US$ billion)



World exports of fuels and mining products have declined by 10% since 2006.

World merchandise trade by major product grouping, 2006-2016 (Index 2006 = 100)



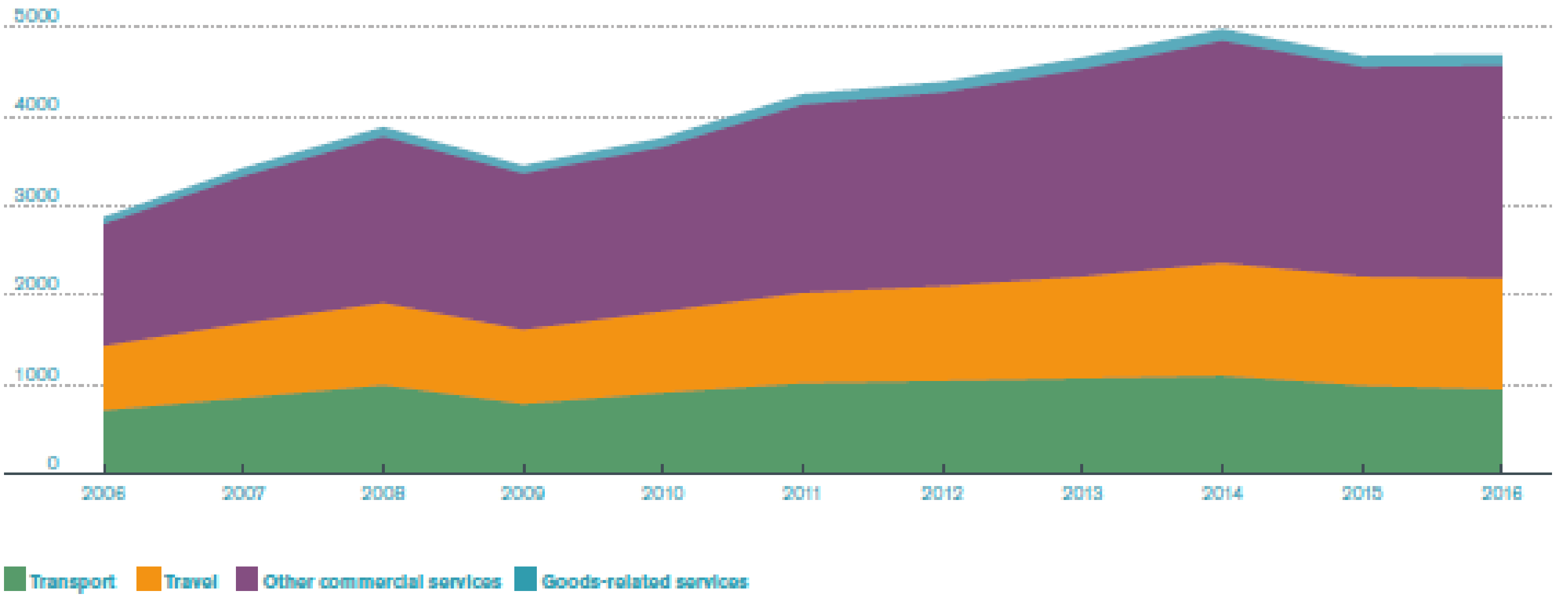
World exports of agricultural products have increased by 70% since 2006.

