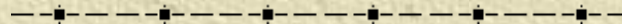


ECN230 Microeconomics of International Trade 2023

Presentation slides
Session 1

Roberto J. Garcia
School of Economics and Business, NMBU



1. What is International Economics?

1.4 State of the international economy

✦ Post-war multilateral institutions

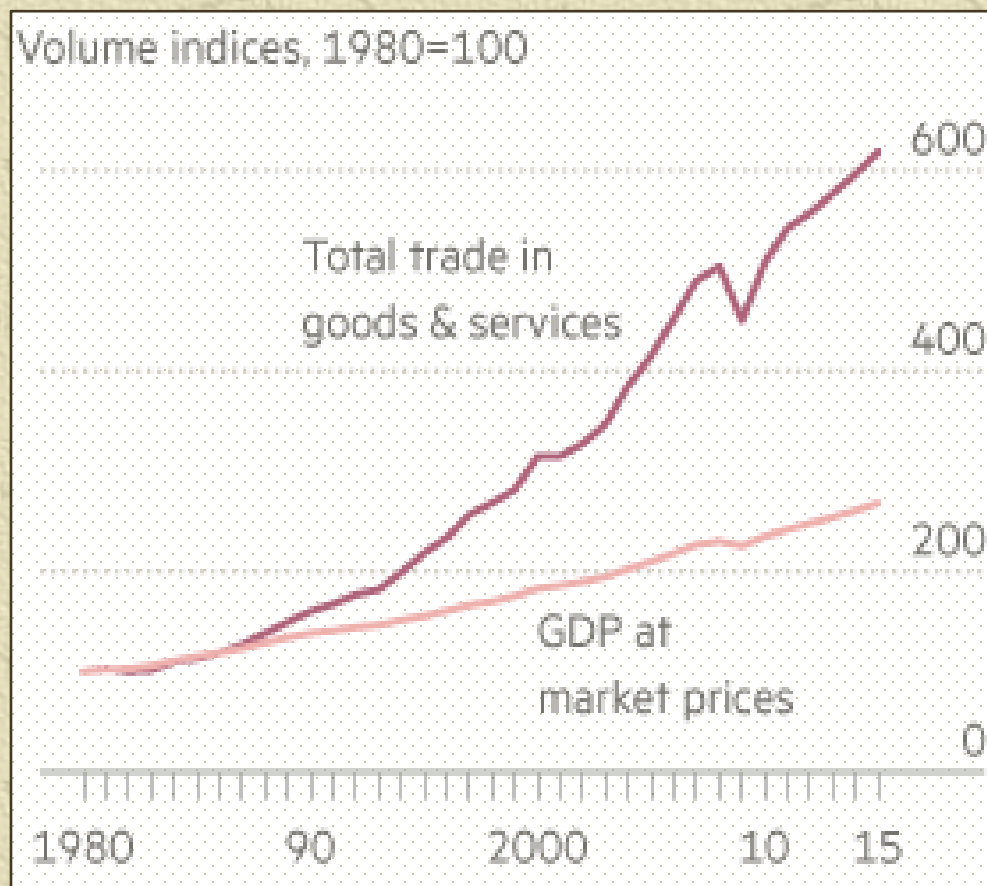
- ✦ United Nations – trade and development; labor (ILO)
- ✦ International Monetary Fund – finance and exchange rates
- ✦ World Bank – investment in development infrastructure
- ✦ General Agreement on Tariffs and Trade (GATT) 1948; and World Trade Organization (WTO) 1995



1.4 State of the International Economy, continued . . .

✦ Trends: indicators of globalization

◆ World trade and GDP



1950s: trade and GDP grew in lock-step;
import raw materials to produce final good

1980s: \uparrow trade $>$ \uparrow GDP growth

1990s: End of centrally-planned economy;
China, E. Europe, Russia, India open
economies; trade liberalization.

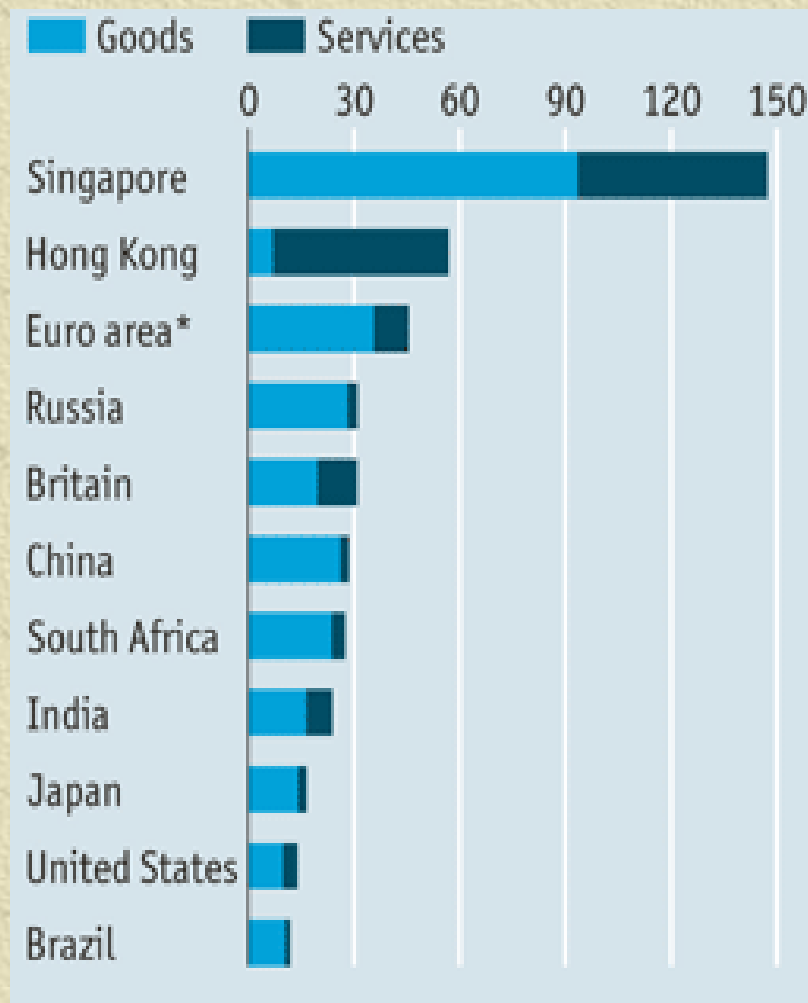
2000s: supply-chain revolution; \uparrow trade in
intermediate goods; source components
from many countries to export final good;
China \uparrow its share of trade and graduates -
 \downarrow import of parts from 55% of total in
2000 to 35%; higher value added

Source: *Fin Times*, “Embattled future of global trade policy”,
13 May 2015, p. 9, by M. Wolf

