

EE451

# Chapter 1: Introduction

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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.

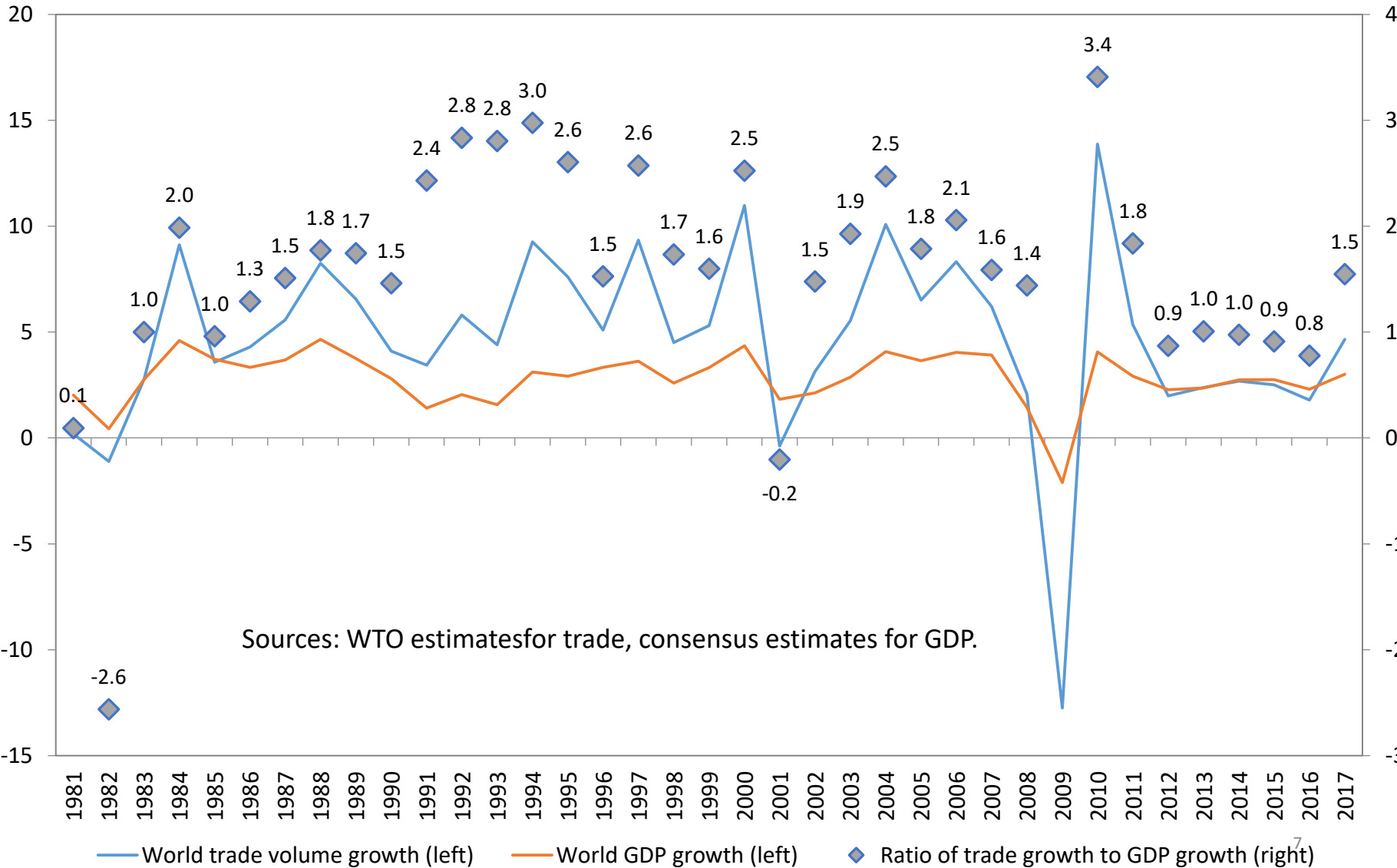
# Principal Questions in Trade Theory

- 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.

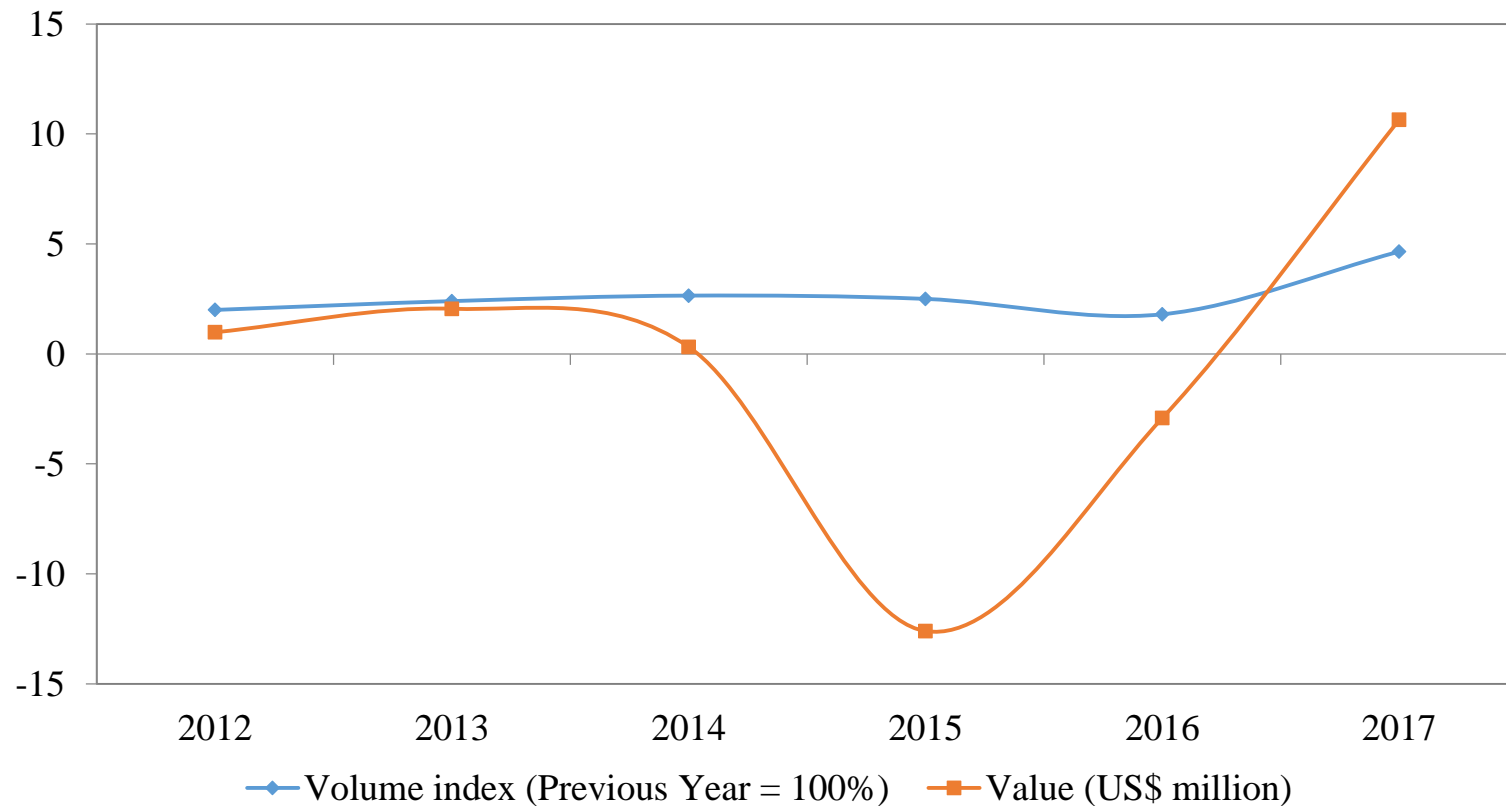
# Coverage of Trade Theory

- 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.