70%

Trade in commercial services

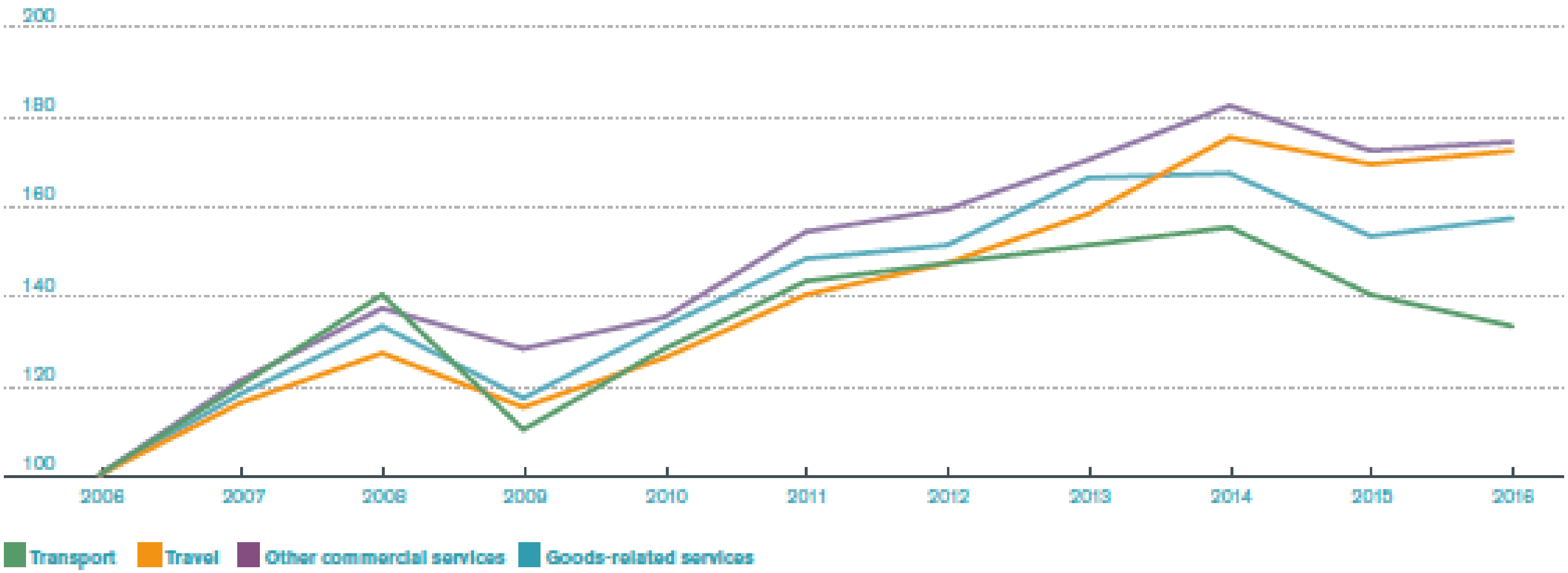
World exports of commercial services totalled US$ 4.8 trillion in 2016, up from US$ 2.9 trillion in 2006.

World trade in commercial services by category, 2006-2016 (US$ billion)

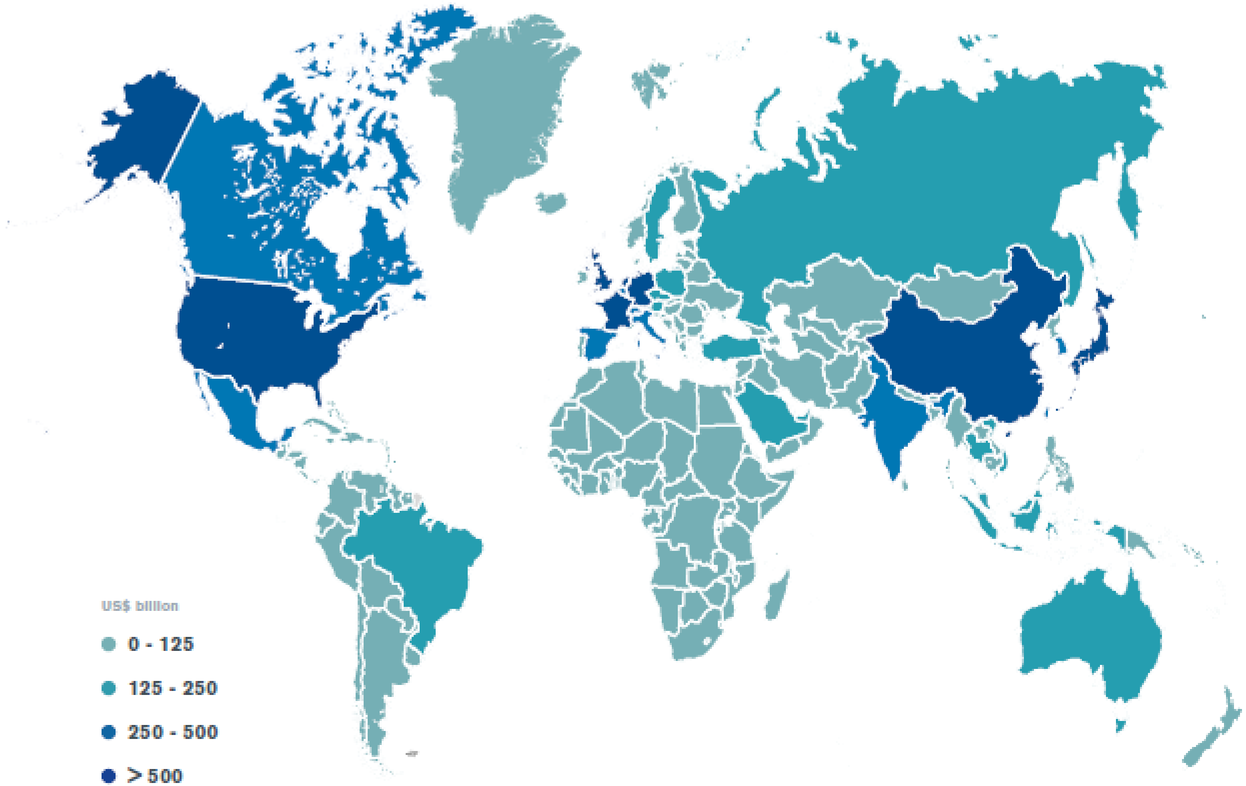


Travel and other commercial services have increased the most, with both being 1.7 times higher than in 2006.