Economist, “Free exchange: A serviceable
deal”, 14 Nov 2015, p. 68

1.4 State of the International Economy, continued . . .

- Exports as % of GDP, 2011



- X/M ratio and trade as % GDP, 2017

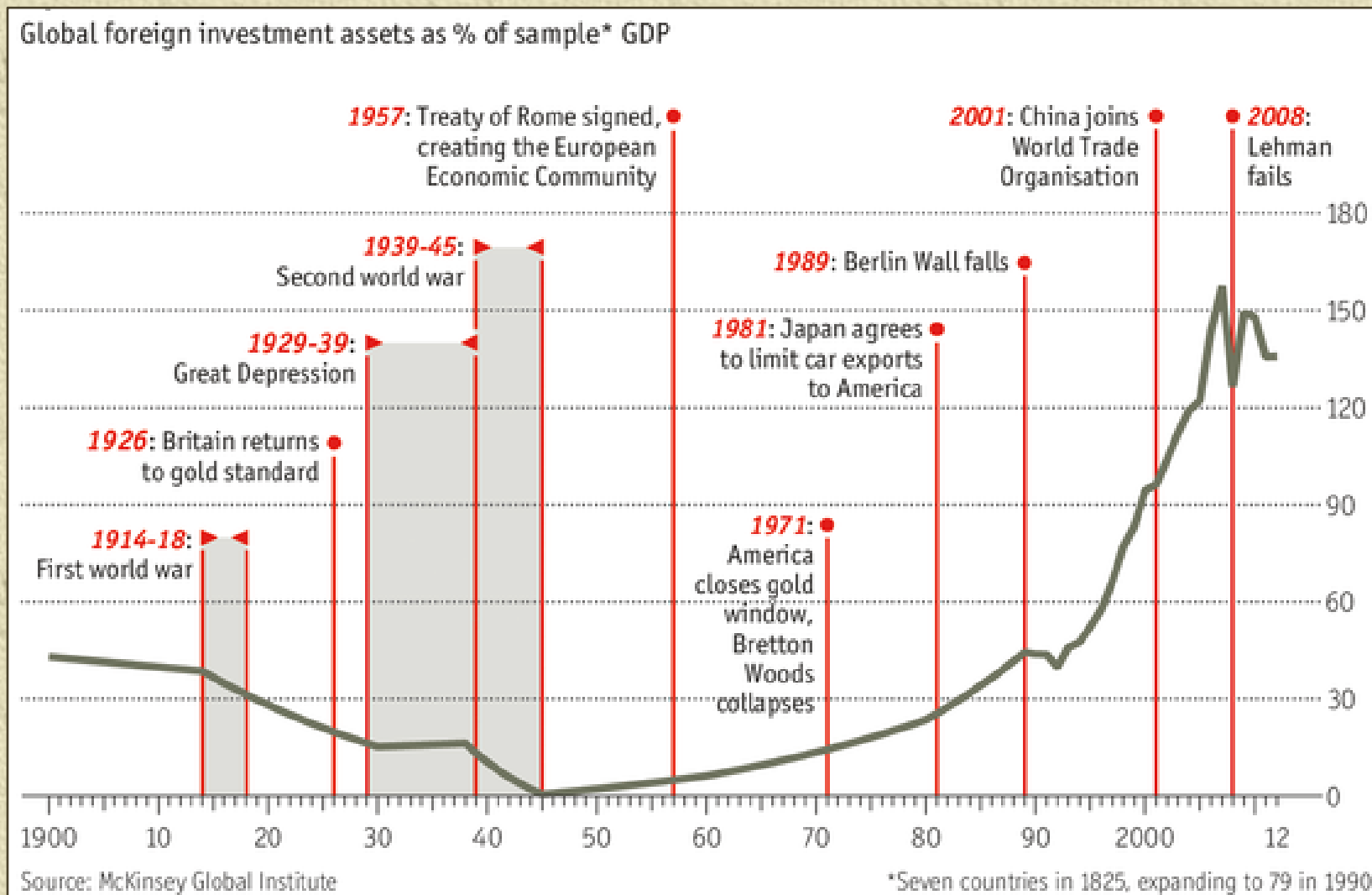


Source: *Economist*, “International Trade: Boxed In”,
8 Sep 2012, p. 59.

World Bank data, accessed 2022

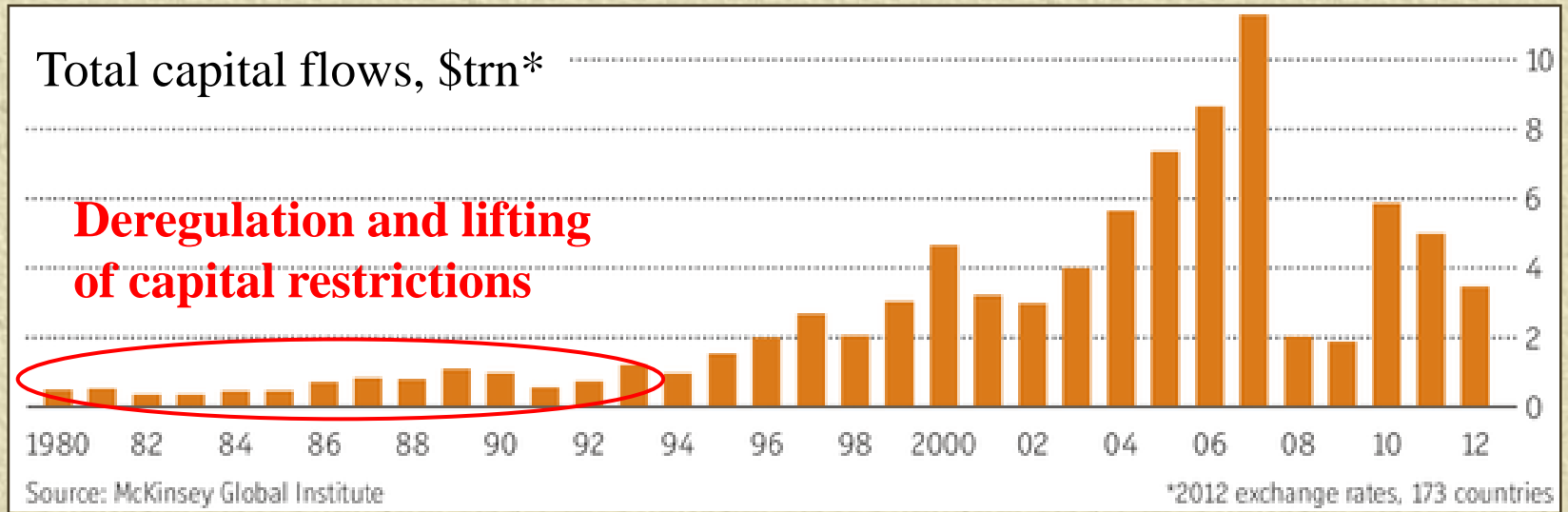
1.4 State of the International Economy, continued . . .

