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WORLD TRADE AND PAYMENTS

AN INTRODUCTION

TENTH EDITION

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Preface

The Tenth Edition of *World Trade and Payments* arrives at a time when major new issues confront the international economy. The economy of China has blossomed swiftly, its growth heavily dependent on large volumes of exports of simple manufactures. Competing firms in North America and Western Europe find their businesses unprofitable and reduce their outputs. But they do not go quietly, instead beseeching their governments to restrict imports from China. The United States frets over its huge excess of imports over exports. The trade deficit can persist only because the rest of the world is willing to hold huge volumes of U.S. debt. Yet the U.S. creditors become less complaisant as the dollars pile up. Across the Atlantic the European Union continues to reap the benefits of reduced trade barriers among its members. It is in the process of absorbing a large bloc of Eastern European nations. Their trade is being redirected from the former Soviet Union's bloc and toward the industrial nations of Western Europe.

Although it is easy to dramatize these fresh events, international economists know that they all have their historical antecedents. China enters onto a path of development previously traveled by Japan, then by the "Asian tigers": Taiwan, Korea, Hong Kong, and Singapore. The U.S. trade imbalance and the dollar glut also have their historical parallels—once upon a time, there was a dollar shortage. Fortunately, economic analysis shows clearly how to conceptualize these recurring issues. For example, the U.S. trade deficit bears a fundamental relationship to saving and investment decisions made by both American households (who save little) and governments (the U.S. government spends much more than its revenue—it dissaves). Other major issues of policy and behavior in the international economy also enjoy rigorous links to important components of theoretical international economics.

We cannot claim clairvoyance about how the current major issues of international economics will be resolved over time. We do believe that international economics provides the intellectual structure that the student needs to interpret the evolving events and issues that make up the current news about the international economy. We have tried to present a clear and rigorous framework for the student, along with applications to contemporary issues such as those just listed (plus the odd antique issue, or perspective).

International economics shares with other branches of economics a basic dedication to the objective of maximum economic welfare. That goal can be made conceptually rigorous, but it does prod us to recognize some complicating factors. Whose welfare? The United States, or the world? Are they in conflict and, if so, when? What about the distribution of income among individuals? Many international economic disturbances and policy changes that raise national (aggregate) welfare leave some folk worse off. In fact the real wages of unskilled labor have been declining, while suppliers of skilled labor and capital have gained. This pattern appears in the United States but also in other nations. Does this redistribution result from increased exports of simple manufactures from developing countries, produced by their abundant low-skill labor? Does it result from immigration to the industrial countries of workers with low skill levels? Or does it stem from causes independent of international trade? A prime suspect is changes in technology and demand that favor sophisticated goods (and services), shifting the demand for labor toward those workers with more education and higher skill levels. This issue of income distribution arises at several points in the book, because of the several explanations offered for it.

What's New in This Edition

Through this and previous editions of *World Trade and Payments* we have sought to combine clear exposition of the proven and long-lasting basic theories and analytical constructs of international trade and finance with applications that illustrate their uses. We have incorporated new theoretical developments as they have come on stream, adjusting the emphasis given to those—new or old—that seem particularly helpful to the student seeking to understand the currently high-profile issues. At the same time we have kept a place for analyses focused on issues currently shaded from popular attention, but likely to blossom in future public discourse.

This general objective guides the changes that were made in this tenth edition. Parts I and II, dealing with the theory of international trade, have undergone a good deal of reorganization. Part I has been streamlined from three to two chapters, to use the "basic model" of trade to illustrate the gains from taking part in international trade, and some of the consequences of taking part in a globalized trading world when shocks occur within your own country or abroad. Part II turns to the important competitive trade models: Ricardo, Specific Factors, and Heckscher-Ohlin, followed by a new chapter integrating material on more recent models that emphasize increasing returns and imperfect competition. Emphasis is on both explaining trade patterns and showing how price and technology changes affect the distribution of real incomes among and within countries. A new chapter (Chapter 8) emphasizes the causes and consequences of "outsourcing" and fragmentation of production networks because of returns to scale and high technological improvements in service activities. Chapter 9 now deals with the effects of international factor movements, particularly the relatively empirical issues concerning international movements of capital.

In Part III, dealing with issues of international trade policy, Chapters 12 through 14 have been extensively rewritten to reflect the turnover of public issues. In Chapter 12 we include a case study of international competition in commercial aircraft—Boeing versus Airbus. Their rivalry, not new, has recently rekindled the policy issues that they raise. Changes in Chapter 13 reflect governments' shifting away from traditional tariffs to controlling trade through anti-dumping regulations. Anti-dumping raises interesting issues of strategic interactions between international oligopolists. Chapter 14 on regional preferences contains much new material on the expansion of the European Union and the effects of the North American Free Trade Area. It also includes a study of trade's role in China's rapid development.

An important addition in the chapters on macroeconomics and financial markets is a section on the question whether China should abandon the effective pegging of its currency to the U.S. dollar. A new section deals with debt dynamics—the conditions under which a growing international debt (such as that of the United States) is sustainable over time. The innovative Chapter 24 on crises in emerging markets is significantly updated.

Adapting the Course

World Trade and Payments is adaptable to various tracking styles. Some chapters are followed by one or more appendixes that explain specialized points or analytical constructions that some instructors might favor but others prefer to avoid. Omitting any appendix will not lessen comprehension of the chapter. For instructors wanting a more advanced approach we have retained, at the back of the text, the mathematical supplements present in previous editions.

The book covers a conventional full line of topics and with some additional material can serve as the basis for a full-year course at the undergraduate level or for separate semester (quarter) courses on the real and financial aspects of international trade. We have paid special attention, however, to the needs of one-semester courses. The chapters in Part I and Chapters 16, 17, 23, and part of 19 provide the nucleus of a one-semester course that covers both the core of the real theory (with applications) and elements of open-economy macroeconomics and balance-of-payments adjustment. Many of the chapters outside this core are at least somewhat independent of one another, so that instructors can round out the course with selections from them (examples are Chapters 9 and 14). A course in international macroeconomics might add Chapters 15, 19 (especially Section 19.2), 22, 23, 25, 26, and 27. It might then also employ Chapters 20 and 24 if the orientation is toward developing countries, or Chapters 21 and 28 if the orientation is toward finance.

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