World trade in commercial services by category, 2006-2016 (Index, 2006 = 100)



Economies by size of merchandise trade, 2016



53%

The top 10 traders in merchandise trade account for a little over half of the world's total trade in 2016.

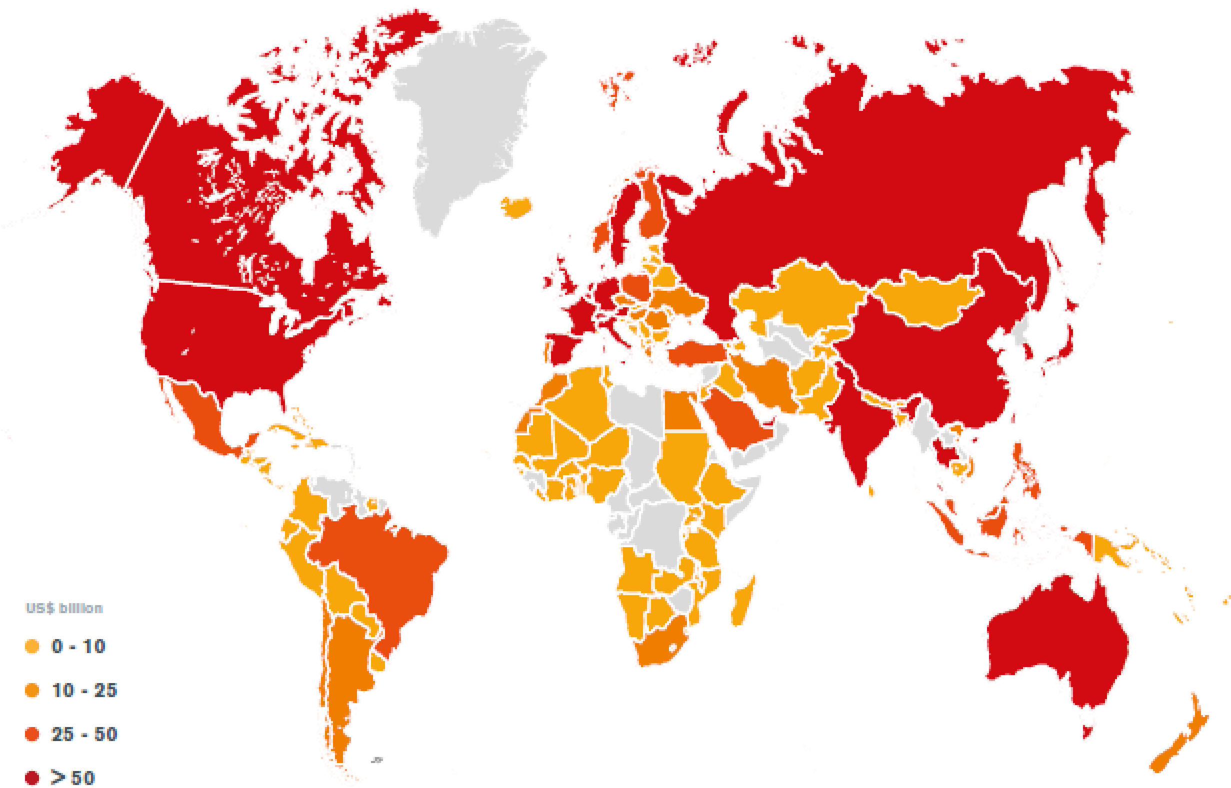
41%

Developing economies had a 41% share in world merchandise trade in 2016.

US$ 15.71 tn

Merchandise exports of WTO members totalled US$ 15.71 trillion in 2016.

Economies by size of trade in commercial services, 2016



US$ 4.73 tn

Exports of commercial services by WTO members totalled US$ 4.73 trillion in 2016.

