

Econ 433: Advanced International Trade

Professor Tybout
September 5, 2006

Today's lecture

- Course mechanics
- Some basic facts
- Issues to be addressed
- Closing remarks

Instructors' Coordinates

E-mail: jtybout@psu.edu
Office: 517 Kern Building
Phone: 865-4259
Office hours: Tuesdays, 4-5 PM
Wednesdays 1:30-2:30 PM,
And by appointment

Teaching Asst.: Veronica Frisancho Robles
E-mail: vcf104@psu.edu
Office: *to be announced*
Office hours: *to be announced*

Overview of the Course

- *Roster*
- *Pre-requisites:*
 - Intermediate Micro Theory (Econ 302) and/or
 - International Economics (Econ 333).

Overview of the Course

- *Grading:*
 - 4 problem sets, combined worth 20 percent
 - 2 midterm exams, each worth 25 percent
 - First Exam: Thursday, October 5 (in class)
 - Second Exam: Tuesday, November 14 (in class)
 - Final exam, worth 30 percent
 - No make-ups
 - Attendance not taken, but . . .

Overview of the Course

- *Readings:*
 - Richard Caves, Jeffrey Frankel and Ronald Jones, *World Trade and Payments: An Introduction*, 10th Edition. Boston, MA: Addison-Wesley, 2006
 - lecture notes and auxiliary readings are linked to the on-line syllabus:

http://econ.la.psu.edu/~jtybout/433syl_f06.htm

Course Structure

- *Section I:*
 - Patterns of global trade and investment that have emerged during the past 25 years.
 - Questions that these patterns raise and that the course will address.

Course Structure

- *Section II:*
 - Overview of the sources of gains from trade
 - Develop the analytical models needed to provide rigorous answers to policy questions. (*It is critical that you master these models.*)
- Issue: How has trade affected wages?

Course Structure

- *Section III*: Global fragmentation of production:
 - What is it?
 - Why does it occur?
 - Who are the winners and losers?

Course Structure

- *Section IV:*
 - Effects of trade policy:
 - Tariffs
 - quotas
 - anti-dumping laws
 - various other government interventions
 - Analysis of current issues—e.g., apparel and textile producers in the U.S.

Course Structure

- *Section V:*
 - Relax the assumptions of perfect competition, constant returns, homogeneous products
 - Study the effects of trade and trade policy when firms have market power.
 - Issue: U.S. vs. E.U. concerning Boeing/Airbus subsidies.

Course Structure

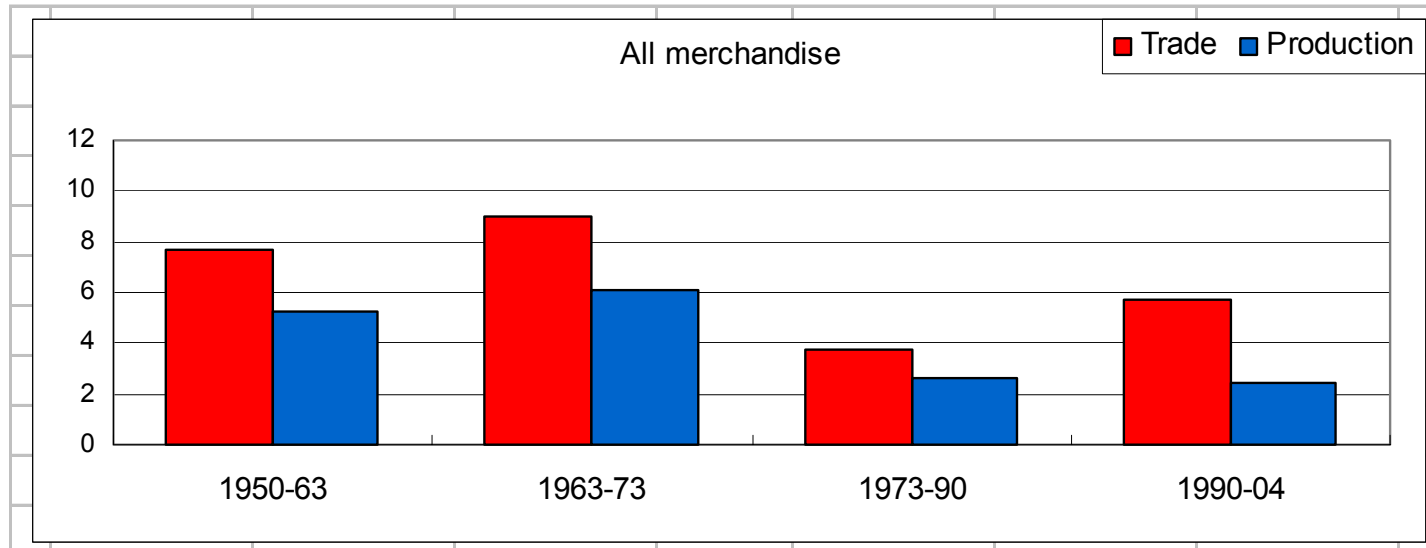
- *Section VI: Multinational Corporations*
 - How do firms decide whether to establish subsidiaries or subcontract?
 - How have multinationals affected host countries?
 - Productive capacity of the economy
 - Wages
 - Competition with local firms
 - Technology transfer

