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Data Resources for Covering Trade

National Press Foundation | 18 June 2019

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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)



Photo: Boone NC Magazine

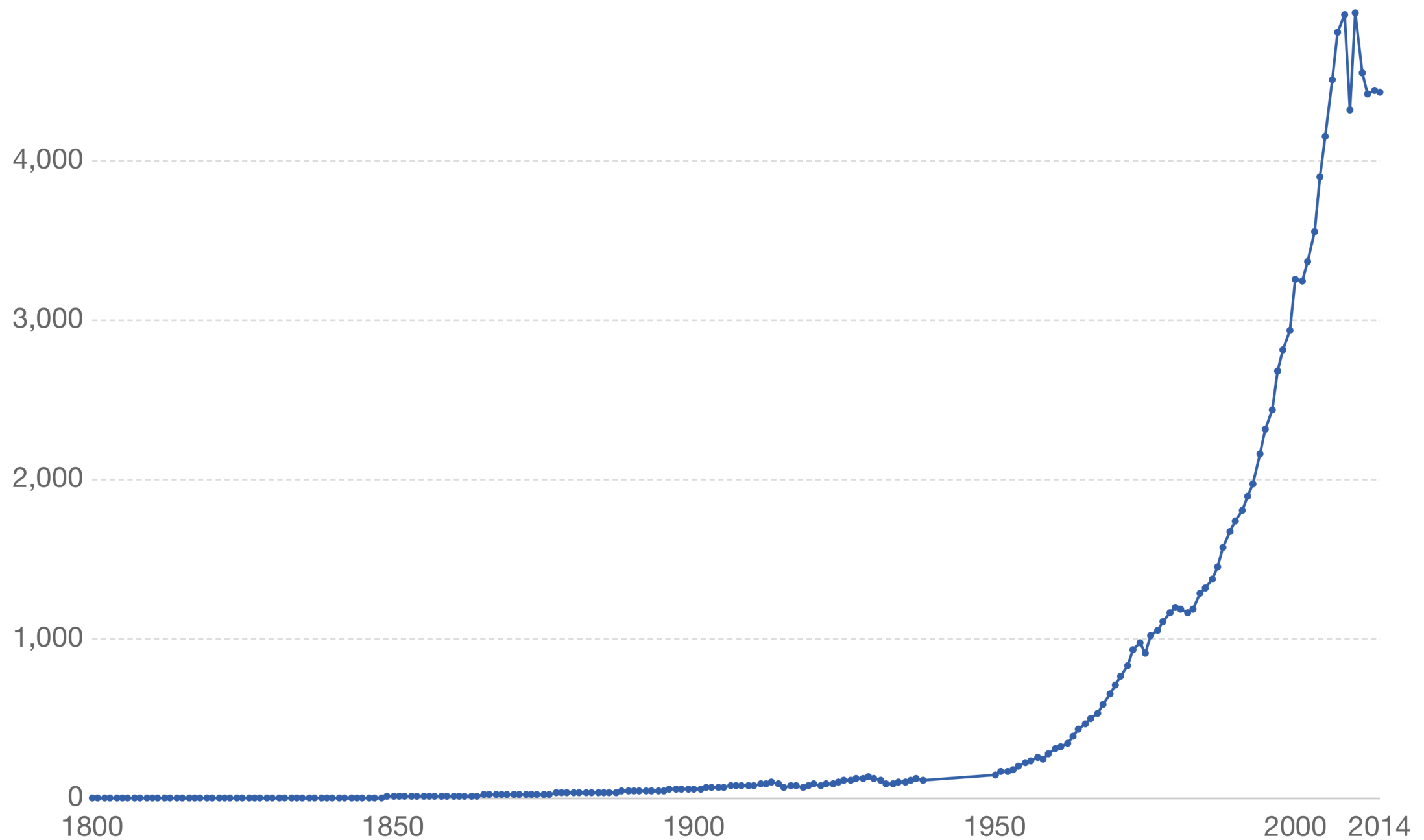
Comparative advantage

“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)