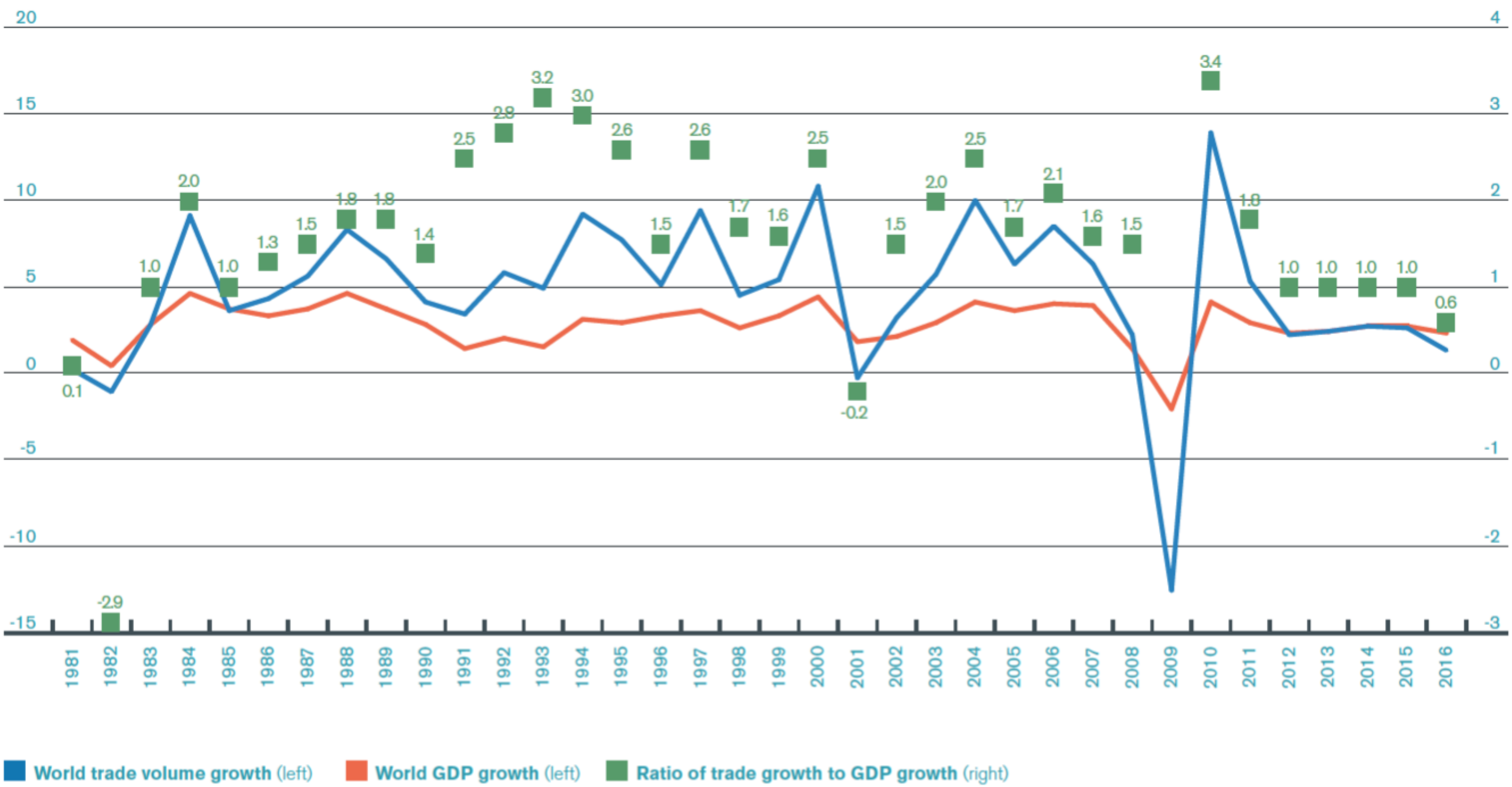
53%

The top 10 traders in world commercial services represent more than half of the world's total trade in commercial services in 2016.