Course Structure

- *Section VII:*
 - How does the political process shape trade policy?
 - Issue: empirical determinants of patterns of protection

Some Basic Facts

- Concerning global trade flows:
 - *Fact 1* (source: WTO, ITS 2005) In terms of merchandise trade between countries, the world is becoming increasingly integrated.

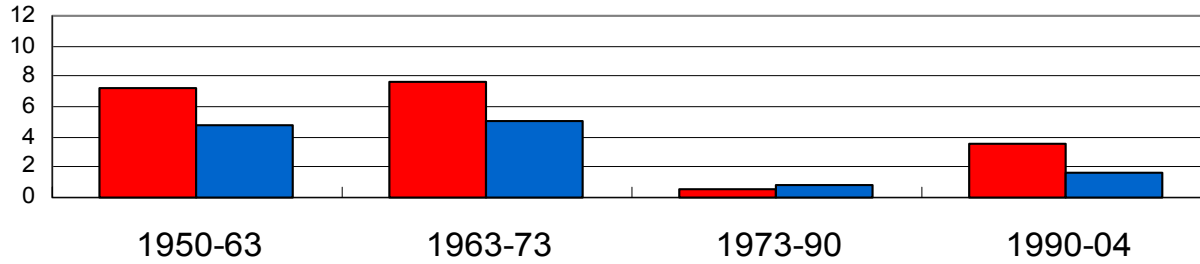


(Average annual percentage change in volume)

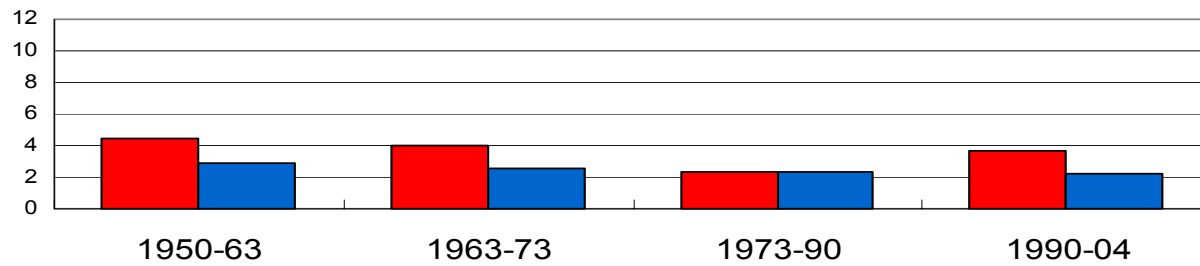
Some Basic Facts

- Concerning global trade flows:
 - *Fact 2* This growth pattern is true for all broad product categories, but it is especially true for manufactured goods. (source: WTO, ITS 2005)

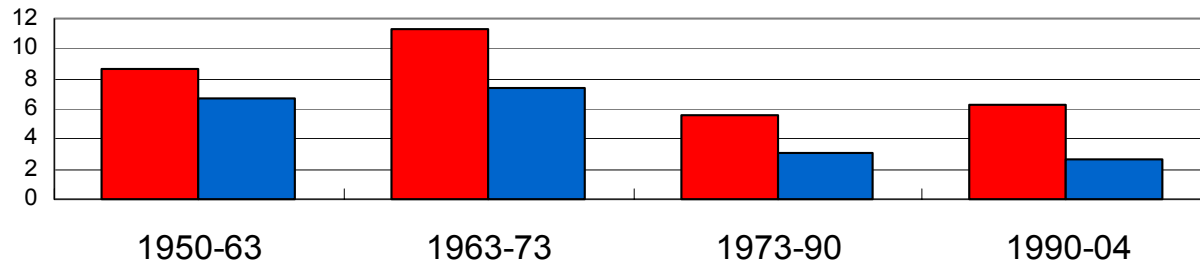
Fuels and mining products (including petroleum)