◆ International capital mobility, stock of foreign capital

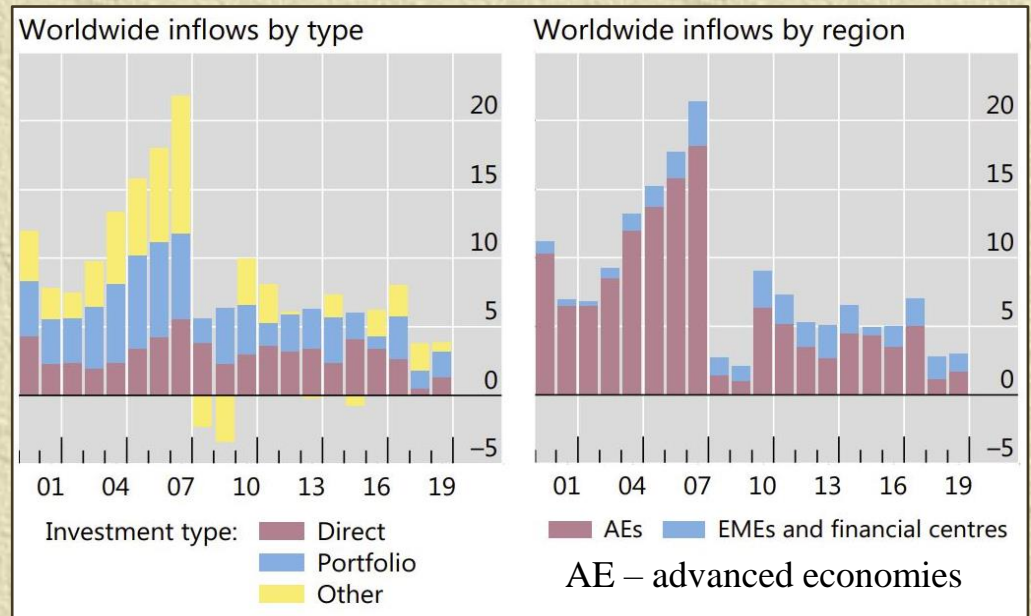


1.4 State of the International Economy, continued . . .

- Cross-border capital flows, total



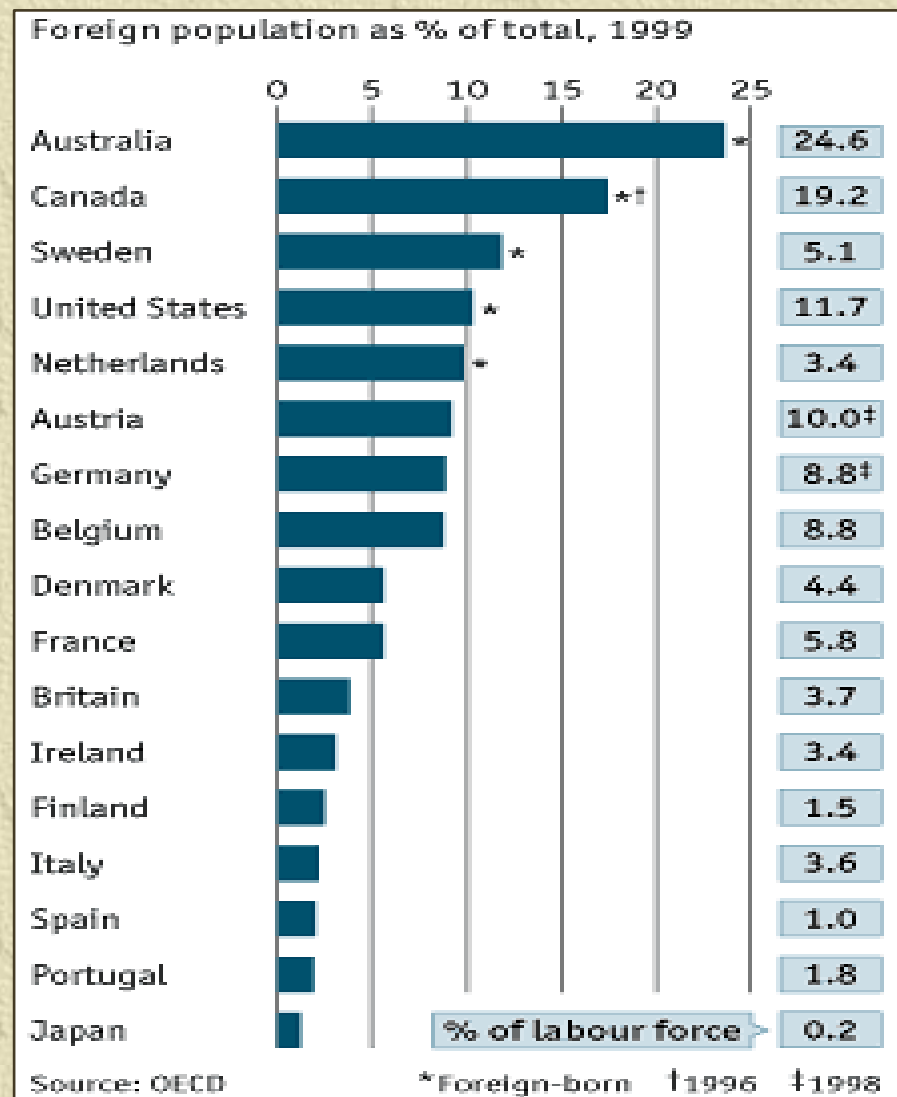
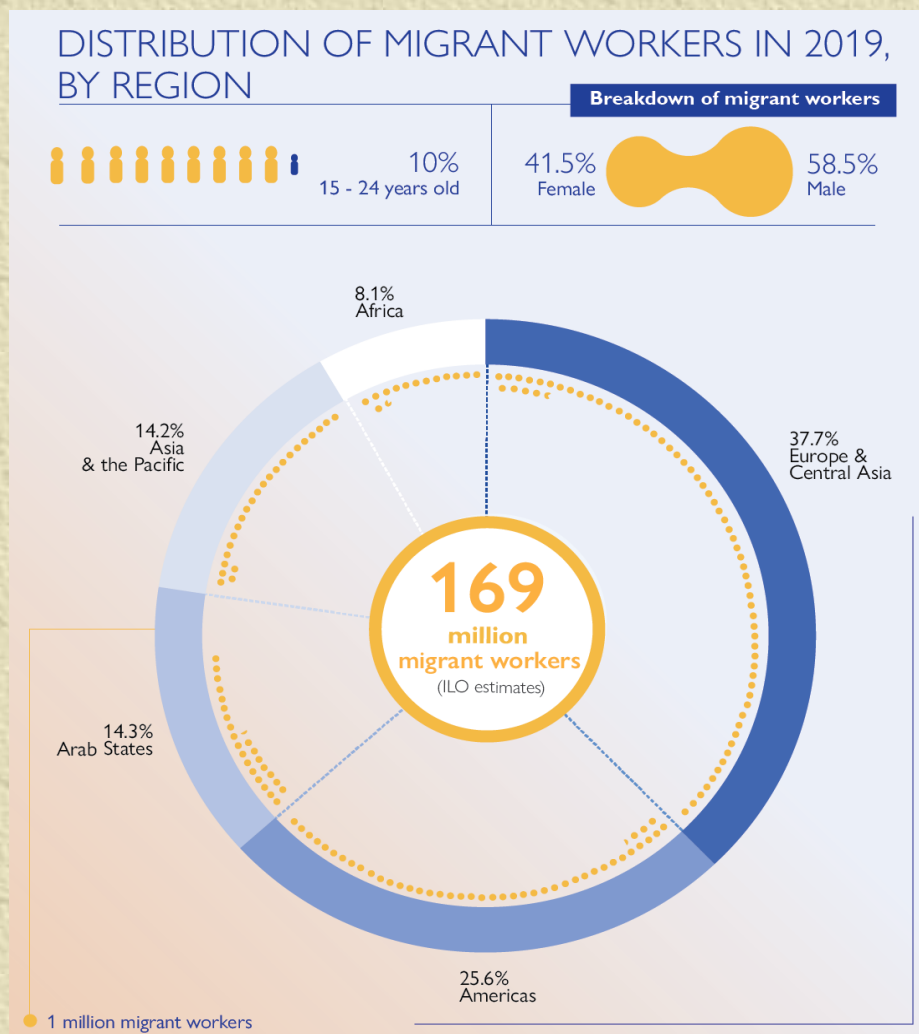
- Inflows, % of world GDP



Economist, special report: World Economy, 12 Oct 2013; BIS, Changing patterns of capital flows”, CGFS Papers, no. 66, May 2021, <https://www.bis.org/publ/cgfs66.pdf>

1.4 State of the International Economy, continued . . .

◆ Labor migration

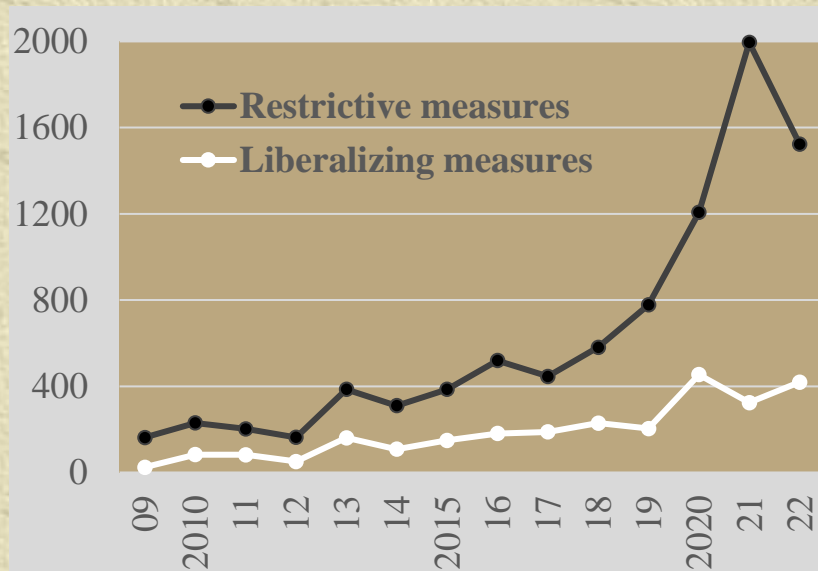


ILO, 2019, <https://www.migrationdataportal.org/themes/labour-migration>;
 Economist, "The longest journey", Survey of migration, 2 Nov 2002, p. 3-5

