
CHAPTER 1

Windows on the World Economy (Revised)

In the late 1990s, I met an anthropology student who had just returned from a year in Senegal. As soon as she learned that I was an international economist, she asked, “Can you tell me about the CFA franc devaluation? Why was it necessary? It has made life very difficult in Senegal.” Some years later, I met a religion student who had just returned from a semester spent in Haiti working in a health clinic. As soon as he learned that I was an international economist, he asked, “Can you tell me about structural adjustment programs? I’m concerned about how they are being applied to Haiti.” More recently, my son’s school bus driver quizzed me about the Doha Round of multilateral trade negotiations.

These are not rare incidents. I receive such inquiries on a routine basis from all sorts of people. Increasingly, it seems, more and more of us need to know something about the world economy, religion students and bus drivers, as well as economics and business students. Why is this? Put simply, the world economy impacts us all in increasingly significant ways. It has become very difficult to take shelter in our respective majors and professions without being knowledgeable about the fundamentals of international economics. Increasingly, trade flows, exchange rates, and multinational enterprises matter to us all, even if we would prefer that they did not.

As a consequence of these changes, students and professionals, but also citizens more broadly, have significant concerns about “globalization.” Shortly before the failed Seattle Ministerial Meeting of the World Trade Organization (WTO) in December 1999, I received a phone call from a former student. She was about to travel to Seattle to join in the protests against the WTO. She knew that I had spent a brief amount of time at the WTO, and before she set off, she wanted to raise her concerns with me about globalization and the impact it was having on rural economies in the United States. The Seattle Ministerial was a failure, in part due to the efforts of my former student and her fellow protesters.

Were my student’s concerns well placed? Is globalization the evil that some contend it is? Or is it the unmitigated good that others contend it is? Most likely, the actualities of globalization are more variegated than the good/evil dichotomy that is often

invoked. For example, in an analysis of the effects of various globalization processes on the developing world, Goldin and Reinert (2007) stated that “The relationship between globalization and poverty is not well understood.... By examining both the process through which globalization takes place and the effects that each of these processes has on global poverty alleviation, current discussions can be better informed” (Goldin and Reinert, 2007, p. 1).

Better informing students and professionals about globalization is an important component of this book; exploring key aspects of globalization is the task we take up here. We will try to explore the world economy and globalization in as balanced a manner as possible. This will help us develop informed views and opinions, whatever they might be. Developing informed views and opinions, in turn, requires a serious study of international economics. This field of study is typically divided into two parts: international trade and international finance. Indeed, these two parts often constitute the only two courses in a standard “core-course” series. In this book, however, we are going to approach things a bit differently. Acknowledging the diverse interests of students and professionals, as well as the diverse aspects of the world economy, we are going to explore four different *windows* on the modern world economy. These are: international trade, international production, international finance, and international development. Let’s briefly consider each of these in turn.

International Trade

Our first window on the world economy is **international trade**.¹ International trade refers to the exchange of goods *and* services among the countries of the world. In the previous sentence, the “and” between “goods” and “services” is important. We typically picture international trade as in *goods* such as steel, automobiles, wine, or bananas. However, this view is very incomplete. It is important to acknowledge that a significant portion of world trade is composed of trade in *services*. Financial services, architectural services, engineering services are all traded internationally. In fact, trade in services is about one fourth the magnitude of trade in goods.²

