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I. Overview of World Economy

A. Elements of the World Economy

Slide: "Who Trades the Most?"
Understand the relationships that the table conveys (see web for table), for instance,
-Exports do not have to equal Imports (trade deficits and surplus)
-World exports do not equal world imports. Why? Transportation costs are included in the value of imports, but not in exports.

B. Ways the Countries Interact

1. Trade Flows

Slide: "Who Trades With Whom?"
This table lists exports.
-close neighbors tend to trade with each other
-developed countries trade with each other
-developing countries also trade mostly with developed countries, see data for Latin America in the table.

Slide: "What Does the World Trade?"
-2/3 of exports are manufactured goods (merchandise exports)
-textiles and clothing are relatively labor-intensive goods. As a result, in most cases, poor countries export textiles and clothing.
-office and telecom trade has the biggest growth rate in the table (12% growth between 1990 and 2000).

Slide: "What Does the United States Trade?"
-the United States has large agricultural exports
-large importer of oil
-large exports and imports of capital goods
-imports more automotive products than it exports

Slide: "Importance of Trade to Countries"
-note the connection between exports/GDP and the size of an economy. The United States and Japan have relatively low ratios at 11%.
-India is a strange case with a ratio of 11%. Historically, India has used trade policy to minimize trade and restrict its importance. It is only recently that reforms have taken place and the economy has become more open to international trade.
-Singapore is another interesting case with a ratio of 150%. How is this possible? The possibility arises because exports and GDP are measured in two very different ways. Exports are a measure of the total value of the goods being traded. GDP is a value added measure. Singapore's ratio is high because many of its exported products are produced from imported inputs (these inputs are not included in GDP since they were not produced domestically).

2. Capital Flows

Capital Flows (loose definition): International borrowing and lending.
2 types of assets: Financial Assets (bonds, etc.), Real Assets (land, buildings, etc.)
Foreign Direct Investment (FDI): The purchase of real assets in foreign countries.

Slide: “U.S. Investment Position, Year End 1999”
-stocks of assets that we own abroad (this can be thought of as loans to foreigners or accumulated outward FDI).
-stocks of assets we owe to foreigners (borrowing from foreigners or inward FDI).
Notice: the private sector is nearly balanced, but in the government sector the United States owes more than it owns.
All of this implies that the U.S. is a net debtor (and the main reason for this in the data is the debt of the government sector).

3. Migration

There is relatively little migration.

C. Policies that Affect Others

-there are a vast array of policies used to encourage and restrain interactions between and among nations.