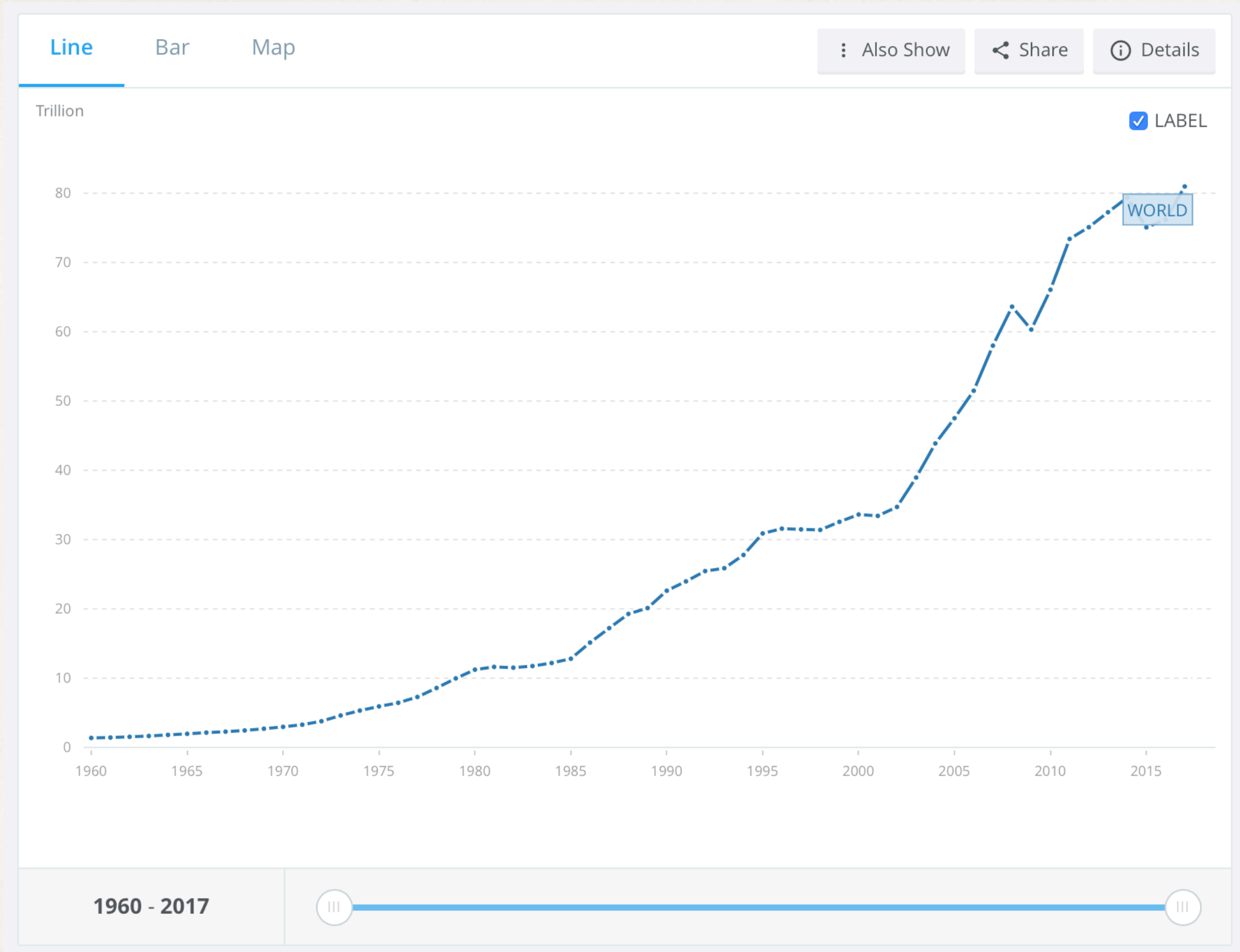


Source: Federico and Tena-Junguito (2016)

