

INTERNATIONAL ECONOMICS

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OVERVIEW

INTERNATIONAL ECONOMICS

- CH1: CONSEQUENCES OF INTERNATIONAL TRADE
- CH2: INTERNATIONAL PAYMENTS
- CH3: ROLE OF INTERNATIONAL MONETARY FUND (IMF)

CHAPTER 1 (LPD8): CONSEQUENCES OF INTERNATIONAL TRADE

1. WHAT IS GLOBALIZATION?
2. WHAT IS OFFSHORING?
3. WHAT IS THE IMPACT OF OFFSHORING ON FAST-GROWING ECONOMIES?
4. HOW DID GLOBAL VALUE CHAINS BECOME COMPLEX?

INTRODUCTION: TEXT 2 / LPD8: CONSEQUENCES OF INTERNATIONAL TRADE

5. WHAT ARE THE RISKS RELATED TO GLOBAL VALUE CHAINS?
6. WHAT IS SLOWBALIZATION?
7. WHAT IS RESHORING?

1. WHAT IS GLOBALIZATION?

Globalization is the increasing interconnectedness and interdependence of economies worldwide



global interconnectivity is the standard

On different levels...

- in terms of flows of goods and services (international trade)



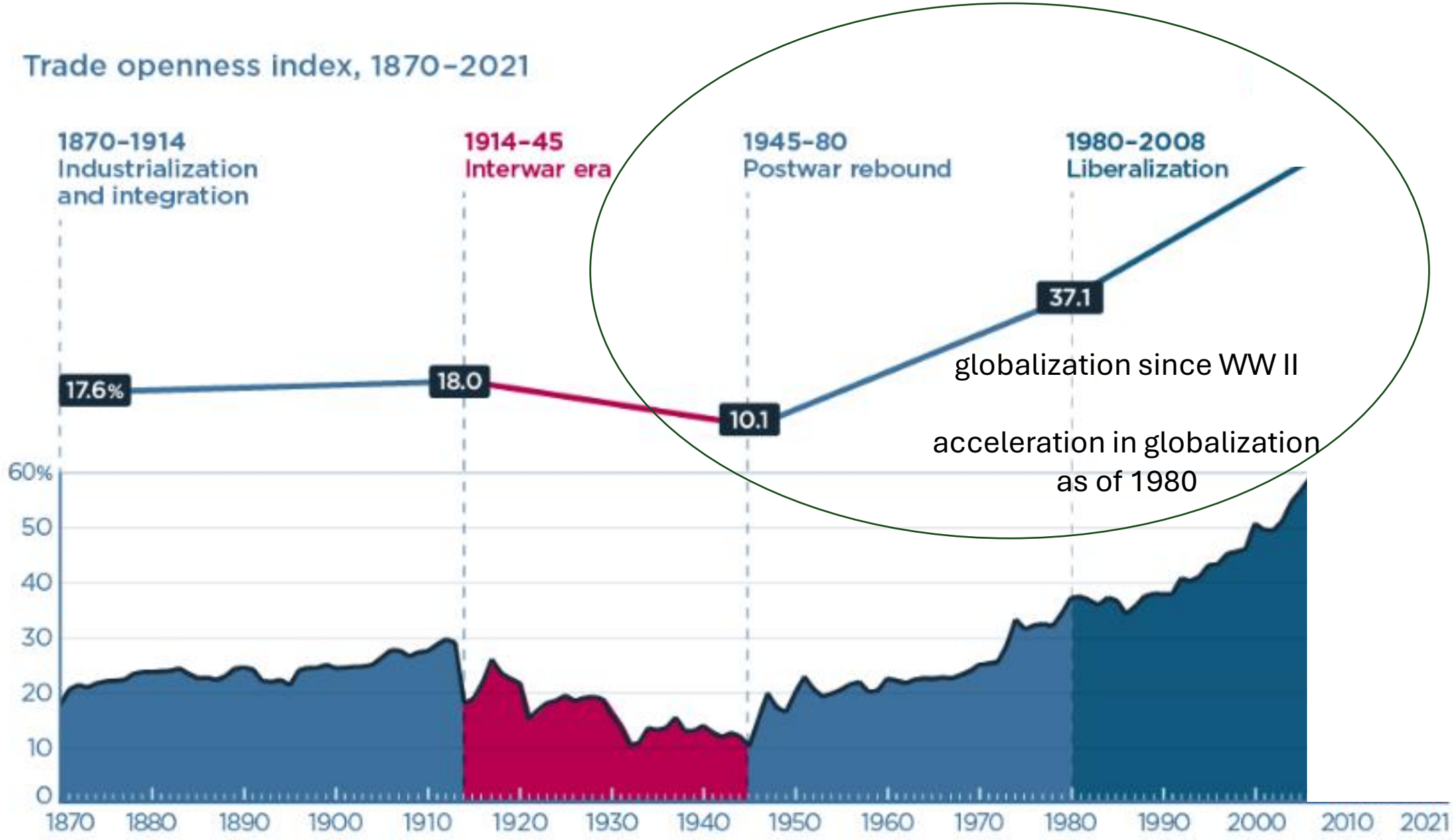
- in terms of capital flows

euroclear

Provider of global financial services based in Brussels, specializing in the settlement and safekeeping of transactions related to financial products

- in terms of migration flows




Trade openness index, 1870–2021
1870–1914
Industrialization and integration
1914–45
Interwar era
1945–80
Postwar rebound
1980–2008
Liberalization
17.6%
18.0
10.1
37.1
globalization since WW II
acceleration in globalization as of 1980
60%
50
40
30
20
10
0
1870
1880
1890
1900
1910
1920
1930
1940
1950
1960
1970
1980
1990
2000
2010
2021