34%

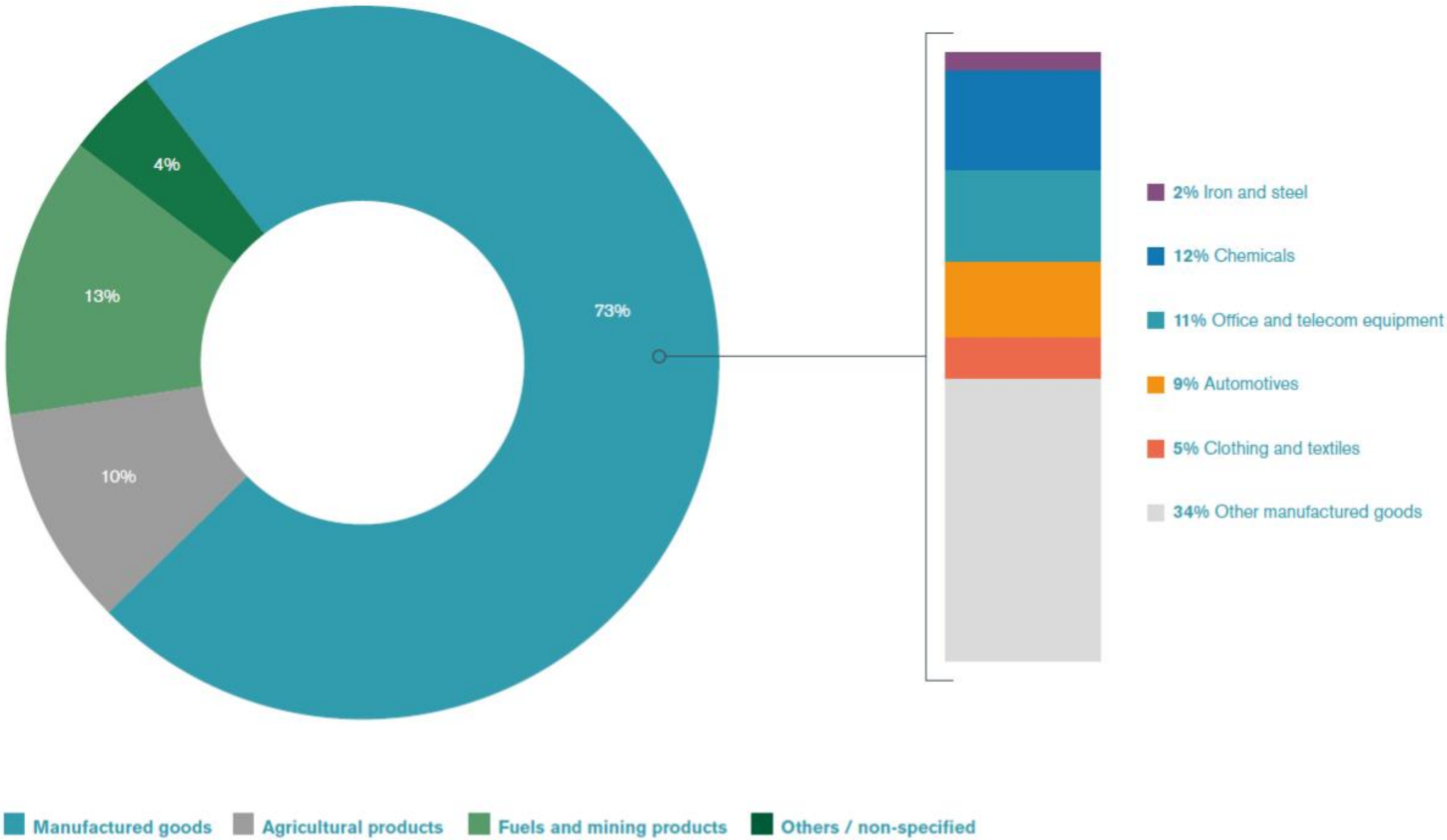
Developing economies accounted for 34% of total trade in commercial services in 2016.

Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2016
(Annual percentage change and ratio)