OurWorldInData.org/international-trade • CC BY



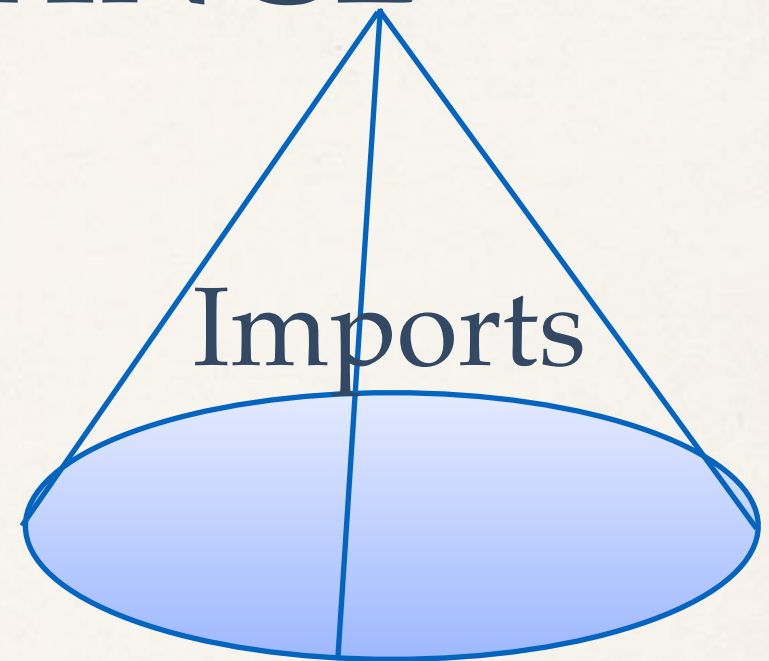
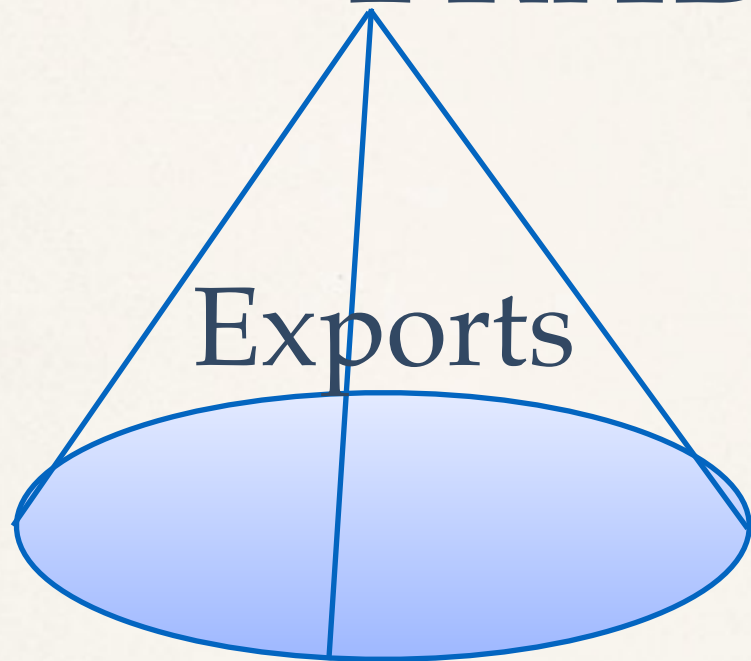
World GDP in current USD



