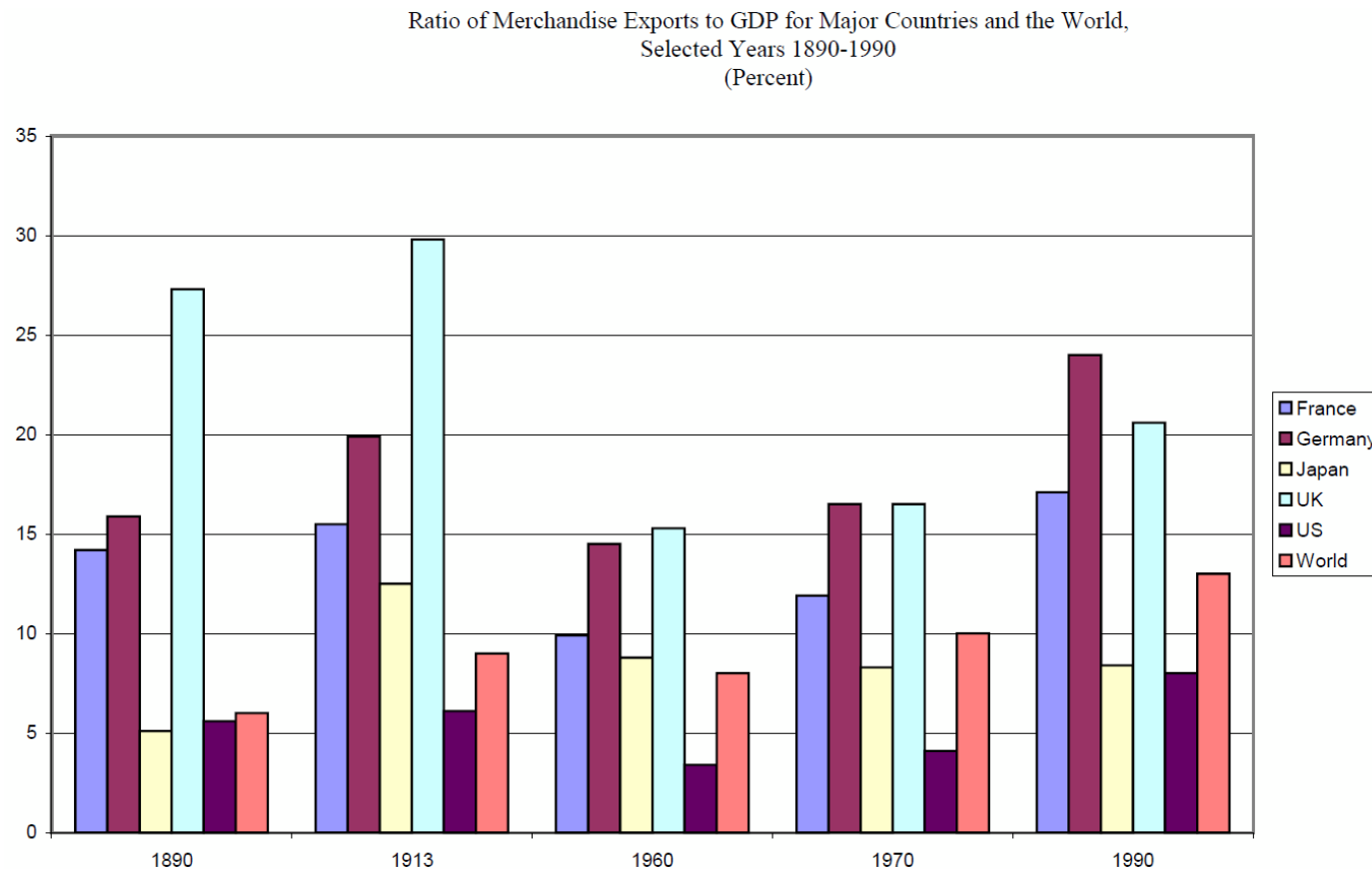


SOME FACTS ABOUT INTERNATIONAL TRADE AND ITS INSTITUTIONS

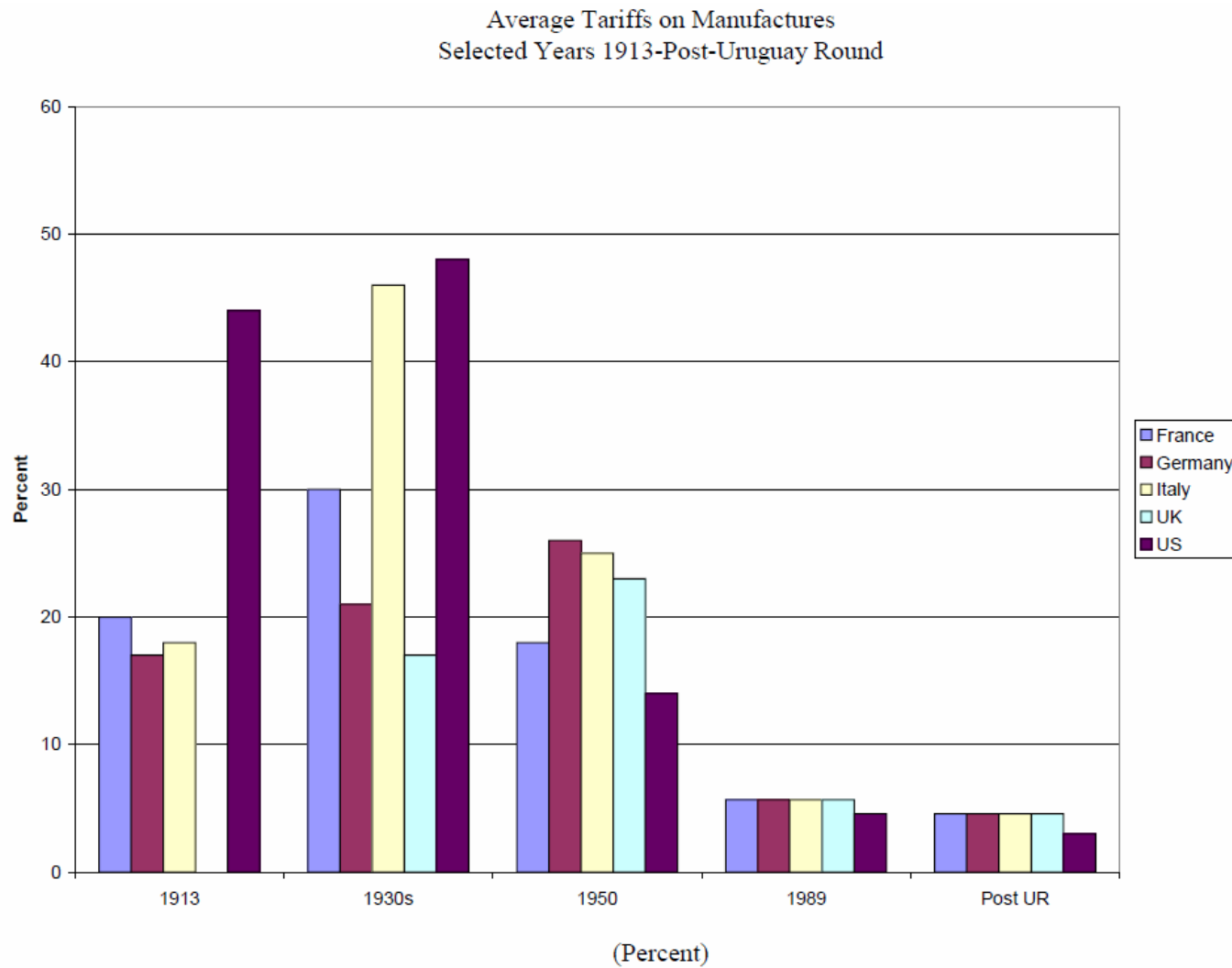
WORLD TRADE STATISTICS



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 and 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 \$

