Data Resources for Covering Trade

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What do these countries have in common?

- China
- Morocco
- Sri Lanka
- Colombia
- Lesotho
- India
- Turkey
- Bangladesh
- Cambodia
- Mexico
And the answer is....

- All ten countries supply clothing to U.S. discount clothing retailer Old Navy

- Old Navy sources its products from around 50 countries

- Men’s T-shirt for US$5.00 (down from US$8.00 in 2016)

- Old Navy sold US$7.24 billion in merchandise in FY 2017 (+6.2% YoY)

Sources: Gap Inc. FY2017 results, Old Navy Web site
Comparative advantage

“The producer who gives up less of other goods to produce [a particular good] has the smaller opportunity cost of producing [that particular good] and is said to have a comparative advantage in producing it.”

– N. Gregory Mankiw, Principles of Economics
The value of global exports
Time series of value of world exports at constant prices, relative to 1913 (i.e. values correspond to world export volumes indexed at 1913=100)

Source: Federico and Tena-Junguito (2016)
World GDP in current USD

Source: World Bank national accounts data, OECD data
Measuring Trade
TRADE BALANCE

Merchandise (goods) Trade Balance
Services Trade Balance
Exports > Imports = Trade Surplus
$\text{Imports} > \text{Exports} = \text{Trade Deficit}$
Gross Domestic Product

- Total value of goods & services produced within a country’s borders
- Typically measured using the *expenditure* method: adding up the country’s spending on final goods & services

\[
\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government Spending} + (\text{Exports} - \text{Imports})
\]
Effects of trade on an exporting country

<table>
<thead>
<tr>
<th></th>
<th>Price of Textiles</th>
<th>Domestic Demand</th>
<th>Domestic Supply</th>
<th>Quantity of Textiles</th>
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<tbody>
<tr>
<td>Before Trade</td>
<td>Price before Trade</td>
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<td>After Trade</td>
<td>Price after Trade</td>
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<td>World price</td>
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<td>World price</td>
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Exports

Consumer Surplus
Effects of trade on an importing country

- Price of Textiles
- Domestic Supply
- Domestic Demand
- World price
- Quantity of Textiles
- Price before Trade
- Price after Trade
- Consumer Surplus
- Imports
Free trade: winners

- Domestic consumers in importing countries
- Domestic producers in exporting countries
Free trade: losers

- Domestic consumers in exporting countries
- Domestic producers in importing countries
Other benefits of trade

- Overall economic well-being increases
  - But not for everyone
- Variety of available goods increases
- Increased competition
- Enhanced flow of ideas
Arguments against trade

- Eliminates jobs
- Endangers national security
- Harms developing industries
- Unfair competition (dumping)
Government trade policies

- Trade barriers
- Trade subsidies
- Free-trade agreements (to lower barriers & subsidies)
  - Global (e.g. World Trade Organization negotiations)
  - Multi-lateral (e.g. North American Free Trade Agreement, Trans-Pacific Partnership)
Trade barriers: the obvious ones

- Tariffs
- Licenses
- Quotas
- Subsidies
- Content requirements
- Embargo
Effects of a tariff

Consumer Surplus

Price of Textiles

Price without Trade

Price after Tariff

Domestic Supply

World price

Domestic Demand

Imports

Imports

Quantity of Textiles

Producer Surplus

Producer Surplus

Tariff

Imports

Consumer Surplus

Producer Surplus
Trade subsidies

- The U.S. paid domestic farmers $322.7 billion in subsidies from 1995-2014, including more than $16 billion in 2014

- The top 1% of recipients got 26% of payments (1995-2014)

- Riceland Foods Inc. got $554.3 million (1995-2014)

- The E.U.’s support for agriculture, fisheries and rural development totaled €56.9 billion in FY2015, or around 40% of the total E.U. budget

Sources: Environmental Working Group, European Union
Trade barriers: the less obvious

- “Quality” requirements
- Health concerns
- Packaging
- Labeling
- Other product standards
- Dense bureaucracy
Trade terminology

- Trade surplus = exports > imports
- Trade deficit = imports > exports
- Deficits and surpluses “widen” or “narrow” as they move farther from or closer to zero
Trade: a zero-sum game

- One country’s trade surplus is another country’s trade deficit
- If China exports a T-shirt to the U.S., the value of that T-shirt is counted as a credit (addition) to China’s trade balance and as a debit (subtraction) to the U.S. trade balance
Trade & Currencies

- Trade surpluses tend to lead to stronger currencies
- Trade deficits tend to lead to weaker currencies
Balance of Payments

• While GDP reports a country’s output of goods & services, a Balance of Payments (BOP) statement records a country’s cross-border transactions, both current account transactions (including trade in goods & services) and capital transactions

• The two sides of a BOP statement must always balance

• A deficit in the current account must be matched by an equivalent surplus in the capital account

• In other words, a country that runs a $1 billion current account deficit must finance it by attracting $1 billion in capital
Structure of a BOP statement

- Current Account
  - Balance on trade in goods (Exports - Imports)
  - Balance on trade in services
  - Net income & net unilateral transfers
- Capital & Financial Account
- Errors & Omissions
Sources for global trade data

- World Bank
- International Monetary Fund
- World Trade Organization
- Our World in Data (University of Oxford)
- Comtrade Database (United Nations)