

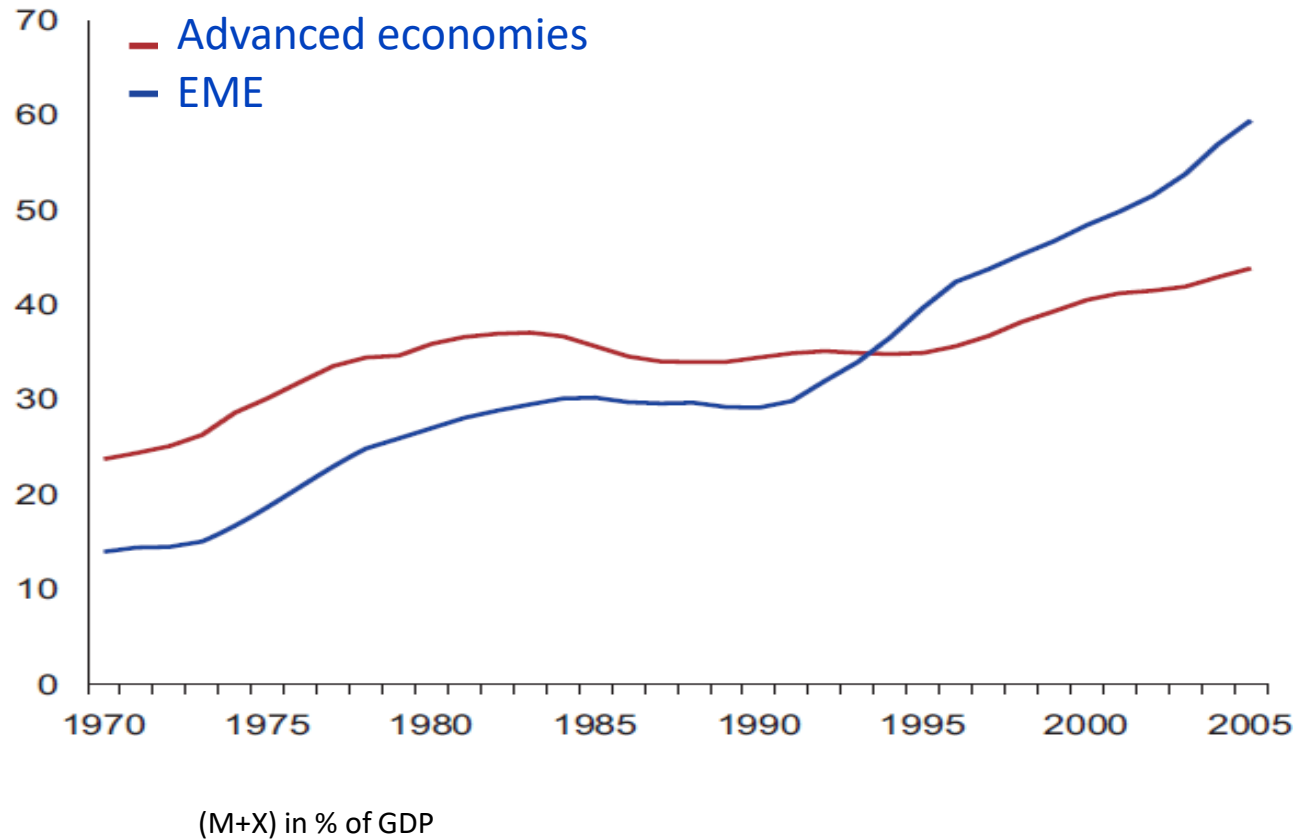
SEMINAR IN EUROPEAN ECONOMICS

GLOBALIZATION AND TRADE PATTERNS

PRACTICAL CLASS 8

2024-2025 S2

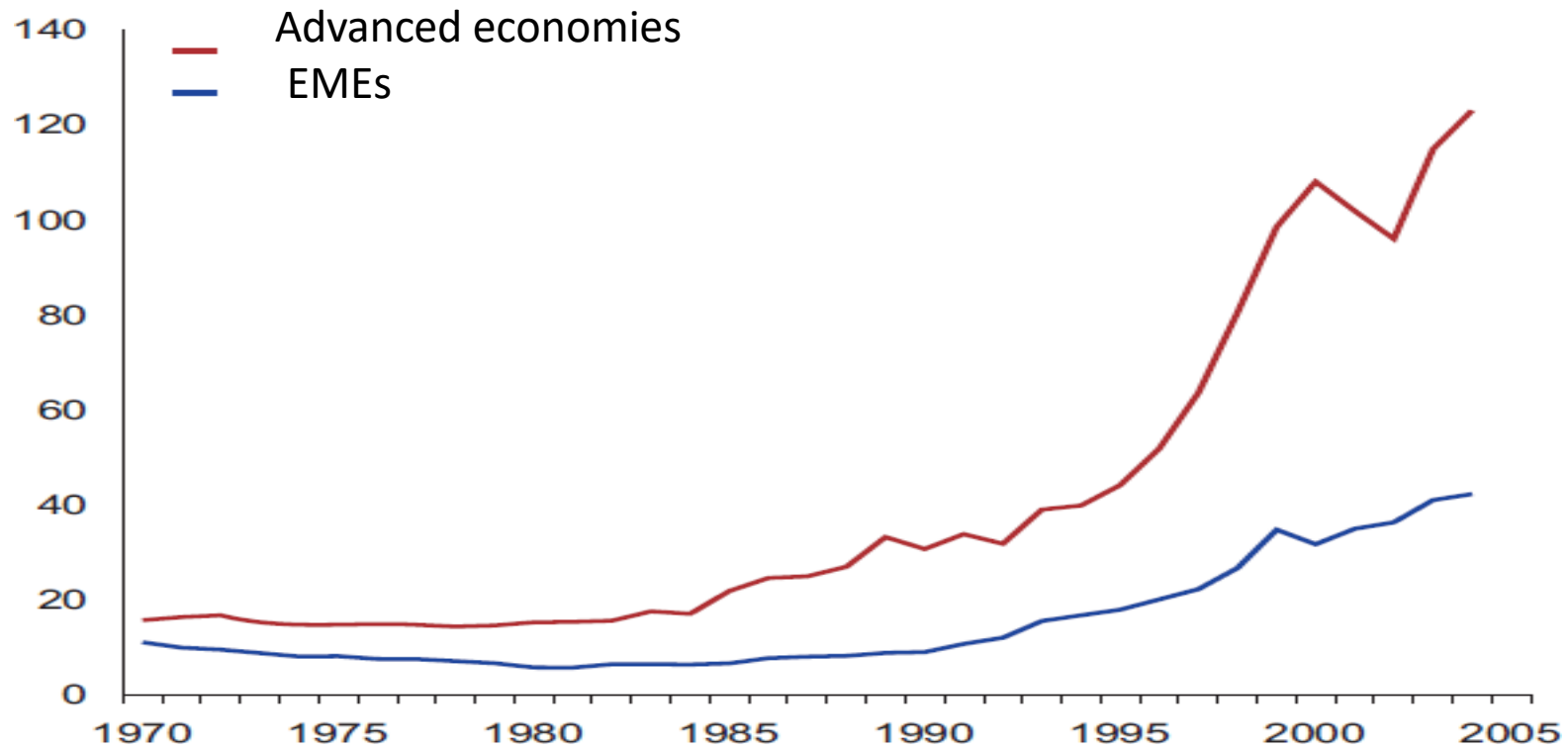
90s RECENT WAVE OF GLOBALIZATION – TRADE OPENESS



Main determinants:

