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Readings in International Economics

Autumn-winter semester 2011-2012

Introductory class

4 October 2011

Introductory class

- Self-introduction by the lecturer
- Self-introductions by the students
- General description of the course: what are we going to study, why it is important to study about International Economics (IE) and emerging economies (EEs) 新興国
- Course requirements and evaluation criteria
- Course schedule, textbook and other readings

What are we going to study?

- *Basic economic theory about:*
international trade, balance of payments (esp. the current account), exchange rate regimes, the international monetary system, international capital flows, financial crises
- *Application of the theory to emerging economies:*
can the economic theory help us understand what's going on in the real world (for example, the recent financial crises)?
- *Case studies of individual emerging economies*

Key concepts: emerging economies (EEs), or emerging markets

- The concept dates back to the 1980s
- Definition #1: countries that are in a transitional phase between developing and developed status
- Definition #2: countries that are growing rapidly and therefore may offer potential investors high returns, but are also known for higher volatility and risk
- At present, between 21 and 35 EEs, including many former socialist countries (pls. take a look at the handout)

Major groupings of emerging economies

- BRICs (Goldman Sachs, 2003): Brazil, Russia, India and China
- BRICS, BRICM, BRICK
- N-11 (Goldman Sachs, 2005): Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam
- Morgan Stanley Capital International (MSCI) emerging market index: 21 countries
- CIVETS: Columbia, Indonesia, Vietnam, Egypt, Turkey, South Africa
- NIEs/NICs (terms used in the 1970s-1980s)

Main characteristics of EEs

- *1. Rapid growth of GDP per capita*, leading to “catching up” with advanced countries and the rise of an affluent middle class
- *2. Free market reforms* such as SOE privatization, as well as opening to international trade and foreign investment since 1990s
- *3. Accession to international organizations like the IMF, WB, WTO, and the EU* → adoption of international rules and standards, which are often a reflection of advanced countries’ interests
- *4. (recently) Participation in rewriting the rules of the global game*: the G-20, reform of the IMF’s voting system, calls for a new global currency, etc.

Why should we study about IE and emerging economies? Part I

Chart 1

Growing economic clout

Emerging markets have become drivers of global growth.

(contributions to global growth, at PPP exchange rates; period averages, percent)¹



Sources: IMF, World Economic Outlook database, and staff estimates.

¹PPP = purchasing power parity.

Why should we study about IE and emerging economies? Part II

Expected future trends

- EEs will account for an increasing share of world's economic output
- According to the IMF (2010), the advanced economies have declined by – 3.2% in 2009, while China and India have grown by 8.7% and 5.7% respectively
- *“Decoupling theory”*: most of the EEs will not anymore catch a cold when the US sneezes
- The rise of outward FDI from the EEs will continue

Why should we study about IE and emerging economies? Part III

- However, the future may not be as rosy as expected
- EEs are also known for higher volatility and risk → vulnerability to external shocks
- Opening to international trade and foreign investment has both merits and demerits
- For instance, recession in advanced countries leads to a fall of EE exports and withdrawal of foreign capital from the EEs → possibility of financial crises