Region	Merchandise Exports			GDP
	Intra-Region	Rest of World	Total	
EU25	\$ 2,666,398 19.8%	\$ 1,345,872 10.0%	\$ 4,012,271 29.8%	\$ 13,443,077
EURO	\$ 1,567,451 15.8%	\$ 1,550,776 15.6%	\$ 3,118,227 31.3%	\$ 9,950,678
NAFTA	\$ 824,550 5.7%	\$ 653,425 4.5%	\$ 1,477,975 10.2%	\$ 14,442,879

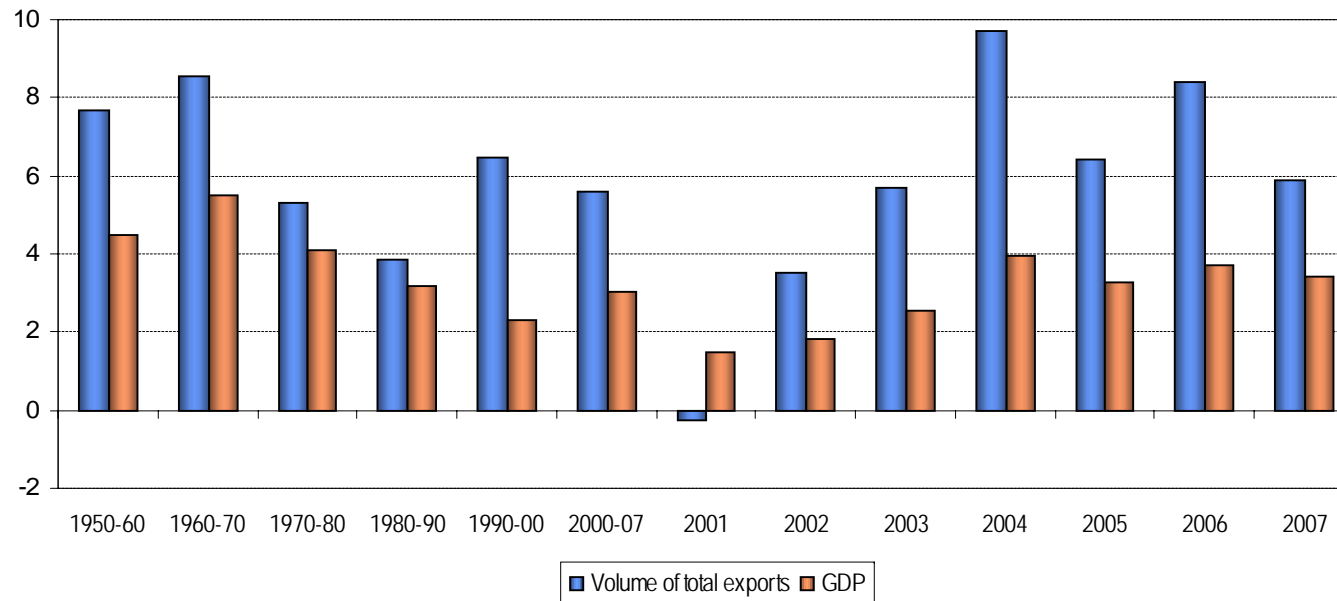
World GDP in 2005 = \$55.5 trillion. So

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



Source: WTO

Regression for 1950-2007 (my calculation from WTO data)

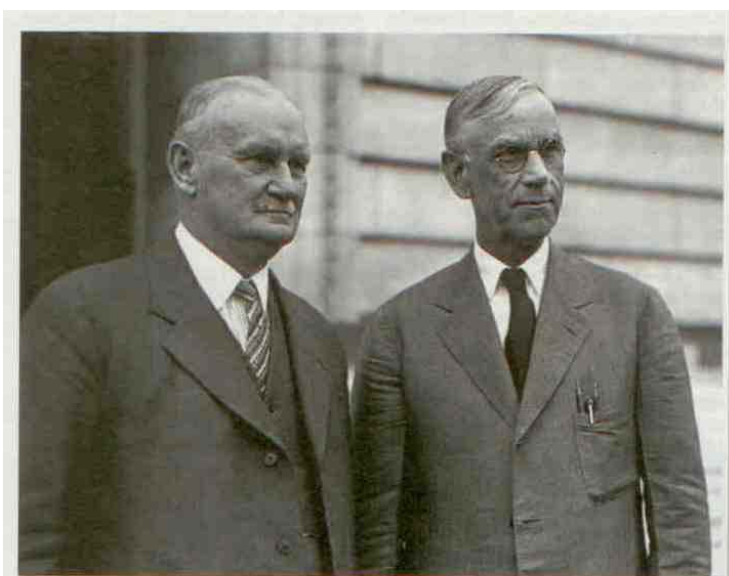
$$\Delta \ln(\text{Export Volume}) = 0.0036 + 1.5319 \Delta \ln(\text{GDP}), \quad R^2 = 0.4968$$