# World merchandise trade volume growth and World real GDP growth, 1981-2017



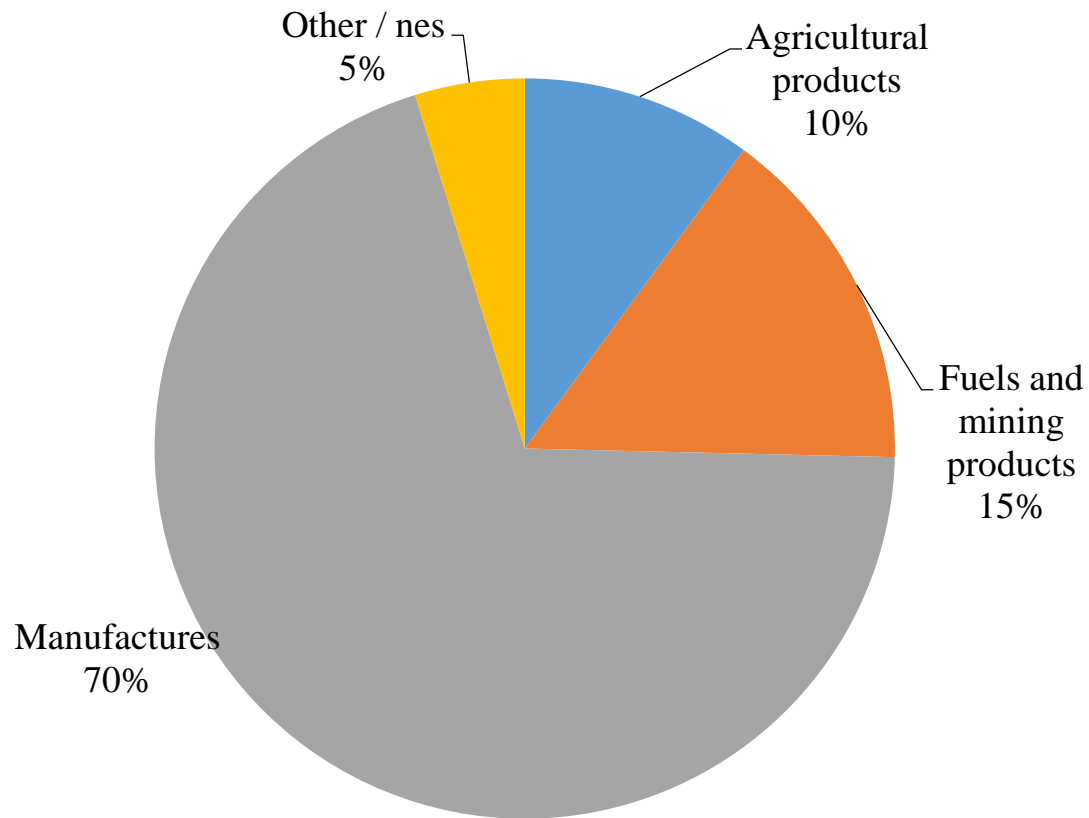
## Value and volume of world merchandise trade, 2012-17



Merchandise trade calculated as an average of exports and imports.