Driven by…



- Liberalization of trade, trade agreements and economic integration

- Neoliberal economic policies (e.g. U.S.) and transition to market economies (China, Russia, Eastern Europe, …)

- Growth of multinational companies

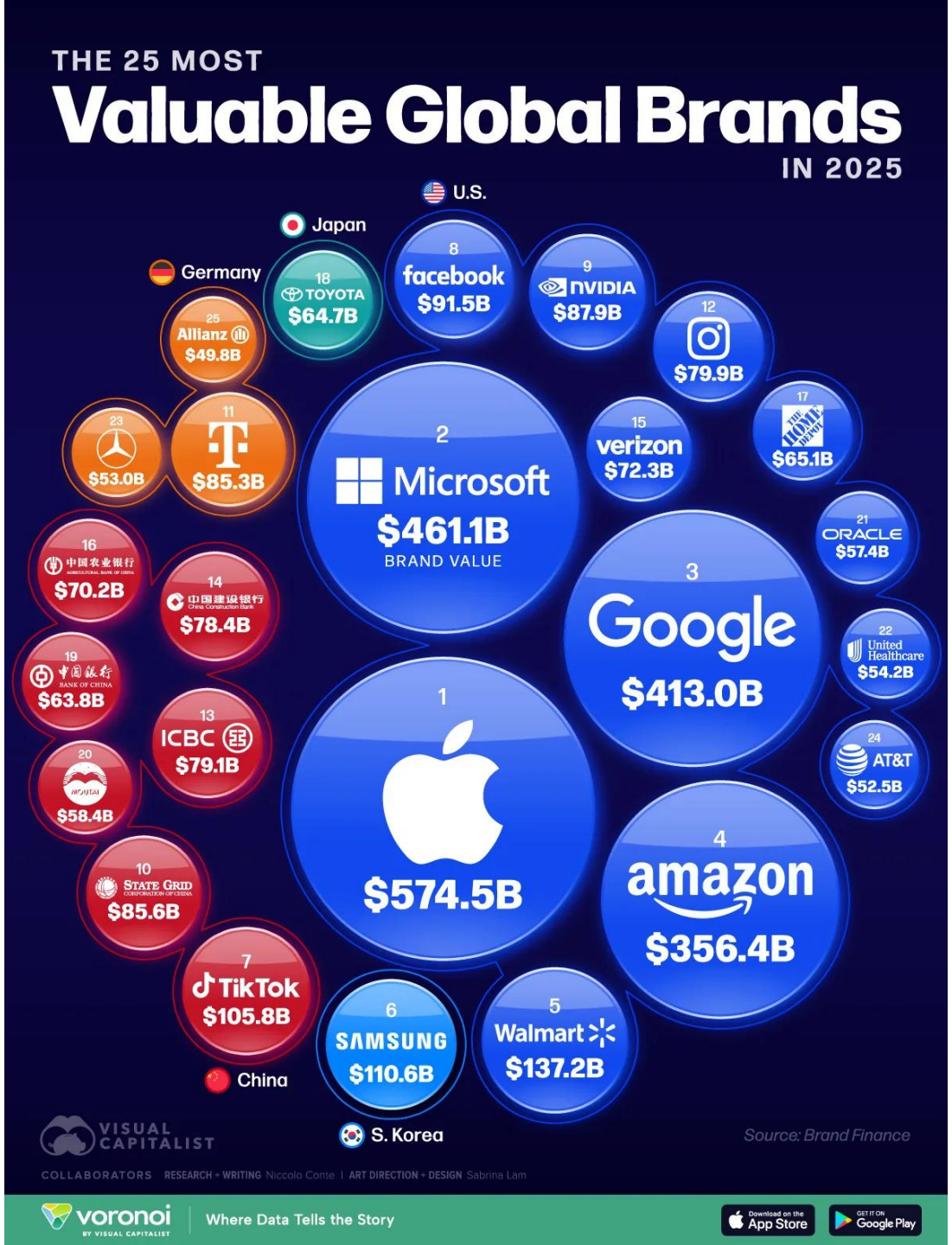
- Technology (data, ICT, transport, logistics, …)

Advantages…

- Global economic growth and wealth increase
- Wide range of goods and services for consumers at lower prices
- More efficient production and specialization
- Dissemination of technological knowledge (e.g. medical knowledge, digital technology, AI, sustainable energy innovations, etc.)

"global brands"

"global value chains"



The ranking of the world's most valuable brands for 2025 shows that American companies are dominant

According to the latest report from Brand Finance, Apple, Microsoft, Google and Amazon are in the first four places worldwide.

FROM GLOBALIZATION TO HYPERGLOBALIZATION: ONLY ADVANTAGES?



HYPERGLOBALIZATION

A classic example is Apple's global supply chain (iPhone): Design in the US, parts produced in countries such as Japan/South Korea/Taiwan, assembly in China and sales worldwide → one product is made in dozens of countries and traded worldwide.

Globalization maybe going too far…





MAXIMUM SPACE FOR FREE MARKET FORCES

Disadvantages…

- **Growing inequality** (unequal distribution of wealth growth)
- Increased **dependence and vulnerability** on businesses and economies
- Increased **exploitation** (labour, etc.)
- **Oppression of national cultures**

global financial crisis, COVID, …

Disadvantages…

- Increased pressure on the environment



Noren gaan grootste elektrische containerschepen ter wereld bouwen

Norwegians are set to build the world's largest electric container ships

2. WHAT IS OFFSHORING?

Offshoring is the process by which a company moves activities from a home country to a location in a (distant) foreign country = a growth country (= relocation)

- Low wages
- Less strict labour laws
- Smoother environmental rules
- More favourable tax regime
- Proximity to raw materials

labour-intensive activities

mainly manufacturing companies
but can also be done in terms of services

Belgische chocolade Barry Callebaut: voortaan made in Poland?