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

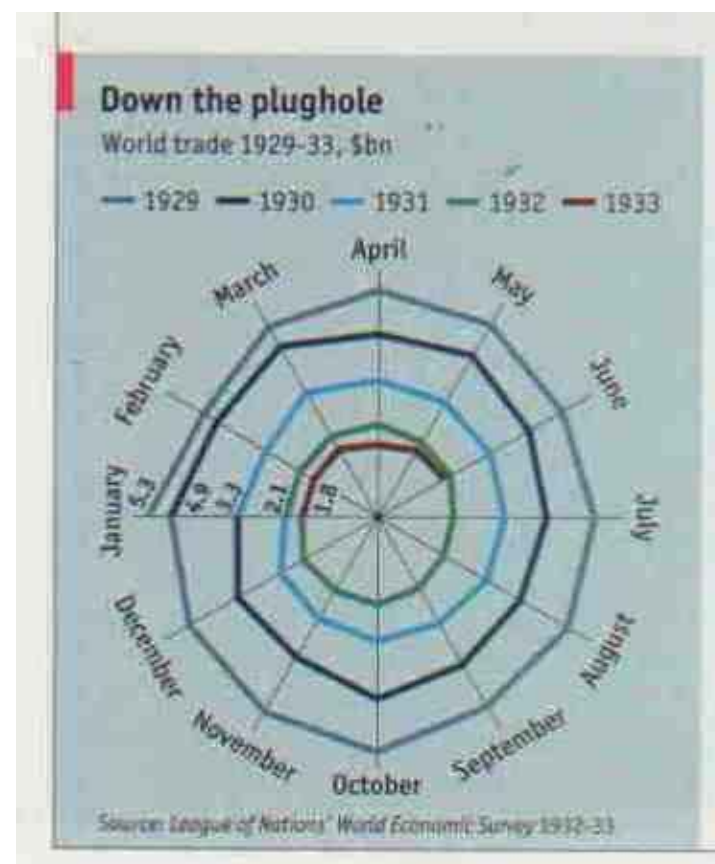
Estimate for 2009: GDP down by 1.7%; Export volume down by 10%.
1950-2007 means were GDP growth 3.72%; Export volume growth 6.06%
Regression fitted Export volume growth $6.06 - 1.53 * [3.72 - (-1.7)] = -2.23$
Reality is much worse. Could effect be non-linear, worse in deep recessions?