Source: World Bank national accounts data, OECD data

Measuring Trade

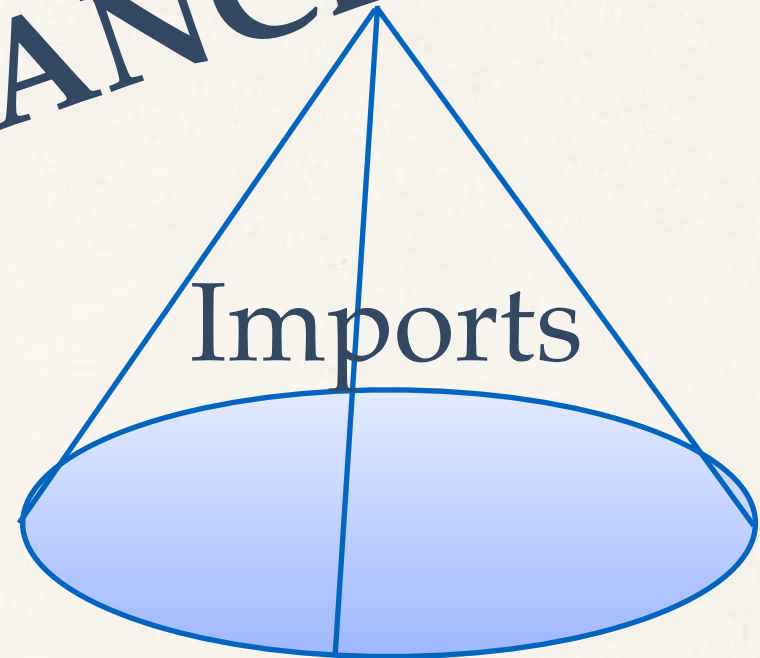
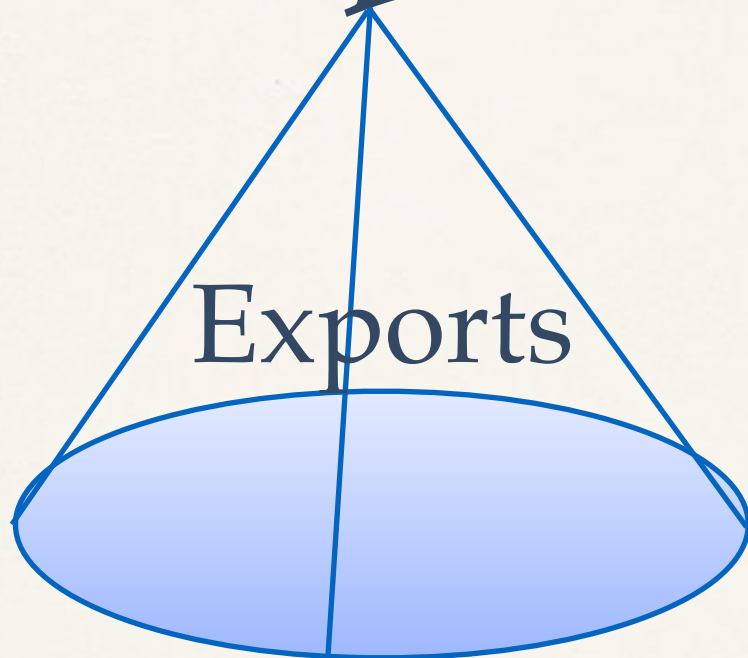
TRADE BALANCE



Merchandise (goods) Trade Balance

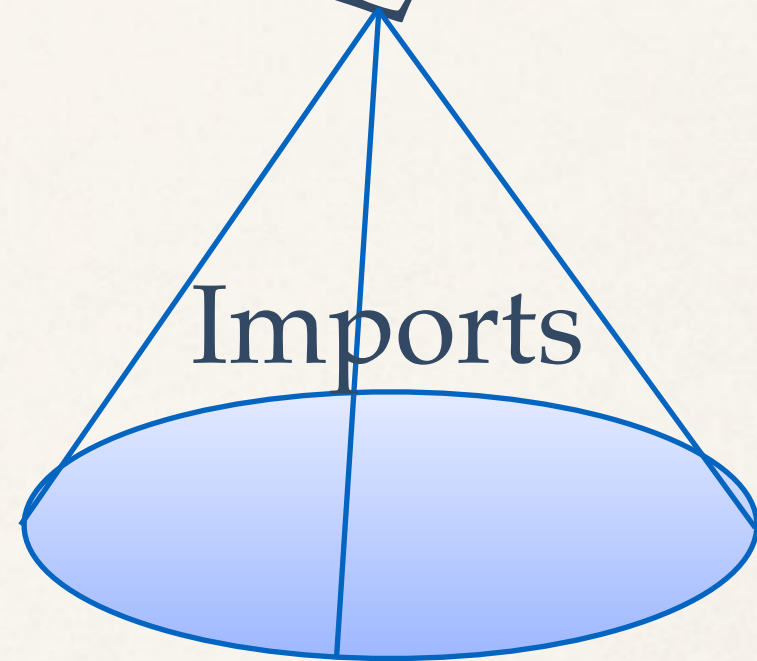
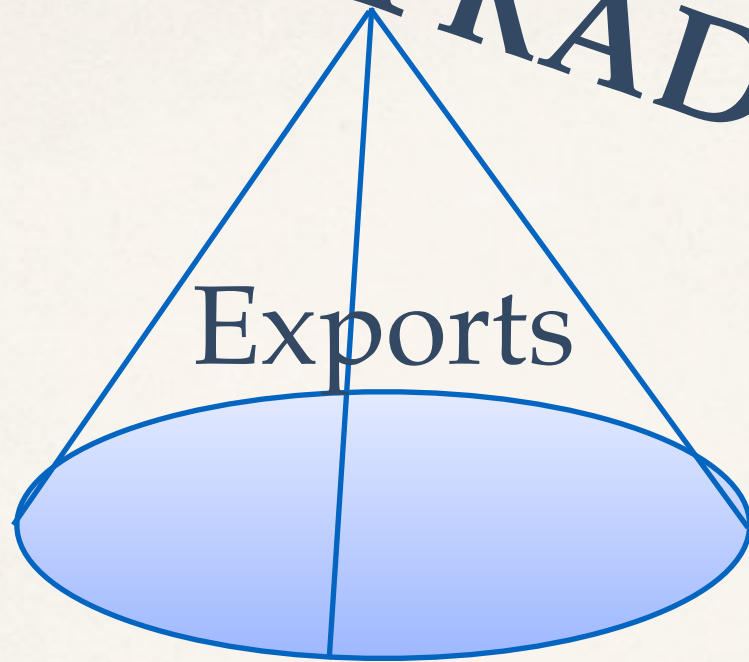
Services Trade Balance