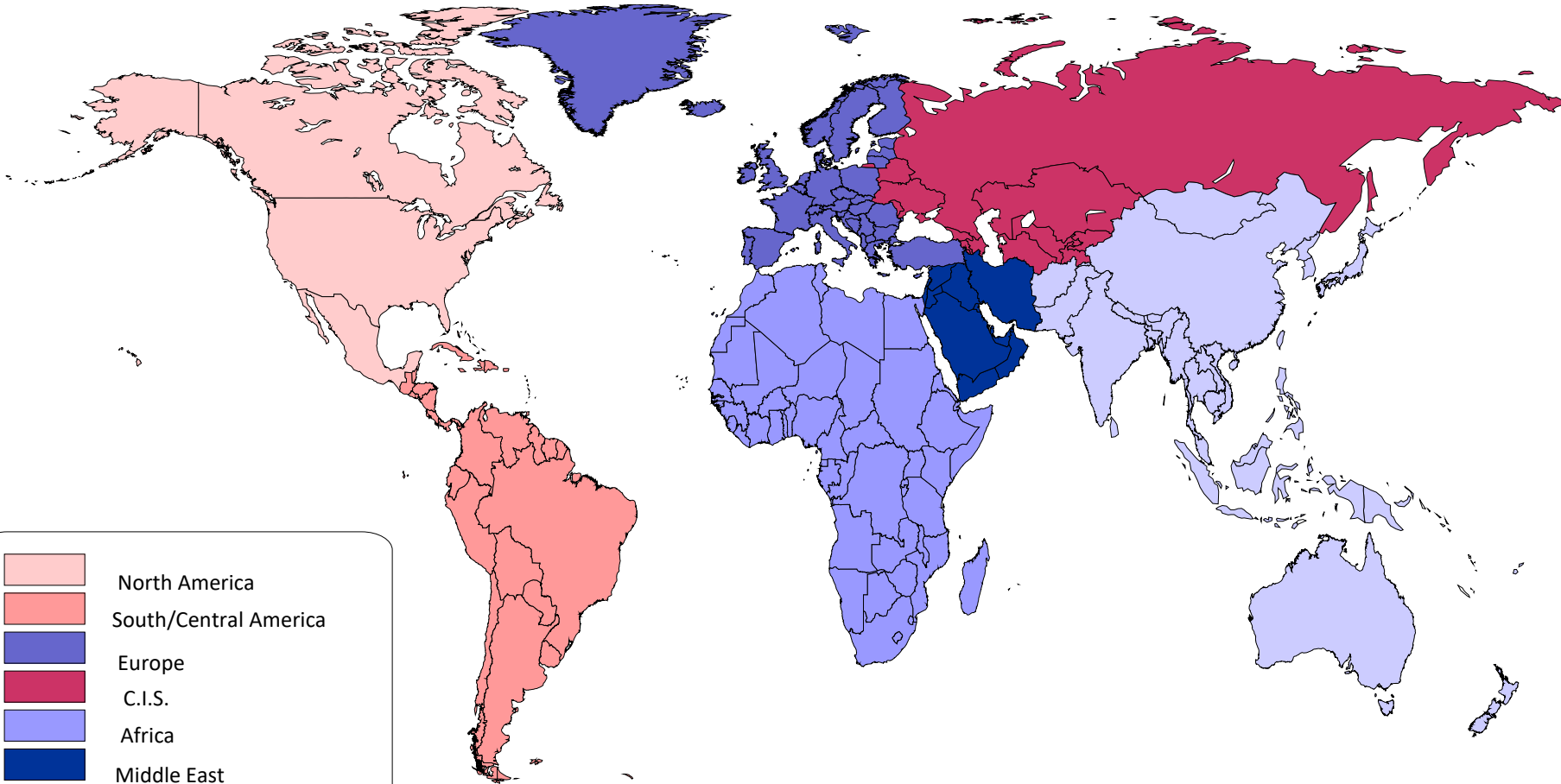
Source: WTO estimates

# Merchandise exports by product group, 2017



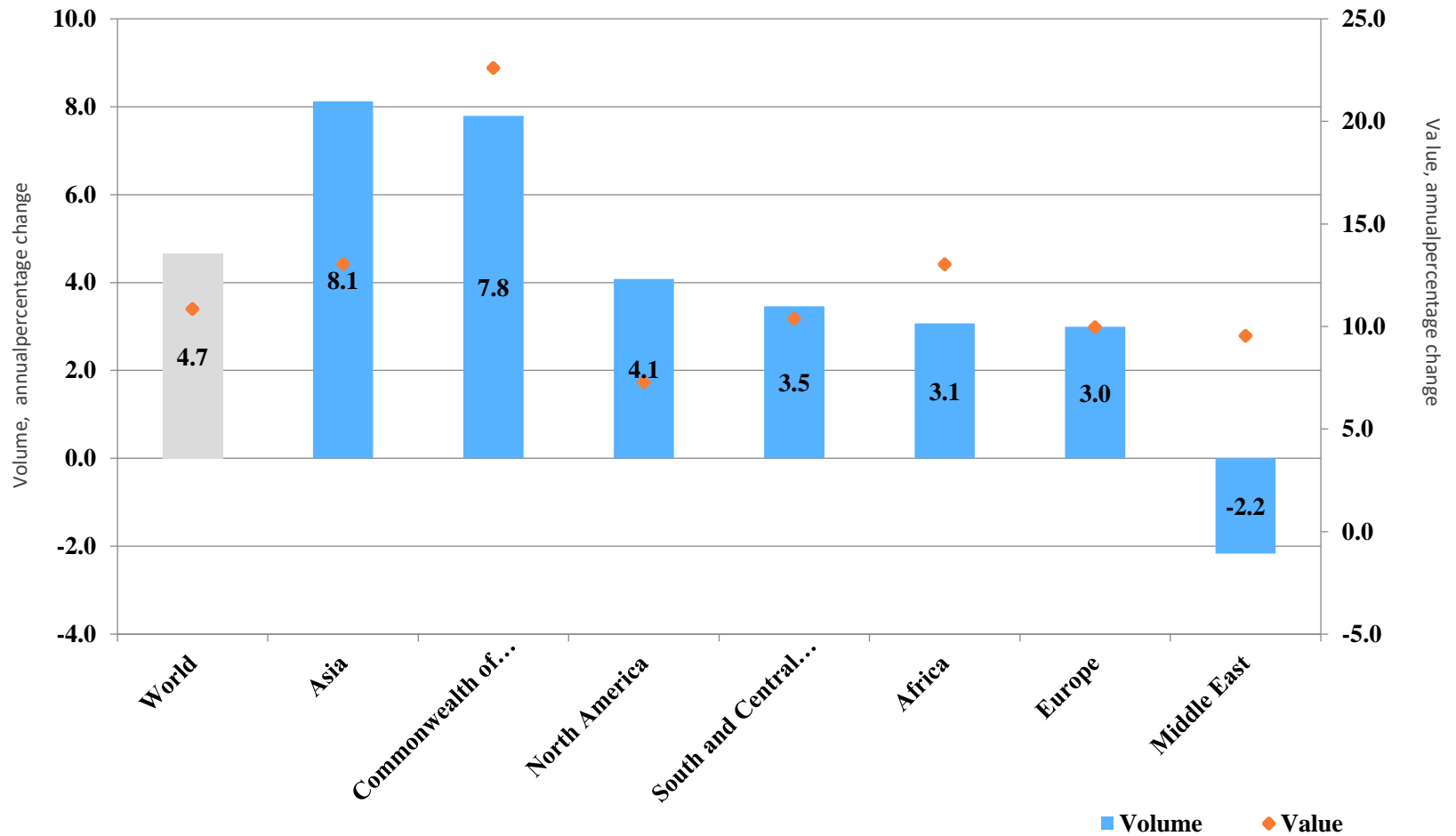
Source: WTO estimates

# Geographical Regions



- North America
- South/Central America
- Europe
- C.I.S.
- Africa
- Middle East
- Asia

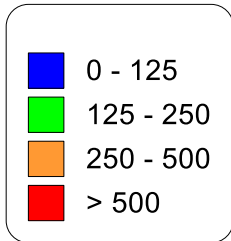
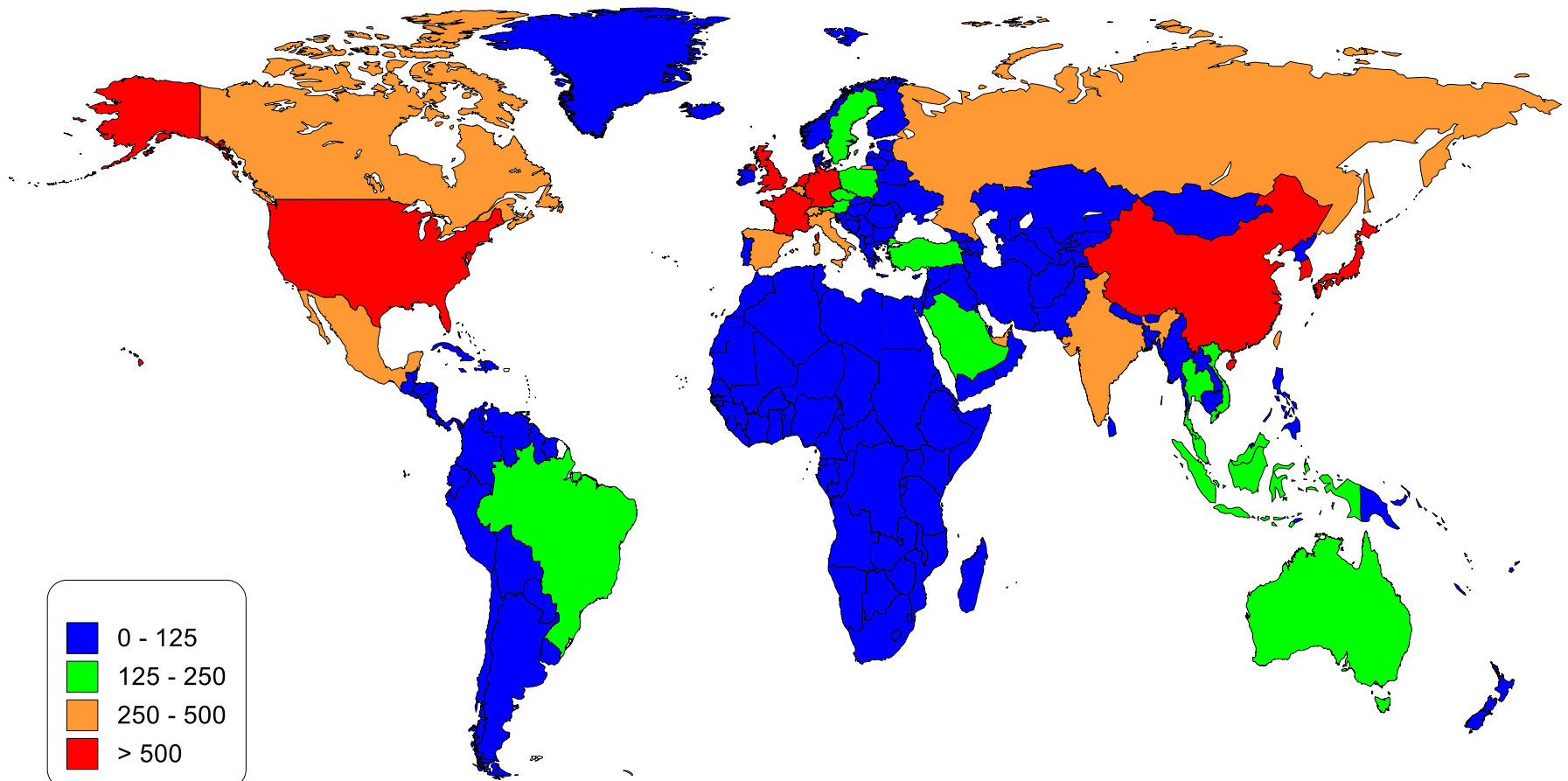
# Merchandise trade growth by region, 2017