Nearly 500 Belgian employees of the chocolate giant Barry Callebaut will lose their jobs as a result of a global relocation of the company.
A total of 2,500 people will lose their jobs at this multinational, which is moving to Malaysia, Serbia and Poland where the wages are much lower.



Proximus is encouraging call centres to relocate: ‘Call centres are a booming business in Morocco’.

GLOBAL VALUE CHAINS

maximizing efficiency gains,
search for lowest costs,
thorough specialization

Far-reaching offshoring leads to global value chains



Cotton is grown in Pakistan. The raw cotton is spun into yarn (garen) in Turkey, dyed (geverfd) with indigo (blauwe verfstof) to create denim's characteristic blue color, and then woven into fabric (stof). The highly labour-intensive phase of cutting the fabric, assembling the jeans, and sewing (naaien) them together takes place in Vietnam. The finished jeans are packaged in Belgium and shipped to retailers worldwide via global carriers (transportmaatschappijen). The jeans are then stocked in an American boutique.

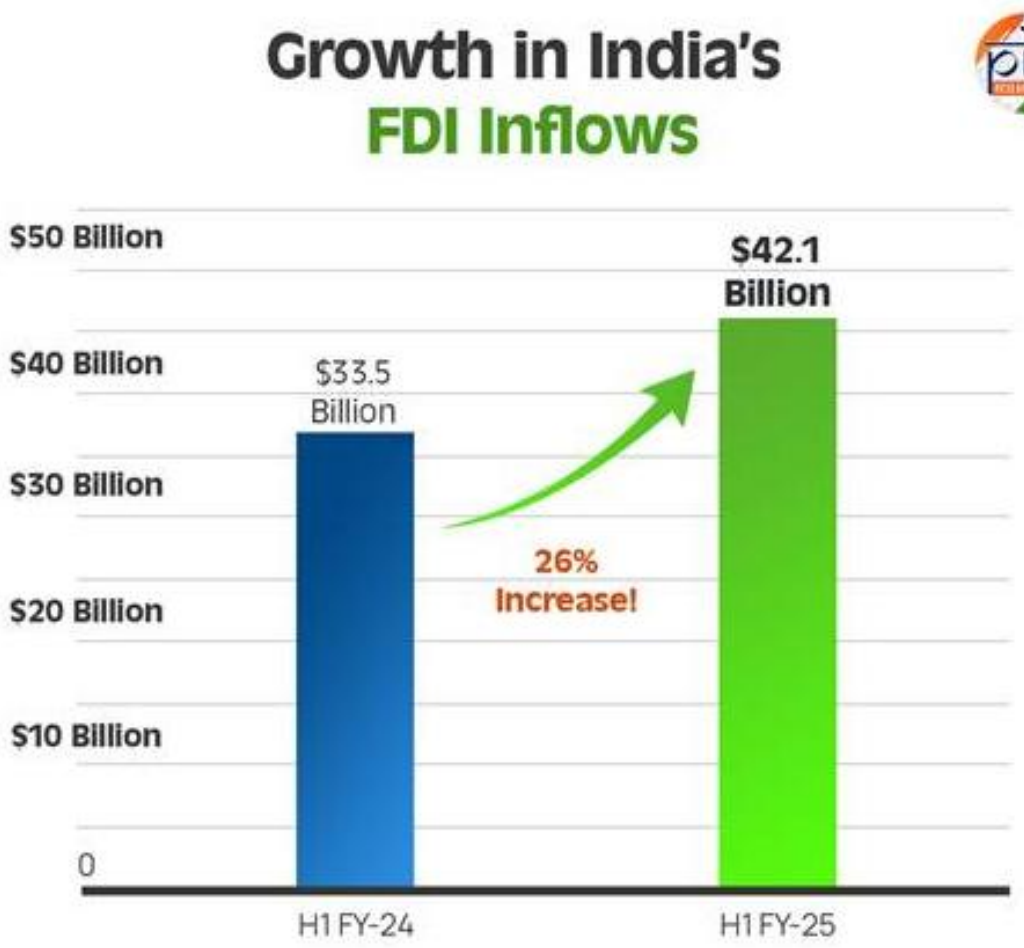
3. WHAT IS THE IMPACT OF OFFSHORING?

POSITIVE EFFECTS ON GROWTH COUNTRIES

- Economic growth and wealth growth
- Job creation
- Increase in (tax) revenues
- Transfer of knowledge and technology (engine of innovation)
- Infrastructure development (transport, ICT, energy)

impact of FDI

Foreign Direct Investments





There is a positive relationship between FDI and economic growth in India.
This is because FDI brings in additional resources that the economy cannot generate itself.



BUT ALSO NEGATIVE EFFECTS ON EMERGING COUNTRIES

- Risk of exploitation and poor working conditions
- Environmental pollution
- Economic dependence on FDI
- Profits flow back to investing country
- Growing inequality
  (unequal distribution of wealth growth)

From Mexico to the Persian Gulf: more than 137 million children are exploited in global supply chains

Amazon under fire for 'labour exploitation' in garment supply chain

Exposing modern slavery in global supply chains

Slavery has never been abolished, only transformed. Today, millions of people are suffering in silence in supply chains around the world.