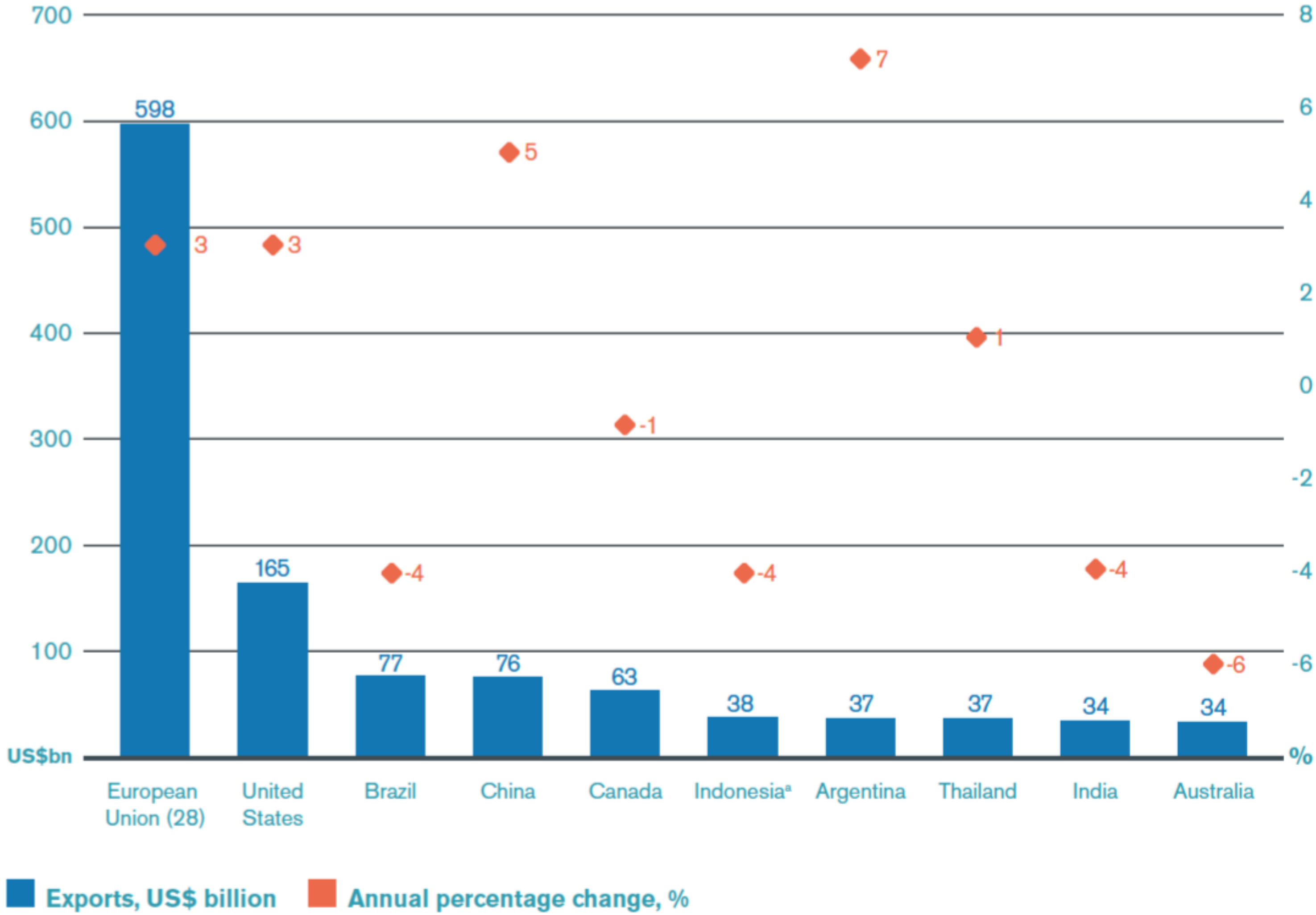
Source: WTO Secretariat for trade; consensus estimates for GDP based on reported data from a variety of sources including the International Monetary Fund, the Organisation for Economic Cooperation and Development and the United Nations.

World merchandise exports by major product groups, 2016
(Share, %)



Source: WTO Secretariat.

Top ten exporters of agricultural products, 2016
(US$ billion and annual percentage change, %)

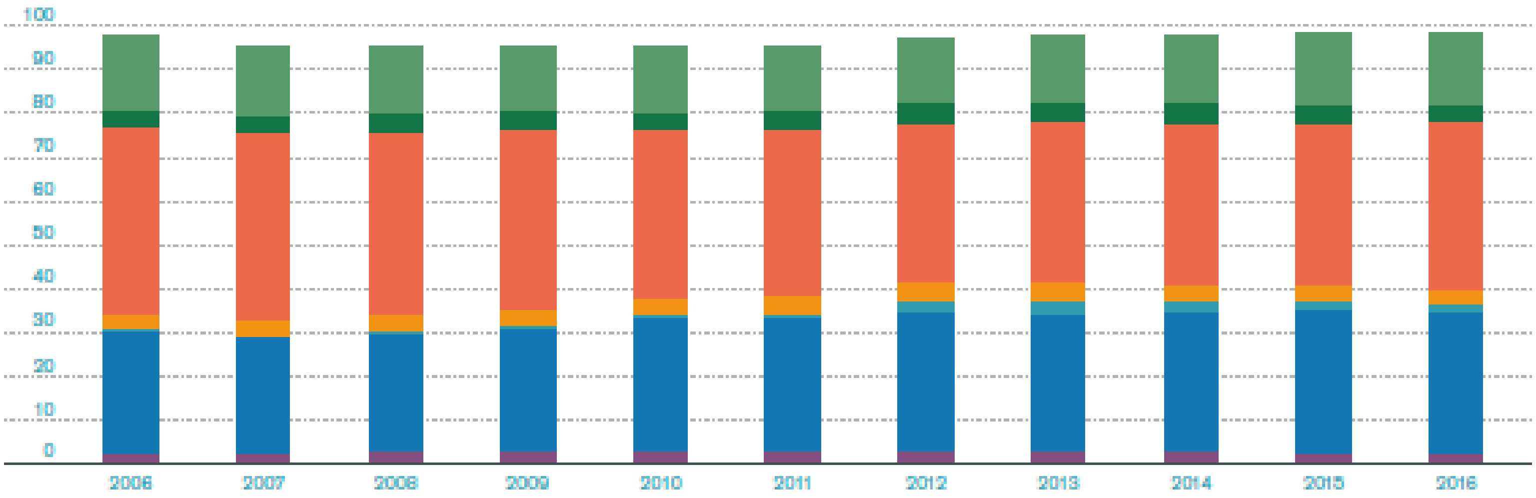


[a] Includes Secretariat estimates.
Source: WTO Secretariat.