Merchandise trade calculated as an average of exports and imports.

Source: WTO estimates

# Economies by size of merchandise trade, 2017



**52%**  
The top ten merchandise traders account for just over half of the world total.

**44%**  
Developing economies had a 44% share of world merchandise trade in 2017

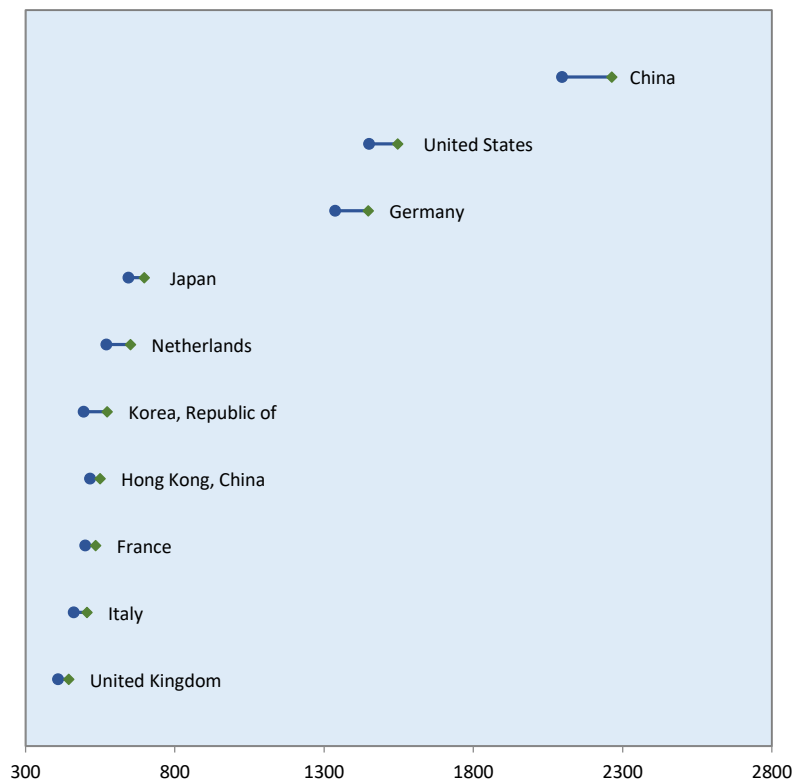
**US\$ 17.43 trillion**  
WTO members' merchandise exports totalled USD 17.43 trillion in 2017

Source: WTO-UNCTAD estimates

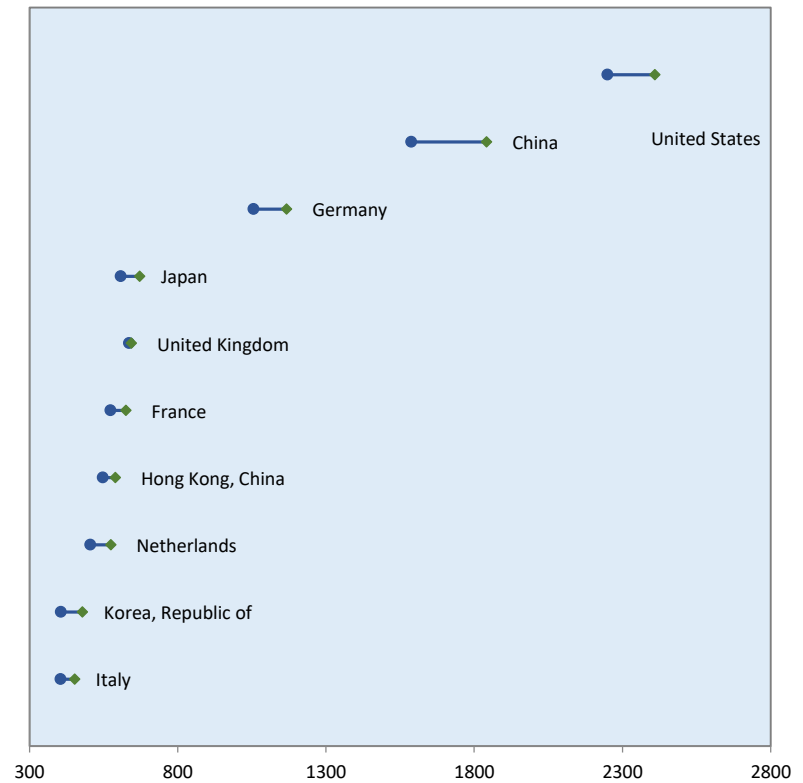
# Leading world exporters and importers of merchandise, 2016-2017 (million USD)