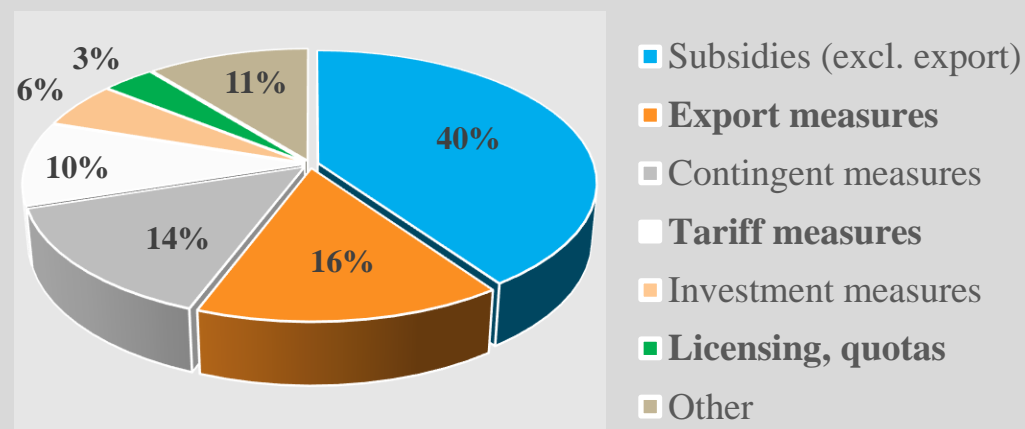
1.4 State of the International Economy, continued . . .

✦ Restrictions on globalization

- ✦ New measures enacted against foreign commercial interests
- ✦ Restrictive measures by type, 2009-22 (total 8 888)



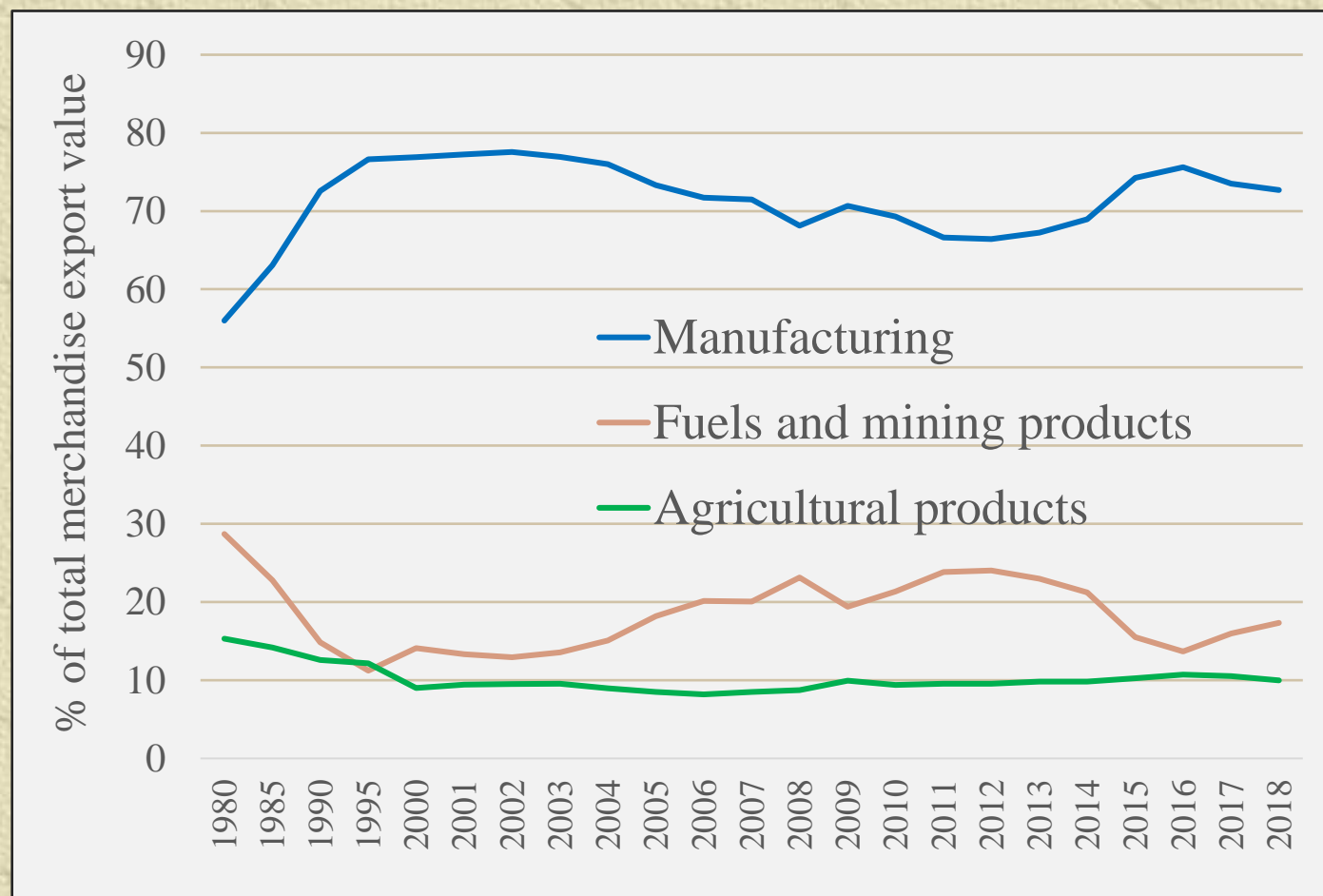
Restrictive policy measures, 2009-22



1.4 State of the International Economy, continued . . .

✦ Sectoral patterns of trade in goods

◆ Trends in merchandise export value, 1980-2018



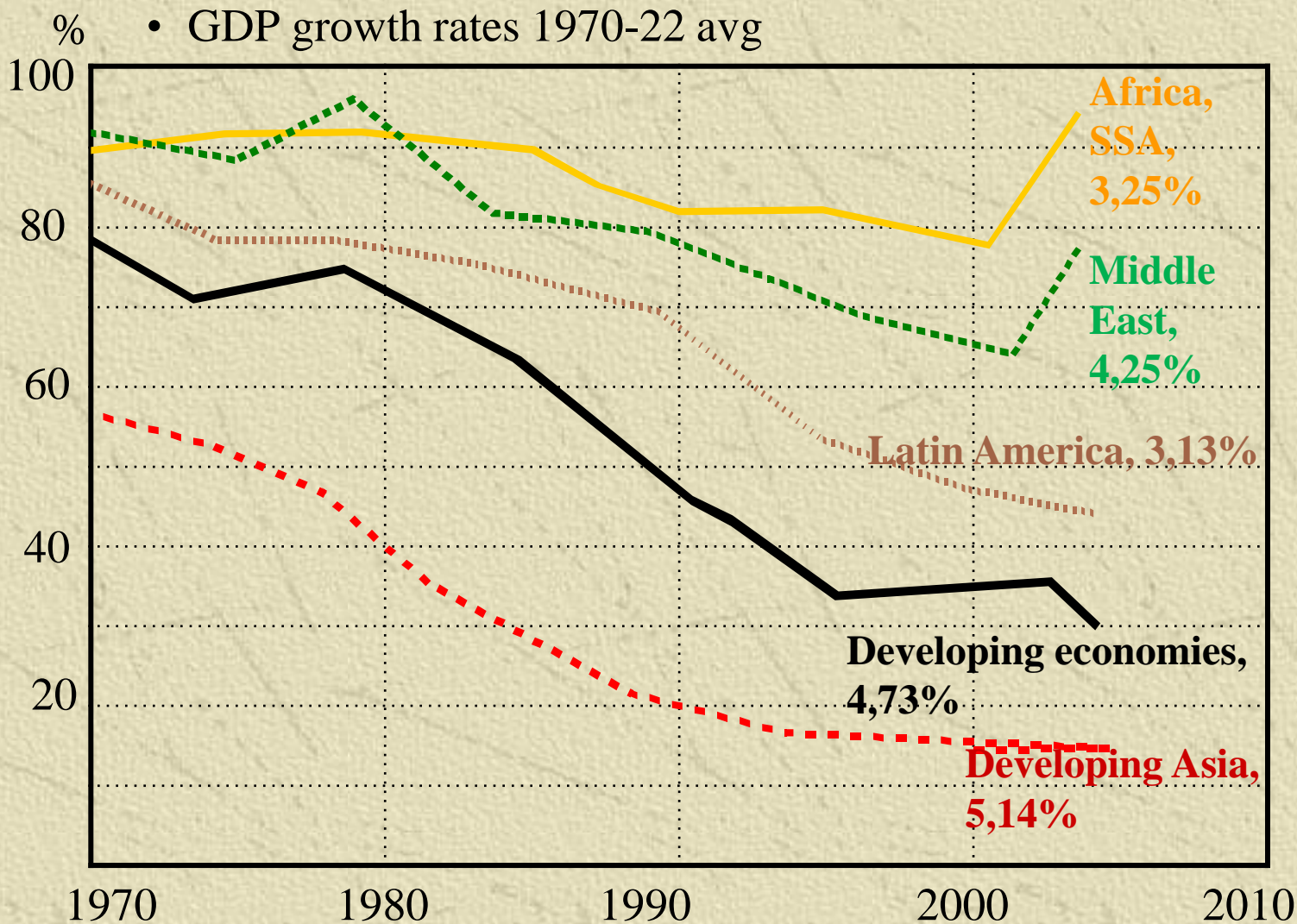
Manufactured goods have increased share of trade value over time.

