

Lecture 1: Introduction to the Class

Econ 355 - Introduction to International Trade

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University of British Columbia

2013-2014 Term 2

Econ 355 - Introduction to International Trade

- Professor: Tomasz Świącki, tomasz.swiecki@ubc.ca
 - ▶ Office Hours: Tuesday 10:30am-12:00pm in Buchanan Tower 1001
- TA: Yawen Liang, wenyu_0318@hotmail.com
 - ▶ TA Office hours: Monday 10:30am-12:00pm in Buchanan Tower 1099C
- Lectures: Tuesday and Thursday 6:30-8:00pm in Buchanan A201

Textbook and Articles

- Required: Robert Feenstra and Alan Taylor, International Trade, Worth Publishers 2nd Edition (henceforth FT)
- I strongly encourage you to follow the debate about trade disputes, the WTO, outsourcing and other trade related topics in The Economist, the New York Times, the Financial Times and the Wall Street Journal
- I will post links to some articles of particular interest on Connect as the course progresses.

Class Website

The class website is accessible through Connect: www.connect.ubc.ca. Students enrolled for the class will be able to access the Econ 355 page.

The class website will have multiple uses:

- Syllabus
- Lecture slides
- Assignments and solutions
- Submitting your assignments online
- Checking your grades
- Announcements about time changes, additional office hours, etc.
- Links to readings
- Discussions board where you can ask questions about problem sets.
I will open a discussion thread for each problem set and exam.

Discussion Board

- If you have questions on the class material, please ask questions on the Discussions section of the Connect class website
- **Do not e-mail us with questions regarding problem sets** or material covered in class
- We will keep it monitored throughout the semester and you should expect a reply within 24 hours

Prerequisites for this Class

- The prerequisites for this class are Econ 101 and Econ 102
- It is essential that you have taken these courses
- If you have not taken these two classes, but you are an exchange student or a visiting student and have taken Principles of Microeconomics and Principles of Macroeconomics at a different institution, it is up to you to decide whether your preparation is adequate

Grading

- Problem sets 20%
- Midterm 30%
- Final 40%
- Clickers 10%

Problem Sets (20%)

- There will be 6 problem sets due on the following dates:
 - 1 Tue Jan 21st: problem set 1 due
 - 2 Tue Feb 4th: problem set 2 due
 - 3 Tue Feb 25th: problem set 3 due
 - 4 Tue Mar 11th: problem set 4 due
 - 5 Tue Mar 25th: problem set 5 due
 - 6 Tue Apr 8th: problem set 6 due
- Problem sets are due by 6:30pm on the due date (the due date is always on Tuesday)

Problem Sets (20%)

- You can:
 - ▶ submit the assignments on Connect
 - ▶ hand them in to me in class BEFORE class starts
 - ▶ hand them in during my or the TA's office hours
- After the due date and time, you will receive no credit for your assignment. There will be no exceptions
- In order to accommodate unanticipated events, illness, or conflicts in your schedule, we will **automatically drop one problem set** with the lowest score (for example, the one that you don't hand in). No other exception will be made.
- Only a random part of the problem sets will be graded

Exams (Midterm 30% and Final 40%)

- The midterm will be held on February 13th 6:30-8:00pm in Buchanan A101 and will include all material covered up that point
- The midterm is mandatory
 - ▶ If you miss the midterm I will require medical documentation and I will send it directly to Arts Advising for evaluation
 - ▶ If Arts Advising determines that you have a valid excuse to miss the midterm then I will shift the weight of the midterm on the final
 - ▶ If Arts Advising decides you have no valid excuse then you will receive a grade of zero on the midterm. There will not be a make-up exam.
- The final will be cumulative and will thus cover the material from the entire course
- If you miss the final exam and obtain a Deferred Standing (SD) from Arts the makeup exam is going to be in July.

Class Participation and i>clickers (10%)

- You are required to participate in class
- I will make use of clickers during lectures to assess class participation and comprehension
 - ▶ Please register your i>clicker on Connect as soon as possible
- Your answers will be recorded so that you can better track your performance
- You will receive one point for each question you answer even if your answer is incorrect
- In order to accommodate events such as forgetting you clicker at home, losing it, having dead batteries, clicking the unintended button, etc., I will allow you **to not answer 10%** of the questions

Problem Set Collaboration

- I will allow you to discuss your solutions to the problem sets with your classmates, but in that case the following rules apply:
 - ▶ The maximum size of a group is 5 people
 - ▶ Every student in the group must submit his/her own solutions to the problem set
 - ▶ Every student in the group must write on the first page of the problem set the names of the students he/she worked with
 - ▶ Collaborating on a problem set does not mean copying the solutions from your classmate.