● 2016 ◆ 2017

Top Ten Exporters



Top Ten Importers

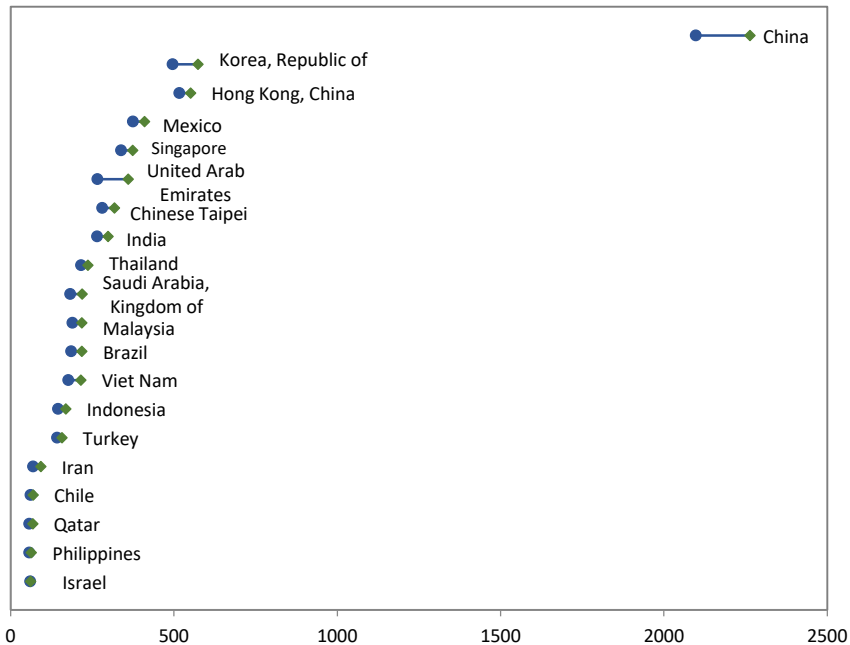


Source: WTO-UNCTAD estimates

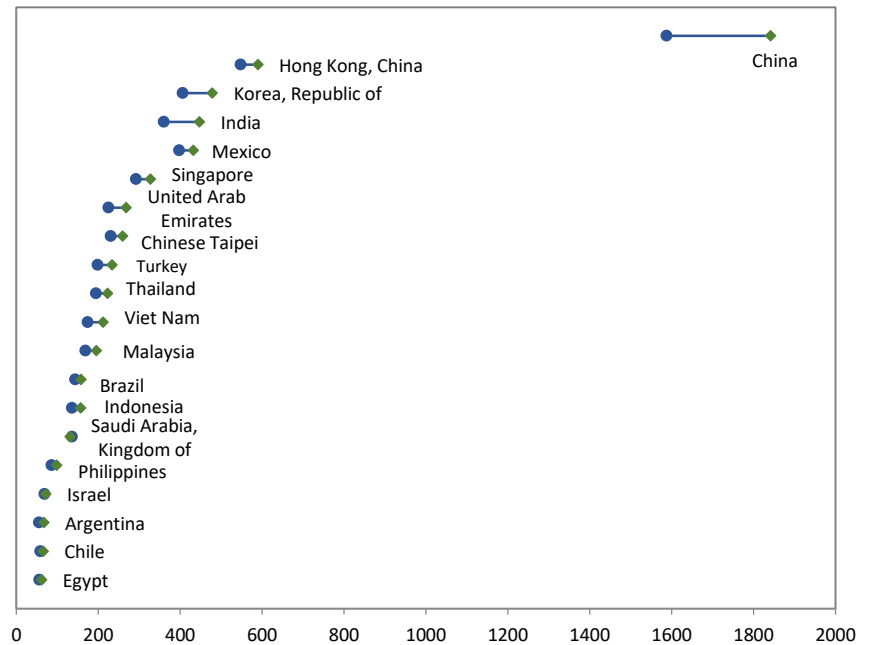
# Leading exporters and importers of merchandise among developing economies, 2016-2017 (million USD)