Agricultural products



Manufactures



Some Basic Facts

- Concerning global trade flows:
 - *Fact 3*: The relative importance of countries in global trading patterns has changed dramatically. (source: WTO, ITS 2005)
 - North America becoming less important
 - Western Europe becoming more important
 - China has surged recently (unlike other developing countries)

Share in Global Exports

	1948	1953	1963	1973	1983	1993	2003	2004
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North America	28.3	24.9	19.9	17.3	16.8	18.0	15.8	14.9
United States	21.7	18.8	14.9	12.3	11.2	12.7	9.9	9.2
South and Central America	11.4	9.8	6.3	4.3	4.4	3.0	2.9	3.1
Europe	31.5	34.9	41.4	45.4	43.5	45.4	46.1	45.3
Commonwealth of Independent States	-	-	-	-	-	1.5	2.7	3.0
Africa	7.3	6.5	5.7	4.8	4.5	2.5	2.4	2.6
South Africa	2.0	1.7	1.5	1.0	1.0	0.7	0.5	0.5
Middle East	2.0	2.7	3.2	4.1	6.8	3.4	4.1	4.4
Asia	13.6	13.1	12.4	14.9	19.1	26.1	26.1	26.8
China	0.9	1.2	1.3	1.0	1.2	2.5	6.0	6.7

Some Basic Facts

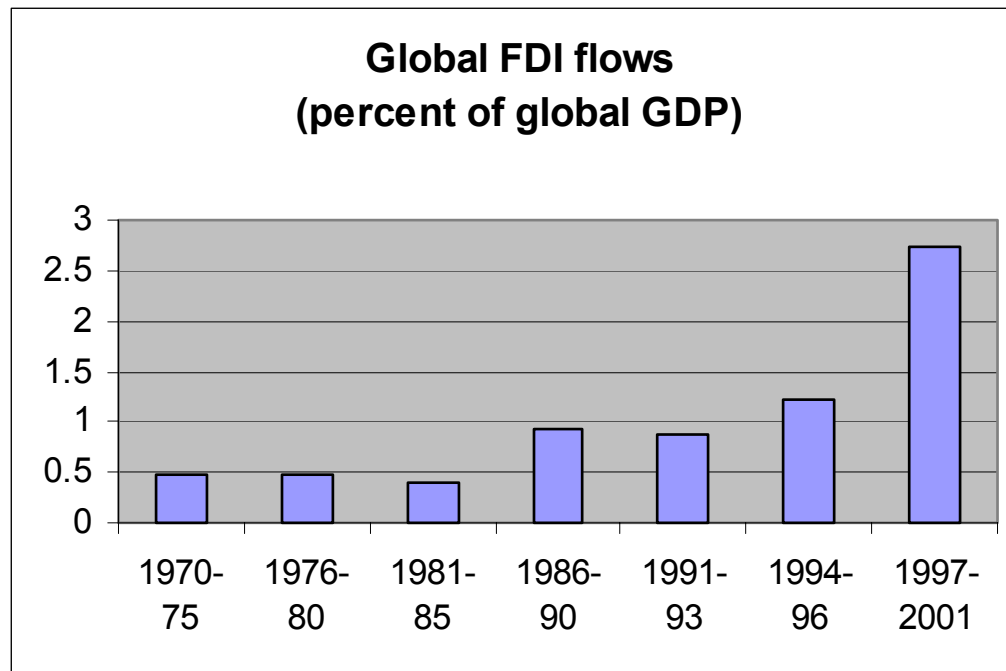
- Concerning global trade flows:
 - *Fact 4:* U.S. trade balance has deteriorated rapidly since 2000. (source: WTO, ITS 2005)

United States Merchandise Trade (billions of dollars)

	1963	1973	1983	1993	2003	2004
Exports	22.9	72.4	205.6	464.8	724.8	818.8
Imports	17.1	70.3	269.9	603.2	1303.1	1525.5