Some might call into question the usefulness of specializing in agricultural or commodity trade.

1.4 State of the International Economy, continued . . .

◆ Share of (ag) primary products of exports developing countries

• GDP growth rates 1970-22 avg

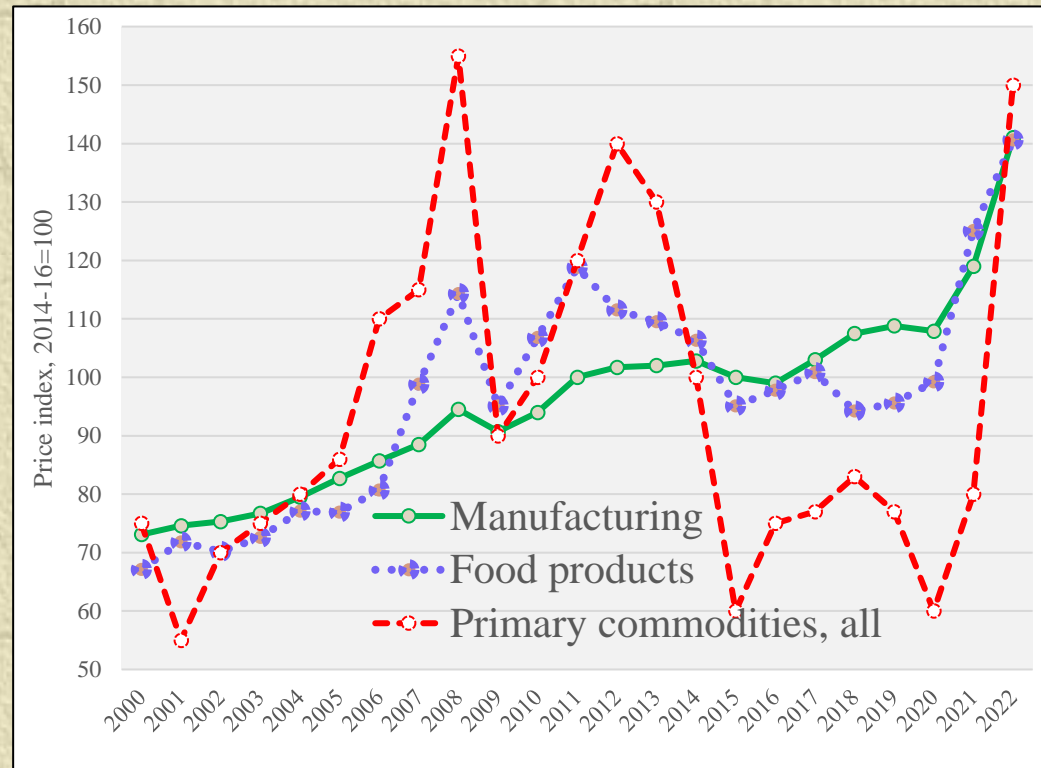
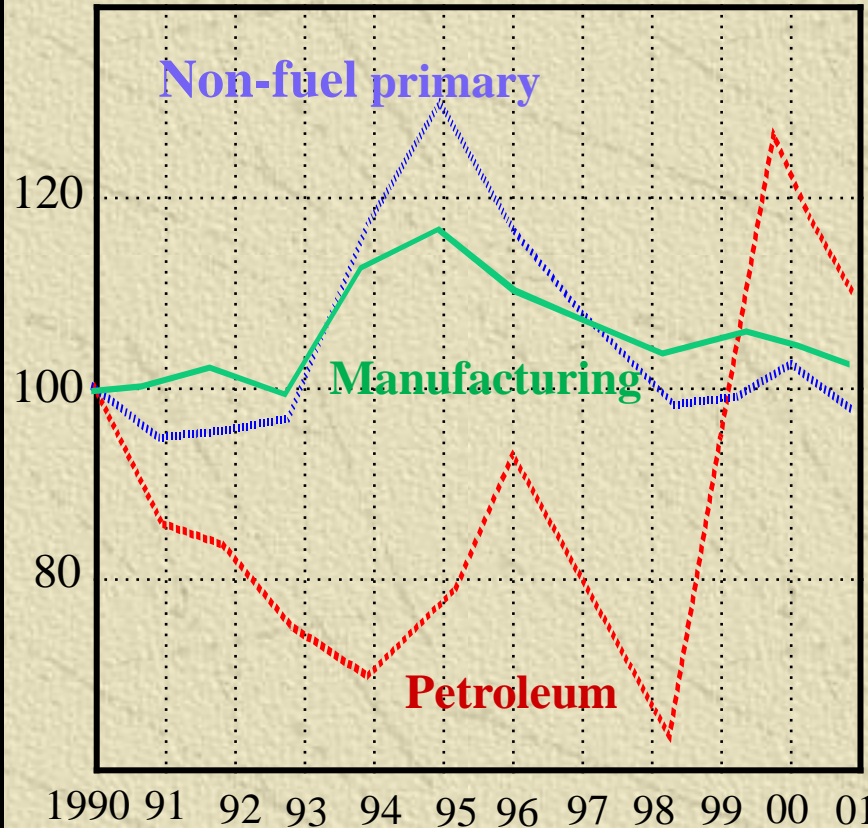


Do countries with a high share of commodity trade grow slower over time?

If so, then specialization in commodity trade might result in slower and more uneven economic growth.