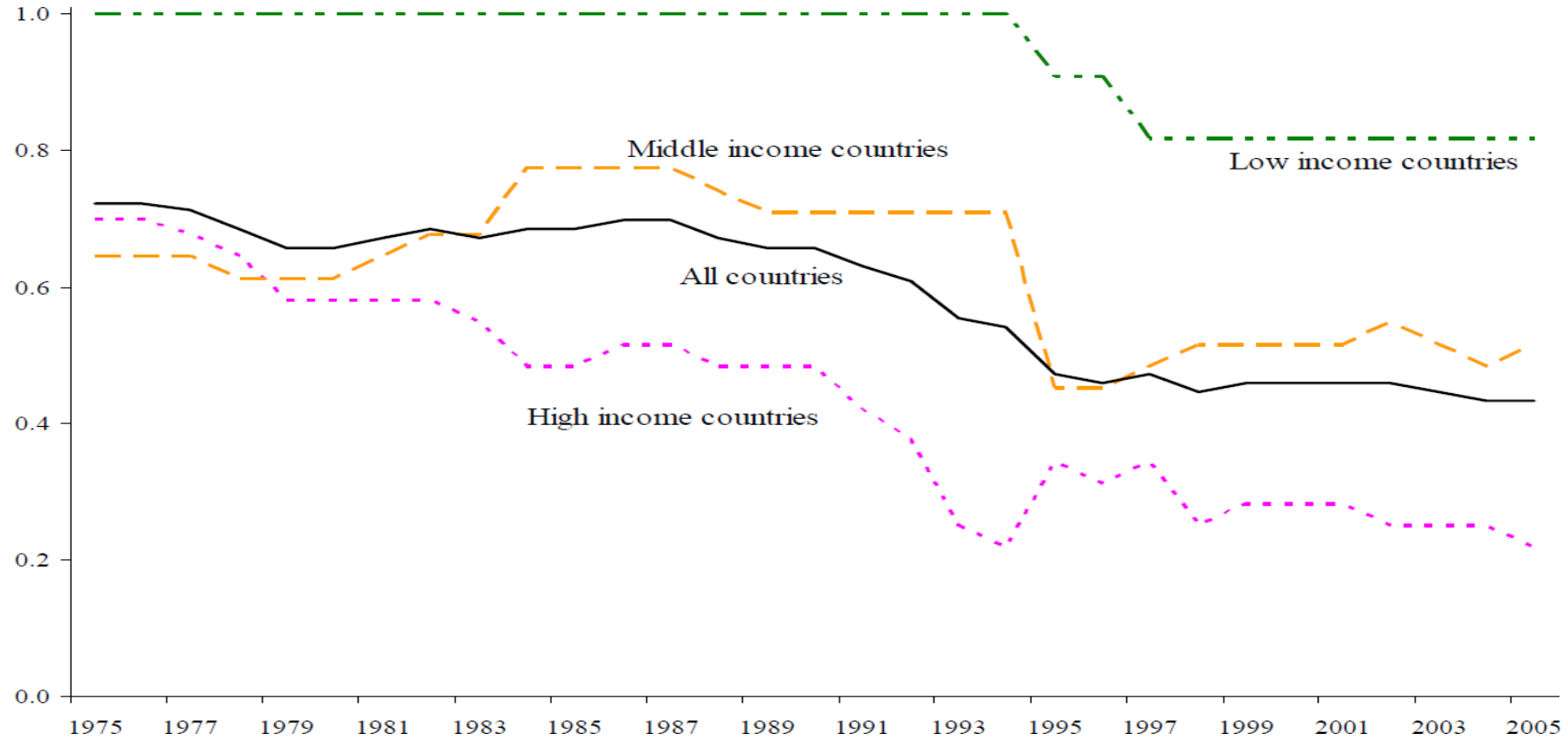
- Greater integration of EME in world trade:
- Economic liberalization
- Financial liberalization
- Lower transport and communication costs

FINANCIAL OPENESS



Stocks of liabilities of and from foreign countries (FDI and portfolio investment) as % of GDP

FINANCIAL REGULATION INDEX:

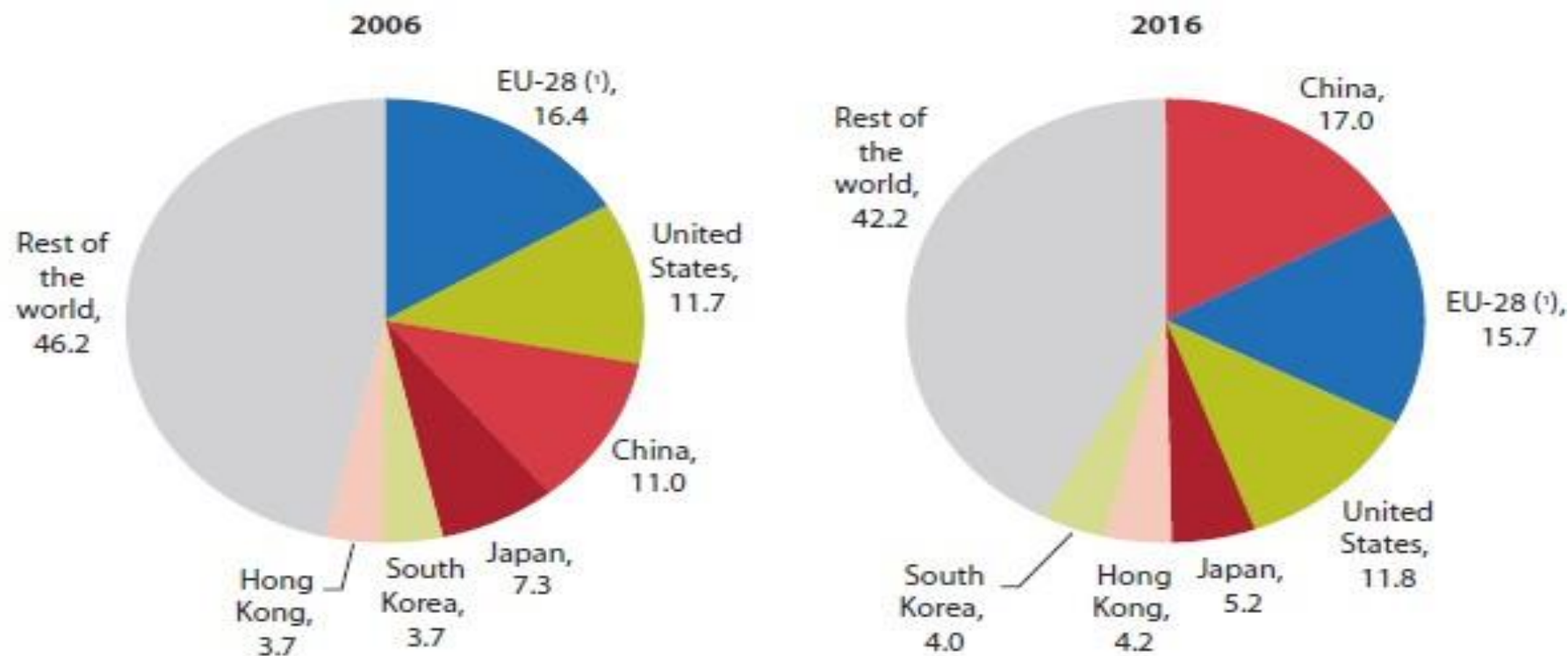


POTENTIAL BENEFITS

- Better allocation of resources (K, L and goods and services)
- Gains from comparative advantages
- Economies of scale
-

Structural changes: main players

Figure 1.8: World exports of goods, selected countries, 2006 and 2016
(% of total)