Some Basic Facts

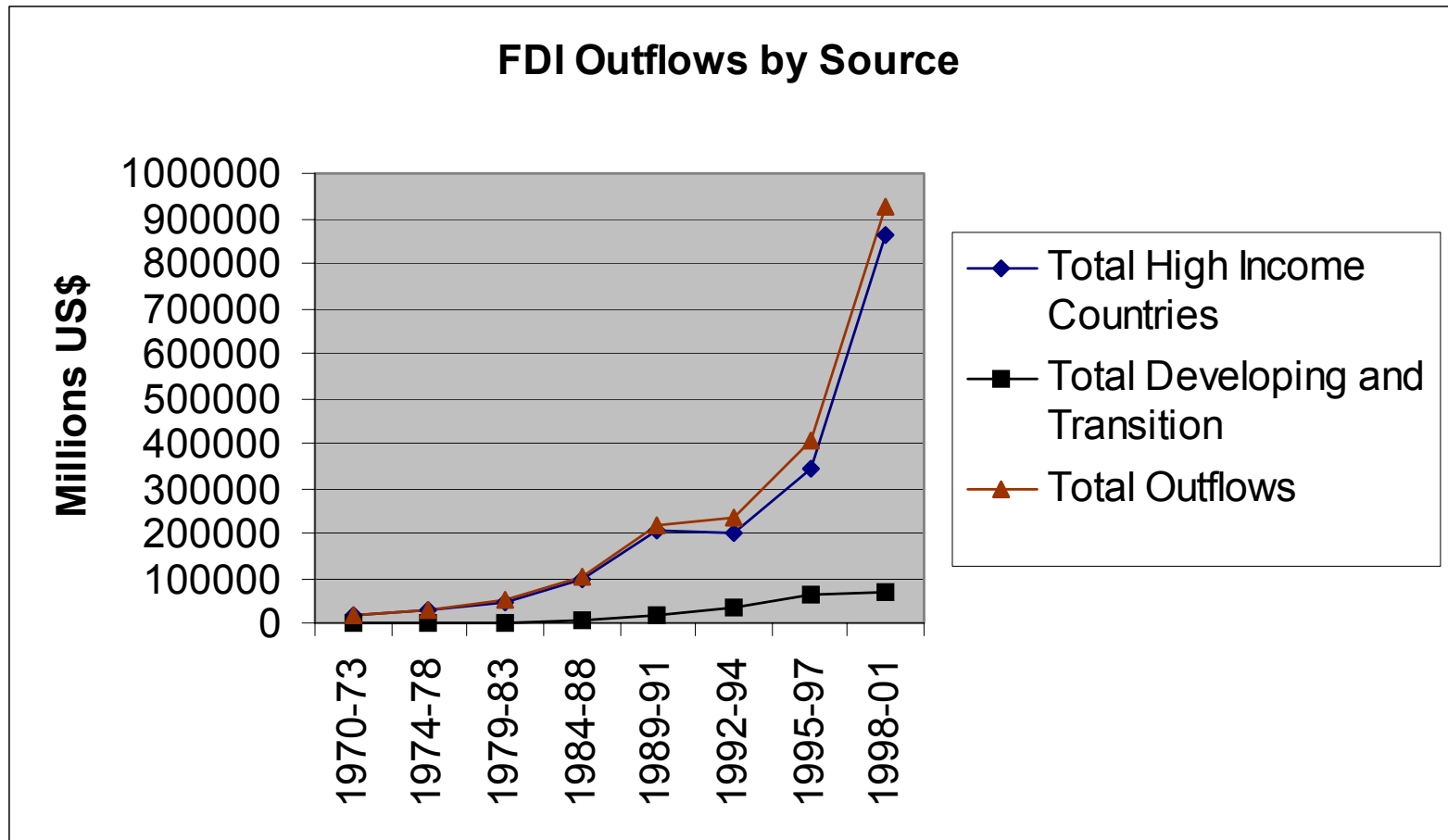
- Concerning global fragmentation:
 - *Fact 1:* Foreign direct investment (FDI), and more generally, global fragmentation of production have been getting increasingly important over the past 30 years.



Some Basic Facts

- Concerning global fragmentation:
 - *Fact 2*: Most of the FDI originates in high-income countries, but the developing countries are starting to invest as well. Source: Table 1.2, Barba-Navaretti and Venables (2004).