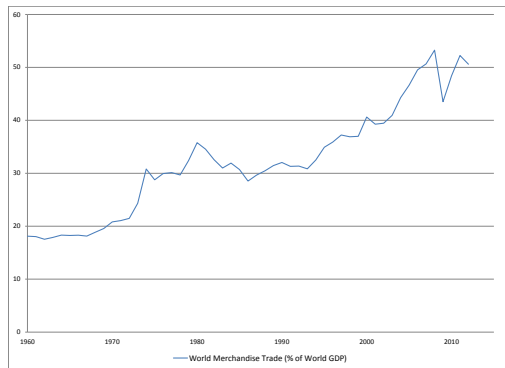
Topics Covered and Reference Chapters

- 1 Introduction to the class [FT Chapter 1]
- 2 Technological differences: Ricardian Model [FT Chapter 2]
- 3 Trade and income distribution in the short run: the Specific Factors Model [FT Chapter 3]
- 4 Factor Proportions Theory: Heckscher-Ohlin-Samuelson Model. Trade and income distribution in the long run [FT Chapter 4]
- 5 External economies of scale and the infant industry argument [KOM Chapter 7 posted on Connect]
- 6 Increasing returns to scale and imperfect competition [KOM Chapter 8 posted on Connect]
- 7 Offshoring and the skill premium [FT Chapter 7]
- 8 Import tariffs and quotas under perfect competition [FT Chapter 8]
- 9 Import tariffs and quotas under imperfect competition [FT Chapter 9]
- 10 Export subsidies [FT Chapter 10]
- 11 International agreements [FT Chapter 11]

Some Basic Terms

- We will start with some basic terms and facts about international trade
- An **export** is a product sold from one country to another
- An **import** is a product bought by one country from another
- A country's **trade balance** is the difference between its total value of exports and its total value of imports (usually including both goods and services)
- **Volume of trade** is the value of exported goods and services
- **GDP**= Gross Domestic Product
- A good overview of basic trade facts is International Trade Statistics available at www.wto.org

Trade Growth



Source: WB WDI

- Importance of trade in the world economy has grown a lot since the WW II

Trade in Historical Perspective

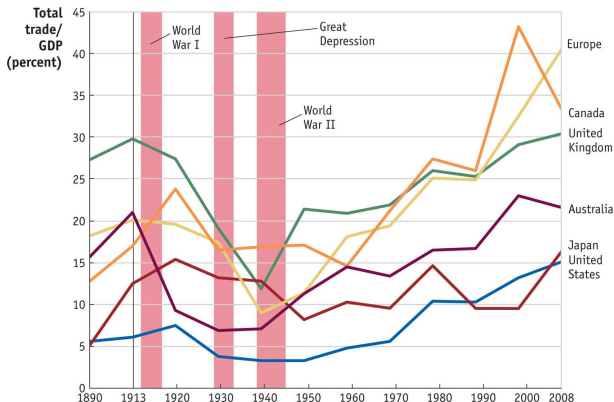
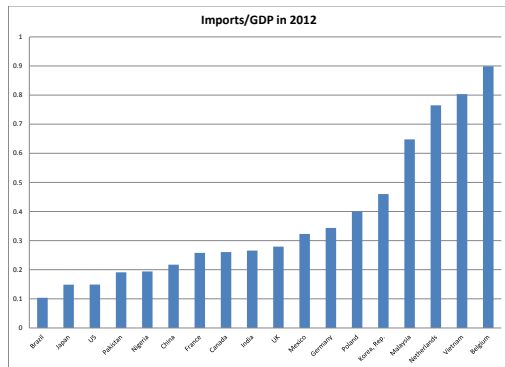


Figure 1.3 Trade in Goods and Services Relative to GDP
Feenstra and Taylor: *International Trade*, Second Edition
Copyright © 2011 by Worth Publishers

- But this is not the first golden era of globalization

Trade Relative to Domestic Production



Source: WB WDI

- Trade is a smaller fraction of the economy in countries with large internal markets and in countries with high barriers to trade, either due to geography or policy

Main Players: Regions

Table I.4

Intra- and inter-regional merchandise trade, 2012

(Billion dollars and percentage)