WHAT ABOUT THE WEALTH IN THE HOME COUNTRY?

O'Leary dreigt ermee nog meer jobs te verhuizen

Tot 140 jobs op de helling bij ArcelorMittal in België

ExxonMobil schrapt 1.200 Europese jobs, vakbonden vrezen terugtrekking uit Europa: "Dit is niet logisch, tenzij je activiteiten gaat verkopen"

Textielreus Balta schrapt ruim 500 jobs door verhuis naar Turkije: "Ik heb hier 38 jaar gewerkt... dit is pijnlijk"

SO ALSO NEGATIVE EFFECTS ON HOME COUNTRY

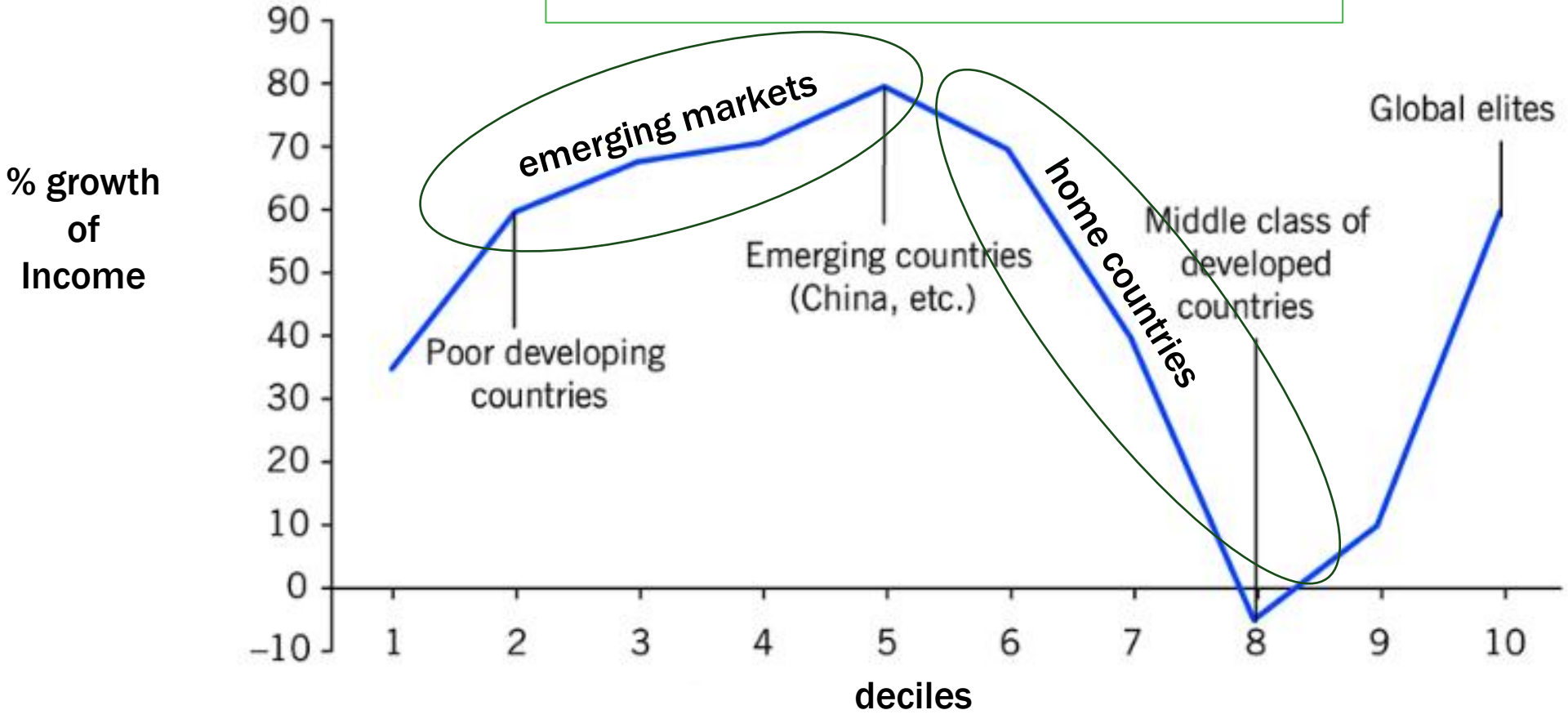
- Jobs in industry and some services disappear
- Increased dependence on the emerging market

→ Income decline of the middle class



Detroit: a city in decline: Detroit is the most poignant example of the many American cities that have fallen into decline due to the disappearance of heavy industry

“Elephant curve” of Branko Milanovic



The curve shows how income changed for different deciles of the world's population — from the poorest (left) to the super-rich (right) during the acceleration of globalization
(80s – 2008)