Major financial crises in EEs in recent history

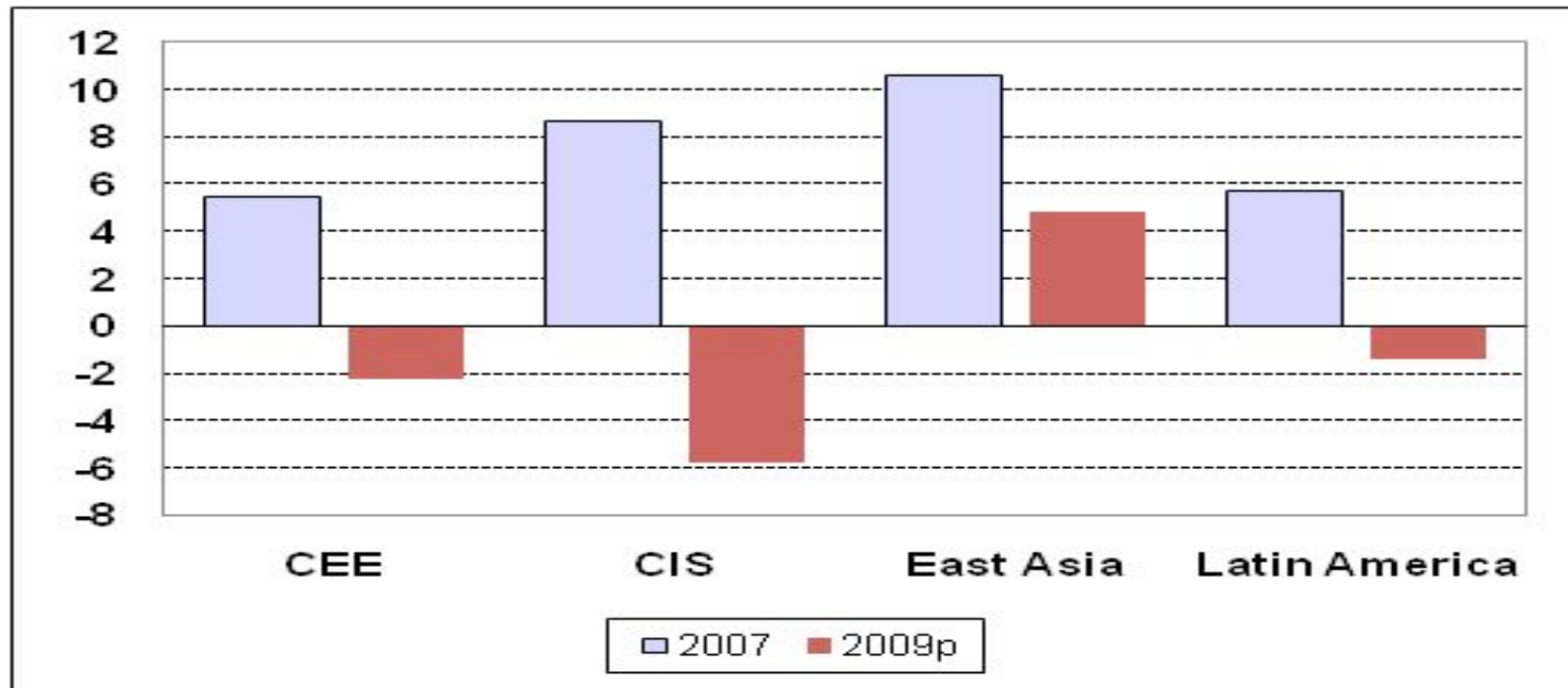
- 1980s: the debt crisis in Latin America
- 1990s: the Mexican currency crisis (1994), the East Asian financial crisis (1997), the Russian financial crisis (1998), the Brazilian currency crisis (1999)
- 2001-2002: crises in Turkey and Argentina
- 2008-2009: the impact of the global financial crisis varied according to countries and regions

