

Solutions Manual to End-of-Chapter Questions

1 Trade in the Global Economy

1. In this question, you are asked to update the numbers for world trade that are shown in Table 1-1. Go to the World Trade Organization’s website at wto.org, and under “Documents, data and resources,” look for “Statistics” and “WTO Data Portal”; you can also find this site directly by going to data.wto.org. In the Indicators menu, choose “International trade statistics,” where you will expand the menu and choose only “Merchandise trade values” and expand it to choose “Merchandise exports by product group and destination – annual (million U.S. dollars).” (*Hint:* You can use the Deselect All button to eliminate choices that you do not want, and then choose only the variables that you do want.) In the menus for Reporting Economy and Partner Economy, choose the following regions: World; Africa; Asia; Australia and New Zealand; Commonwealth of Independent States; Europe; Middle East; North America; and South and Central America and the Caribbean. In the menu for Product/Sector, expand it to choose only “Total Merchandise.” Finally, choose the most recent year for which trade data are available. Then click “Apply” on the right screen to show the values of these trade flows between regions, which you can download to Excel if you wish, and answer the following questions:
 - a. What is the value of World exports to the World? (Even if you choose 2018, you will not get the same total as in Figure 1-2, because the sources of the data are different.)
Answer: \$17.7 trillion as of 2017.

Origin	Destination							
	Africa	Asia	Australia and New Zealand	CIS	Middle East	North America	South & Central America	World
Africa	\$71,976	\$115,012	\$2,542	\$2,134	\$21,106	\$34,111	\$7,798	\$422,023
Asia	\$166,713	\$3,103,534	\$160,008	\$101,912	\$237,353	\$1,115,144	\$157,829	\$6,382,007
Australia and New Zealand	\$3,764	\$213,619	\$13,048	\$393	\$5,337	\$15,361	\$2,394	\$269,206
Commonwealth of Independent States (CIS), including associate and former member States	\$19,458	\$107,407	\$255	\$92,993	\$15,440	\$21,203	\$8,474	\$517,604
Middle East	\$35,054	\$419,945	\$4,647	\$6,396	\$128,673	\$66,588	\$5,862	\$938,634
North America	\$25,604	\$520,396	\$31,513	\$11,748	\$69,227	\$1,190,486	\$174,486	\$2,376,513
South and Central America and the Caribbean	\$15,658	\$180,462	\$2,332	\$6,874	\$17,497	\$132,519	\$131,044	\$585,862
World								\$17,728,520

Data from: WTO, International Trade Statistics 2017.

- b. What is the total amount of trade within Europe? What percentage of total world trade is this?

Answer: The total amount of trade within Europe is \$4,482 billion. This is 25.3% of the total world trade. (The total world trade is \$17,729 billion $\text{Share} = \$4,482/17,729 = 25.3\%$.)

- c. What is the total amount of trade (in either direction) between Europe and North America? Add that to the total trade within Europe, and calculate the percentage of this total to the world total.

Answer: $\$(563 + 382) = \862 billion. Adding that to intra-European trade, we obtain 31% of the world total [$\$(862 + 4,482)/\$17,729 = 31\%$].

- d. What is the total amount of trade within the Americas (i.e., between North America, Central America, South America, and within each of these regions)? What percentage of total world trade is this?

Answer: $\$(133 + 131 + 1,190 + 174) = \$1,628$ billion, or 9.2% of the world total ($\$1,628/17,729 = 9.2\%$).

- e. What is the total value of exports from Europe and the Americas, and what percentage of the world total is this?

Answer: $\$(586 + 2,377 + 6,506) = \$9,469$ billion, or 53.4% of the world total ($\$9,469/17,729 = 53.4\%$).

- f. What is the total value of exports from Asia, and what percentage of the world total is this?

Answer: \$6,382 billion, which is 36.0% of the world total.

- g. What is the total value of exports from the Middle East and the Commonwealth of Independent States¹⁴, and what percentage of the world total is this?

Answer: $\$(939 + 518) = \$1,457$ billion, which is 8.2% of the world total ($\$1,457/17,729 = 8.2\%$).

- h. What is the total value of exports from Africa, and what percentage of the world total is this?

Answer: \$422 billion, which is 2.4% of the world total.

- i. How do your answers to (b) through (h) compare with the shares of worldwide trade shown in Table 1-1?

Answer: The shares computed in (b) through (h) are quite similar to Table 1-1. The numbers won't change much, as they are one year apart.