Some Basic Facts

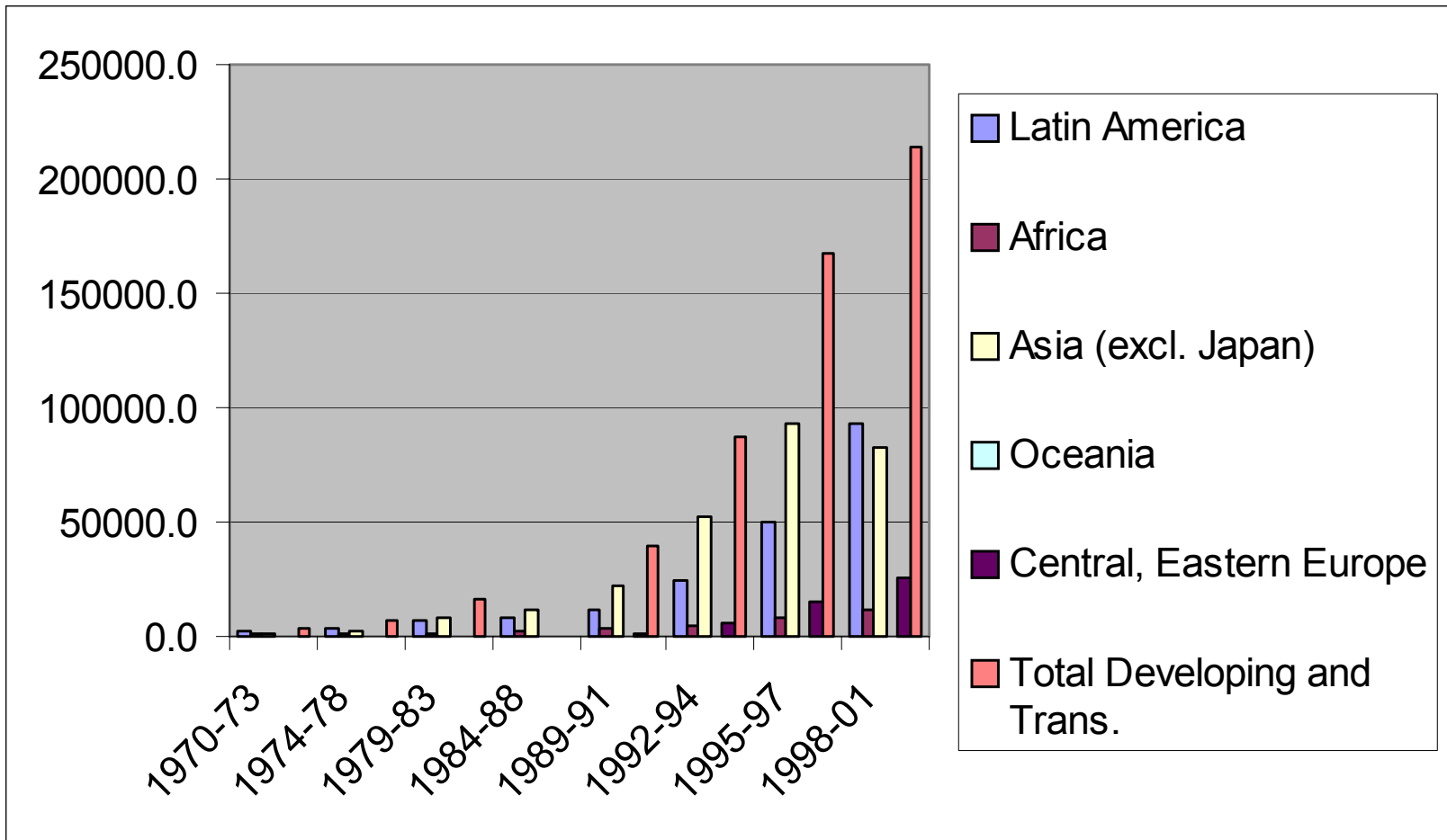


Some Basic Facts

- Concerning global fragmentation:

Fact 3: The importance of developing countries as a destination for FDI grew rapidly until the Asian crisis. It is beginning to pick up again (see below).