1.4 State of the International Economy, continued . . .

◆ Prices (index) of goods, by type



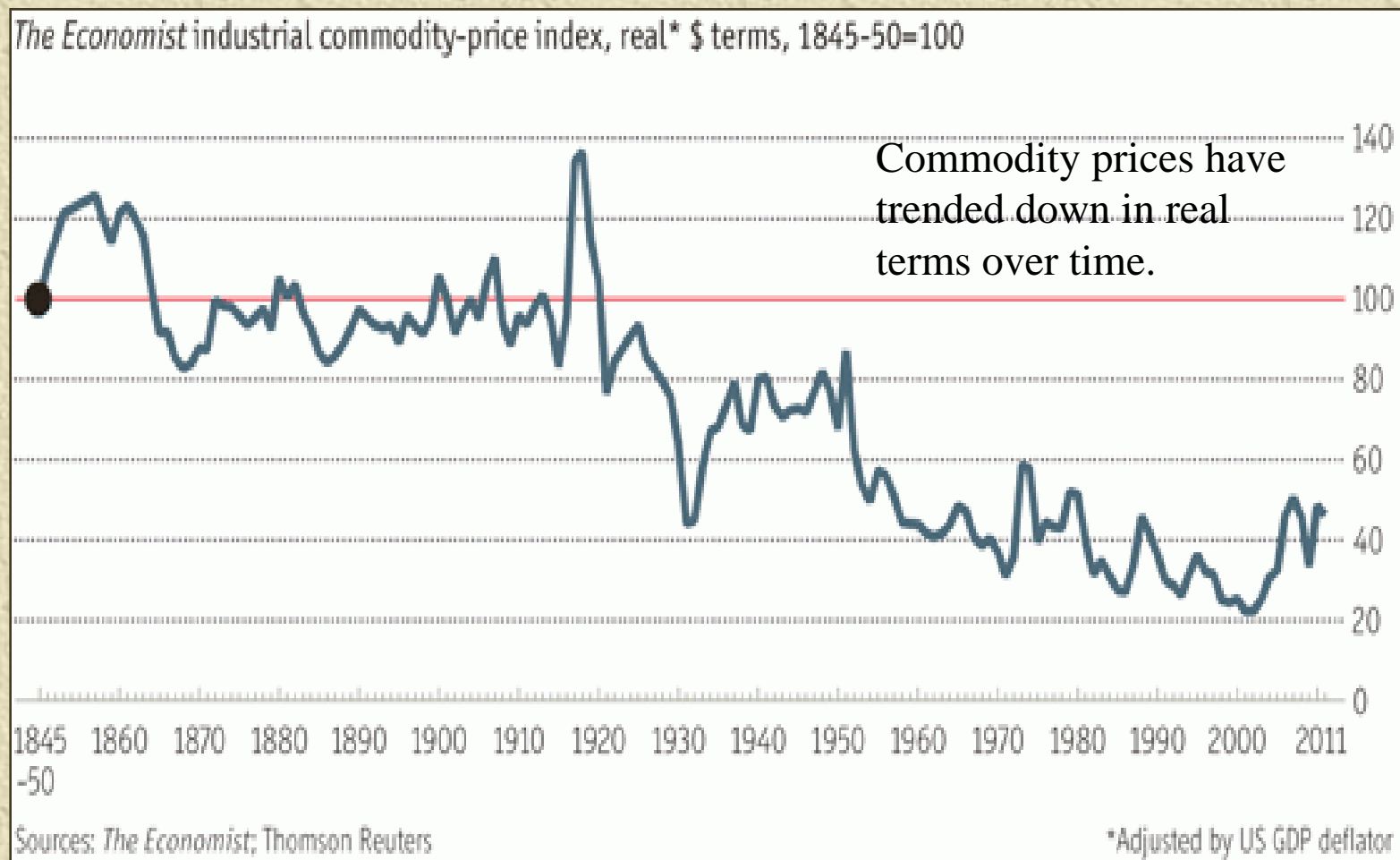
Commodity prices swing more than the prices of manufactured goods. Commodity trade is considered riskier than traded value-added goods.

Three spikes in food commodity prices raise issues related to food security and calls for self-sufficiency.

Source: OECD; UN FAO and IMF

1.4 State of the International Economy, continued . . .

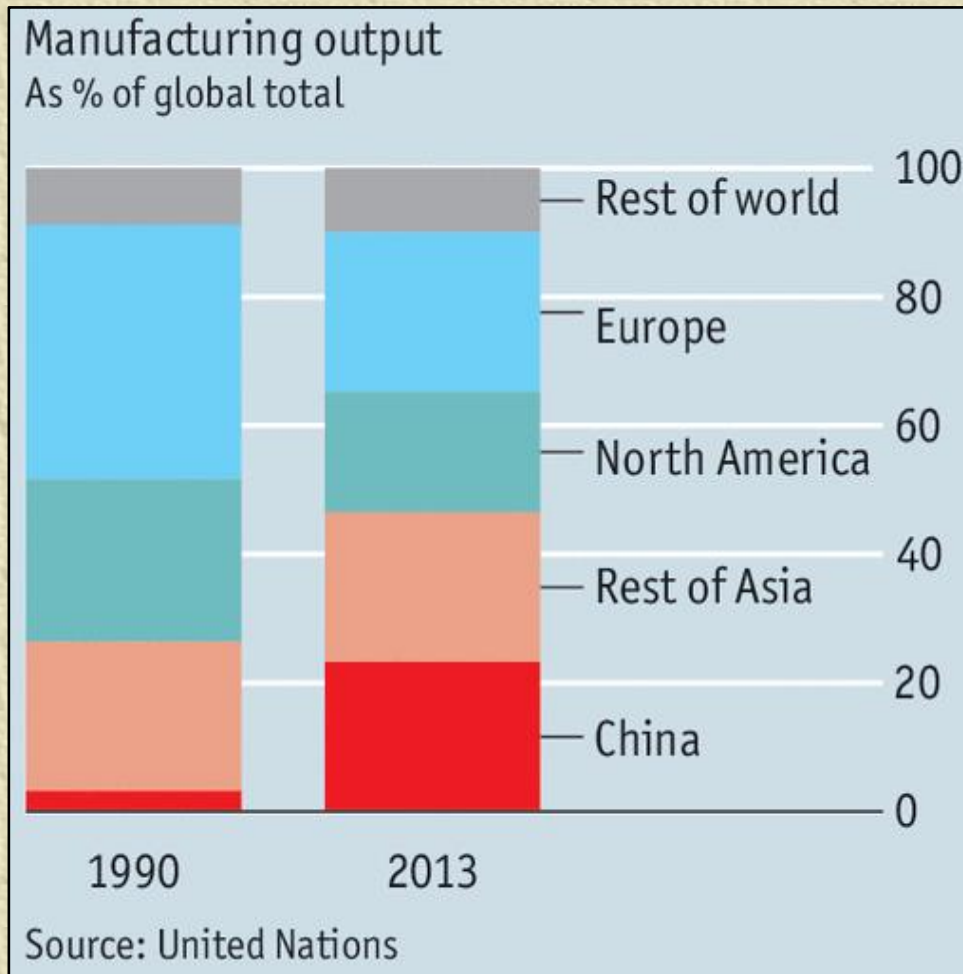
- ◆ Industrial commodity-price index, real * \$ terms



Economist, Special Report: The World Economy, “Commodities: Crowded out”, ” 24 Sep 2011

1.4 State of the International Economy, continued . . .

◆ Industrialization in Asia, “de-industrialization” elsewhere?



Supply chain: mechanism at heart of globalization where raw materials, parts and components cross multiple national borders before being incorporated in a final good