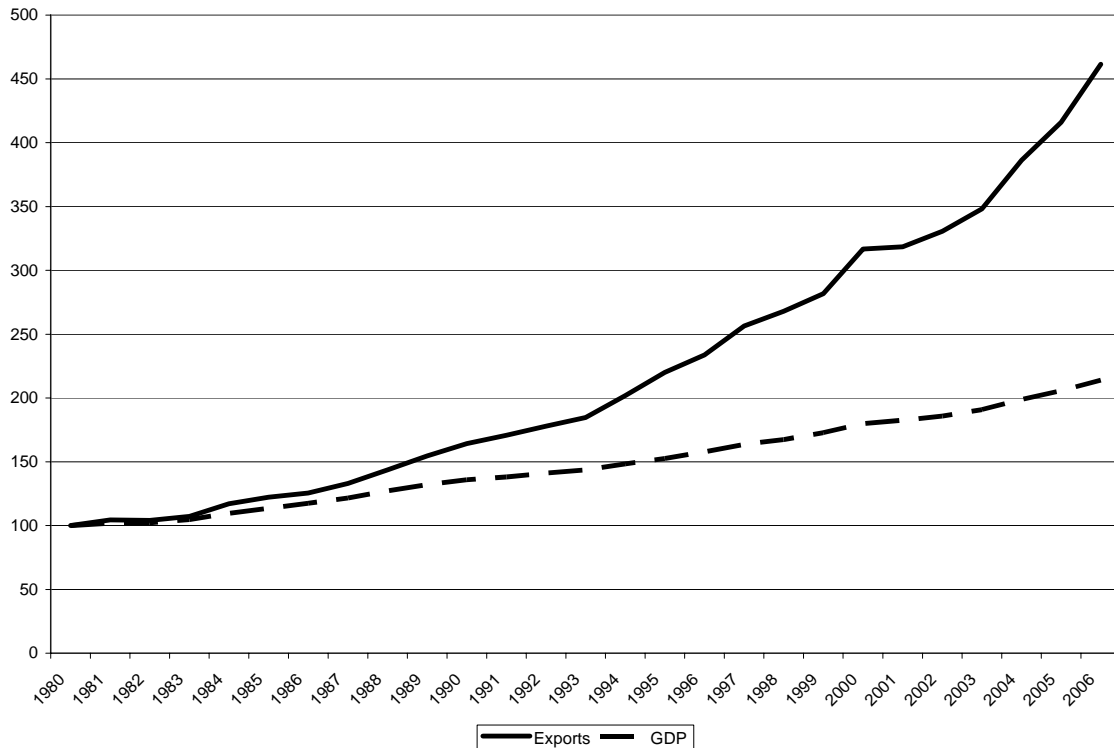
International trade in goods and services is playing an increasing role in the world economy. Consider the data presented in Figure 1.1. This figure plots two series of data for the years 1980 to 2006. The first series, represented by a dashed line, is inflation-adjusted, world **gross domestic product** (GDP) a measure of world output. It has been normalized so that the value in 1980 is 100, and the values for each subsequent year are measured relative to 1980. The second series, represented by a solid line, is inflation-

¹ Every time you encounter a term in bold face in this book, you can find its definition in the glossary.

² It is sometimes said that the word “goods” refers to things you can drop on your toe. Therefore, “services” refers to things you *cannot* drop on your toe! More formally, goods are tangible and storable, whereas services are intangible and non-storable.

adjusted, world exports.³ This series has been normalized in the same way as the gross domestic product. As you can see in this figure, over the decades considered, trade activity increased faster than production activity in the world economy. This is one of the main features of globalization, namely the expansion of exchange of goods and services among the countries of the world.

Figure 1.1 Gross Domestic Product and Exports in the World Economy (1980=100)



Source: World Bank, *World Development Indicators Online* and author calculations.

There are many reasons for the expansion of world trade we see in Figure 1.1. During the 1970s, there began a revolution in global goods shipping using containers, with ships built to carry thousands of increasingly-standardized, 20-foot containers and ports redesigned to handle these ships and containers efficiently. This was followed by a revolution in information and communications technology (ICT) that greatly enhanced the ability of firms to coordinate both international trade logistics and, more generally, international production systems. Advances in ICT also greatly facilitated some types of services trade via electronic commerce. ICT subsequently enhanced the development of container shipping to such an extent that we can say, to paraphrase Levinson (2006, p. 267), the container, combined with the computer, opened the way to globalization.

³ Note that world imports track world exports very closely, so we can use the level of exports as a proxy for the overall level of world trade.

Further, an era of trade liberalization began with the lowering of tariff barriers both unilaterally and via regional and multilateral initiatives. All these factors helped to contribute to a world economy in which international trade relations grew increasingly important.

You will begin to understand the major factors underlying international trade in Part I of this book. We will apply standard microeconomic thinking to analyzing both trade and trade policies. You will also be introduced to a set of key policy issues surrounding the management of international trade, including issues pertaining to the World Trade Organization and to **preferential trade agreements** such as the North American Free Trade Area (NAFTA). A full understanding of the factors underlying international trade, however, will also require an understanding of international production taken up in Part II of this book and to which we now turn.

International Production

Our second window on the world economy is **international production**. Production patterns in the modern world economy can be relatively complex. For example, when my children were toddlers, one of their favorite books was *Bear's Busy Family*, published by Barefoot Books. Featured in *Inc. Magazine* in 2006, Barefoot Books was founded in 1993 by Tessa Strickland and Nancy Traversy. It was initially run from their homes in the United Kingdom (where burgeoning inventory broke a table), but subsequently expanded with a flagship store in Cambridge, Massachusetts in the United States. In the case of *Bear's Busy Family*, the color separation was done in Italy, and the actual printing took place in Malaysia. So the book my children held with such interest in their hands was a result of a production process that took place in four countries. Production of a product in multiple countries is what we mean by international production.