Historical gap between emerging and home country narrows

“Elephant curve” of Branko Milanovic

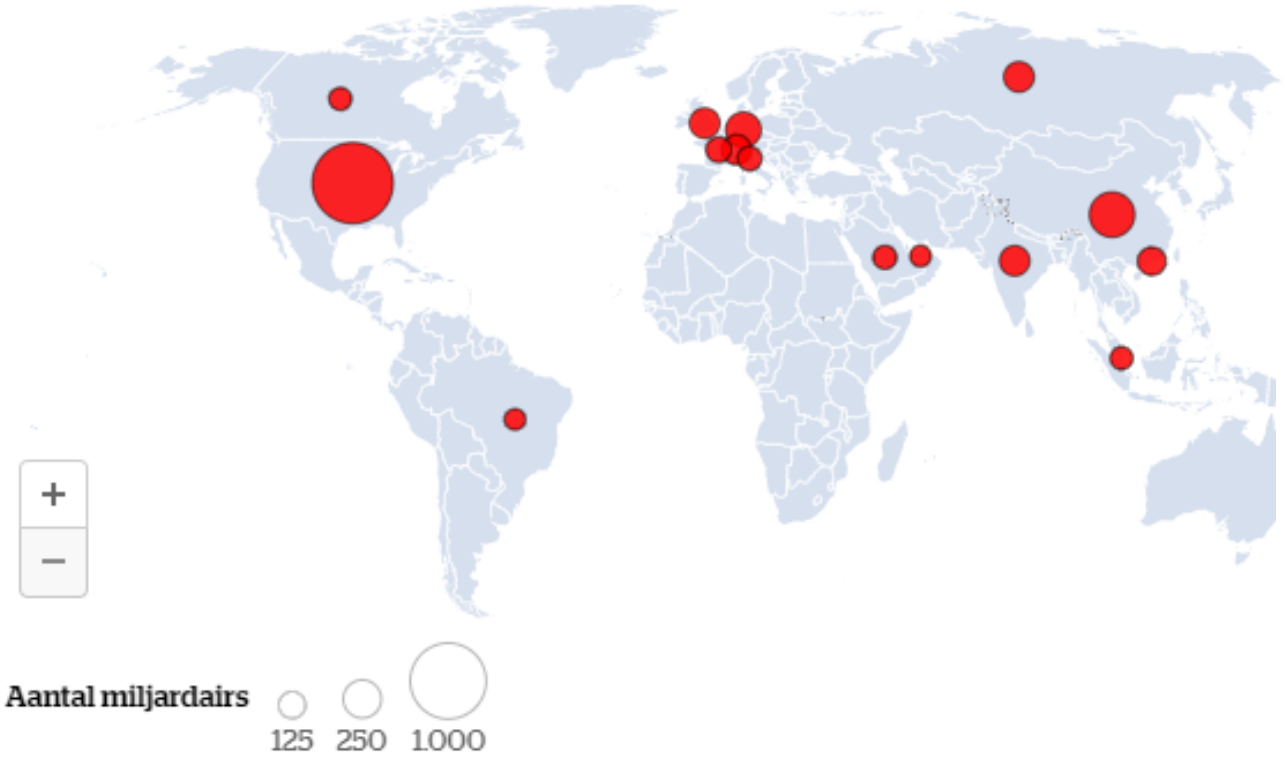
The high growth in the middle (at around 40–60%) is mainly due to rapid development in countries such as China and India = emerging countries

The dip around ~80% suggests that the lower middle class in rich countries had little growth = home countries

The steep rise at the end shows the huge relative growth for the richest 1% of the world

In de Verenigde Staten wonen de meeste miljardairs

Klik op de bollen om het aantal miljardairs te bekijken.



Kaart: Yorick Dupon • Bron: Altrata

HLN

IN KAART. Wereldwijd aantal miljardairs blijft groeien: VS telt met voorsprong meeste ultrarijken

Het aantal miljardairs wereldwijd is vorig jaar gestegen tot een absoluut record. Volgens een rapport zouden er nu 3.508 zijn, van wie er 26 meer dan 50 miljard dollar aan vermogen bezitten.

De voorsprong van de Verenigde Staten op andere landen is groot. Zo zijn er in China ‘slechts’ 321 miljardairs te tellen. Daarna volgt Duitsland met 184 miljardairs.

Astonishing growth of rich elite in the US and China

4. HOW HAVE GLOBAL VALUE CHAINS BECOME INCREASINGLY COMPLEX?

Fragmentation of global value chains is strenghtened by:

DATA & ICT

Internet, email, and communication software >>> businesses can collaborate in real time with factories and suppliers on the other side of the world

Remote coordination becomes easy and inexpensive

HOW VIDEO CONFERENCING IS AFFECTING THE GLOBALIZATION OF BUSINESS



TRANSPORT & LOGISTICS

GPS tracking, container scanning systems, automation in ports and digital customs >>>

Goods can move around the world quickly and efficiently

Containerization, larger cargo ships, efficient air freight and better road network >>>

Transport becomes much cheaper

It becomes economically interesting to have parts of a product made in different countries

Aankomst MSC Loreto, het grootste containerschip ter wereld



Woensdagochtend 24 mei arriveerde MSC Loreto bij APMT 2 in de Prinses Amaliahaven in Rotterdam. Het is met een maximale capaciteit van 24.346 TEU (20-voets containers) het grootste containerschip ter wereld. MSC Loreto neemt deze titel over van de onlangs in de vaart genomen OOCL Spain (24.188 TEU).

Big, Bigger, Biggest!

5. WHAT RISKS ARE INVOLVED IN GLOBAL VALUE CHAINS?

Far-reaching fragmentation of global value chains increases the risk of...

- Vulnerability to disruptions in the chain
- More difficult control and quality control
- Rising transport and logistics costs due to disruptions
- Higher financial costs due to currency fluctuations
- Dependence on geopolitical factors
- Low flexibility due to the "just-in-time" approach

"Tot 44 uur wachten": containerschepen in Antwerpse haven in de file door geopolitieke onzekerheid



Blokkade Suezkanaal door 'Ever Given' kostte Maersk 89 miljoen dollar

‘Containerkosten verdrievoudigd door omvaren via de Kaap’

Chain disruptions leading to higher costs

+ Door rebellen op de Rode Zee moeten containerschepen omvaren: zijn er daardoor minder producten te vinden in de supermarkt?

WHAT ABOUT TRADE PROTECTIONISM?