* China hosting more of the chain

* Greater 2-way trade with Japan at earlier stage of production

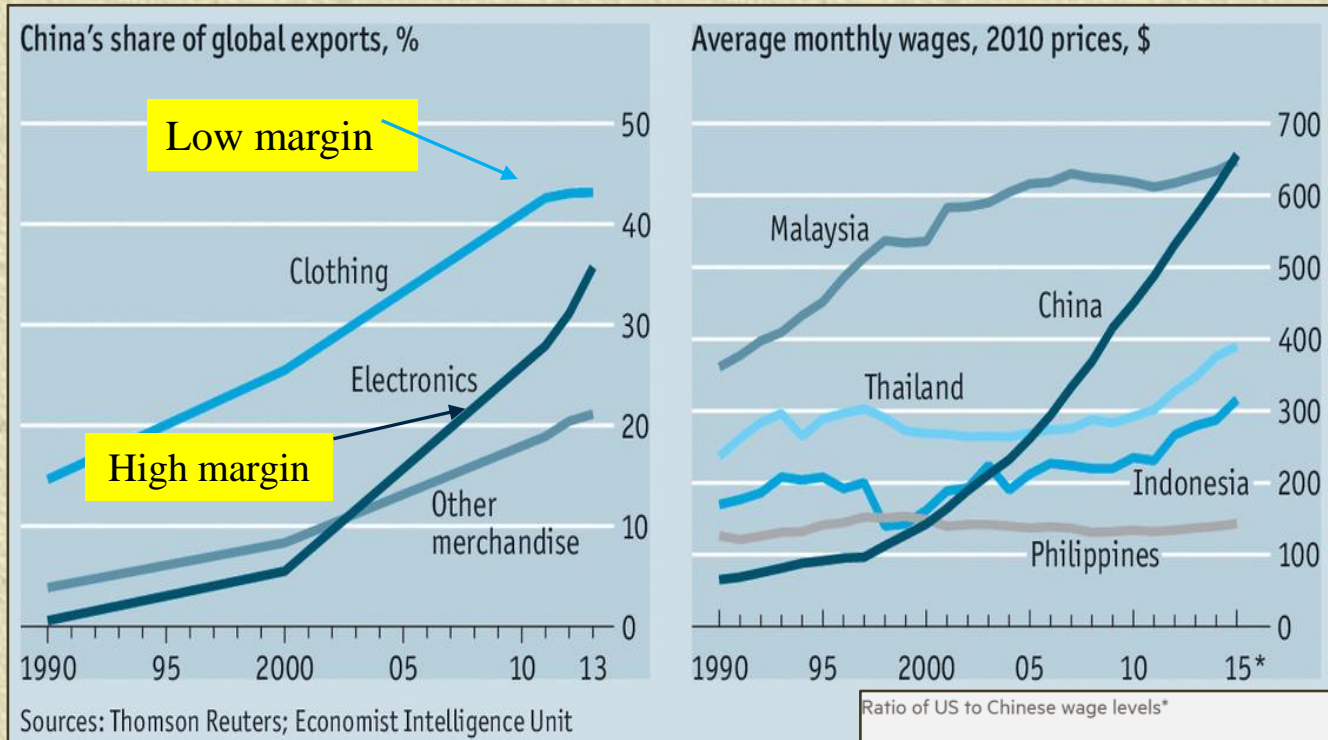
China's graduation from assembly to more profitable activity (design and marketing).

Despite fast-rising wages, Chinese factories are still cheaper to operate.

Source: *Economist*, “Briefing – The future of factory Asia: A tightening grip”, 14 Mar 2015, p. 61-2

1.4 State of the International Economy, continued . . .

◆ Shifting patterns in manufacturing: Asia's industrialization



As wages in China increase (in relative and absolute terms), there has been a graduation toward production and export of high-margin items. China's exports can no longer compete based on low wages.

Economist, "Briefing – The future of factory Asia: A tightening grip", 14 Mar 2015, p. 61-2

Financial Times, "In an era of disorder, open trade is at risk", by M. Wolf, 29 Jun 2022, p. 17.

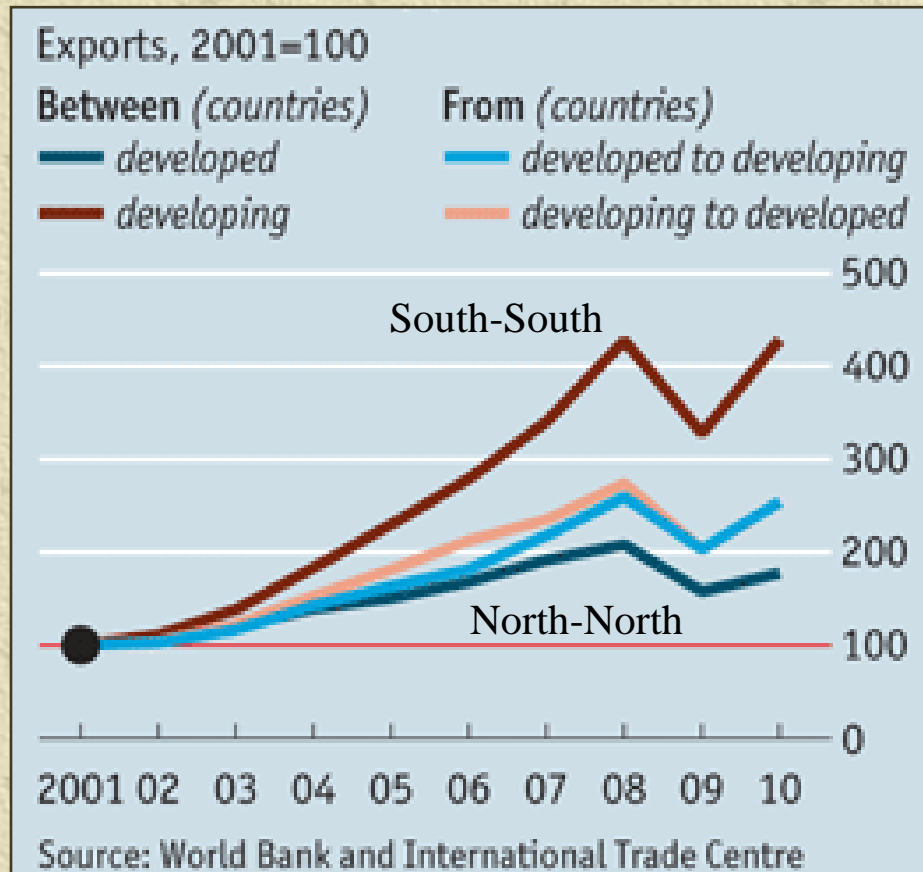


1.4 State of the International Economy, continued . . .

✦ Changing trade patterns and geopolitics

◆ By country type

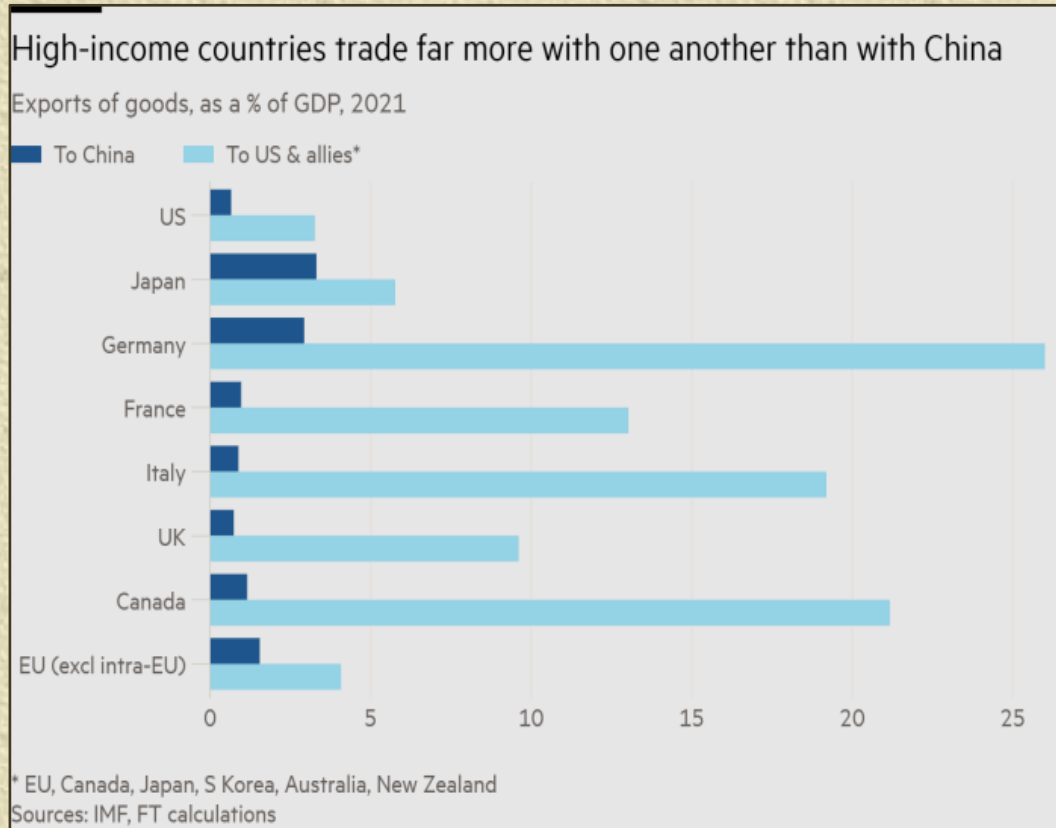
◆ Share of trade with China or US



Source: *Economist*, “Developing-country trade”, 19 Jan 2013, p. 64; and
 “Bumpy new world”, special report on Global Supply Chains, 13 Jul 2019, p. 4-5.