Origin	Destination							
	North America	South and Central America	Europe	CIS	Africa	Middle East	Asia	World
Value								
World	3035	787	6564	550	580	714	5333	17930
North America	1151	217	380	18	38	75	488	2371
South and Central America	187	202	128	8	21	17	172	750
Europe	492	124	4383	245	211	208	643	6385
Commonwealth of Independent States (CIS)	37	7	430	149	14	20	127	805
Africa	74	30	240	2	81	17	160	630
Middle East	118	11	148	7	39	116	732	1349
Asia	975	196	855	121	177	280	3012	5640
Share of regional trade flows in each region's total merchandise exports								
World	16.9	4.4	36.6	3.1	3.2	4.0	29.7	100.0
North America	48.6	9.1	16.0	0.8	1.6	3.2	20.6	100.0
South and Central America	24.9	26.9	17.0	1.1	2.8	2.3	23.0	100.0
Europe	7.7	1.9	68.6	3.8	3.3	3.3	10.1	100.0
Commonwealth of Independent States (CIS)	4.6	0.9	53.4	18.5	1.7	2.5	15.7	100.0
Africa	11.7	4.8	38.2	0.3	12.8	2.7	25.3	100.0
Middle East	8.7	0.8	11.0	0.5	2.9	8.6	54.2	100.0
Asia	17.3	3.5	15.2	2.1	3.1	4.6	53.4	100.0
Share of each region's exports in world merchandise exports to the region								
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North America	37.9	27.6	5.8	3.3	6.5	10.5	9.2	13.2
South and Central America	6.2	25.6	1.9	1.5	3.6	2.4	3.2	4.2
Europe	16.2	15.7	66.8	44.6	36.3	29.2	12.0	35.6
Commonwealth of Independent States (CIS)	1.2	0.9	6.6	27.0	2.4	2.8	2.4	4.5
Africa	2.4	3.9	3.7	0.3	13.9	2.4	3.0	3.5
Middle East	3.9	1.4	2.3	1.3	6.8	16.2	13.7	7.5
Asia	32.1	24.9	13.0	21.9	30.4	36.5	56.5	31.5

Source: WTO ITS

Main Players: Countries

Table 1.7

Leading exporters and importers in world merchandise trade, 2012

(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage change
1	China	2049	11.1	8	1	United States	2336	12.6	3
2	United States	1546	8.4	4	2	China	1816	9.8	4
3	Germany	1407	7.6	-5	3	Germany	1167	6.3	-7
4	Japan	799	4.3	-3	4	Japan	886	4.8	4
5	Netherlands	656	3.6	-2	5	United Kingdom	690	3.7	2
6	France	569	3.1	-5	6	France	674	3.6	-6
7	Korea, Republic of	548	3.0	-1	7	Netherlands	591	3.2	-1
8	Russian Federation	529	2.9	1	8	Hong Kong, China	553	3.0	8
9	Italy	501	2.7	-4		retained imports	140	0.8	6
10	Hong Kong, China	493	2.7	8					
	domestic exports	22	0.1	33	9	Korea, Republic of	520	2.8	-1
	re-exports	471	2.6	7	10	India	490	2.6	5
11	United Kingdom	474	2.6	-6	11	Italy	487	2.6	-13
12	Canada	455	2.5	1	12	Canada a	475	2.6	2

Source: WTO ITS

- In 2012 34% of world trade was between developed countries, 28% between developing countries and 37% between developed and developing countries
- Growth of trade with China has been spectacular: from 1% of world exports in 1983 to 11% in 2012

Changing Composition of Trade

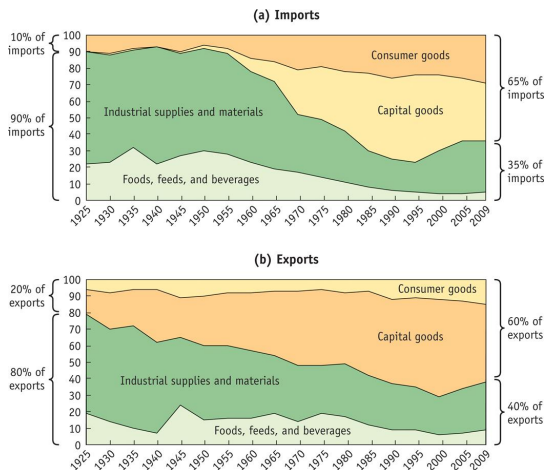


Figure 1.1 The Changing Face of U.S. Import and Export Industries, 1925–2009
 Feenstra and Taylor: International Trade, Second Edition
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Participation Question (Ungraded Example)

What can we infer based on Figure 1.1?