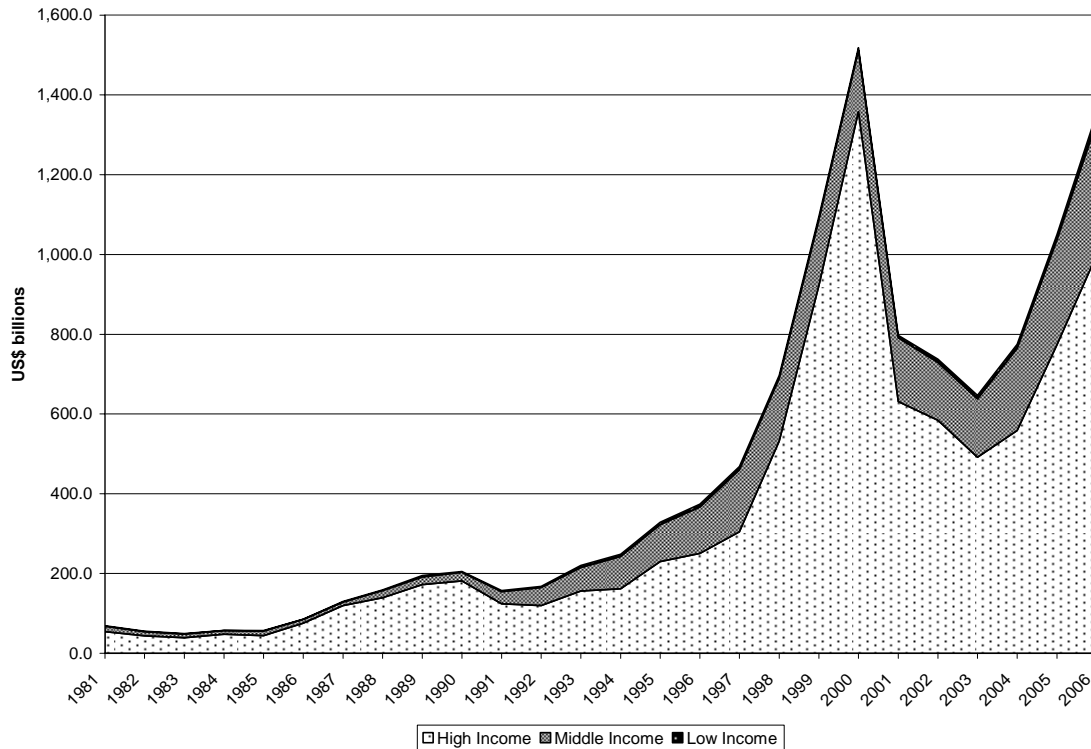
At the broadest level, international production can take place through two modes: contracts (international licensing and franchising) and **foreign direct investment (FDI)** undertaken by **multinational enterprises (MNEs)**. Contracting is an arm's length relationship across national boundaries that can be described as a low-commitment-low-control option. FDI involves firms based in one country owning at least 10 percent of a firm producing in another country and thereby exerting management influence. It can be described as a high-commitment-high-control option. MNEs are now a major component of the world economy. To see this, consider the following facts:

1. MNEs account for approximately one fourth of world GDP.
2. The sales of foreign affiliates of MNEs now exceed the volume of world trade.
3. MNEs are involved in approximately three fourths of all world trade.
4. Approximately one third of world trade takes place *within* MNEs.

5. MNEs account for approximately three fourths of worldwide civilian research and development.

A series of data on global FDI inflows from 1981 to 2006 is provided in Figure 1.2. The inflows are broken down among low-income, middle-income and high-income countries which host the FDI. It is clear that the 1990s experienced a large surge of FDI flows, mostly into high-income countries and partly reflecting an upturn in mergers and acquisitions activity. What is also clear, however, is that the middle income countries of the world are hosting a growing amount of FDI. FDI inflows into low-income countries are both very low and stagnant, with these members of the global economic community largely excluded from this important part of economic globalization.

Figure 1.2 Nominal FDI Inflows to High, Middle and Low Income Countries



Source: World Bank, *World Development Indicators Online*.

What has accounted for the increase in FDI activity in middle and high income countries? Two relevant factors are those mentioned above in our discussion of international trade, namely improvements in transportation and ICT. Add to this an expansion of global mergers and acquisition activity, particularly in the services sector (finance, transport, communications). Indeed, services began to account for

approximately half of FDI flows in the 1990s. Further, many countries in the developing world began to shift from a policy posture of antipathy toward FDI inflows to one of relative friendliness. This, for example, accompanied the well-known rise of FDI flows into China.