¹⁴The Commonwealth of Independent States consists of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

2. The quotation from former Federal Reserve chairman Ben Bernanke at the beginning of the chapter is from a speech that he delivered in Jackson Hole, Wyoming, on August 25, 2006, titled “Global Economic Integration: What’s New and What’s Not?” The full transcript of the speech is available at

<https://www.federalreserve.gov/newsevents/speech/bernanke20060825a.htm>. Read this speech and answer the following questions:

- a. List three ways in which international trade today does not differ from the trade that occurred before World War I.

Answer:

- i) Physical distance is the same.
- ii) New transportation methods allow for more trade.
- iii) Governments foster open trade, as well as financial flows.
- iv) Some groups are opposed to free trade.
- v) The range of goods that are tradable has broadened.

- b. List three ways in which international trade today differs from the trade that occurred before World War I.

Answer:

- i) Intra-industry trade has increased.
- ii) Information and communication technologies permit trade in services.
- iii) Scale and pace of growth in trade is faster.
- iv) Core-periphery pattern is no longer relevant.
- v) Fragmentation of production processes has occurred.
- vi) Capital markets are more mature, and gross flows are larger.

3. Explain what each of the following terms means, and describe one example from this chapter in which each term is used.

- a. Bilateral trade balance

Answer: Bilateral trade balance is the difference between exports and imports between two countries. For example, the U.S. bilateral trade balance with China has a deficit of more than \$200 billion, which means that the value of exports from the United States to China is less than the value imported from China by more than \$200 billion.

- b. Trade embargo

Answer: A trade embargo involves eliminating trade with a particular country or a group of countries. For example, Cuba has been completely cut off from trade with the United States since the embargo was placed in 1961.

- c. Free-trade area

Answer: A free-trade area is a group of countries that do not have any import tariffs or quotas for trade between them. Some examples of free-trade areas include the North American Free Trade Agreement (NAFTA), Trans-Pacific Partnership (TPP), and Transatlantic Trade and Investment Partnership (TTIP).

d. Import quota

Answer: An import quota is a type of trade restriction that limits the quantity of a good that can be imported. For example, the Multifibre Arrangement (MFA) restricted the amount of nearly every textile and apparel product that was imported to Canada, European countries, and the United States from China. MFA began in 1974 and was abolished in 2005.

e. Offshoring

Answer: Offshoring refers to relocating a business process, such as a manufacturing process or service process, from one country to another. For example, the increased trade share of capital and consumer goods could be related to offshoring production processes overseas nowadays.

f. Trade war

Answer: Trade war refers to when a country increases tariffs as a way to retaliate against the actions of another country. For example, President Trump imposed higher tariffs against imports from China in July 2018. In response, China also applied tariffs against imports from the United States. From July 2018 to December 2019, the average tariff rate against China went up from 4% to 21%, while the tariff rate against the United States rose from 7% to 21%.

4. Find online press reports dealing with immigration issues in Europe and in the United States. Summarize the issues being discussed in each case.

Answer: This is an open question. See below for one example of immigration issues in Europe and the United States.

Given the aging population in the European Union (EU) and the fact that the number of asylum seekers is sharply increasing, a hot discussion among politicians and scholars is whether government should return to selective immigration. Compared to Europe, the United States has tended to take only small numbers of asylum seekers, relative to each area's population. But the United States has a more liberal immigration regime. Immigration in the United States is embraced more warmly by the free market right than trade union left. Immigrants contribute to innovation and do many jobs that native workers refuse.

(OECD Observer:

http://www.oecdobserver.org/news/archivestory.php/aid/337/Immigration_in_the_European_Union:_problem_or_solution_.html)

5. If you watch the Netflix film American Factory, answer the following questions:

- a.** What is the very first scene of the movie? Did that scene surprise you, and why? Later, are there any scenes that occur in China that surprise you, and why?
- b.** In the middle of the movie, a new Chinese manager starts at the plant. What personal story does he tell about himself as one reason for him to be the manager?

- c. What hourly wages were paid to the workers in the General Motors plant before it closed? What wages are paid to workers in the Fuyao Glass America plant when it first opens? Later, by how much do wages increase? What reason does the boss give for the wage increase? What is another reason (that is not said) for the wage increase?
- d. During the movie, a person is escorted out of the plant for walking through with a sign to promote a workers' union. When he is interviewed outside, he says, "Sometimes, you gotta be Sally Field." What is he talking about? (*Hint: Look up the 1979 movie Norma Rae.*)
- e. About how many Chinese workers and how many American workers are employed in the plant in 2018?
- f. Was the Fuyao Glass America plant profitable in the first year that it opened? Is the plant profitable when the movie ends, in 2018? Why did this change occur?
- g. Is there any American worker or manager that you admire in the movie, and why?
- h. Is there any Chinese worker or manager that you admire in the movie, and why?
Answer: Answer the questions if you watch the documentary.