- A. The volume of imports in Foods, feeds and beverages has declined since 1950s
- B. U.S. had a trade surplus in Industrial supplies and materials in 2009
- C. The largest percentage growth in U.S. imports since 1950s has been in Capital goods
- D. All of the above

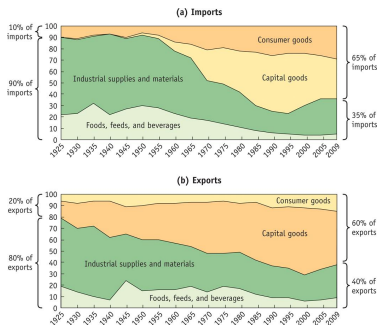


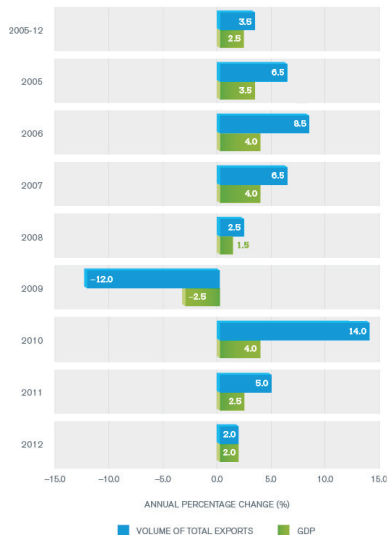
Figure 1.1 The Changing Face of U.S. Import and Export Industries, 1925–2009

Changing Nature of Trade

- Great majority of international trade flows used to be in final goods
- Rise of **global value chains** shifted a lot of trade to intermediate goods
- In 2011 intermediate goods accounted for 55% of non-fuel world exports
- In 2008 foreign **value added** accounted for 26% of world exports
- We need to be careful in interpreting bilateral trade balances
 - ▶ Consider the iPod example in textbook
- Trade in services is growing faster than trade in goods but it is still much smaller in absolute term, accounting for about 20% of total exports

Trade Flows Are Volatile

Volume of world merchandise exports
and gross domestic product, 2005–2012



The Great Trade Collapse

- Why did trade collapse so much during the global crisis of 2008-2009?
- Plausible answers:
 - ▶ large decline in demand for important category of tradable goods: durable goods (cars, computers, machinery, etc.)
 - ▶ evaporation of trade credit
 - ▶ inventory adjustments
 - ▶ **protectionism**

Protectionism During the Crisis

- There were worries that the world might plunge into protectionism as it did during the Great Depression

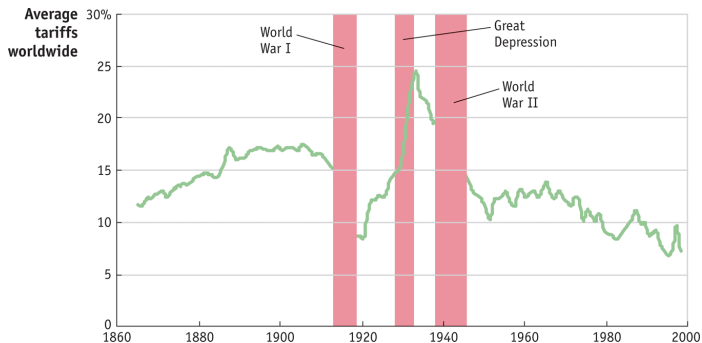


Figure 1.4 Average Worldwide Tariffs, 1860–2000
Feenstra and Taylor: International Trade, Second Edition

Protectionism During the Crisis

- But statutory tariffs did not change much during the last crisis
- However, many countries tried using more covert forms of protectionism
 - ▶ anti-dumping duties
 - ▶ bail-outs and loans to domestic companies
 - ▶ buy-local provisions in fiscal stimulus
 - ★ The Economist on Buy American in Stimulus Act (“Buying American” January 2009)
“House Democrats want to require that all iron and steel used in stimulus-funded infrastructure projects should be made in the United States. America’s steel producers are happy, especially since they saw their share of the world steel market fall from 7.9% to 7.2% in 2008. But American exporters fear retaliation against their goods, both in places like China, at whom the steel provisions are aimed, and in rich countries, which are already slipping domestic-purchasing requirements into their own stimulus packages”

Protectionism During the Crisis

- In the end, the use of protectionist measures was more restrained than initially feared
- Experience of the Great Depression taught us about the importance of international cooperation
- International trade today is bound by WTO rules that are designed to prevent countries from adopting beggar-thy-neighbor policies

What Will We Learn?

Questions we will tackle in this course:

- Why do countries trade?
- What goods do countries trade?
- Which firms do the trading?
- How does trade affect overall welfare? Who gains and who loses?
- What does it all imply for trade policy?