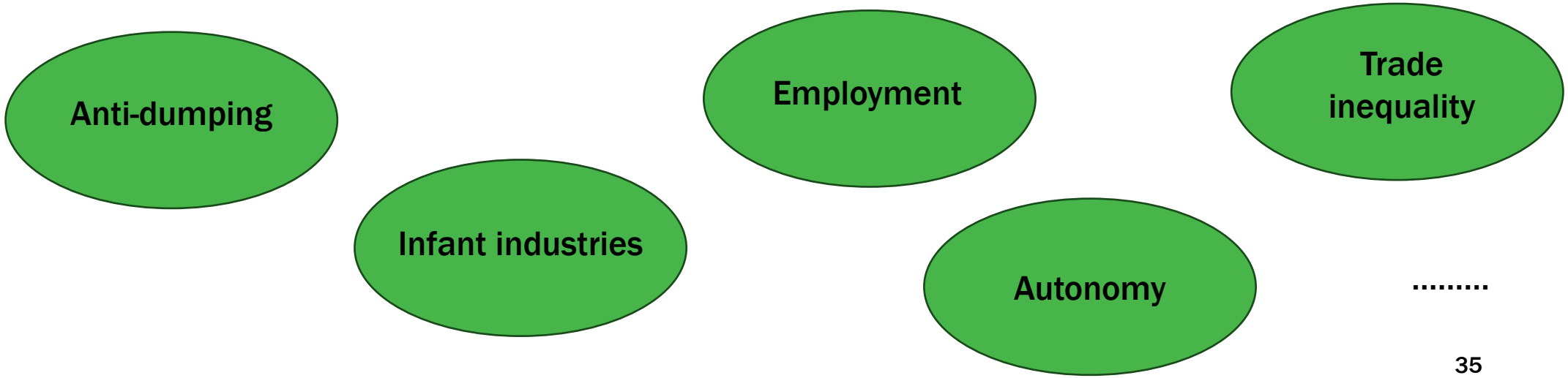
What is the effectiveness of trade protectionism in a world of fragmented global value chains?



How tariffs are shifting global supply chains

Just to clarify: what is trade protectionism and what forms are there?

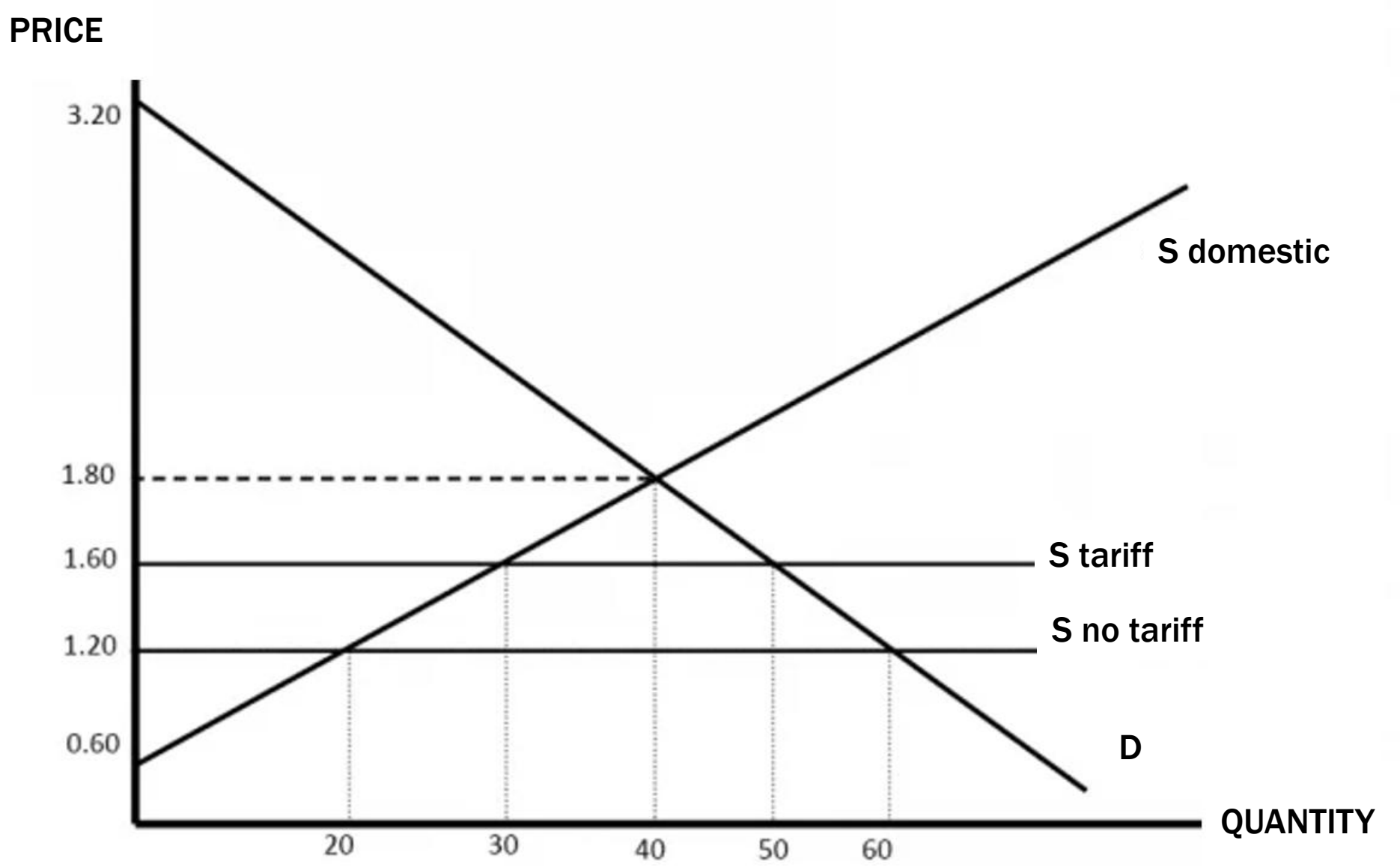
Trade protectionism is economic policy in which a country takes measures to restrict foreign competition in order to protect its own companies, industries or employment



This is done through import tariffs, import quotas, subsidies for domestic companies, or all kinds of rules that hinder foreign products.