● 2016 ◆ 2017

## Leading Developing Economy Exporters

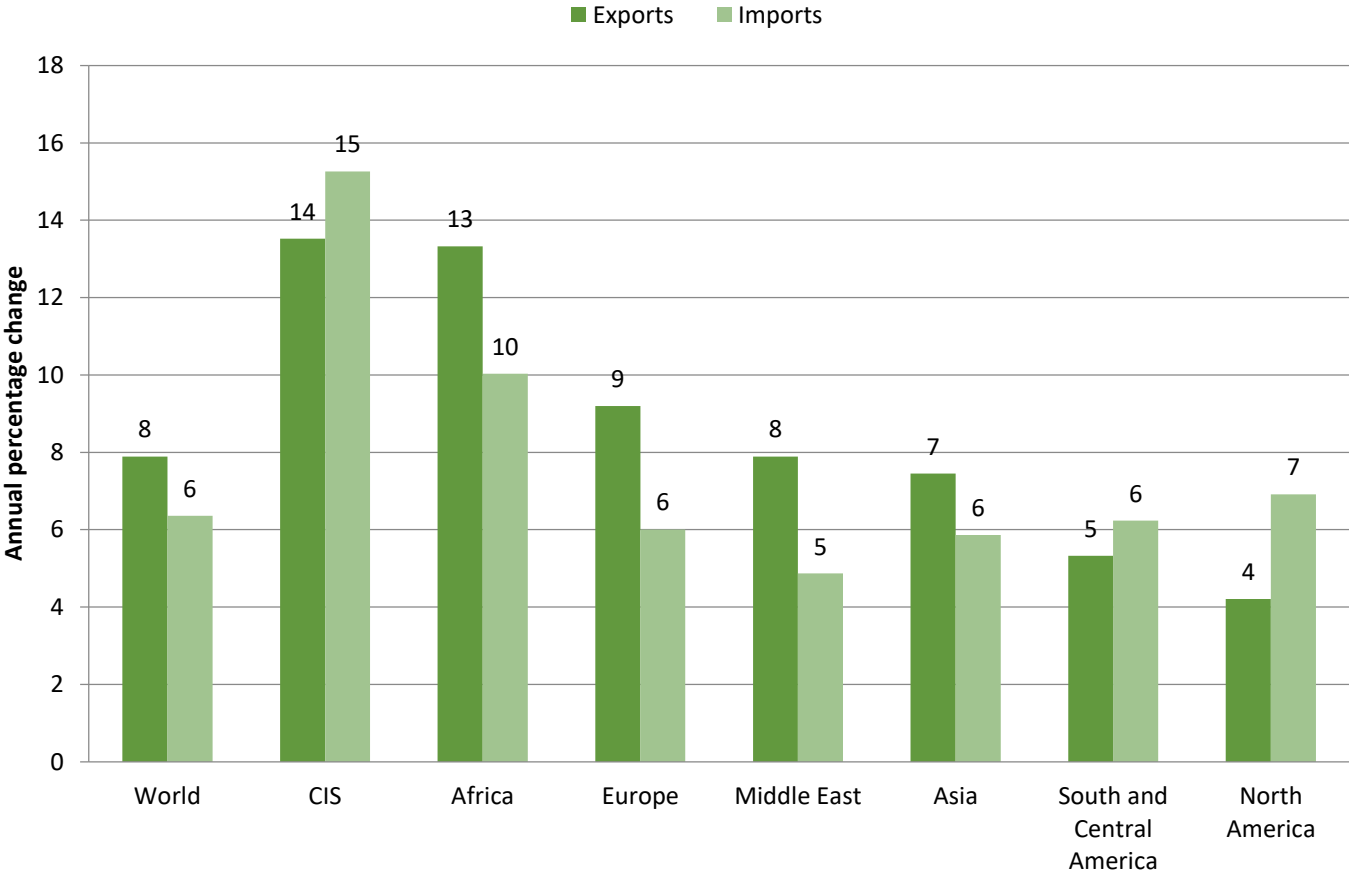


## Leading Developing Economy Importers



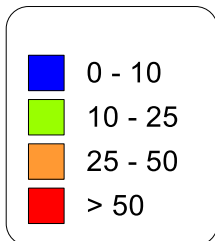
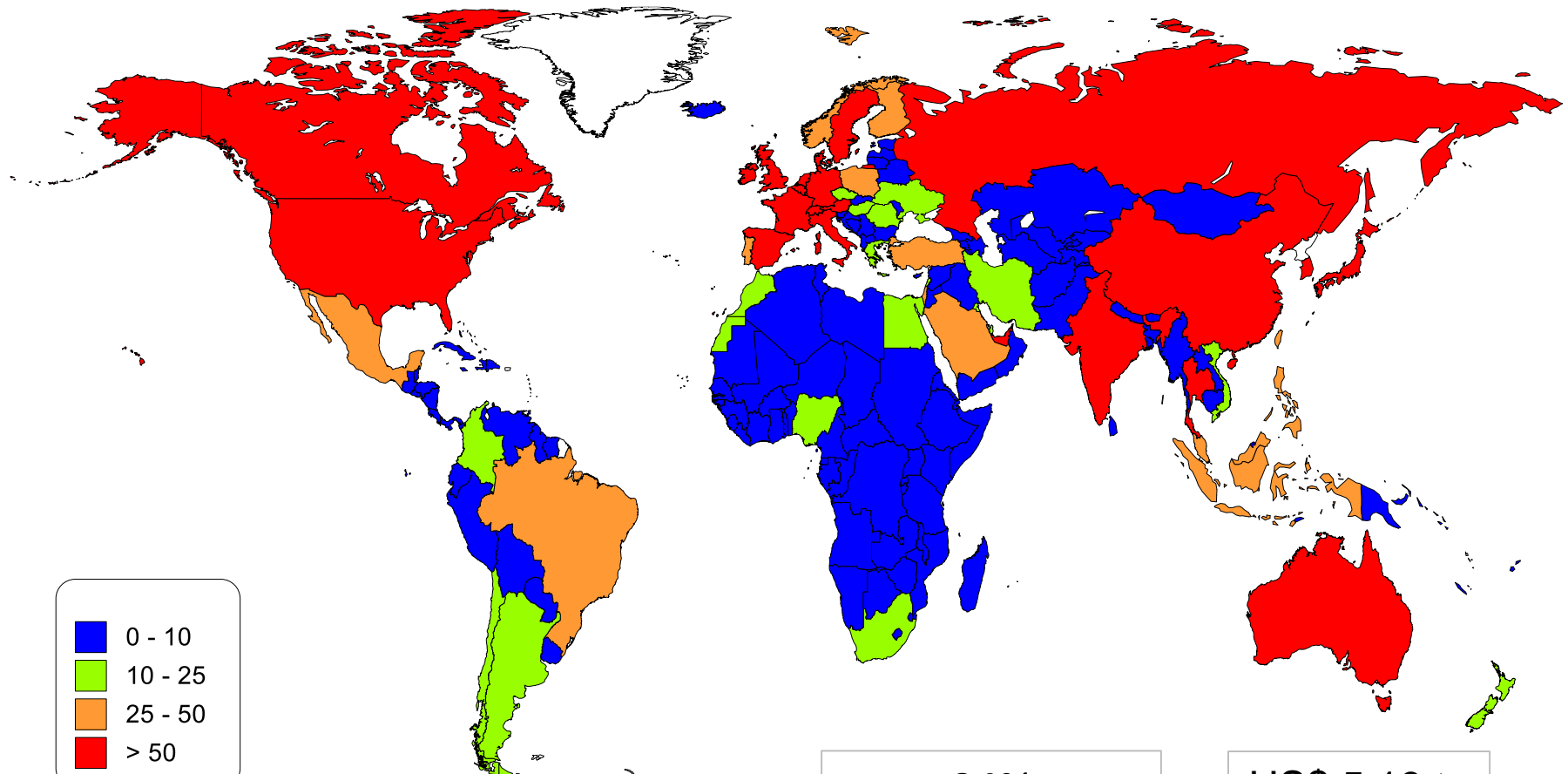
Source: WTO-UNCTAD estimates

# World trade in commercial services by region, 2017



Source: WTO-UNCTAD estimates

# Economies by size of trade of commercial services, 2017 (US\$ million)



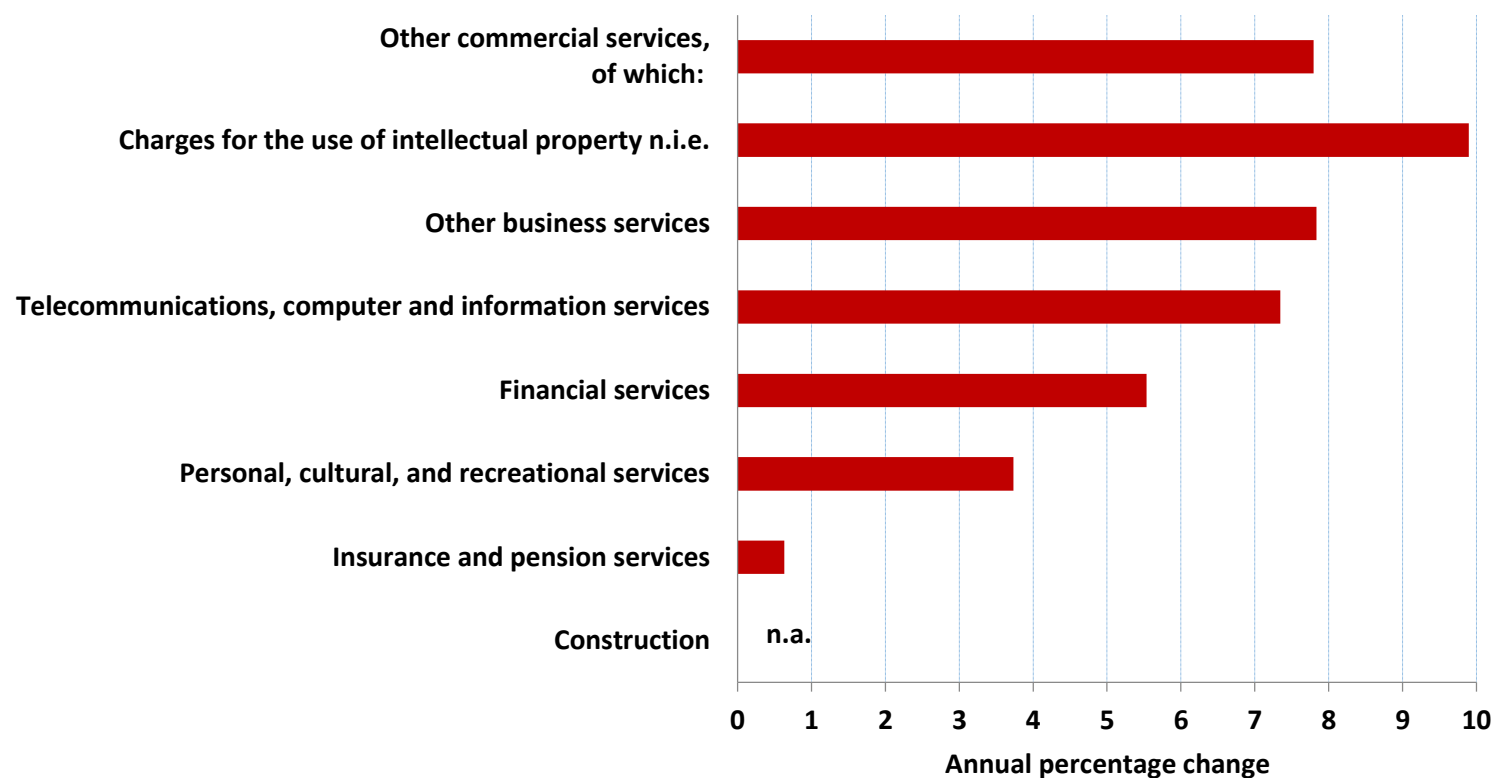
**53%**  
The top ten traders in commercial services accounted for over half of the world total in 2017.