WTO membership

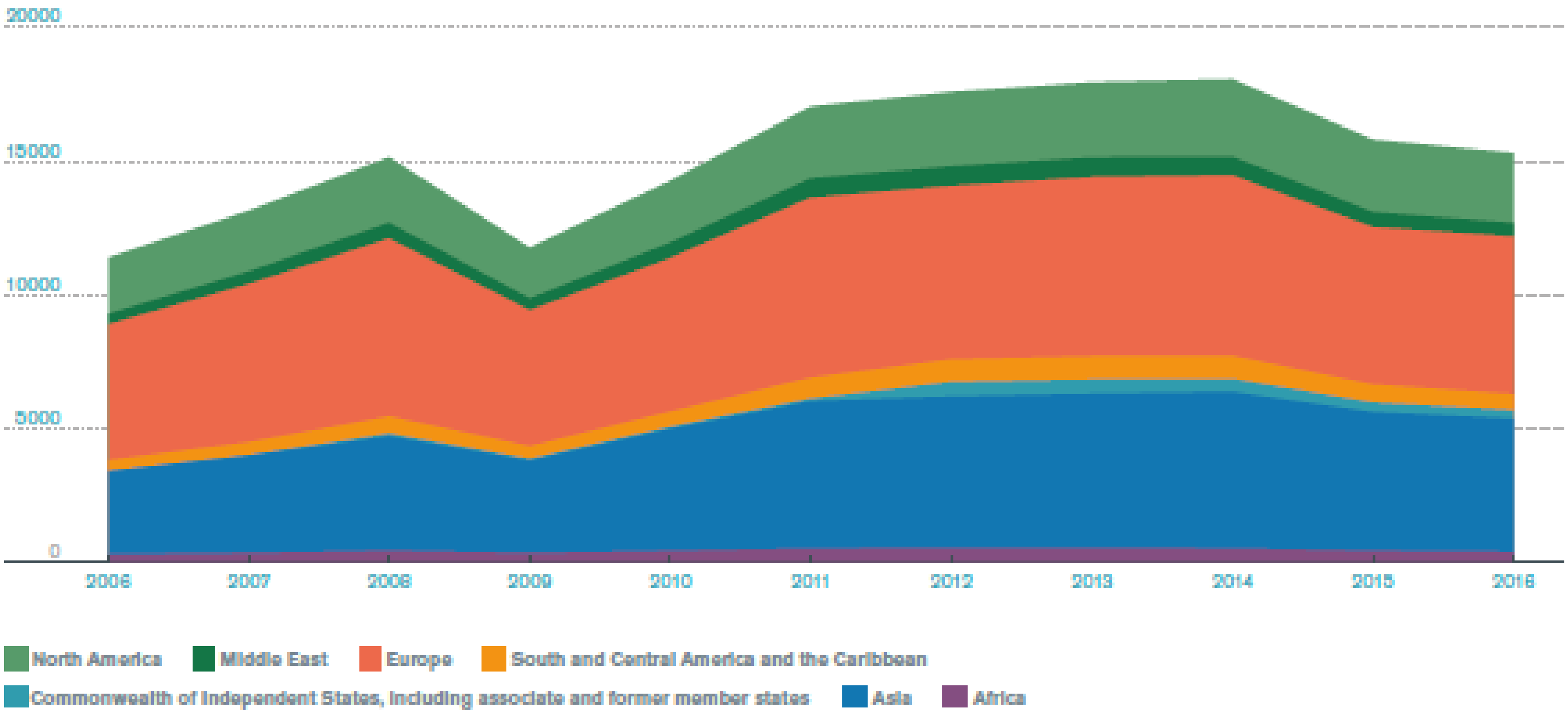
WTO members account for 98.2% of world merchandise trade.
Asia, Europe and North America account for 88% of this total.

Share in world merchandise trade of WTO members, 2006-2016 (Percentage, %)



Merchandise trade of WTO members has increased to US$ 15.4 trillion, up from US$ 11.7 trillion in 2006.