- **Import tariffs**: additional tax on imported goods → foreign products will become more expensive
- **Import quotas**: maximum quantity of a given product that may be imported
- **Subsidies** to domestic companies: so that they can produce more cheaply
- **Technical barriers** to trade: strict quality or safety rules that make imports more difficult

Import tariffs are used the most: how does that work?



Without trading, the equilibrium price is $1.80 and the traded quantity is 40

With free trade (without tariffs), the price would be $1.20 and 60 million (20 + 40) would be traded: free trade increases wealth because of lower prices and more trade

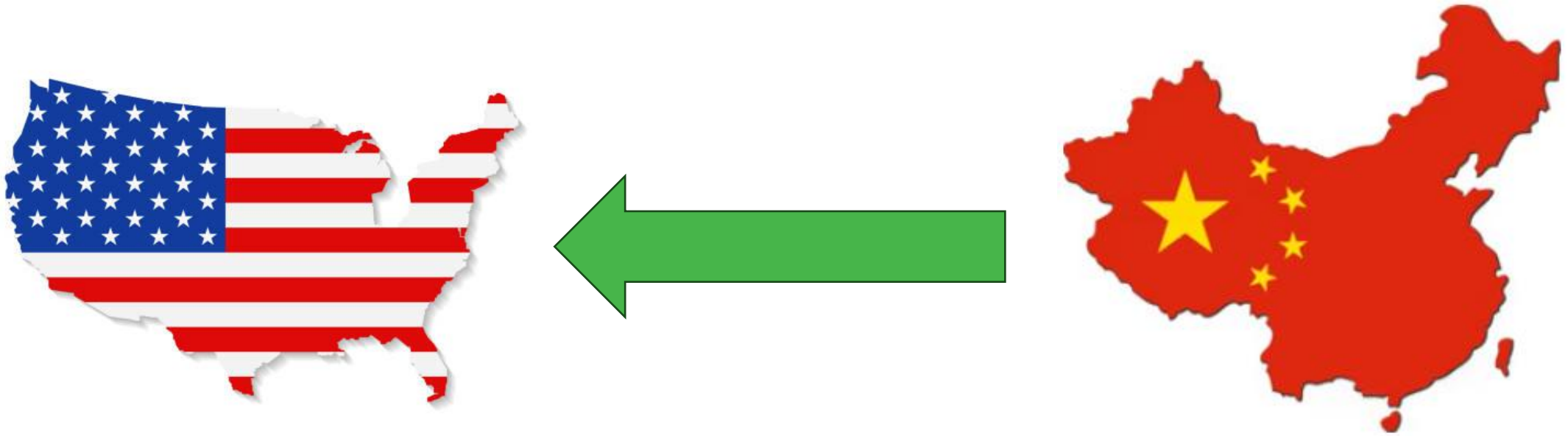
Import tariff of $0.40 >>> the import price will be $1.60

The quantity drops to 50 (30 + 20); imports fall to 20 million



Higher prices, less trade = decline in wealth

Example: Import tariffs imposed by the US on iPhones coming from China



Question:
Why doesn't that work well?

Answers

1. The iPhone is not "made in China", but only assembled in China. The parts come from many different countries, including the US
   So: the US is "cutting into its own flesh"

2. The measure did not protect U.S.
   industry, because the US assembles almost no smartphones

3. The tariffs mainly increased prices in the US in
   instead of strengthening companies domestically

Setting import tariffs on iPhones from China has a “wealth-degrading" effect!

Zonder tarief:

- iPhones worden geïmporteerd tegen wereldprijs
- consumenten betalen lage prijs

→ **lower prices**

Met tarief (bijv. 20%):

- de douane verhoogt de importprijs
- Amerikaanse consumenten betalen méér → *hogere winkelprijs van iPhone*
- productie blijft in het buitenland → VS krijgt **weinig extra jobs**
- Apple en winkelketens schuiven prijsverhoging door naar koper