As the above facts and data indicate, the operation of MNEs is another main feature of globalization. In Part II of the book, you will gain an understanding of MNEs and their role in international production. This will include an appreciation of the relatively complex decisions facing global firms, the function of **global production networks** (GPNs), and the management issues that arise when firms are spread across international borders.

International Finance

Our third window on the world economy is **international finance**. Whereas international trade refers to the exchange of goods and services among the countries of the world, international finance refers to the exchange of **assets** among these countries. Assets are financial objects characterized by a monetary value that can change over time. They make up the wealth portfolios of individuals, firms and country governments. For example, individuals and firms around the world conduct international transactions in currencies, equities, government bonds, corporate bonds (commercial paper), and even real estate as part of their management of portfolios. The way in which the prices of these assets change in response to these international transactions impacts the countries of the world in important ways. Additionally, as we will see, these transactions can provide a source of savings to countries over and above the domestic savings of their households and firms.

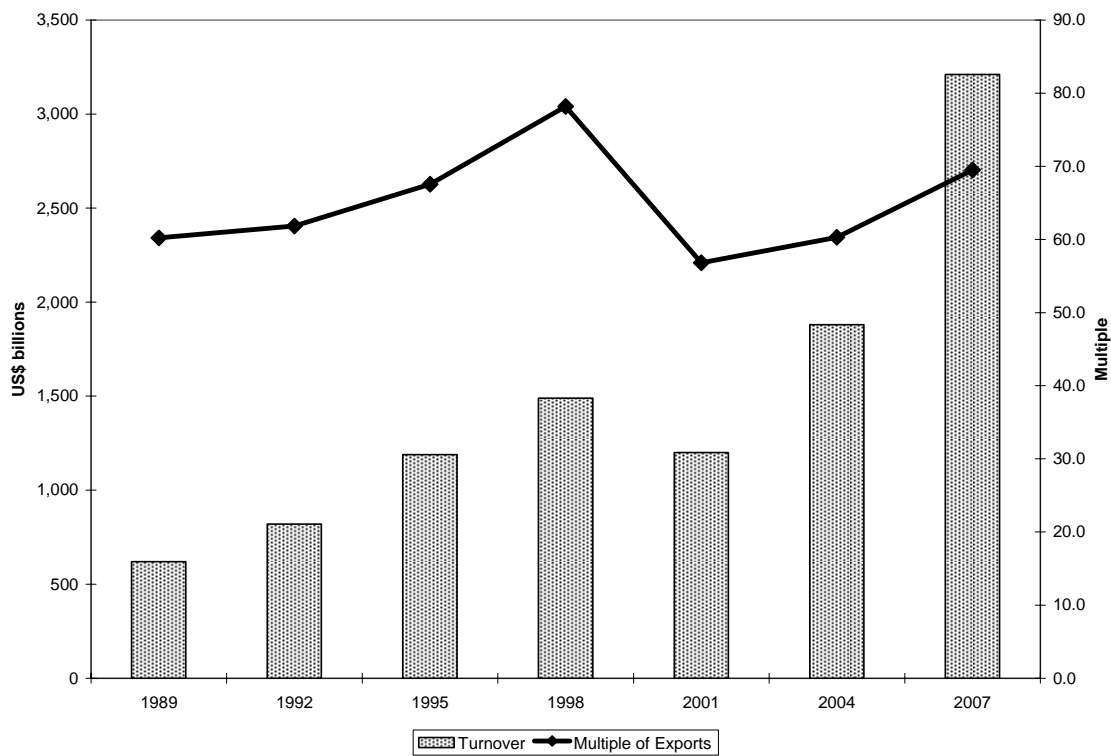
International finance plays an increasingly important role in the world economy. We can see this by considering foreign exchange transactions. Foreign exchange transactions are much larger than trade transactions. For example, Figure 1.3 plots two variables for 3-year intervals between 1989 and 2007. The first variable, plotted as the vertical bars in reference to the left hand scale (lhs), is daily foreign exchange turnover as measured by the Bank for International Settlements (BIS) in its triennial April surveys. Despite a downturn in 2001, the total foreign exchange turnover has increased substantially over time. Observers were amazed when it broke US\$ 1 trillion in 1995, but it is now over US\$ 3 trillion!

The second variable plots the annualized foreign exchange turnover (assuming constant turnover each day) as a multiple of total world exports in reference to the right hand scale (rhs). As you can see, foreign exchange turnover is *from 60 to 70 times* the value of exports. This makes it strikingly clear that, on an annual basis, global transactions in foreign exchange dwarf global trade transactions. International finance matters.