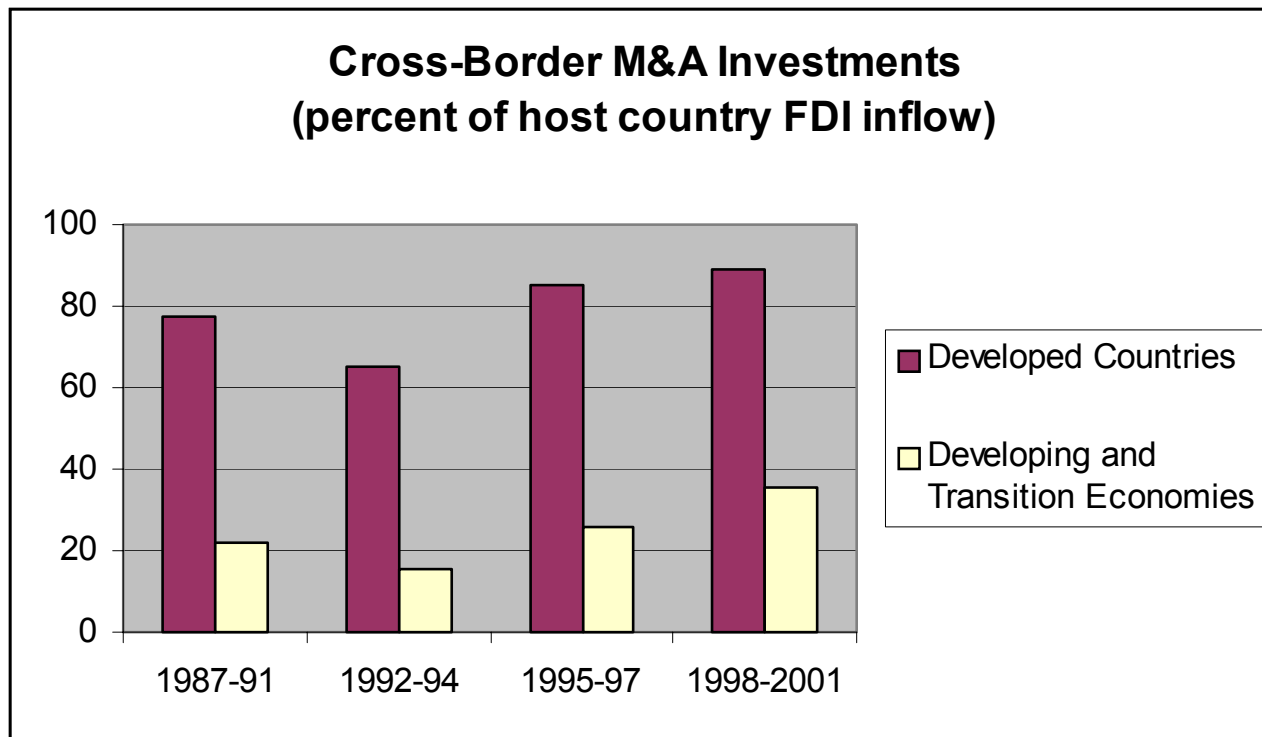
- Investment boom in Asia during 1990s.
- Larger countries in Latin America are the other major destination in the developing world.
- Africa still doesn't get much.



Source: Table 1.3, Barba-Navaretti and Venables (2004).

Some Basic Facts

- *Fact 4:* Most FDI inflows in the world reflect mergers and acquisitions, but this is *not* the case for developing countries. Source: Table 1.4, Barba-Navaretti and Venables (forthcoming)



Some Basic Facts

- *Fact 5:* International production networks, which often involve multinationals, are becoming increasingly important.
 - The share of components trade in total manufacturing trade has grown 15 percent per year for E. Asia, while total trade has grown 11 percent per year.
 - By 2000, the imported input content of exports reached 0.35 to 0.40 in Korea in Taiwan. It grew in Mexico from about 0.08 in 1982 to about 0.30 in 1992.

Some Basic Facts

- Concerning wages

Fact: The ratio of non-production to production wages has risen from around 1.52 in 1982 to 1.72 in 1996.

This is part of an international trend (FRBSF, 2000, figure 1).

Issues

- What has caused the rapid expansion in world trade?
- Why has global fragmentation of production occurred even more rapidly?
- Is it a good thing that foreigners are becoming owners of firms in the U.S., and U.S. corporations are becoming owners of firms abroad?

Issues

- Is there a link between trade and the wages people earn?
- More specifically, who are the winners and losers, broken down by:
 - Nationality
 - Asset ownership,
 - Occupation (skills and education)
 - Age, gender

Issues

- What policy interventions might make things better?
Should we:
 - Protect domestic producers, and if so, how?
 - Tariffs
 - Quotas
 - Domestic content requirement
 - Product specifications
 - Anti-dumping laws
 - Compensate workers/owners who are hurt by globalization? If so, how?
 - Re-training
 - Unemployment compensation
 - Tax breaks, subsidies

Issues

- Should we:
 - Penalize firms that outsource?
 - Tax trade in intermediates?
 - Penalize firms that establish foreign subsidiaries?
 - Tax earnings generated abroad?
 - Subsidize exports?
- Will desirable policies get implemented?

Closing remarks

- No definitive answers are available
 - Many of these questions involve value judgments.
 - Economists are not in complete agreement concerning the functioning of the global economy.
 - The course will develop an analytical approach the issues; a basis for informed debate.

For next time, read CFJ chapter 1 and download lecture notes before class.