**34%**  
Developing economies had a 34% share of world trade in commercial services in 2017.

**US\$ 5.19 tn**  
WTO members' exports of commercial services totalled USD 5.19 trillion in 2017.

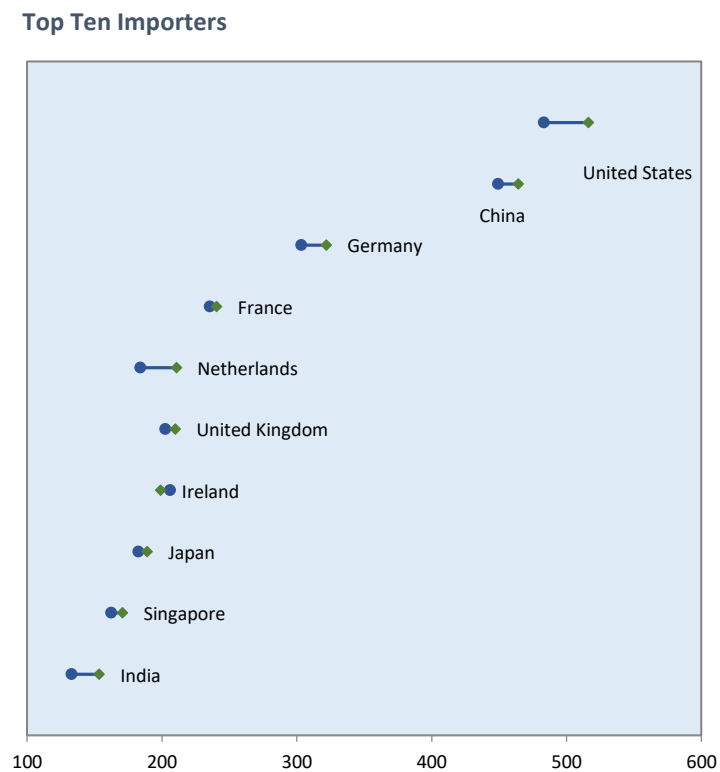
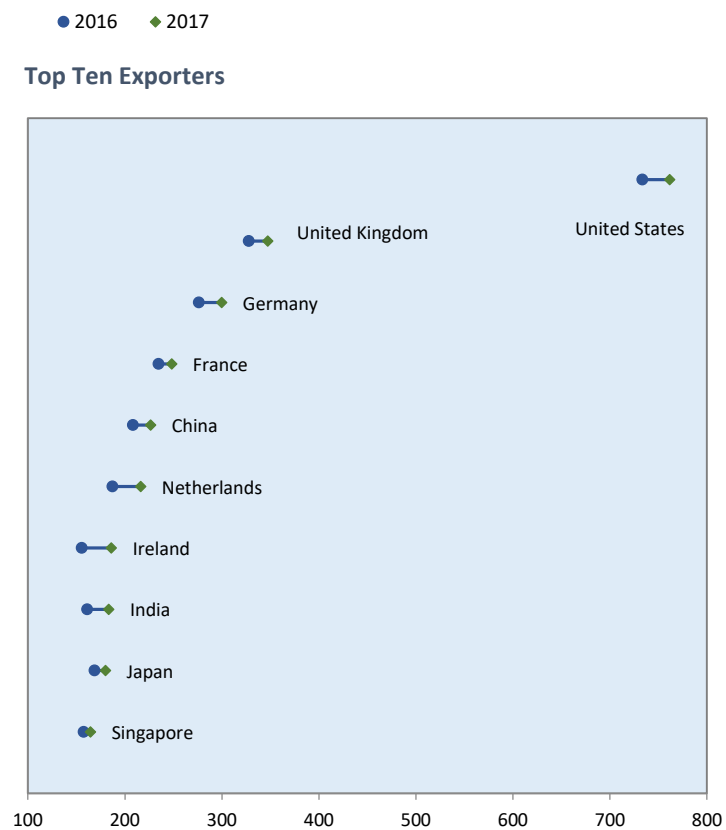
Source: WTO-UNCTAD estimates