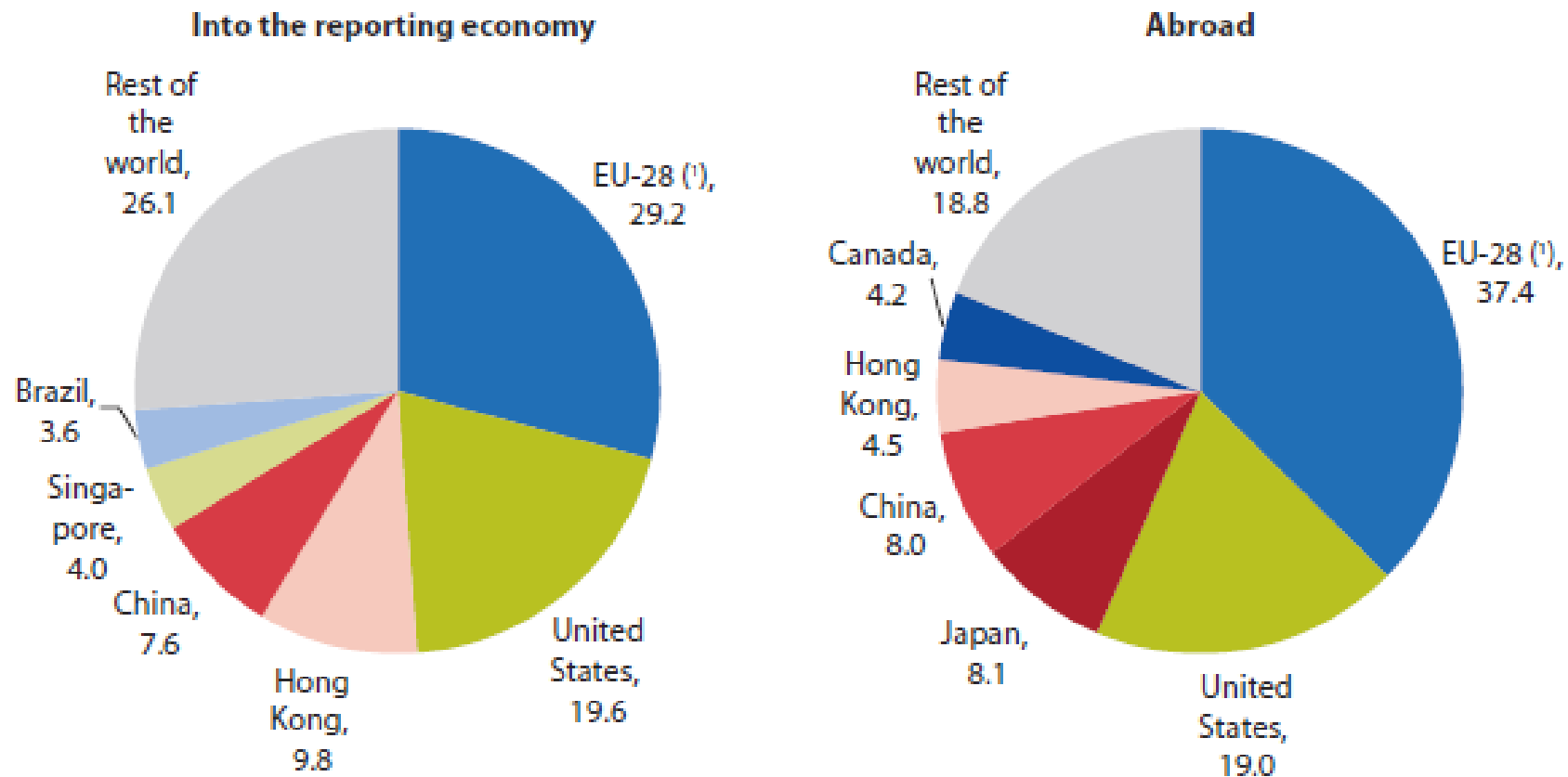


Note: the figure shows the top six countries/geographic aggregates with the highest values for exports of goods in 2016. The total value of exports for the world excludes intra-EU trade.

(*) Extra-EU trade.

Source: Eurostat (online data code: [ext_it_intrale](#)), United Nations (Comtrade) and International Monetary Fund (Direction of Trade Statistics)

Figure 1.17: World flows of foreign direct investment, 2015
(% of total)

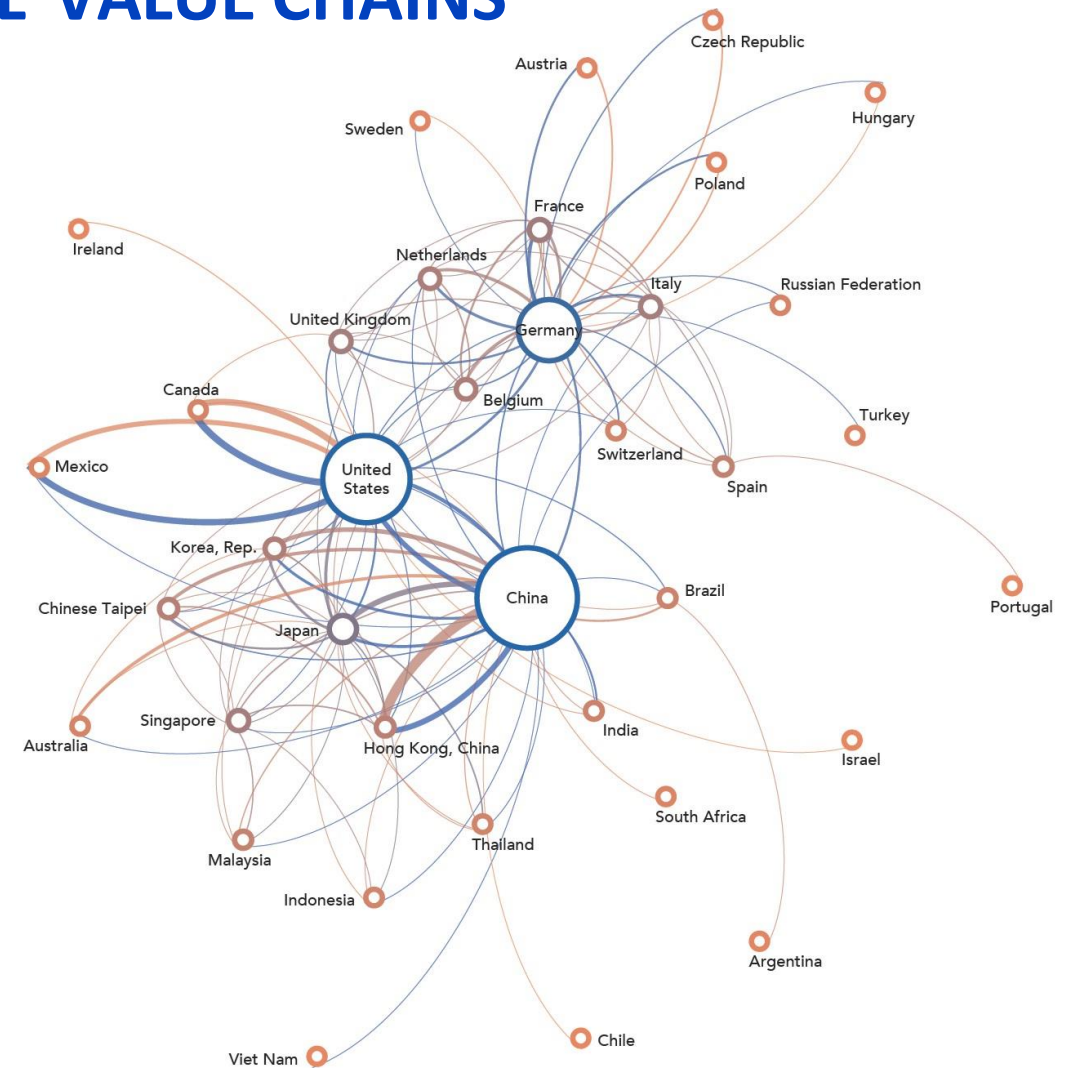
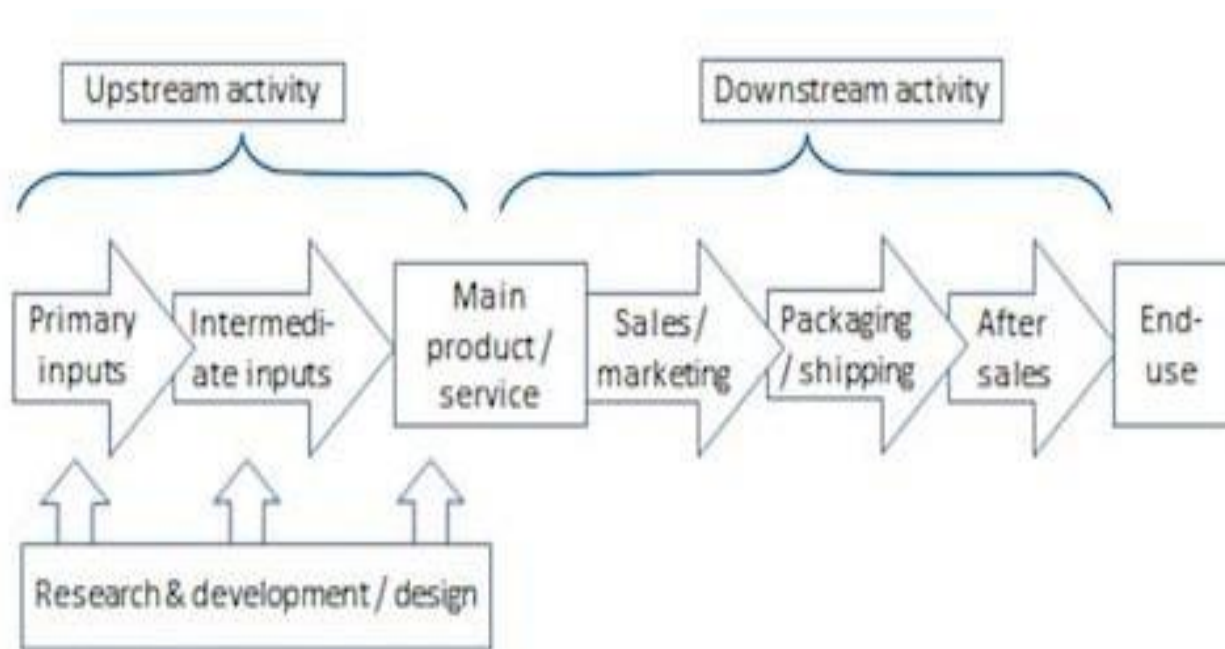


Note: the figure shows the top six countries/geographic aggregates with the highest values of Inward and outward Investment. Excludes offshore financial centres in the Caribbean.