Worst example: Hawley-Smoot and the death spiral of world trade in the 1930s

Source: The Economist, 12/20/08



Hawley and Smoot, the bogeymen of trade



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

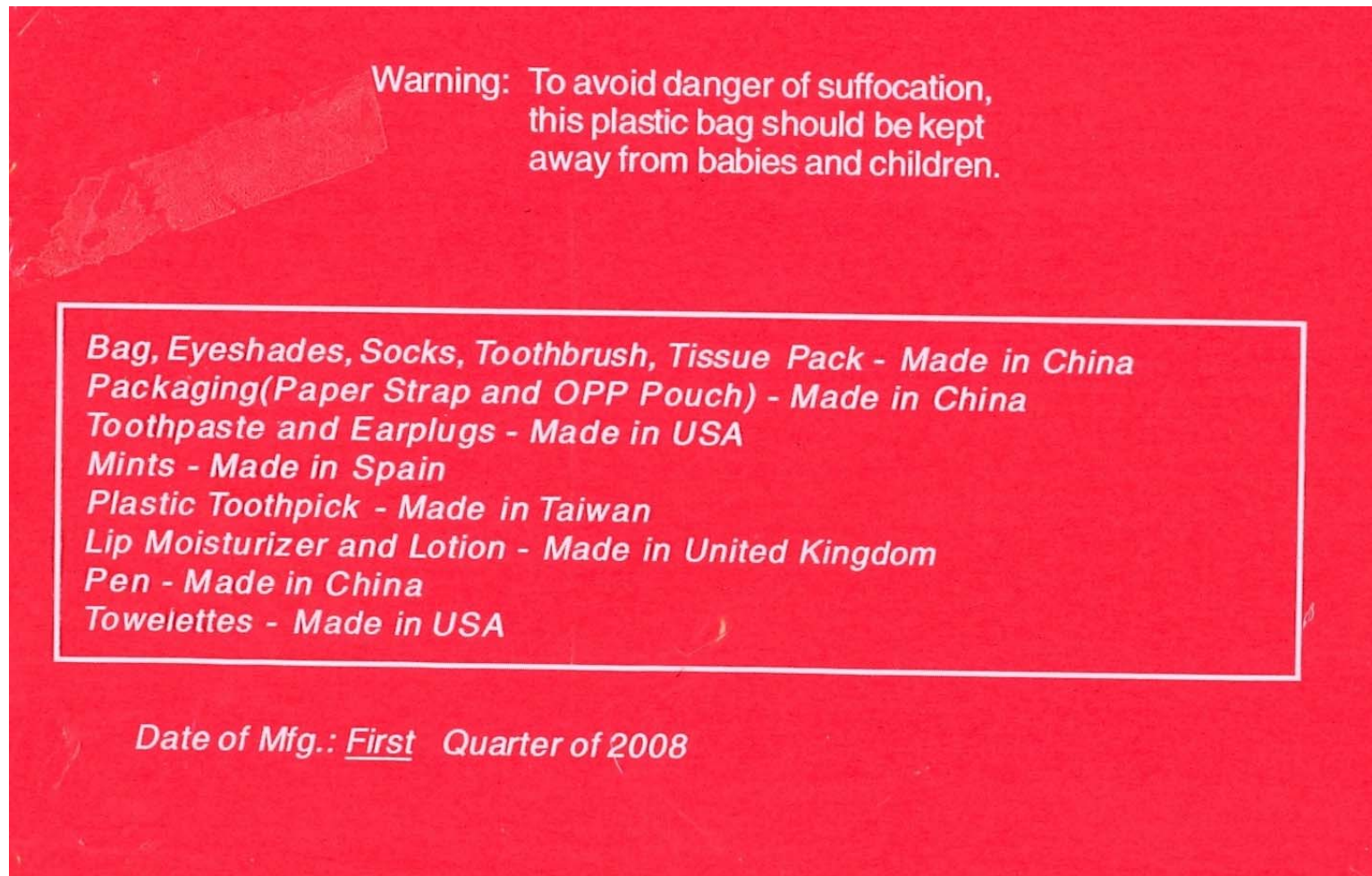
- [1] iPod: Of \$299 price, definite country attribution to value added is
US: \$163 = \$80 Apple's intellectual property right
(figuring out how to combine 451 generic parts!),
\$75 distribution and retail, \$8 various domestic components
Japan: \$26 = \$19 Toshiba's IPR in hard drive, \$7 other components
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)

- [2] Barbie: Of \$10 US price, China: \$1 (65 cents materials, 35 cents labor)
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:

