SOME FACTS ABOUT INTERNATIONAL TRADE AND ITS INSTITUTIONS

WORLD TRADE STATISTICS

World Merchandise Exports/GDP
But substantial variation across countries and time:

First wave of globalization was in late 19th century; ended in 1914 and worsened in 1930s. Slowly recovered after liberalizing negotiation rounds in 1950s an 60s; accelerated after transport and communication revolutions.
Also substantial reduction in agriculture, service protection, non-tariff barriers.
Transport cost reduction: (average of countries' c.i.f. / f.o.b. ratio)
1958-60: 8.21%, 1986-88: 4.27%

But world is not yet flat. Substantial country / region bias persists:

2005 in Million of US $

<table>
<thead>
<tr>
<th>Region</th>
<th>Merchandise Exports</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Intra-Region</td>
<td>Rest of World</td>
</tr>
<tr>
<td>EU25</td>
<td>$ 2,666,398</td>
<td>$ 1,345,872</td>
</tr>
<tr>
<td></td>
<td>19.8%</td>
<td>10.0%</td>
</tr>
<tr>
<td>EURO</td>
<td>$ 1,567,451</td>
<td>$ 1,550,776</td>
</tr>
<tr>
<td></td>
<td>15.8%</td>
<td>15.6%</td>
</tr>
<tr>
<td>NAFTA</td>
<td>$ 824,550</td>
<td>$ 653,425</td>
</tr>
<tr>
<td></td>
<td>5.7%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

World GDP in 2005 = $55.5 trillion. So

EU25 share of world GDP = 24.1%, share of intra-EU exports = 66.3%
NAFTA share of world GDP = 25.9%, share of intra-NAFTA exports = 55.7%
Trade volumes more volatile than GDP
World merchandise exports and GDP: annual percentage changes

\[ \Delta \ln(\text{Export Volume}) = 0.0036 + 1.5319 \Delta \ln(\text{GDP}), \quad R^2 = 0.4968 \]

Causation probably runs both ways. Lags? Good econometric study needed.

Source: WTO
Estimate for 2009: GDP down by 1.7%; Export volume down by 10%. 1950-2007 means were GDP growth 3.72%; Export volume growth 6.06%. Regression fitted Export volume growth $6.06 - 1.53 \times [3.72-(-1.7)] = -2.23$

Reality is much worse. Could effect be non-linear, worse in deep recessions?

Worst example: Hawley-Smoot and the death spiral of world trade in the 1930s
Source: The Economist, 12/20/08
SOME OTHER ASPECTS OF GLOBALIZATION

MANY MORE THINGS NOW TRADEABLE

Result of lower transport costs: containerization, airfreight
Cut flowers from Colombia, Kenya reach U.S., Europe within a day

Disintegration of production: long and complex supply chains

[1] iPod: Of $299 price, definite country attribution to value added is
  US: $163 = $80 Apple's intellectual property right
      (figuring out how to combine 451 generic parts!),
      $75 distribution and retail, $8 various domestic components
  Japan: $26 = $19 Toshiba's IPR in hard drive, $7 other components
  China, Philippines, Korea etc.: $110 Parts and labor for
      other components and assembly, not yet broken down
  (Source: Varian, NYTimes June 28, 2007, Economic Scene)

  Hong Kong: $1 transport and profit
  US: $8 = $7 transport, marketing, wholesale, retail markups, $1 Mattel profit
  (Source: Feenstra J Econ Perspectives 1998)
[3] Overnight amenity kit from American Airlines:

Warning: To avoid danger of suffocation, this plastic bag should be kept away from babies and children.