The degree of the crisis: cross-country and cross-regional variations

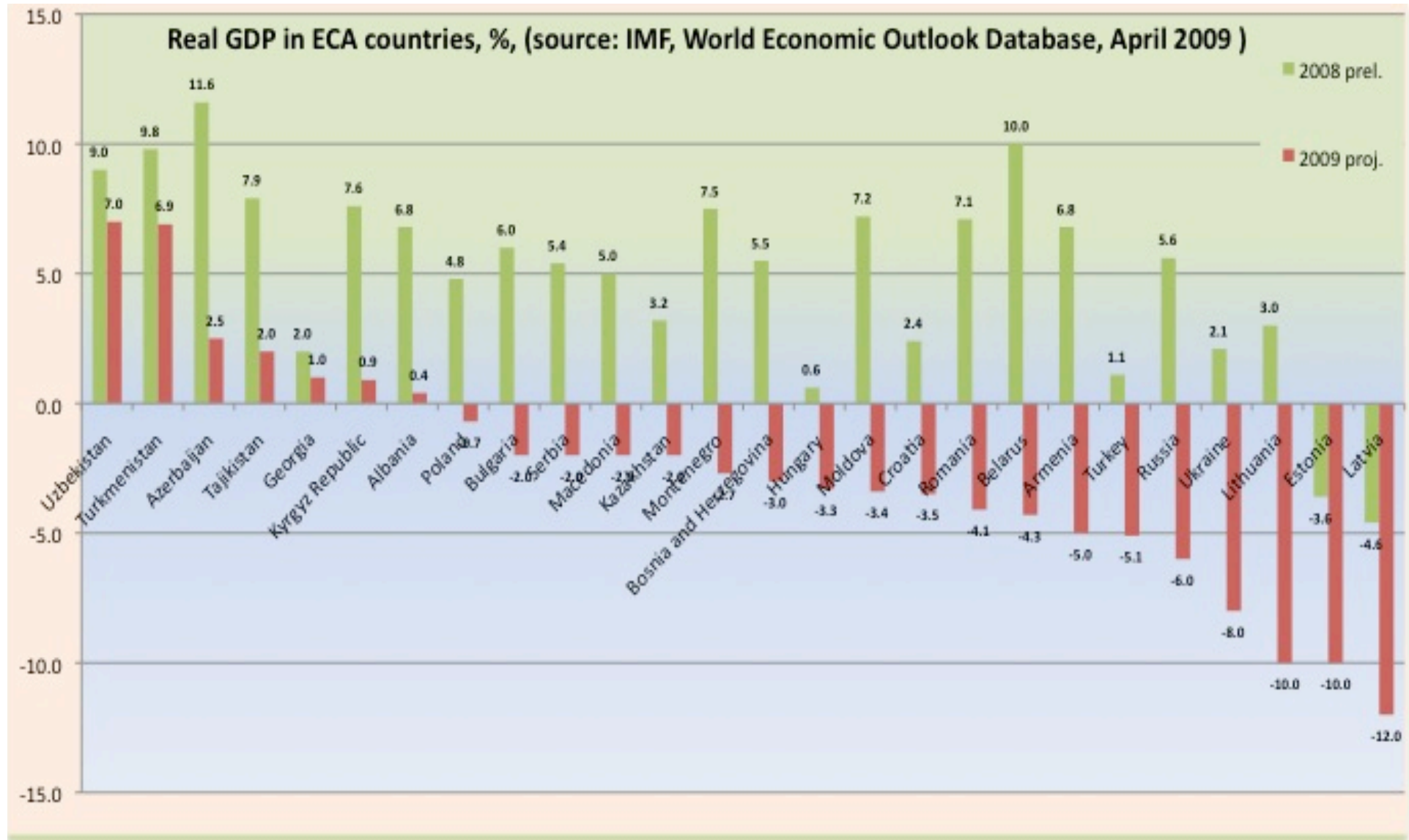
- *The degree to which an individual EE or a region is affected by the crisis varies*
- For example, European emerging economies have been much more severely affected by the present economic crisis than those in Asia (IMF, 2010)
- Among the Eastern European countries, the most heavily hit were Latvia, Estonia, Lithuania, Hungary, Russia, Ukraine and Romania

CEE and CIS countries have been more severely affected by the crisis

- *GDP growth (%) in CEE (Central and Eastern Europe) and CIS (Commonwealth of Independent States)*



Some CEE and CIS countries have experienced deeper GDP declines



Among the goals of this course is

- *To understand why some countries and regions are more vulnerable to external shocks than others*

Some questions:

- Are there any lessons that EEs could learn from the recent crises?
- Could the EE governments do something to alleviate their vulnerabilities?
- Could the variation in vulnerability come from differences in the pace and the pattern of EE's integration in the global economy (e.g. gradual, big-bang, reversals)?

Course requirements and evaluation

Requirements

- Attendance: missing 4 classes leads automatically to failing the course
- Class participation: written assignments, as well as participation in discussions
- Term paper (pls. take a look at the handout)
- Presentation on the term paper during one of the classes in December 2011 or January 2012

Evaluation

Schedule and readings

Schedule

- no class on 15 Nov. (休講)
- written assignment for the next class (11 Oct.)
- read chapter 12 from the textbook

Readings

- the textbook (“International Economics” by Paul Krugman and Maurice Obstfeld)
- books and articles on emerging economies and financial crises (like “This Time Is Different” by Carmen Reinhart and Kenneth Rogoff)
- articles on current issues from Financial Times, The Economist, The Wall Street Journal, etc.

Written assignment for 11 Oct.

- Please find data about the trade balance, current account balance, financial account balance and the balance of payments (BOP) of a country of your choice in 2008-2010. The figures should be both in millions/billions of US dollars and in percentage of the country's GDP
- Has the balance of payments (BOP) been positive or negative? Have the foreign exchange (international) reserves of that country increased or decreased over the same period?
- E-mail me the file until 5 pm on 10 Oct. and prepare a short talk about your assignment during the class