

# Introduction to International Trade

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# Summary

- International trade represents a large and increasingly important component of economic activity
- Here we focus on international trade of goods and services:
  - how are exports and imports of goods and services evolving over time?
  - are they a relevant component of domestic economic activity?
  - how different countries are exposed to trade?
- Trade may involve transactions of goods at different stages of production
  - raw materials, capital, intermediate goods, final consumption goods
- And within a wide range of different sectors
- Certain countries are more prone to be trading partners of each other

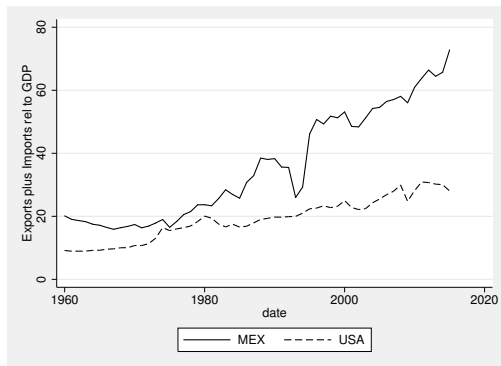
# Importance of trade of goods and services

		Imports (const 2000USD)	Exports (const 2000USD)
Mexico	1980	5.431e+10	3.112e+10
	2000	2.185e+11	2.337e+11
	2015	4.250e+11	4.291e+11
USA	1980	3.909e+11	3.920e+11
	2000	1.837e+12	1.312e+12
	2015	2.807e+12	2.200e+12

Source: World Development Indicators

- Trade has become increasingly important over time
- Exports don't equal imports all the time → difference implies saving / borrowing
- How large are these numbers? → check trade relative to GDP

# Trade relative to GDP



Source: World Development Indicators

- Trade relative to GDP has been increasing as well
- Mexico is relatively more open than the USA
- How important is trade in Mexico relatively to other countries?

# Trade relative to GDP in other countries

	Mexico	USA	China	Japan	Germany	Netherlands
1980	23.68	20.07	12.52	27.79	41.99	100.34
2015	72.80	28.06	41.20	36.78	86.03	154.31

Source: World Development Indicators

- All listed countries had an increase in the importance of trade
- Netherlands, or Germany are more open than Mexico in 2015
- China, Japan, or the USA are less open than Mexico in 2015

# Composition of goods and services in trade

		Goods rel. total exports	Services rel. total exports
Mexico	2015	0.94	0.06
USA	2015	0.67	0.33

Source: World Development Indicators

- Services include tourism, transportation, and in general transactions unrelated with physical units
- Goods plays the largest role in international trade

# Revisiting the importance of trade

- Note that the share of production of goods to GDP has been falling over the last century due to an expansion of the service sector
- Given that the goods sector is more engaged to trade, the importance of trade relative to GDP underestimates that importance relative to the production of goods!

	<u>Exports+Imports of goods and services</u> GDP		<u>Exports+Imports of good</u> Agricult+Industry VA	
	Mexico	USA	Mexico	USA
1997	0.49	0.23	0.77	0.73
2014	0.66	0.30	1.71	1.08

Source: World Development Indicators

# Goods trade in Mexico by stages of processing (2015)

Product Group	Exp (US\$ bi)	Imp (US\$ bi)	Exp (%)	Imp (%)
All Products	381	395	100	100
Capital goods	183	182	48.02	46.03
Consumer goods	101	104	26.5	26.27
Intermediate goods	35	75	9.21	18.92
Raw materials	39	17	10.43	4.42

Source: World Integrated Trade Solution

- Final consumption goods represent a small fraction of trade
- Primary unprocessed goods (agricultural, minerals, etc.) even less



# Most important Mexican goods exports (2015)

Product (at HS 6 digit level)	Exp (US\$ bi)
Automobiles with reciprocating piston (...)	21
Petroleum oils and oils obtained from (...)	19
Television receivers including video monitors (...)	17
Gas powered trucks with a GVW not exceeding (...)	14
Digital process units whether or not (...)	14

Source: World Integrated Trade Solution

# Most important Mexican goods imports (2015)

Product (at HS 6 digit level)	Imp (US\$ bi)
Petroleum oils, etc, (excl. crude); preparation (...)	20
Monolithic integrated circuits (...)	15
Telegraphic apparatus (...)	6
Parts suitable for use solely or princ with (...)	6
Automobiles with reciprocating piston engine (...)	5

Source: World Integrated Trade Solution

- There occurs within and across broadly defined sectors
  - Mexico imports and exports mostly oil related products
  - Mexico exports of automobiles are large while imports are small

# Most important Mexican trading partners (2015)

Exports			Imports		
	US\$ bi	share		US\$ bi	share
USA	309	81.24	USA	187	47.39
Canada	11.5	2.77	China	70	17.71
China	4.8	1.28	Japan	17.4	4.39
Brazil	3.8	1.00	Korea	14.6	3.70
Colombia	3.6	0.96	Germany	14.0	3.54

Source: World Integrated Trade Solution

- Factors like size, distance, and special trade agreements explain the emergence of certain trade partners
  - the US is a close to Mexico, large economy, and integrated in NAFTA