## **International Economics**

## Professor Randolph Luca Bruno

***COURSE AIMS AND LEARNING OUTCOMES***

In the last two decades, "Global Value Chains" (GVCs for short) have been a topic that has permeated the economics and international business literature alike.

If we start from the perspective of an economic system like a country, region, or urban area, we could appreciate that "International Economics" (IE) has never been as crucial as it is now. At the beginning of the twenty-first century, economies are linked more closely than ever. Through the trade of goods and services, technologies, investments, and human flows from one country to another, the distance between countries has undoubtedly "narrowed." These stylised facts shape new forms of globalization and new processes of deeper economic integration. These phenomena have accelerated for at least the last thirty years, generating a growing fragmentation of the production process and the international dispersion of the related activities and production stages. Once integrated into a single site/location, production processes have spread into components in different countries. As a result, most final goods (e.g., electronics, automobiles, and industrial machines) are attained by assembling components produced in different and sometimes very distant areas of the world. Hence, the creation of GVCs transforms "nominally" independent companies into globally integrated companies. In other words, much of the cross-border trade of inputs and outputs now occurs within complex international production networks involving foreign companies affiliated with the parent company. Independent suppliers, Multinational enterprises (MNEs), MNEs' foreign (equity-based) branches, acquired (equity-based) foreign companies, and non-equity-based partners with which MNEs have entered contractual relationships are all part of a web of economic "interdependences", which were unthinkable just a few decades ago. This feature of the globalisation process is unique to the new millennium. The fragmentation of production and MNEs' growing role (e.g., as super-star firms) in this systemic shift has profoundly changed how products and services are produced and traded. As a result, final goods could be considered traded as if they were "made in the world."

If we embrace a company's perspective, we also appreciate that "International Business" (IB) has experienced a tremendous acceleration in the academic literature. IB tackles the subject matter from a different angle than IE. In the former, the leading economic actor is the firm and its "internationalisation strategy." In the latter, the aggregation level pertains to a country, region or urban area, as highlighted in the previous section. In other words, the fragmentation of the "global production function" at the firm level and its impact on sectors, regions, and countries has spurred a vast amount of research on the topic at diverse levels of analysis. We can find research at the country, region, city, firm or even product level. GVCs are heavily scrutinised in trade, investment, and environmental policy contexts. The growing internationalisation, generated by the combination of liberalisation of international trade and globalization, has also led to transferring carbon and polluting emissions from developed countries to developing countries. However, developing countries and emerging economies are located in the middle and lower end of the global value chain. As a result, there is a severe unbalance between potential economic benefits and environmental losses, which causes challenges for sustainable development driven by energy-saving and emission reduction technologies.

A challenge for policymakers is how to develop policies around GVCs, by addressing such global unbalances. This module encompasses such heterogeneity of perspectives.

Upon completion of the program, students will be able to:

* understand the driving forces of globalization from an international movement of goods, services, and capital perspectives;
* comprehend the relationship between competitiveness, terms of trade, and exchange rates;
* understand the workhorse gravity model in International Economics and its application to trade and Foreign Direct Investment;
* compare differing territorial performance based on competitiveness rankings;
* identify main sustainability issues in the perspective of Agenda 2030 – SDGs and evaluate public policies and private strategies impacting the business environment;
* assess competitiveness and sustainability of the business environment of a given territory in terms of the demand of firms regarding their assessment of internalisation and location strategies.

***READING LIST***

* Paul Krugman, Competitiveness: A Dangerous Obsession, Foreign Affairs, Vol 73(2), March/April 1994. <https://www.jstor.org/stable/20045917?seq=1>
* Dani Rodrik, Symposium on Globalization in Perspective, Journal of Economic Perspectives, Vol 12(4), 1998 https://www.aeaweb.org/articles?id=10.1257/jep.12.4.3
* Robert C. Feenstra, Integration of Trade and Disintegration of Production in the Global Economy, Journal of Economic Perspectives, Vol 12(4), 1998. https://www.aeaweb.org/articles?id=10.1257/jep.12.4.31
* James E. Anderson; Eric van Wincoop Gravity with gravitas: a solution to the Border puzzle in American Economic Review 2003 https://www.aeaweb.org/articles?id=10.1257/000282803321455214
* Beata Smarzynska Javorcik Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers Through Backward Linkages in American Economic Review 2004 https://www.aeaweb.org/articles?id=10.1257/0002828041464605
* Holger Gorg and David Greenaway Much Ado about Nothing? Do Domestic Firms Really Benefit from Foreign Direct Investment? The World Bank Research Observer 01/09/2004 https://elibrary.worldbank.org/doi/10.1093/wbro/lkh019
* David Greenaway; Richard Kneller Firm heterogeneity, exporting and foreign direct investment, The Economic Journal 02/2007 https://onlinelibrary.wiley.com/doi/full/10.1111/j.1468-0297.2007.02018.x
* Randolph Luca Bruno, Nauro Ferreira Campos, Saul Estrin The effect on foreign direct investment of membership in the European Union JCMS: Journal of Common Market Studies, 2021/7 <https://doi.org/10.1111/jcms.13131>
* S. Lall, Competitiveness indices and developing countries, an economic evaluation of Global Competitiveness Report, World Development, Vol. 29, N.9, pp. 1501-1525, 2001 https://www.sciencedirect.com/science/article/pii/S0305750X01000511
* Gary D. Libecap, Addressing Global Environmental Externalities: Transaction Costs Considerations, Journal of Economic Literature 2014, 52(2), 424–479. https://www.aeaweb.org/articles?id=10.1257/jel.52.2.424
* The sustainable development goals report, United Nations, <https://www.un.org/sustainabledevelopment/progress-report/>, https://sdgs.un.org/goals

**Textbook** (selected chapters to be indicated by the Professor)

International Economics: Theory and Policy, Global 11th Edition Paul Krugman (Author), Maurice Obstfeld (Author), Marc Melitz (Author), Pearson Education

***TEACHING METHOD***

Lectures, case studies and practical exercises are carried out with the guidance of the Professor.

***ASSESSMENT METHOD***

There are two distinct evaluations during the course

* Small Group (4-5 students) Work (30%)
* Final exam (70%)

***OFFICE HOURS***

Office hours upon request via email to randolphluca.bruno@unicatt.it