# World exports of other commercial services by main category, 2017 (Annual percentage change)



Source: WTO-UNCTAD estimates

# Leading world exporters and importers of commercial services, 2016-2017

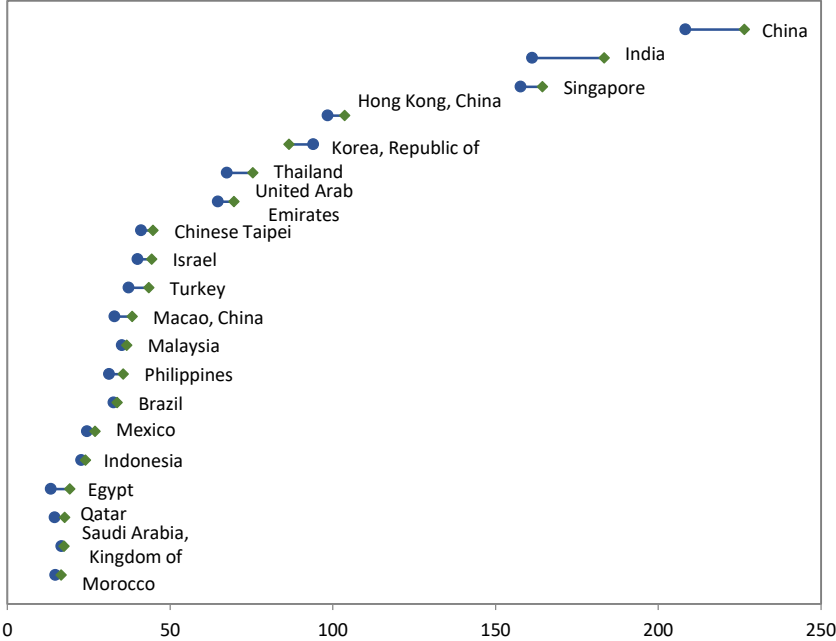


Source: WTO-UNCTAD estimates

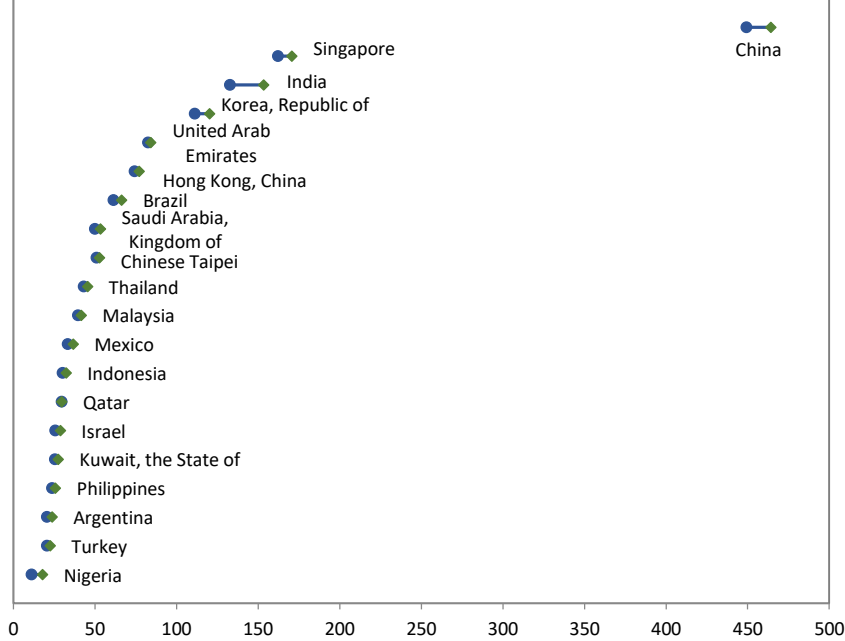
# Leading exporters and importers of commercial services among developing economies, 2016-2017

● 2016 ◆ 2017

Leading Developing Economy Exporters

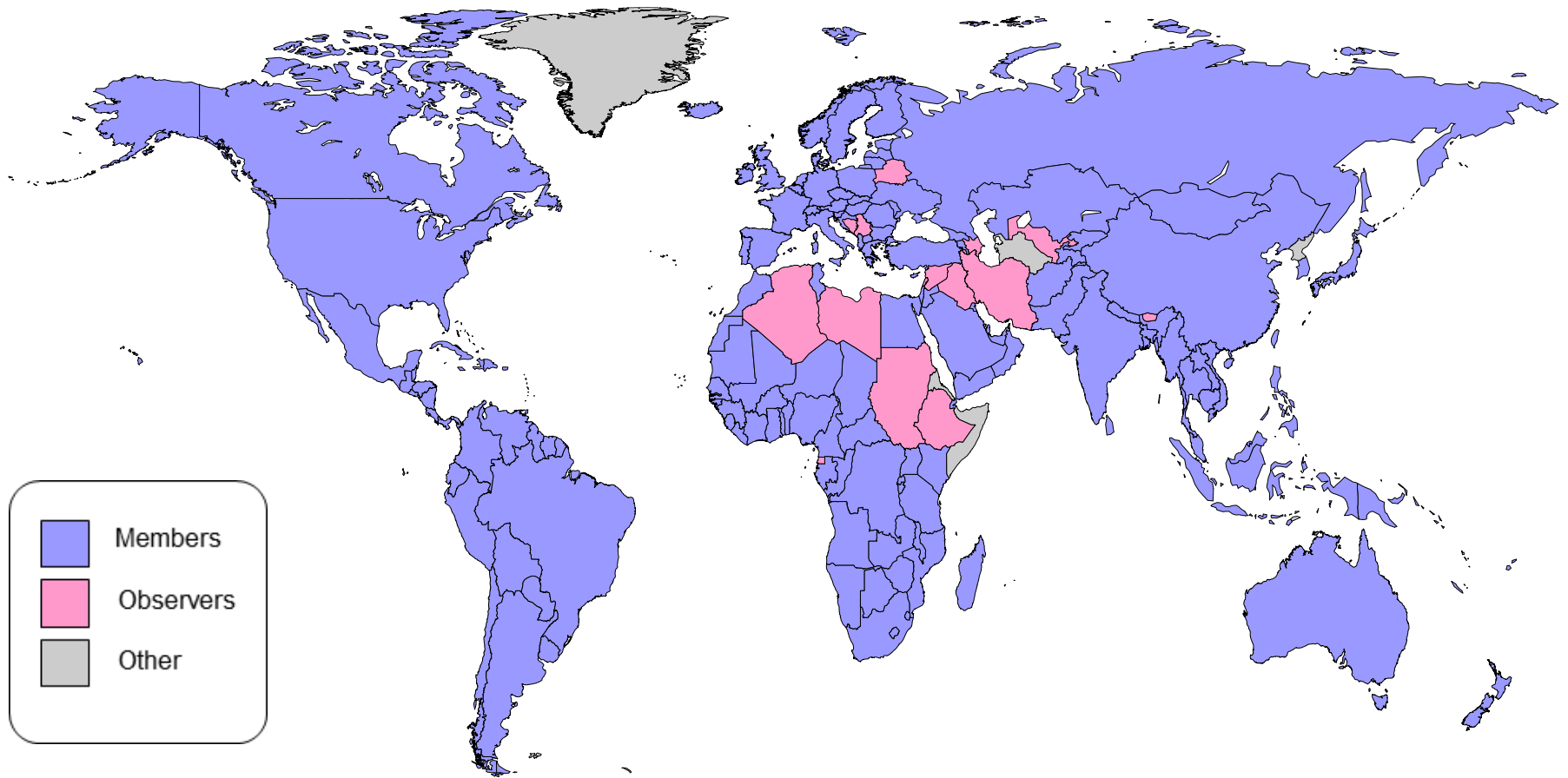


Leading Developing Economy Importers



Source: WTO-UNCTAD estimates

# WTO Members and Observers



Note: Colours and boundaries do not imply any judgement on the part of WTO as to the legal status or frontier of any territory.

# 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

### Classical

- 2. Opportunity costs
- 3. Comparative advantage

### Neo-classical

- 4. Production structure
- 5. Factor prices
- 6. Production volume
- 7. Factor abundance

### New trade

- > 9. Imperfect competition
- > 10. Intra-industry trade

### New interactions

- > 14. Geographical economics
- > 15. Multinationals
- > 16. New goods, growth, and development

## Policy

8. Trade policy

11. Strategic trade policy

12. Int. trade organizations

13. Economic integration

17. Applied trade policy modeling

18. Concluding remarks

Part I

Part II

Part III

Part IV

Industrial organization

Economic geography

International business

Growth theory