TRADE BALANCE



$\text{Exports} > \text{Imports} = \text{Trade Surplus}$

TRADE BALANCE

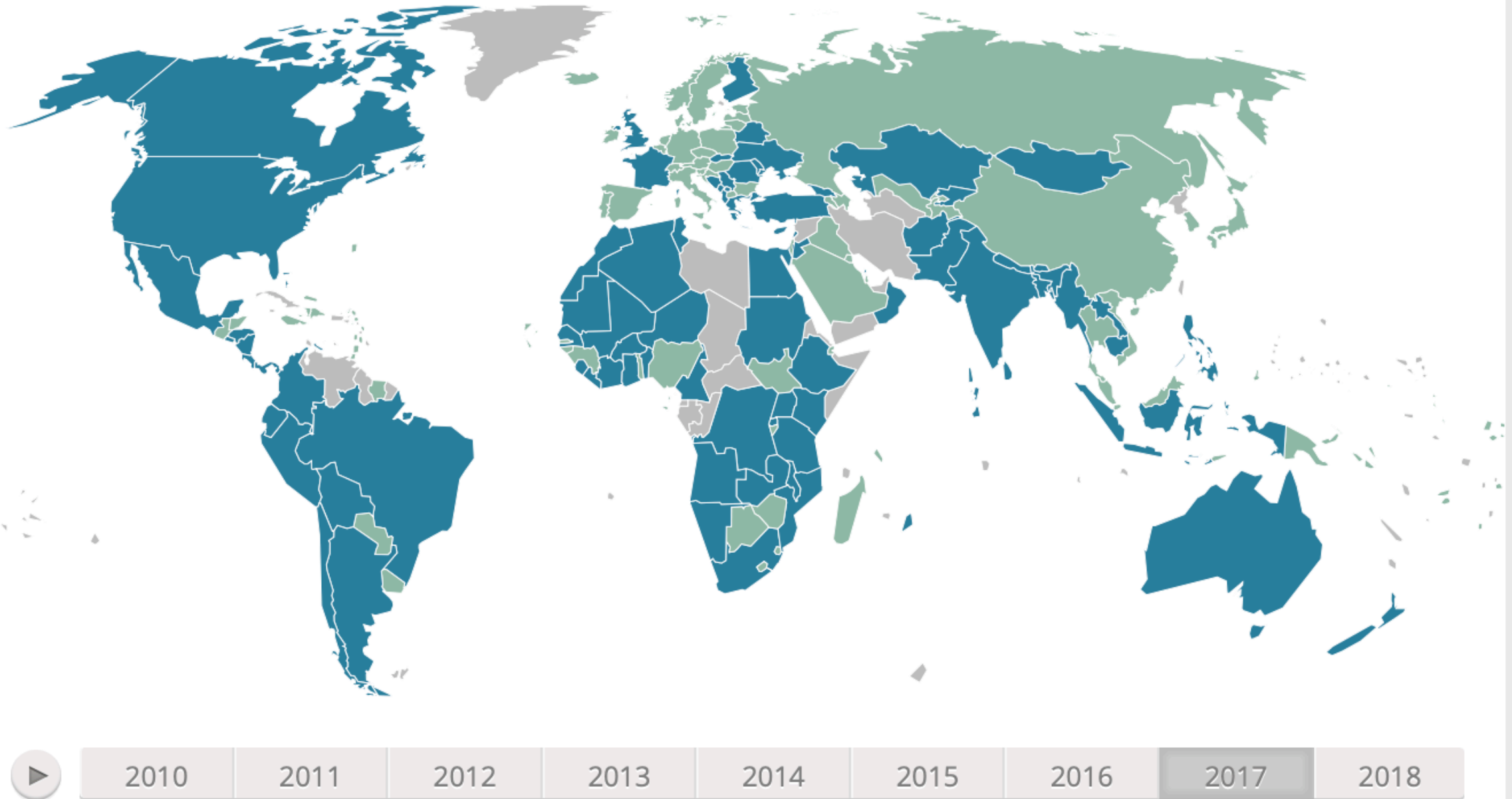


$\text{Imports} > \text{Exports} = \text{Trade Deficit}$

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
 - ❖ $\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government Spending} + (\text{Exports} - \text{Imports})$