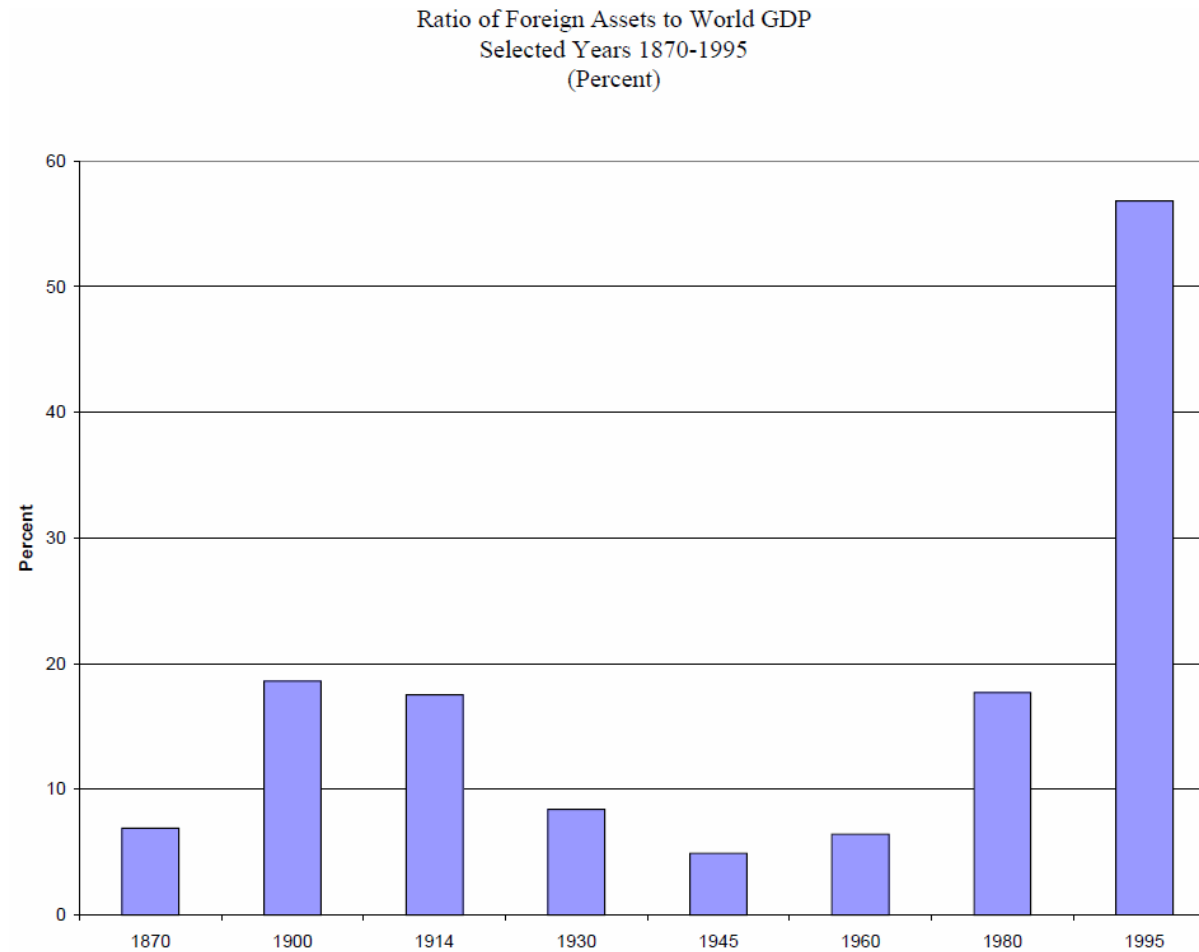


**IMMIGRATION: % of population that is foreign-born (US, Australia, Canada)
or of foreign nationality (other countries)**

Source: US 2000 Census for 1987, 1997; OECD for 2004.