(¹) Extra-EU trade. Includes special purpose entities (SPEs).

Source: Eurostat (online data code: [bop_fdi6_flow](#)) and UNCTAD (FDI/MNE database)

INCREASED RELIANCE OF TRADE ON GLOBAL VALUE CHAINS

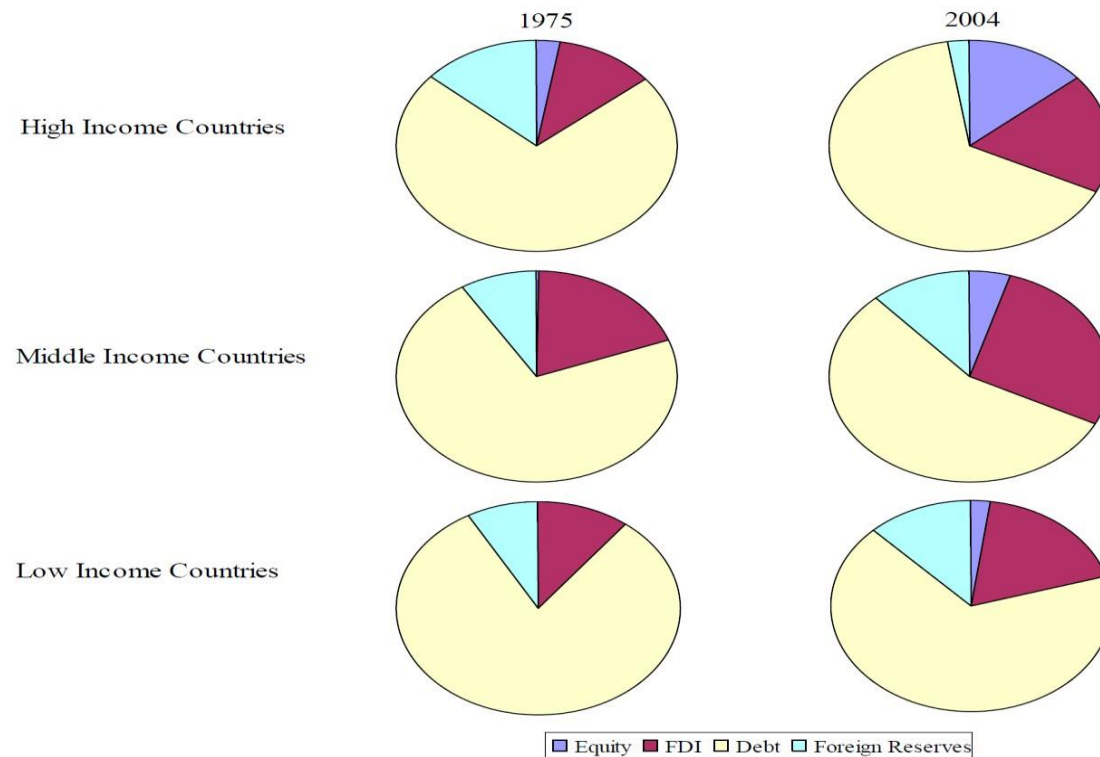


Source: Diakantoni and others 2017, based on the UN Comtrade database (<https://comtrade.un.org>).

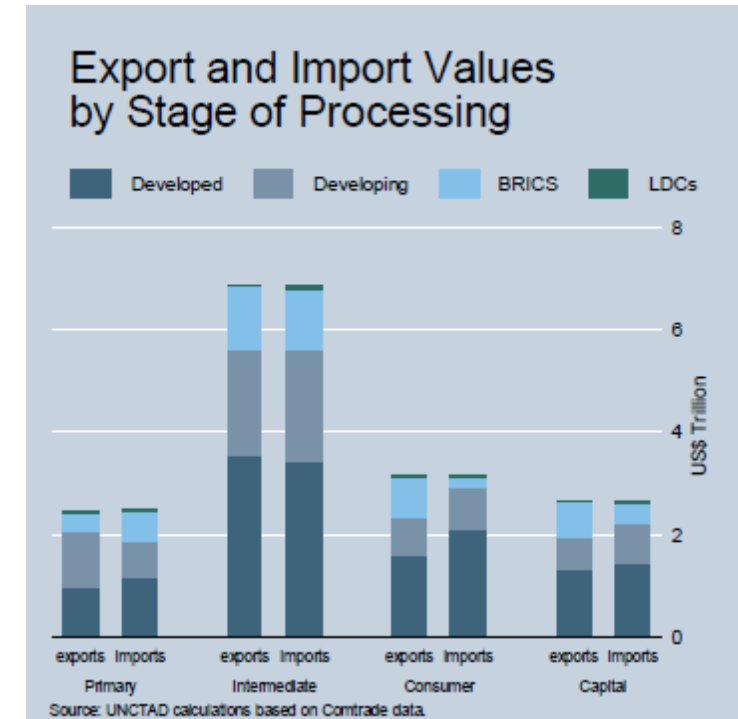
Note: Includes the 61 economies in the Organisation for Economic Co-operation and Development–World Trade Organization Trade in Value-Added database and their most important bilateral gross trade flows. The color of the nodes (and their export flows) is from blue to red, blue indicating the highest degree of centrality.

GVC CAN AFFECT THE COMPOSITION OF CAPITAL FLOWS AND TRADE

Figure 2. Composition of Gross External Assets and Liabilities, 1975 and 2004



Source: Lane and Milesi-Ferretti (2006).



GVC CAN BLUR THE MEASUREMENT OF BILATERAL TRADE BALANCES

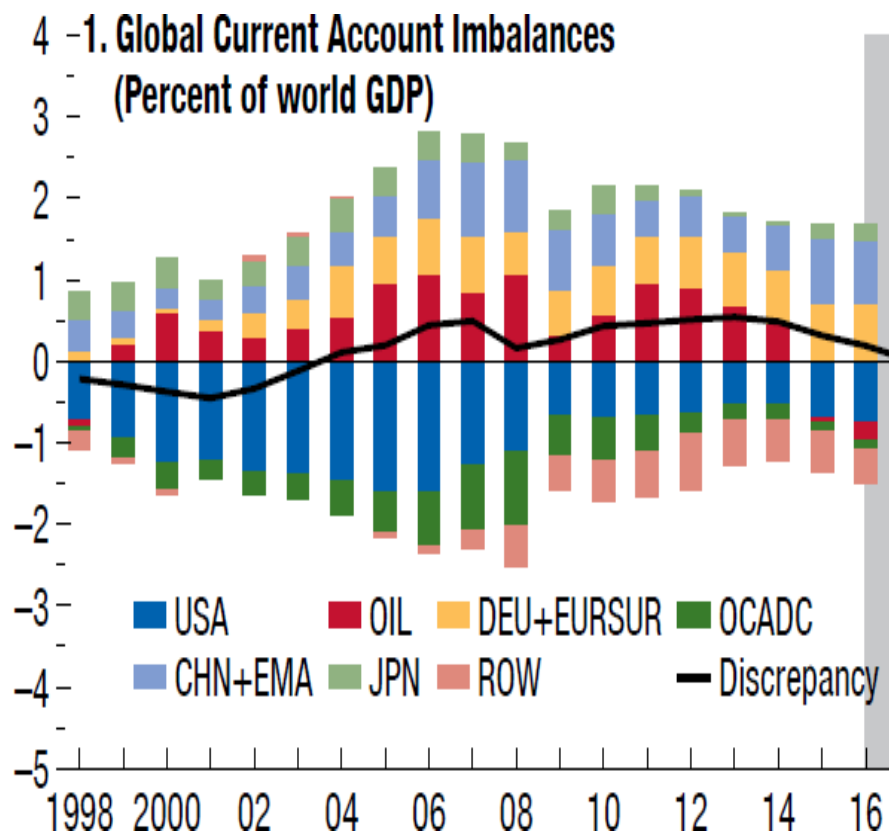
Country of origin concept: the value of an imported good does not necessarily fully originate from the geographical origin mentioned in custom documents.