Another important feature of international finance has emerged in recent years. A typical expectation in the field of international finance is that developing countries will

naturally receive net inflows of capital and invest it at relatively high rates of return, with this capital being supplied by developed countries with relatively low rates of return. Since 2000, however, this pattern has been reversed. Due in large part to deficits in the United States (nationals spending in excess of national savings), the developing world is now a significant exporter of financial capital rather than an importer. As of 2007, the capital exports of the developing world reached approximately \$425 billion. This is a major new development in international finance.

Figure 1.3 Daily Foreign Exchange Market Turnover and Annualized Multiple of Exports (billions of US dollars on lhs and multiple of exports on rhs).



Sources: Bank for International Settlements Triennial Central Bank Surveys and World Bank, *World Development Indicators Online*. Notes: The multiple of exports assumes a constant foreign exchange turnover each day of the year.

The importance of international finance, seen in Figure 1.3, became very evident in the latter part of the 1990s. Investors quickly sold assets in Mexico, Thailand, Indonesia, the Philippines, Russia, and Brazil, causing **balance of payments** crises and financial crises. This was a process known as **capital flight**. Capital flight involves investors selling a country's assets and reallocating their portfolios to other countries' assets. Beginning in mid-2008, the power of international finance again became evident in the form of a global crisis with roots in the United States housing market. Losses in

housing mortgages were transmitted around the globe via a pyramid of financial instruments related to this sector. This was the result of banks taking loans that would traditionally remained on their books, repackaging them in the form of asset-based securities, and traded these securities internationally. This provided a mechanism for a crisis related to new financial products originating in one country to take on a global profile that has yet to be resolved at the time of this writing. As the Financial Times noted in December 2008, “the global system has shifted from financing anything, however crazy, to refusing to finance anything, however sensible.” Not a pretty picture.

As we have seen, then, international finance is a realm of increasing importance in the modern world economy. You will enter into this realm in Part III of the book. You will learn about open-economy accounting, exchange rate determination, the international monetary system, and financial crises. Throughout Part III, the asset considerations that set international finance apart from international trade will be paramount.

International Development

The fourth and final window on the world economy is **international development**. The processes of international trade, international production, and international finance reflect the many goals of their participants. From a public policy perspective, however, it is hoped that these three processes will contribute to improved levels of welfare and standards of living throughout the countries of the world. Two major issues are involved here. The first is how we conceptualize levels of welfare or standards of living. The second is how the processes of international trade, international production, and international finance support or undermine international development.

One inclusive, although not uncontroversial, measure of these differences in living standards is the **human development index** (HDI) measured by the United Nations Development Program. For our purposes here, suffice it to say that the HDI reflects per capita income (adjusted for cost of living), average life expectancy, and average levels of education. Some data on these measures for the year 2005, as well as on the HDI itself, are presented for a small sample of countries in Table 1.1.

As we can see from the data presented in Table 1.1, there is a wide range in measures of well being among the countries of the world. GDP per capita ranges from approximately \$1,000 in Ethiopia to over \$40,000 in the United States, a factor of 40 in this standard measure of economic development.⁴ Life expectancies range from 43 years in Ethiopia to 79 in Costa Rica (and even 82 in Japan). Low life expectancies often reflect high morality among infants and children, nearly 10 million of whom sadly perish each year. Literacy rates range from less than 40 percent of the population in Ethiopia to near universal literacy in other countries. When combined into the single measure of the HDI, we see a wide variance as well with a variation from approximately 0.41 to 0.95.

⁴ The per capita income measures are purchasing power parity measures, which adjust for differences in costs of living among countries (see Chapter 19).

However we view development (income, health or education) its level *varies widely* among the countries of the world.

Table 1.1. Measures of Living Standards (2005, except where indicated)

Country	PPP GDP Per Capita (US dollars)	Life Expectancy (years)	Adult Literacy (percent)	Human Development Index (0 to 1)
Ethiopia	1,084	43	36 (2004)	0.406
India	3,452	64	61 (2001)	0.619
China	6,760	72	91 (2000)	0.777
Costa Rica	10,192	79	95 (2000)	0.846
South Korea	22,080	78	..	0.921
United States	41,890	78	..	0.951

Source: World Bank, *World Development Indicators Online* and United Nations Development Program.