1.4 State of the International Economy, continued . . .

- ◆ Trade between China - US & allies and among allies
- ◆ Trade between China and Russia



Financial Times, “In an era of disorder, open trade is at risk”, by M. Wolf, 29 Jun 2022, p. 17.

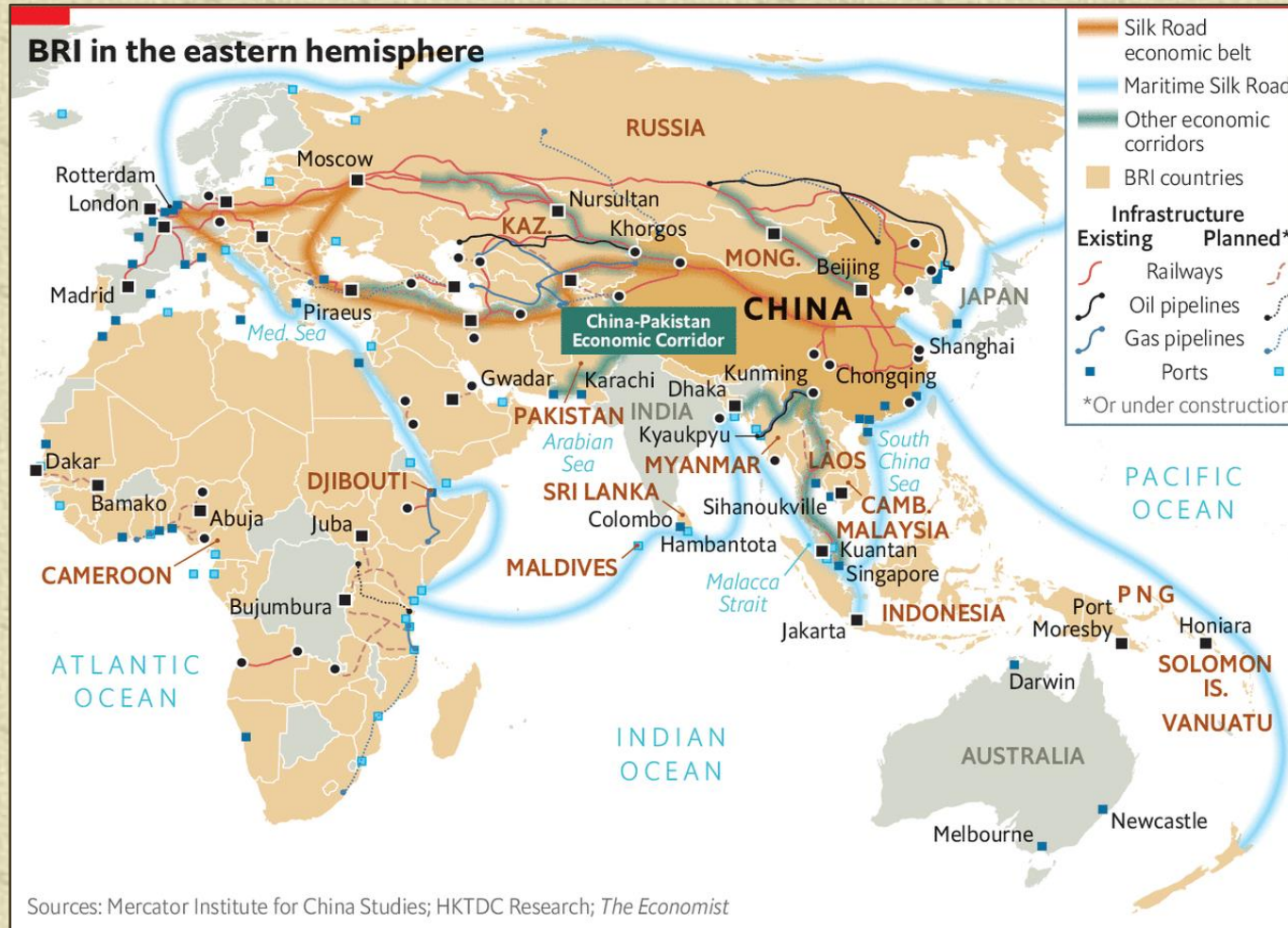


Economist, “Xi in Moscow: Seizing the opportunity”, 25 Mar 2023, p. 53-4.

1.4 State of the International Economy, continued . . .

✦ Strategy: use of trade and industrial policy

◆ China's "Belt and Road Initiative" (BRI)

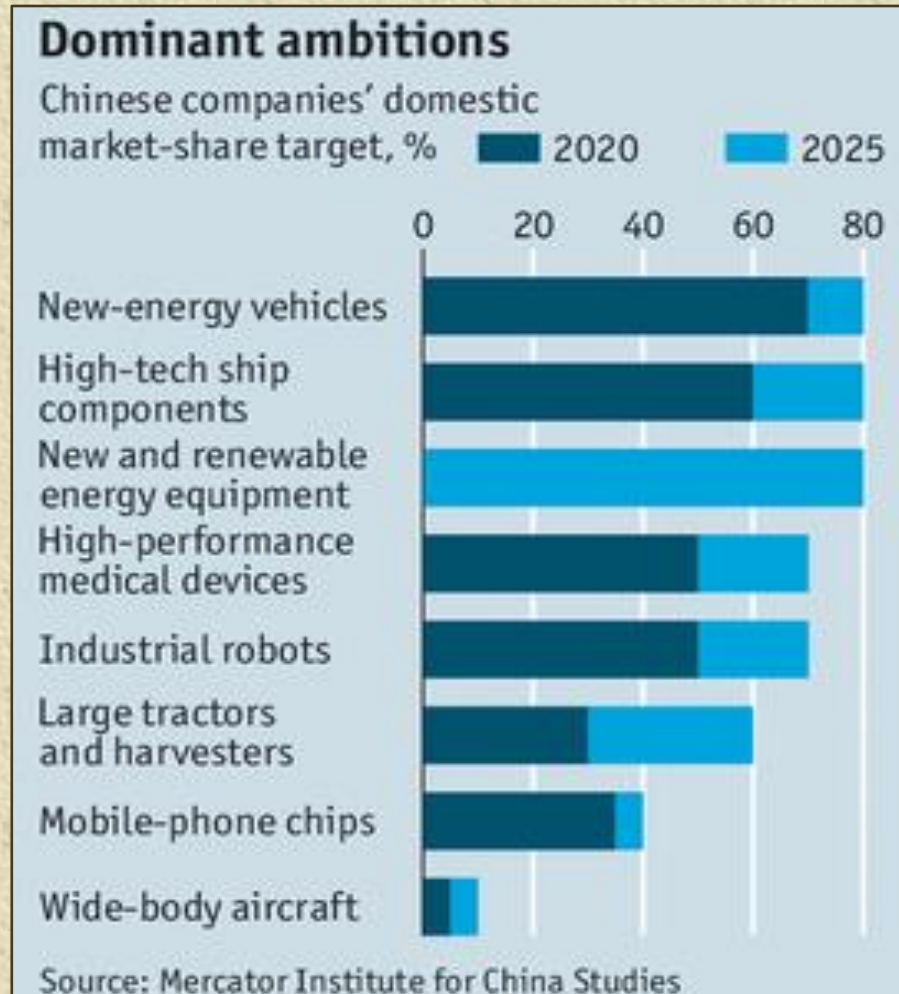


Improve connectivity through regional cooperation and large-scale investment

BRI will span 65 countries and China has so far invested over \$900 bn in projects ranging from highways in Pakistan to railway lines in Thailand to ports in Africa.

1.4 State of the International Economy, continued . . .

◆ “Made in China, 2025”



By the start of 2017, China's government had established:

- 1,013 “state-guided funds” of \$807bn much of it for targeted sectors.
- Manufacturing subsidy with 62 separate initiatives
- Plan includes meeting market share targets, at home and abroad, in various sub-sectors