Bag, Eyeshades, Socks, Toothbrush, Tissue Pack - Made in China
Packaging (Paper Strap and OPP Pouch) - Made in China
Toothpaste and Earplugs - Made in USA
Mints - Made in Spain
Plastic Toothpick - Made in Taiwan
Lip Moisturizer and Lotion - Made in United Kingdom
Pen - Made in China
Towelettes - Made in USA

Date of Mfg.: First Quarter of 2008
**IMMIGRATION:** % of population that is foreign-born (US, Australia, Canada) or of foreign nationality (other countries)

<table>
<thead>
<tr>
<th>Country</th>
<th>1987</th>
<th>1997</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>6.2</td>
<td>9.3</td>
<td>12.8</td>
</tr>
<tr>
<td>Australia</td>
<td>20.8</td>
<td>21.1</td>
<td>23.6</td>
</tr>
<tr>
<td>Austria</td>
<td>4.3</td>
<td>9.1</td>
<td>9.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>8.7</td>
<td>8.9</td>
<td>8.4</td>
</tr>
<tr>
<td>Canada</td>
<td>15.4</td>
<td>17.4</td>
<td>18.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.7</td>
<td>4.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Finland</td>
<td>0.4</td>
<td>1.6</td>
<td>2.1</td>
</tr>
<tr>
<td>France</td>
<td>6.8</td>
<td>6.3</td>
<td>NA</td>
</tr>
<tr>
<td>Germany</td>
<td>6.9</td>
<td>9.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Ireland</td>
<td>2.2</td>
<td>3.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Italy</td>
<td>1.0</td>
<td>2.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Japan</td>
<td>0.7</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>26.8</td>
<td>34.9</td>
<td>39.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.0</td>
<td>4.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Norway</td>
<td>2.9</td>
<td>3.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.0</td>
<td>1.8</td>
<td>4.3</td>
</tr>
<tr>
<td>Spain</td>
<td>0.9</td>
<td>1.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>4.8</td>
<td>6.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>14.9</td>
<td>19.0</td>
<td>20.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.2</td>
<td>3.6</td>
<td>4.9</td>
</tr>
</tbody>
</table>
INTERNATIONAL CAPITAL MOVEMENTS

Again, two waves of globalization.
Main features: Large and growing deficit in goods trade since the late 1970s. Substantial surplus in service trade (including high-end financial services).

Large overall deficit corresponds to low saving (private and public):

\[ Y = C + I + G + (X-M), \quad S = Y - T - C, \quad \text{therefore} \quad (S - I) + (T - G) = (X - M) \]
Goods somewhat less important in exports, more in imports
But not to the extent of exaggeration in populist reports
Also services include high-value ones

Source: US Census Bureau, Foreign Trade Division
Large part of employment in the US economy is in non-tradeables (including retail services)

Source: Krugman-Obstfeld
WORLD TRADE INSTITUTIONS

WTO (SUCCESSOR TO GATT)

Holds periodic negotiation rounds for trade liberalization
Broad principles: Multilateralism, nondiscrimination (MFN treatment)
Receives complaints from member countries against others
(e.g. about dumping, violation of agreements or obligations)
Holds hearings, issues judgments, attempts to enforce them

REGIONAL (PREFERENTIAL TRADING) AGREEMENTS

Major ones: EU, NAFTA, Mercosur, ASEAN, COMESA.
Hundreds of others.

Major types:
Free trade area: No restrictions within on goods trade,
each member country has its own tariffs on nonmember countries
Customs union: Free trade within, common tariff on nonmembers
Economic union: Freedom of factor movements (in theory)
US TRADE POLICY INSTITUTIONS

OFFICE OF US TRADE REPRESENTATIVE

Part of the Executive Branch.
Initiates and conducts international trade negotiations
Treaties must come for ratification to US Senate

INTERNATIONAL TRADE COMMISSION (USITC)

Independent quasi-judicial agency of US government
Main task – investigate injury to US industry caused by imports (usually in response to complaints by the US industries), and administer remedies.
[1] Injury caused by “unfair” foreign practices (export subsidies or dumping)
   Remedy: countervailing duty

Hearings usually hinge on: Definition of industry, definition of unfair practice, extent of injury, adequacy of remedy.
All of this creates employment for lawyers and economists :-)
or :-( ?