The variation in development indicators reflects the fact that economies around the world differ greatly in their productive capacities. For example, Florida (2005) constructed a world map that proxies productive capacities with nighttime light emissions in which higher emission levels appear as raised surfaces above the earth. Florida describes the result as follows: “U.S. regions appear almost Himalayan on this map. From their summits one might look out on a smaller mountain range stretching across Europe, some isolated peaks in Asia, and a few scattered hills throughout the rest of the world.” Florida refers to this pattern of development as “spiky globalization,” a pattern that confronts the world with a significant and persistent development challenge to raise productive capacities.

You will begin to understand how the activities of international trade, production, and finance affect international development in Part IV of the book. Here, we will consider alternative concepts of development, the way trade can contribute to economic growth, the process of hosting MNEs, and the role of the World Bank and structural adjustment in developing countries. These intersections of our windows on the world economy are critical for improving the well-being of (literally) billions of individuals worldwide.

Connecting Windows

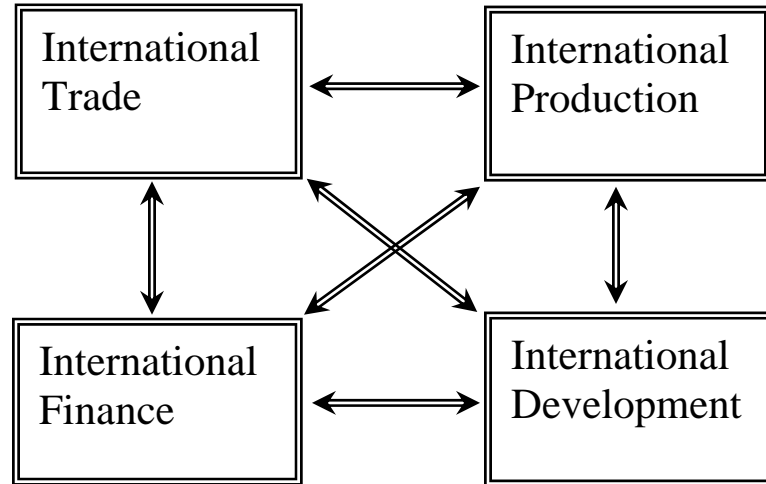
Each of our four windows on the world economy—trade, production, finance and development—offers a view, but each has a frame. That is, each window offers some insight into the world economy, an insight that needs to be supplemented by one or more of the other windows. Let me give you an example. In 1991, I was working for the U.S. International Trade Commission (USITC) in Washington, DC. At that time, most of my efforts were dedicated to analyzing the *trade* effects of the North American Free Trade Area (NAFTA). Based on the narrow trade window, I was excited about Mexico’s prospects. One day, the USITC was receiving a delegation from Mexico, and I had an hour-long appointment with a Mexican economist accompanying the delegation. As it turned out, he was as worried about Mexico’s prospects as I was excited. During our conversation, he said: “I am very worried about the future. All of the excitement over NAFTA is causing an inflow of portfolio investment. It is very short term, and it is financing a large trade deficit. It could turn around in a day! And then where will we be?”

As it turned out, this Mexican economist was right. The portfolio investment did turn around and caused a crisis in late 1994 and early 1995. My window on the Mexican economy was insufficient to allow me (and many other trade economists) to appreciate where Mexico was heading. The Mexican economist was more attuned to the realities of the Mexican economy because he was viewing it through more than one window. He was using the window of international finance as well.

I want to suggest that you take the integrated view illustrated in Figure 1.4. Here, the four windows of our book are represented with four boxes. More importantly, there are six *connections* between the windows, represented by double-headed arrows. These are the connections among our four windows that we must keep in mind. NAFTA was an agreement for liberalizing trade in investment among the countries of North America, but its effects went beyond the trade and production windows to the finance window. The financial crises of the 1990s took place in the realm of international finance, but the effects were strongly transmitted to the realm of international development: standards of living fell. So as you proceed through the remainder of this book, it will be important for you to identify connections among our four windows.

While Figure 1.4 helps us to be cognizant of the connections among the four aspects of international economics that you will explore in this book, there are additional realms that we must keep in mind that affect the way in which the world economy evolves over time. These are *technology*, *politics*, *culture* and the *environment*. At various points in the book, we will discuss how these factors play important roles. It is fair to say that the boxes and arrows of Figure 1.4 should be thought of as being strongly influenced by technological, political, cultural, and environmental factors. The accompanying box takes up technology in the form of information and communications technology (ICT) mentioned above. We also need to say a few words about politics, culture and the environment.