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

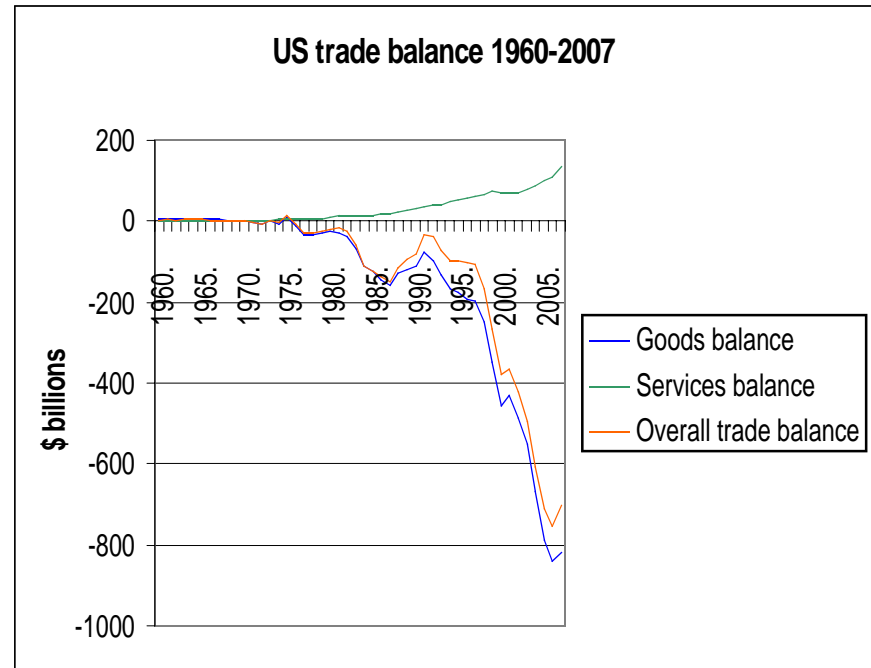
INTERNATIONAL CAPITAL MOVEMENTS



Again, two waves of globalization.

US INTERNATIONAL TRADE

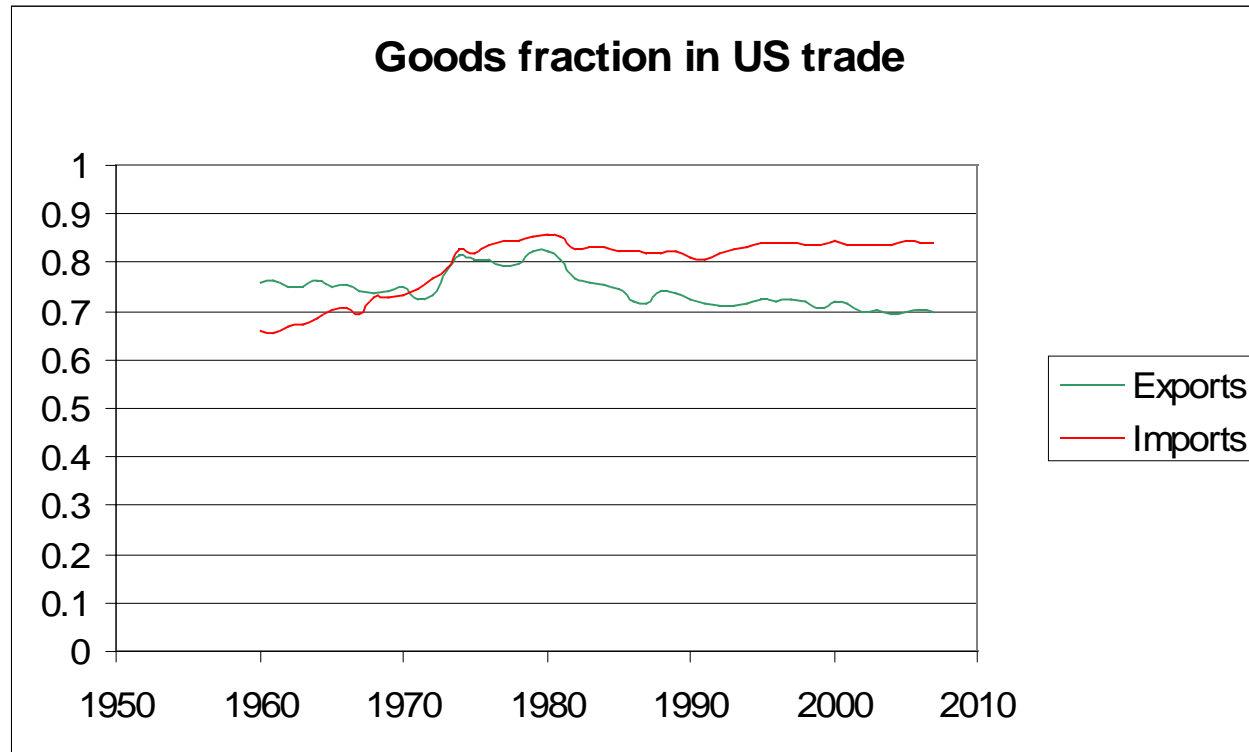
Main features: Large and growing deficit in goods trade since the late 1970
Substantial surplus in service trade (including high-end financial services)