2009 US trade balance in iPhones (million dollars)

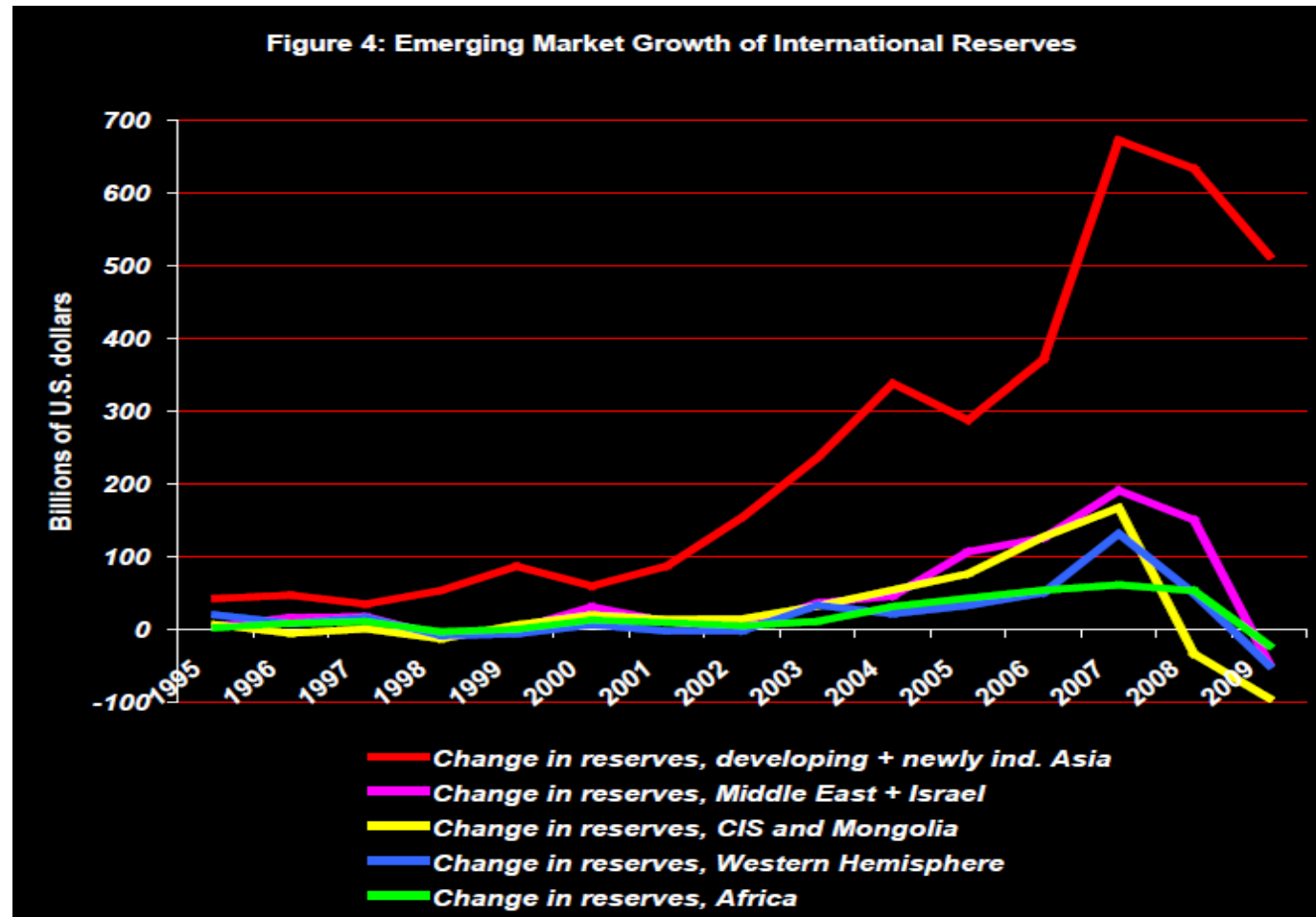
	China	Japan	Korea, Rep. of	Germany	Rest of world	World
Traditional measure	-1,901.2	0	0	0	0	-1,901.2
Value added measure	-73.5	-684.8	-259.4	-340.7	-542.8	-1,901.2

Source: *Miroudot, S., Global Forum on Trade Statistics, 2-4 April 2011*

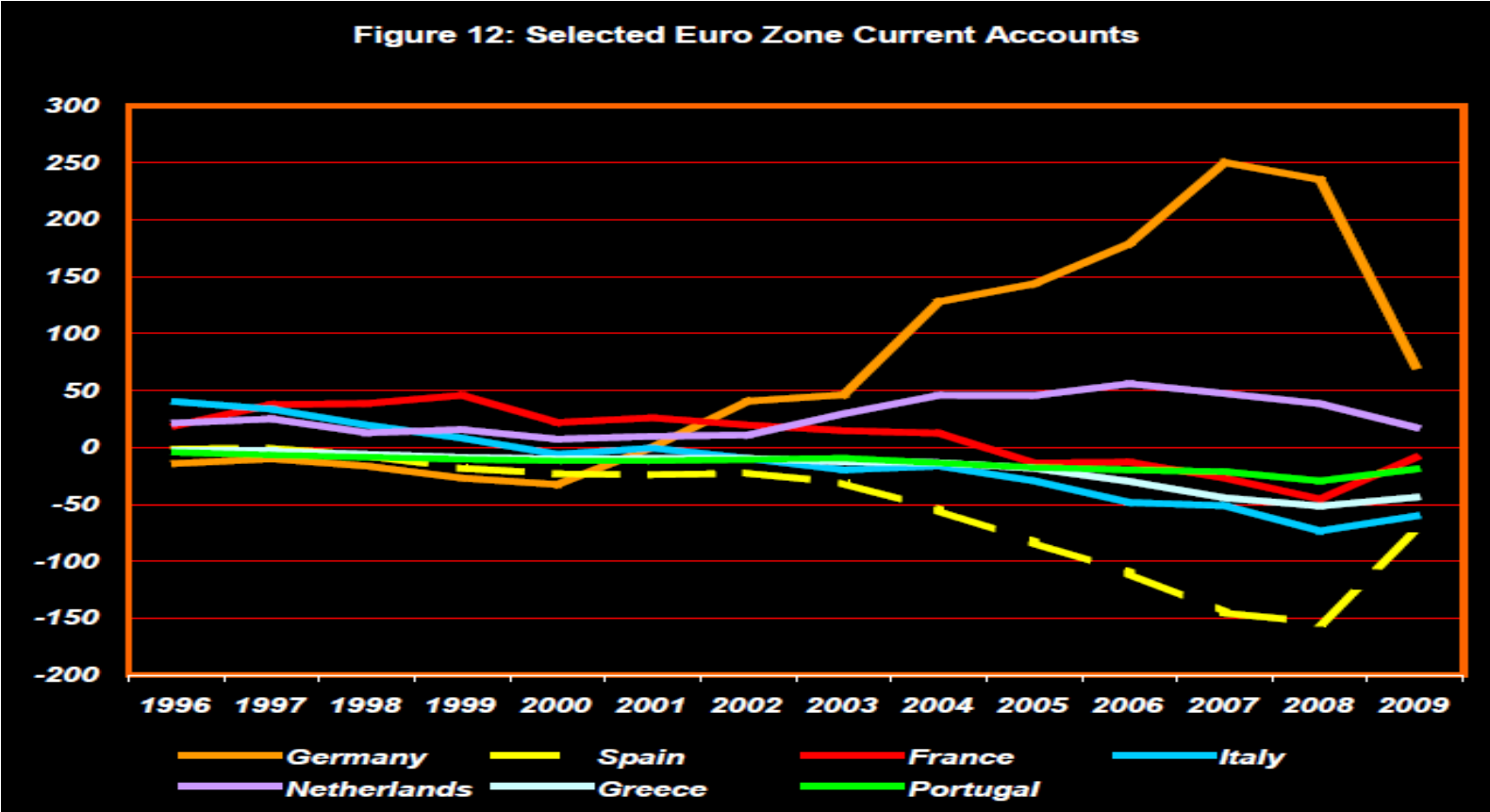
GLOBALIZATION CAN BE ACCOMPANIED BY GLOBAL IMBALANCES



EURSUR = Other european countries with surplus
OCADC = other european countries with deficits