World merchandise trade of WTO members, 2006-2016 (US$ billion)



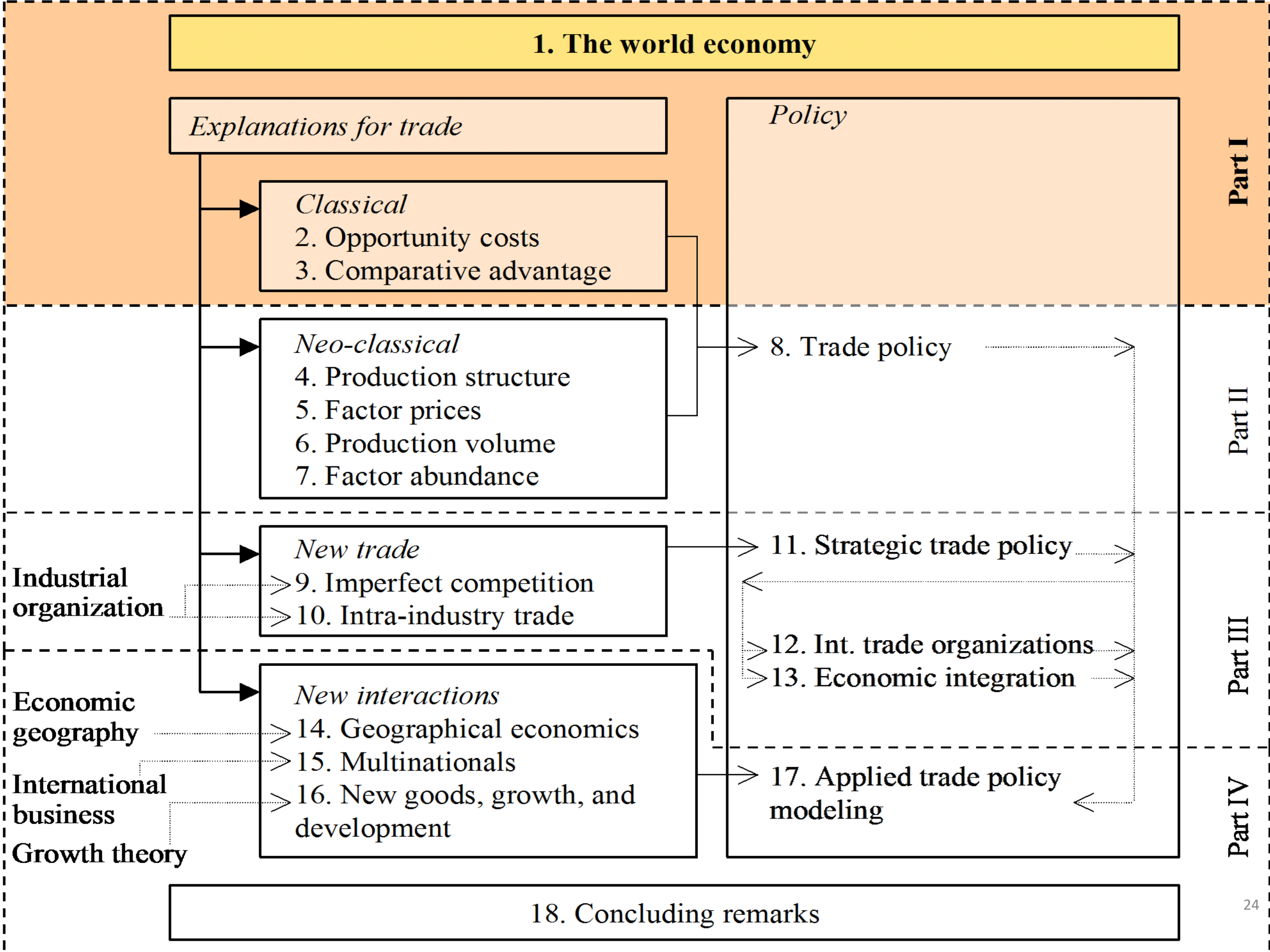
Note: World trade is calculated as an average of exports and imports of merchandise trade.

Measures of Internationalisation

- Degree of openness: (X+M)/GDP
- Degree of economic interdependence:
  - Export of final goods and services to GDP ratio
  - High ratio indicates a more complex international trade network

International Trade Data

- World Trade Organisation
- Eurostat
- COMTRADE
- Global Trade Atlas
- National Customs Department


1. The world economy
Explanations for trade
Policy
Part I
Classical
2. Opportunity costs
3. Comparative advantage
Neo-classical
4. Production structure
5. Factor prices
6. Production volume
7. Factor abundance
8. Trade policy
Part II
New trade
Industrial organization
9. Imperfect competition
10. Intra-industry trade
11. Strategic trade policy
12. Int. trade organizations
13. Economic integration
Part III
New interactions
Economic geography
International business
Growth theory
14. Geographical economics
15. Multinationals
16. New goods, growth, and development
17. Applied trade policy modeling
Part IV
18. Concluding remarks