Figure 1.4. Connecting Windows



ICT in the World Economy

As a dynamic, driving force for global economic change, however, technology is central. Indeed, a large part of the globalization process can be attributed to revolutions in information and communication technologies (ICT). It is ICT that allows an employee of Philips, the Dutch consumer-electronics firm, to use the internet in order to adjust a television assembly line process in the Flextronics factory in Guadalajara Mexico. It is ICT that allows a fund manager in London to quickly buy or sell equities on the Johannesburg stock exchange. Most recently, new ICT technologies in the area of “telepresence” (such as Hewlett-Packard’s Halo system) allow teleconferencing to move into a new era in which it appears that participants half-a-world away are sitting across the table, greatly enhancing global coordination and reducing the need for international travel.

In the realm of international production, ICT has had a somewhat unusual impact of moving production in two opposing directions: towards greater global integration and towards selective disintegration of production systems. Communication and coordination costs of multinational production have long been a deterrent to FDI, requiring that MNEs possess offsetting advantages before engaging in successful foreign production. Advances in ICT have lowered these costs, contributing to increased integration of global production systems. Swissair, for example, has set up an accounting subsidiary in Mumbai India. Since close-of-business in Switzerland corresponds to morning in

Mumbai, this accounting work is done on an overnight basis from the Swiss standpoint. This is an example of services being globalized but remaining *internal* to the firm.

At the same time, however, a second process has been at work. Improvements in ICT have resulted in firms *contracting out* on a global basis functions that they used to carry out in house. This process has become known as “outsourcing.” For example, many U.S. firms now contract their software development to Indian firms, notably to Tata Consultancy Services and Tata Unsys Ltd. Also, number of hospitals in the United States now contract with Indian firms for medical transcription services, making use of satellite technology. These are example of services being globalized while being *external* to the firm.

Both of the above scenarios, FDI and outsourcing, are made possible by advances in ICT that are only two decades old. These advances are causing a global reconfiguration of the way work is carried out. This is a process that has not yet reached its final destination point but has already had revolutionary impacts on the world economy.

Sources: Dicken, (2007) and *The Economist* (2000, 2007)

In an ideal world, countries would interact with one another within the multilateral framework of international law, committed to dispute resolution procedures, conflict prevention, transparency, and respect for human rights. We do not live in this ideal world: country governments do not respect international law, and armed, non-state actors exert their own influence across national boundaries. Consequently, *political events* of all magnitudes continually impact the world economy. Civil and international conflicts dramatically affect the supply sides of national economies, bias government expenditures towards armaments, and promote the role of militaries in national governments. These national governments themselves are of various degrees of strength and capability, from effective to outright failed. Political instability in struggling states affects all four of our windows on the world economy, but impinges on international development most strongly and negatively. Consequently, the best-intentioned developments in the world of international economic policy can come to naught in our less-than-ideal political world.

Culture is as real as it is difficult to define, and we don’t notice it until our own cultural norms have been seriously violated. It is popular to depict cultural clashes as inevitable and growing in strength in the form of a “clash of civilizations” and to further define this clash as one that is occurring between Islam and Christianity. Many of these claims do not stand up to close scrutiny. For example, Sen (2006) notes that India is considered to be central to the “Hindu world,” but has more Muslim citizens than most of the countries classified as part of the “Muslim world.” That said, it is nevertheless important to recognize that the extent to which cultural conflicts are managed (at the level of international politics or within a single MNE) matters a great deal to the evolution of the world economy. We should not discount culture’s importance.

The environmental issue as it relates to the world economy has developed along a number of tracks. There are global issues such as climate change, regional issues such as the environmental impacts of NAFTA, and local issues related to globalization such as toxic waste dumping. A common theme related to the politics of environmental issues is the importance of a multilateral approach to environmental problems and embodied in what is known as “multilateral environmental agreements” or MEAs. MEAs include the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Montreal Protocol on Substances that Deplete the Ozone Layer (Montreal Protocol), the Convention on Biological Diversity (CBD), the Kyoto Protocol to the U.N. Framework Convention on Climate Change (Kyoto Protocol), and the Convention on Biological Diversity (CBD). The hope of many working in this realm is that MEAs will help the world economy avoid the dangers of serious and irreversible environmental harm.

It is important for us to appreciate the extent to which the political, cultural, environmental and economic can be deeply entwined. I once had the opportunity to talk at length with Dr. Owens Wiwa, the brother of Ken Saro-Wiwa, a member of the Ogani people of the Niger delta. Dr. Wiwa informed me of his brother’s campaign against the environmental damage resulting from oil exploration in the Niger delta for which he was eventually executed by the Nigerian government. One particular fact pressed upon me by Dr. Wiwa was that the gas flaring within the region takes place *horizontally* across the ground rather than vertically as is typical practice. Despite being a handy way to dry laundry, this has severe environmental and health impacts. Today, one can view these gas flares on Google Images, and the Niger delta is in a near civil war. Global production of petroleum has gravely affected the politics, culture and environment of this particular region of the world economy.