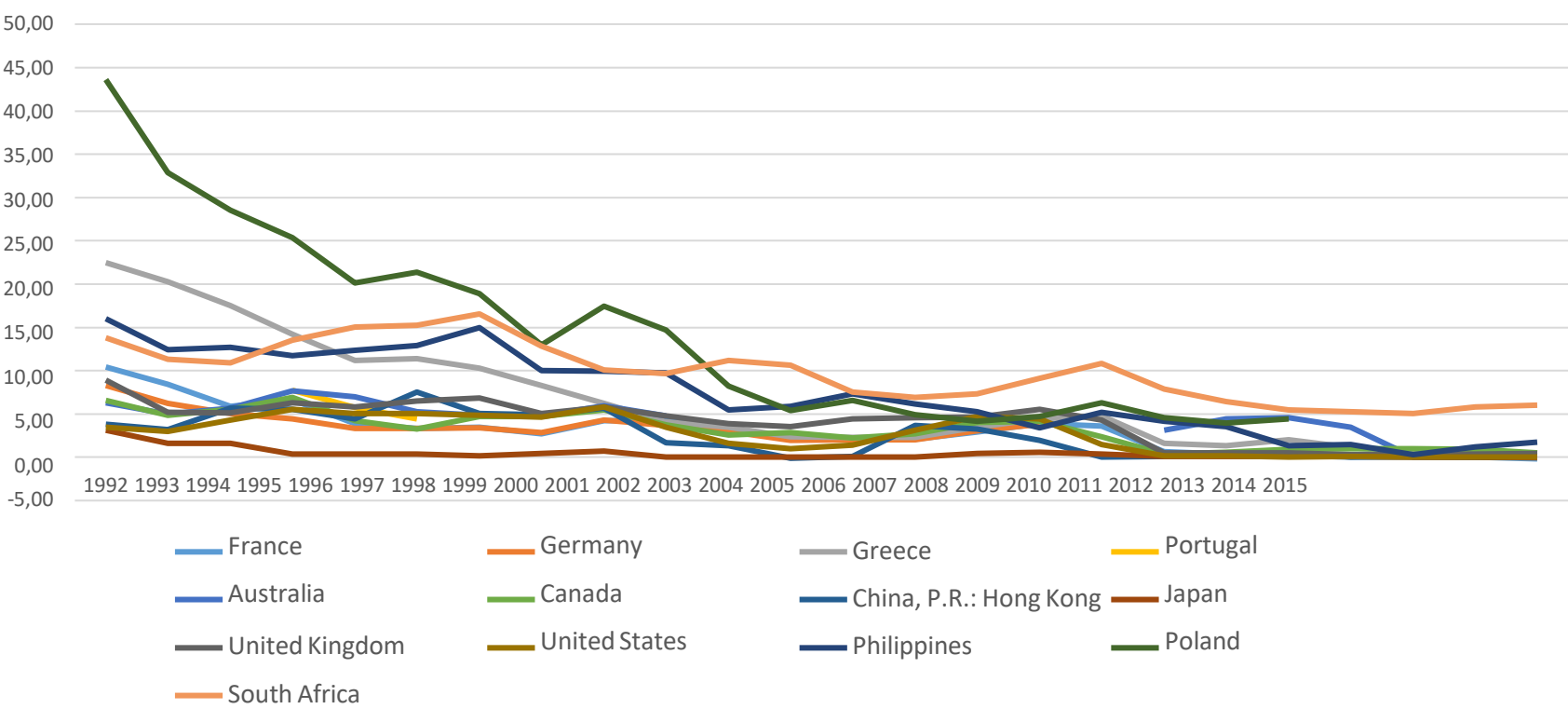
EU IMBALANCES



GLOBALIZATION CAN CONTRIBUTE TO HARMONIZATION OF PRICES

more visible in capital than in labour or trade

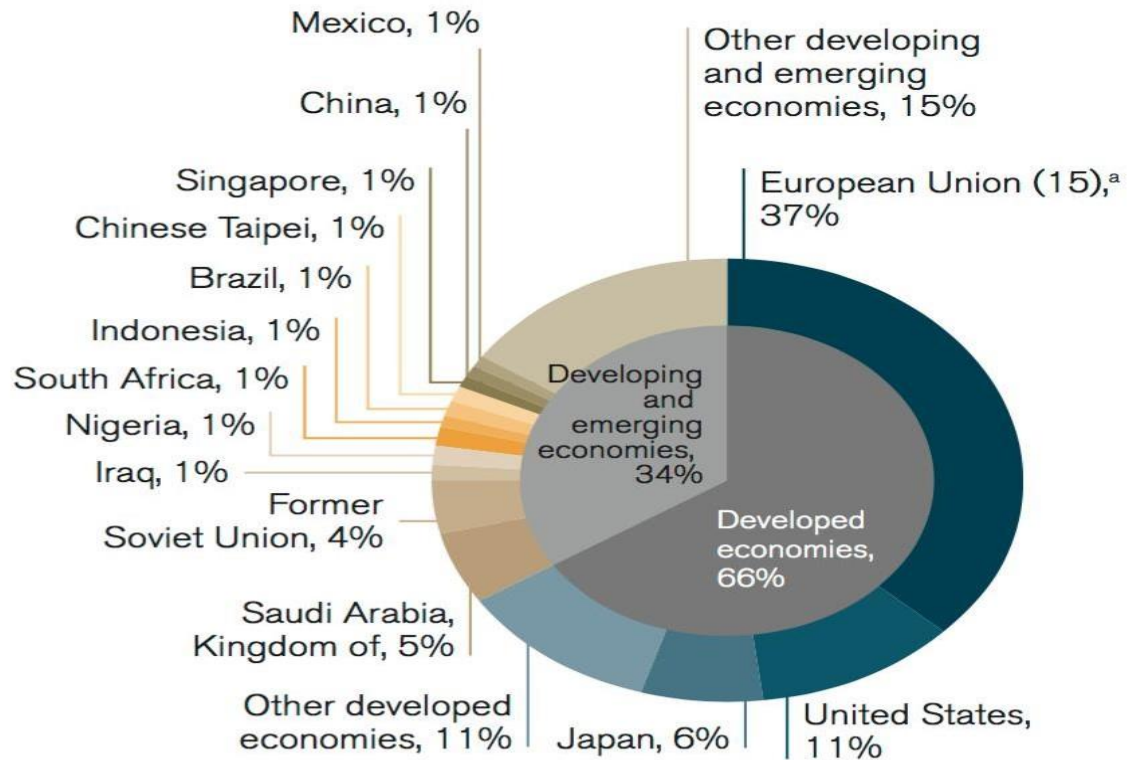
Interest rates: government bonds