Current Account, balance

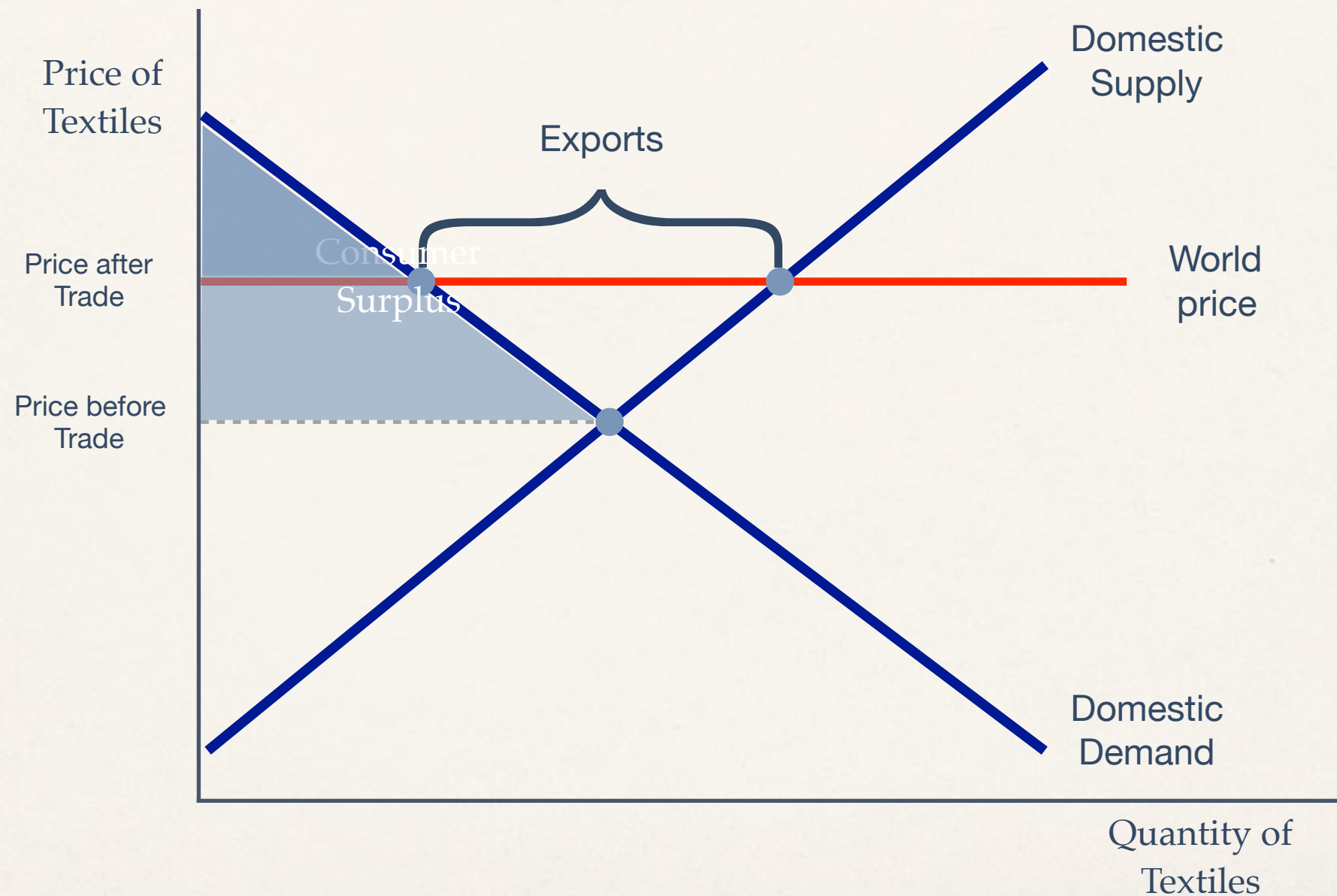


Deficit

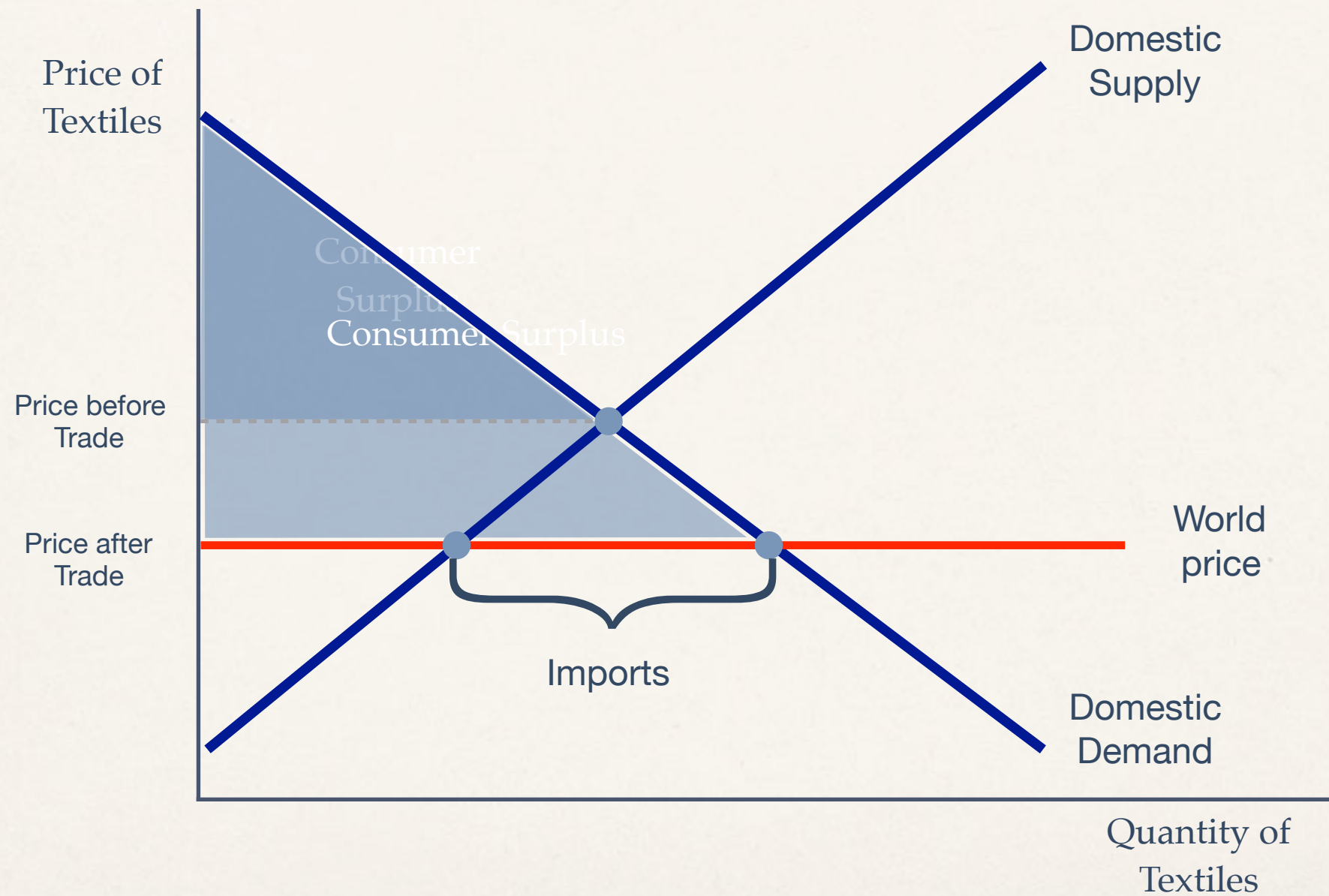
Surplus

No Data

Effects of trade on an exporting country



Effects of trade on an importing country



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)