→ **higher prices**

→ **no extra jobs**



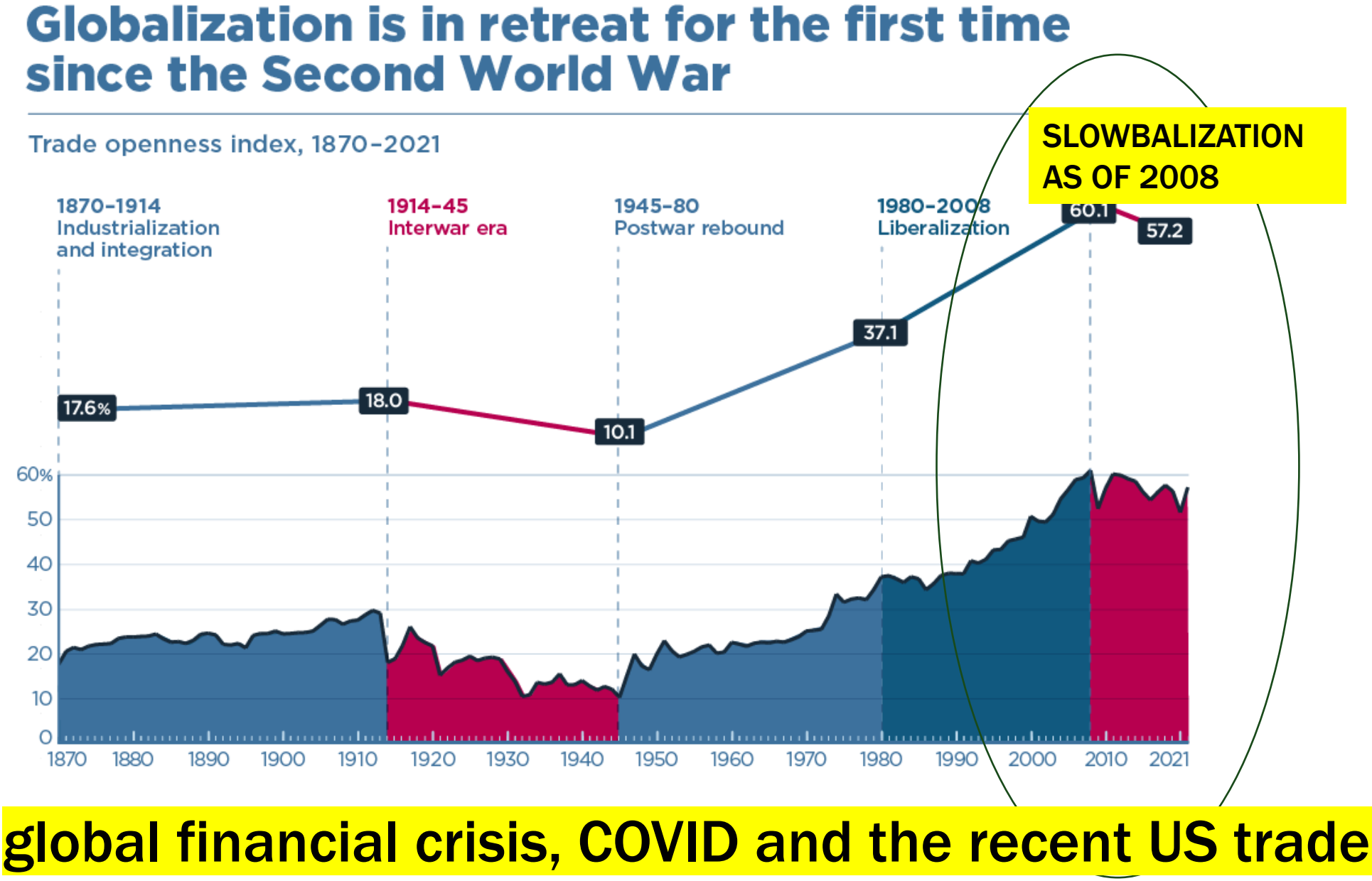
Imposing import tariffs or other trade barriers on goods works less well in a world of fragmented global value chains:

- Import tariffs create no extra jobs and result in price increases
- Import tariffs also affect own production companies that are in the chain and reduce wealth
- Companies can "shift" links in the value chain to avoid import tariffs
- International trade increasingly consists of services (data, ICT, transport, logistics)

6. WHAT IS SLOWBALIZATION?

Globalization and hyper-globalization have transformed into "slowbalization“: the growth of globalization is slowing down, without really stopping

- **Stagnation of world trade**
- **Shorter, regional value chains**
- **So: lower dependence on global value chains**
- **Reindustrialization in Western countries (home countries)**
- **Trade conflicts and protectionism**



The global financial crisis, COVID and the recent US trade policy are the engines of slowbalization

7. WHAT IS RESHORING?

GLOBAL >>> LOCAL

One of the phenomena of slowbalization is the organization of shorter, regional value chains

RESHORING

Companies from home countries bring certain parts of the global value chain back TO the home country

NEARSHORING

Companies from home countries bring certain parts of the global value chain back CLOSER to the home country

Radiatorenfabrikant Jaga haalt Tsjechische productie terug naar Limburg

“We willen de productie terug dichter bij onze ingenieurs in Diepenbeek brengen, zo kan alles efficiënter verlopen. De loonkost in Tsjechië is niet meer zo laag."

Canadese bedrijven overwegen om productie terug te halen naar Canada door handelsspanningen met de VS

IS THERE A NEW FUTURE FOR INDUSTRY IN THE HOME COUNTRIES?

ANSWER

Yes — there is a “new” future for industry in many Western countries, but it looks different than it used to.

Instead of only competing on cheap labour, the focus is shifting to technology, sustainability, innovation and strategic autonomy (e.g. in the field of energy).

Possibilities of re-industrialization:

- Advanced manufacturing (e.g., robotics, precision manufacturing, semiconductors and chip, biotechnology and medical manufacturing, artificial intelligence-driven manufacturing, advanced materials)
- Wind turbines, solar panels and battery production, hydrogen production, circular economy (recycling, reuse of materials)
- Internet of Things (IoT), cloud-based manufacturing, 3D printing in manufacturing

Van spookstad tot techstad: Detroit bruist weer dankzij Ford en start-ups

Ford kocht oude productiesites op en transformeerde deze in locaties voor hightec start-ups

De energiefabriek van de toekomst? Eerste Belgische centrale voor "groene waterstof" wordt gebouwd in Zeebrugge

Alle EU-lidstaten bundelen krachten voor versterking chipsector

De Chips Act ging in 2023 van kracht. Het is een ambitieus plan om de chipproductie op Europese bodem op te trekken