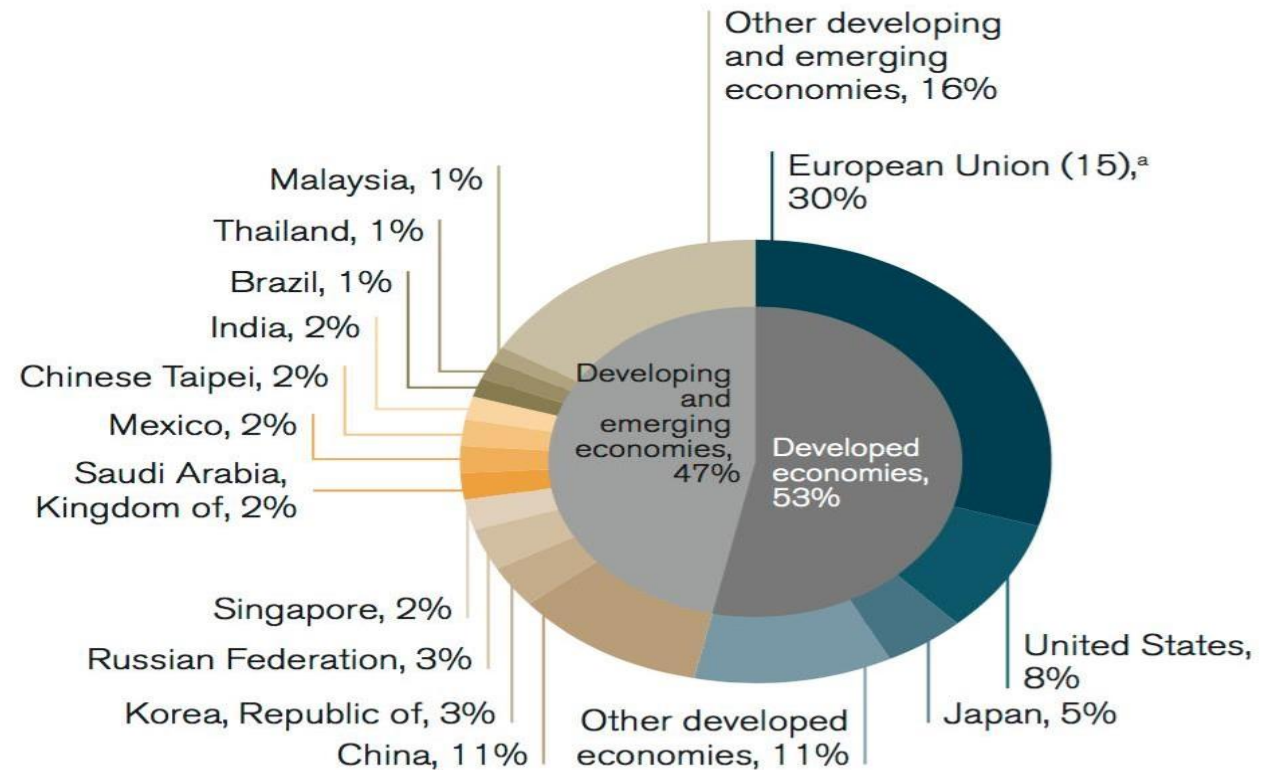
OLD PLAYERS AND... DEVELOPING ECONOMIES

Shares of selected economies in world merchandise exports
by level of development, 1980-2011 (percentage)

1980



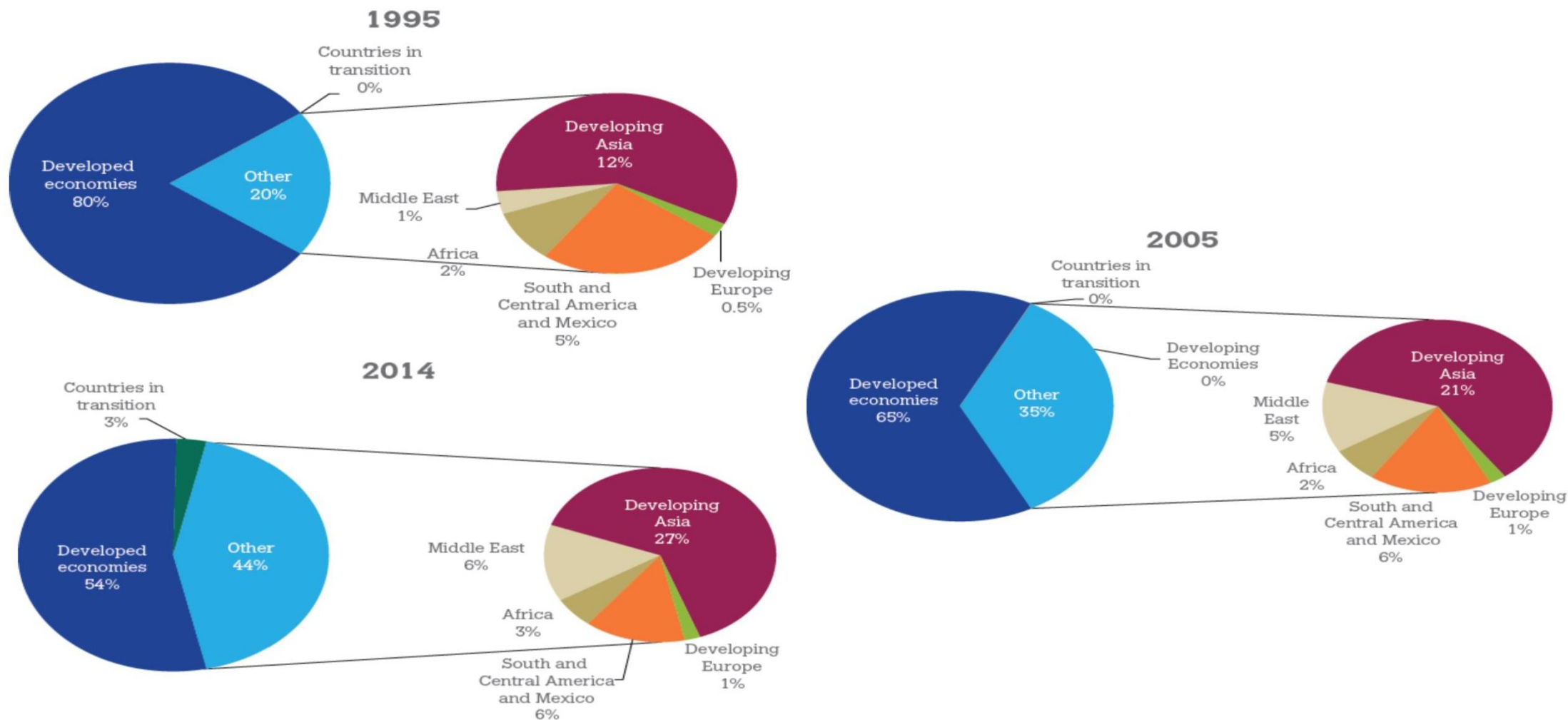
2011



^a Includes intra-EU trade.