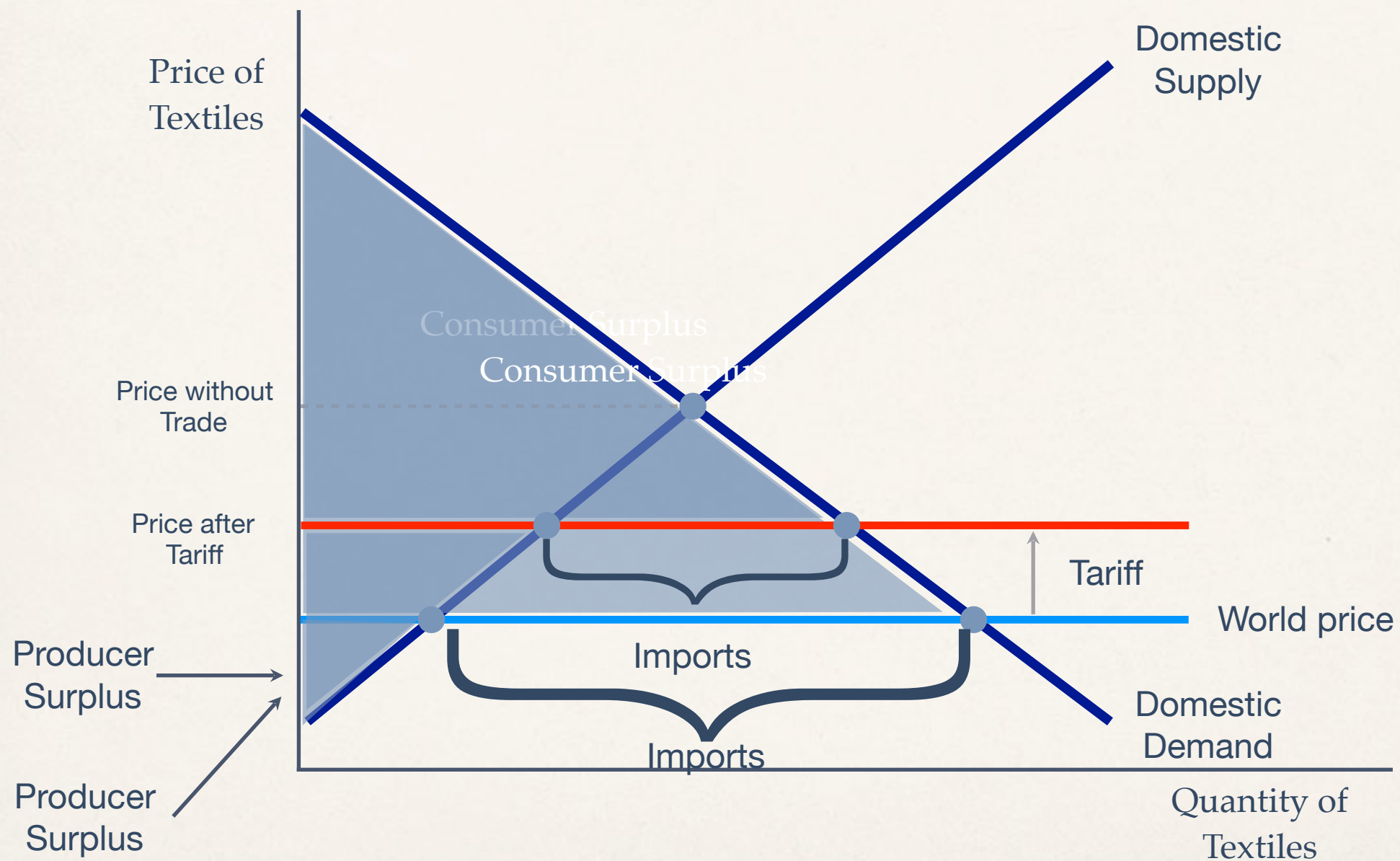
Government trade policies

- ❖ 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



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

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)