Analytical Elements

As we begin to examine the four windows of the world economy, we will utilize a number of *analytical elements* to improve our understanding of many complex processes. These are both actual elements at work in the real world economy and conceptual elements of the various models used by researchers to understand the world economy. There are seven such analytical elements:

1. *Countries*. These are the states of the world economy, their national governments, serving as “home” to both firms and residents.
2. *Sectors*. These are categories of production defined largely in terms of final goods. An example is the automotive sector.
3. *Tasks*. On occasion, we are going to need to recognize that production in a particular sector involves a number of steps or separate tasks. Automobile production moves from a chassis to engine mounting to body mounting, for example.
4. *Firms*. Production in any sector of a country is undertaken by firms, either purely local or MNEs.

5. *Factors*. Production in any sector of a country undertaken by a firm makes use of various factors of production. Automobile production uses labor and physical capital.
6. *Currencies*. Most (not all) countries in the world economy have a separate currency in which transactions with other countries take place through foreign exchanges.
7. *Financial assets*. Both countries and firms issue various types of financial assets, denominated in a particular currency, which can be bought to be part of wealth management portfolios by other countries, other firms and residents of any country.

These are the seven analytical elements that we will draw upon in various combinations as we move the chapters of this book. In most chapters, I will let you know at the beginning what elements we are going to use and why.

Conclusion

It is becoming increasingly difficult for us to ignore the important realities of the world economy. Students and professionals of many types are finding that a basic understanding of international economics is necessary for them to operate successfully in the world. Perhaps you have the same experience. A thorough understanding of the world economy involves the study of four realms of international economics: international trade, international production, international finance, and international development. These are the four windows on the world economy that we explore in this book.

International trade is increasing faster than global production. International production, meanwhile, is taking on more and more complex forms, involving both contractual arrangements and foreign direct investment. FDI is undertaken by multinational enterprises, and these organizations play a critical role in the world economy, one that cannot be ignored. However, as we have seen, viewing the world through trade and production windows is also incomplete. The realm of international finance is paramount, with foreign exchange transactions dwarfing trade transactions.

It is hoped that international trade, international production, and international finance will contribute positively to international development, improving welfare and living standards. Understanding how this occurs (or does not occur) provides an important fourth window on the world economy.

These four windows—trade, production, finance, and development—must be seen as connected. Further, these four windows are strongly affected by the realms of technology, politics, culture, and the environment. The task of understanding how our four windows and the four larger realms evolve over time in a system of globalization is not, to say the least, an easy one. Indeed, it takes us far beyond the scope of this book. However, with persistence and some patience, you will begin to build an intellectual foundation for understanding this system in the remaining chapters.

Review Exercises

1. Why are you interested in international economics? What is motivating you? How are your interests, major, or profession affected by the world economy?
2. What are the four windows on the world economy?
3. What is the difference between trade in goods and trade in services?
4. What is the difference between international trade and foreign direct investment?
5. What is the difference between international trade and international finance?
6. Identify one way in which the activities of international trade, finance, and production could *positively* contribute to international development. Identify one way in which these activities could *negatively* contribute to international development. How could you demonstrate that the activities have either a positive or negative impact on development?

Further Reading and Web Resources

Osterhammel and Petersson (2005) present a concise history of globalization accessible to a broad audience. Dicken (2007) takes a closer look at foreign direct investment and trade in recent decades, and Prahalad and Lieberthan (2008) provide a short, interesting assessment of FDI in developing countries. Eichengreen (2008) gives an excellent history of international finance, and the Financial Times (2008) takes a brief look at its recent failure. Goldin and Reinert (2007) examine the relationship of a number of aspects of globalization to development and poverty alleviation, Sen (2006) effectively addresses cultural issues in a global perspective, and Speth and Haas (2006) address global environmental issues. Finally, Reinert et al. (2009) have edited a comprehensive encyclopedia of the world economy directly relevant to the four windows on the world economy examined here.

The Peterson Institute for International Economics in Washington, DC provides timely and readable analyses of many issues in international economics. Its website is www.iie.com. Two quality sources on international economic developments are *The Economist* and *The Financial Times*. Their websites are www.economist.com and www.ft.com. Important institutions of the world economy include the World Trade Organization (www.wto.org), the World Bank (www.worldbank.org) and the International Monetary Fund (www.imf.org).

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