OLD PLAYERS AND... ASIA

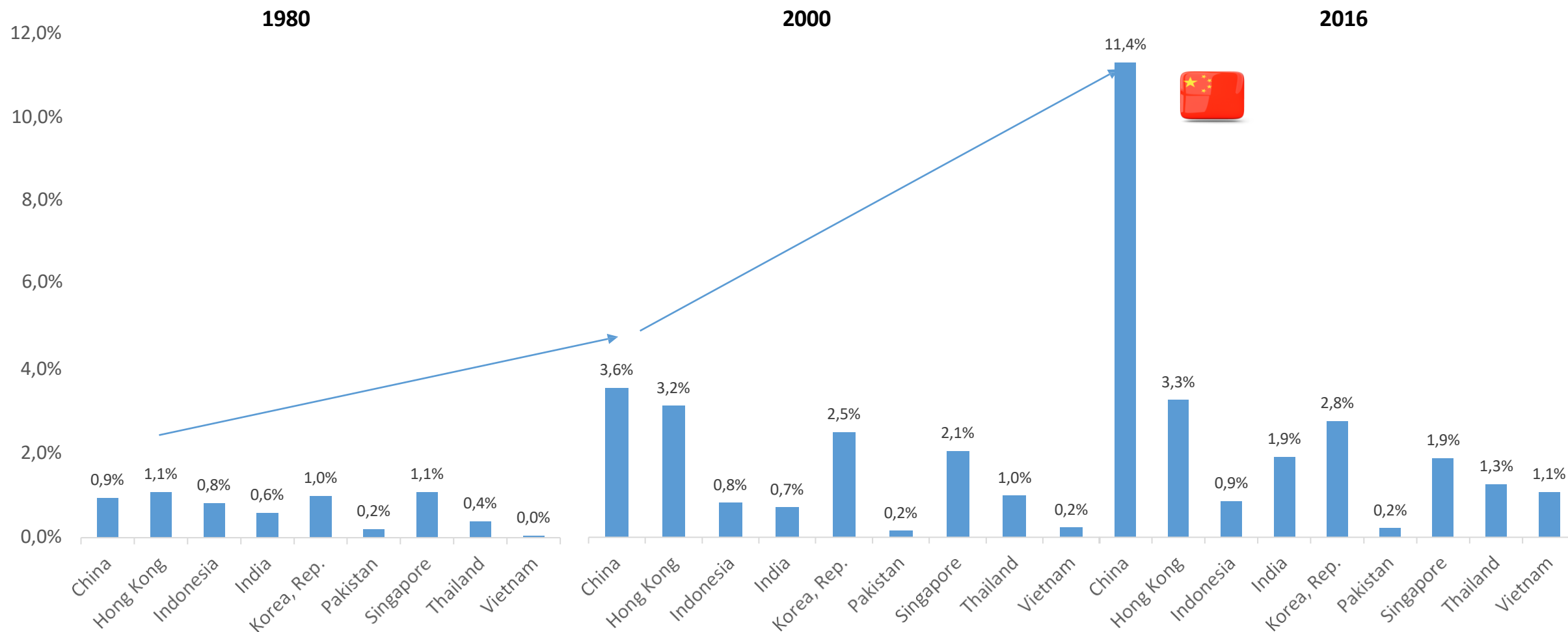
WTO Members Merchandise Trade



Source: WTO, 2018.

OLD PLAYERS AND... CHINA

Selected WTO Members Merchandise Trade (% global trade)



Source: The World Bank, 2017.

USEFUL READINGS

- <http://voxeu.org/article/age-global-value-chains>
- <http://voxeu.org/content/age-global-value-chains-maps-and-policy-issues>

Exam 17th January 2017

A strong protectionist rhetoric has recently erupted in several EU member countries and abroad.

a. Briefly characterize the existing paradigm for the international organization of production.

Global value chains (GVCs) stand as the paradigm for production. Production is fragmented along different locations and the final value of the good/services results from value added in each stage.

b. What are the impacts of this reality in economic indicators and how does it impact on the EU integration project?

The analysis and the indicators based on gross trade flows should be replaced by flows of value added. For example, exports embody a large share of foreign value added. In addition, bilateral trade balances are not informative. Moreover, GVCs increase the interdependence between economies and resilience to shocks becomes a major concern.

GVCs have a regional character, thus they have led to deeper integration in the EU. However, tensions may arise because countries are placed in different segments of the chain (with different value-added creation), thus external imbalances may arise and persist.

Exam 17th January 2017

c. Comparing with EU countries, China was a latecomer to the world trade system but caught up fast. What are its strong points and challenges?

China shows as main strong points the still relatively low labor costs, the growing internal market, the open attitude towards foreign trade and investment and improving infrastructure.

As for main challenges, the high private indebtedness, the environmental conditions and the inefficiency in the allocation of resources, can be referred.

Exam 29th June 2018

The recent wave of financial globalization has been characterized by a significant increase in the volume of capital flows at the world level and by a greater predominance of foreign direct investment in the composition of capital flows.

a. What explains the greater predominance of foreign direct investment?

International capital flows have increased for several reasons. Technological progress and lower administrative barriers (transports) make it easier to invest on foreign markets.

In addition, the implementation of a fragmented production process (global value chains) requires substantial FDI, which is also part of capital flows.

Moreover, the existence of global foreign account imbalances prompts capital flows from surplus to deficit countries.

Exam 29th June 2018

b. What are the main advantages and disadvantages associated with financial liberalization?

On the one hand, capital flows offer an opportunity to diversify risk and make it possible for countries to access finance for productive investment, thus promoting growth.

On the other hand, strong capital flows risk creating speculative bubbles (overvaluation of asset process), who's burst leads to the fast propagation of shocks across countries.

c. How can countries better reap the benefits of financial liberalization?

Countries should put in place capable financial supervision systems (including macro prudential policies) and maintain a stable macroeconomic situation (reduced imbalances).

Moreover, the creation of conditions for productive investment projects to emerge, instead of those associated with economic rents, is key. This involves adequate regulation of product and labour markets.

Exam 25th May 2019

The latest wave of globalization changed the nature of international trade and the main determinants of competitiveness.

a) How do you characterize the main changes in the organization of international trade over the last decades?

- **Financial liberalization lead to a progressive higher weight of the emerging economies**
- **The trade production changed to a global value chain organization, with greater importance of intermediate goods**
- **Imbalance from blocs like US in relation to eastern Asian countries**

b) How do these changes challenge the competitiveness of EU countries and specific segments of workers in the labour market?

- **Movement of low value-added activities from high wages areas, to locations with lower unit labour costs**
- **Workers with higher skills have been less affected**
- **This leads to a higher level of inequality in traditional western economies**

Exam 25th May 2019

c) How would you suggest these challenges to be addressed?

- **Greater copyrights and patent laws**
- **Training and conversion of low skilled workers**
- **Investment in new technology**
- **Redistribution policies**

Resit exam – 17h June 2019

The world trade is under pressure due to strong protectionist tensions between the US and China.

a) Are protectionist tensions between US and China likely to affect the EU economy? Why?

- **In the age of global value chains, the production is fragmented all over the world**
- **Then disturbances in these two countries spread across the network of production**
- **Given the level of trade integration, these effects are today higher than before**

b) What have been the drivers of international trade growth and are they likely to continue?

- **Technological evolution**
- **Political openness to trade**
- **FDI flows**
- **COVID will change something? => Reduce GVCs?**

c) Which policies would you suggest to European countries in order to improve their external performance?

- **External performance is related with flexibility and innovation.**
- **For this outcome a skilled labour force is key.**
- **This should be the priority for EU countries. Moreover, EU countries should consistently pursue a broad structural reform agenda.**

Resit Exam – 7th January 2021

2 c) How does globalization shape the impact and the consequences of the current pandemic crisis?

Under the global value chains world, when some particular region is hit, this shock easily propagates across the world, since if one step of the production process is affected, all the other chains will be affected sequentially.

Under the current pandemic, with many different regions in economic lockdown, this effect has been witnessed. A denser network would bring resilience to shocks but when central nodes are hit the entire network may collapse.

Pre-existing protectionist trends associated with the power struggle between the US and China have aggravated in the current context of foreseeable recession. In this context, firms are reshoring some activities (automating them at home).

Also, services trade will amplify after the pandemic with stronger use of information and communication technologies.

Regular Exam – December 2022

The EU project has embodied the spirit of multilateralism, which contributed to economic globalization in the last decades.

a) What has characterized economic globalization, and how has the EU contributed to it?

Globalization is characterized by larger trade, larger international capital flows, and stronger movement of workers. In addition, the paradigm of production is the fragmentation of the production chain, with strong international trade of parts and components. This process is accompanied by strong FDI flows typically managed by multinational corporations that operate the global value chains.

As a “single market” (described by the prevalence of four main freedoms, goods, services, capital, and labour) the EU has strongly contributed to this process. In its essence the EU is a trade agreement (a customs union) that has deepened and contributed to globalization. The EU enlargements and its cooperative stance in terms of trade policy have also shown the spirit of multilateralism that underlies globalization. The enhances interdependencies that come with globalization are quite visible in the EU.

b) How is economic globalization evolving, and what are the main forces shaping its future?

Nowadays, globalization has stagnated, mostly due to higher political and economic barriers, notably tariffs. The urge to increase autonomy from foreign suppliers is an example. The gains from lower transport costs have probably been exhausted. These are features related with goods trade. However, technological progress is boosting the international trade of services (AI, 3D printing, customization). Climate change and the pricing of emissions, as well as populist trends and geopolitical competition will probably affect trade pattern in the next decades.

c) How does globalization interplay with competition and labour market policies in the EU?

Globalization puts a premium on highly skilled workers (at upstream and downstream tasks in the production chain, i.e., the smile curve on the distribution of value added along the production chain) and hurts blue-collar workers. This has caused changes in labour markets and increased inequality that also led to social tensions. The increased international competition in services markets, which is expected to materialize as this type of trade evolves, is likely to increase pressures in the labour market of advanced economies. To ease these tensions, which also fuel populism and anti-EU ideas, since there is an overall net gain from trade, redistribution towards losers should be activated.