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

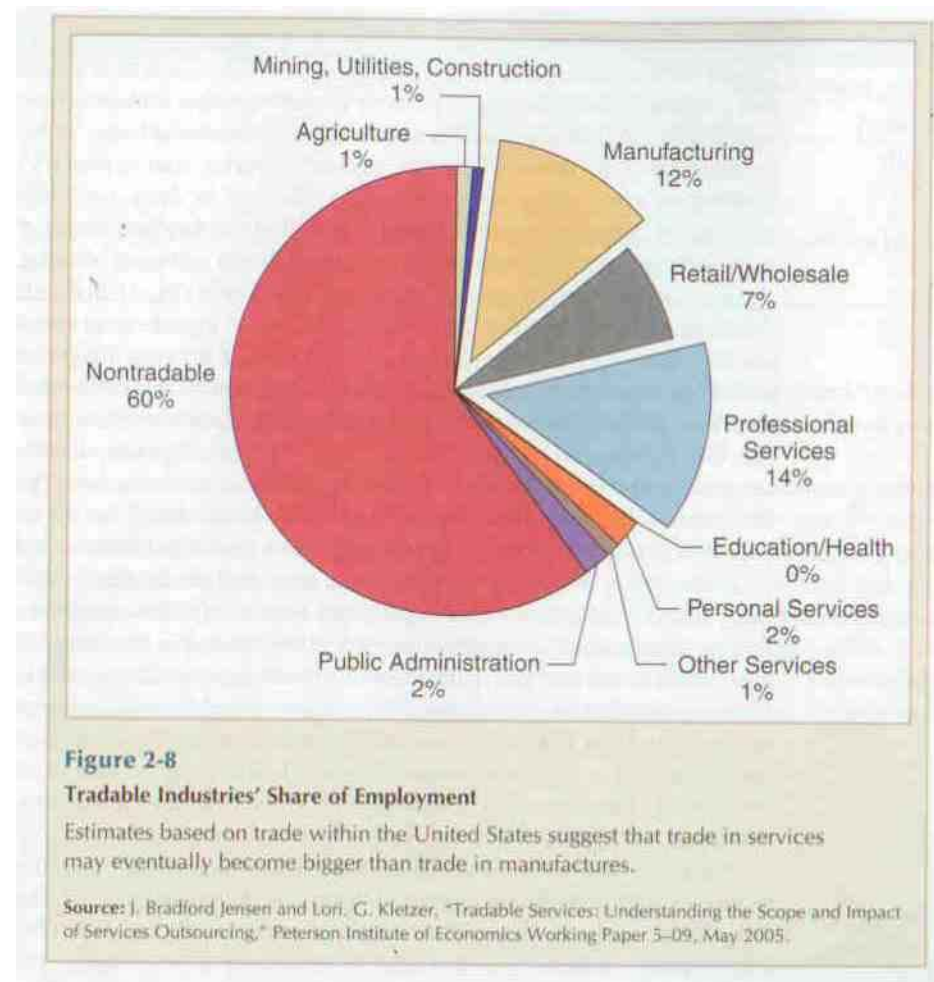
$$Y = C + I + G + (X - M), \quad S = Y - T - C, \quad \text{therefore} \quad (S - I) + (T - G) = (X - M)$$

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

[2] Severe injury caused by surge of imports, even with fair practice (escape clause). Remedy: “temporary” (5-year renewable) import quotas

[3] Violation of US intellectual property rights: Remedy: ban imports

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 :-(?