0. Basic Concepts

0.1 Difference between Foreign Trade, Direct Investment and Labor Migration

- All are about the movements of goods, services, factors of production, and sometimes the owners of the factors (labor migration) across countries.
- Goods, services, and factors of production are related to each other because they are the components of production functions: goods and services as outputs and factors as inputs.
- In the neoclassical framework, there is a symmetry between production outputs and inputs. So there is certain symmetry between trade in goods and services and factor movement (direct investment and labor migration).

0.2 Traditional Approach to International Factor Movement

- Traditional theory of international trade focuses on trade in goods (and services), with little emphasis on international factor movements.
- Two reasons can be offered to explain why international factor movements do not receive much emphasis. First, the symmetry between production outputs and inputs suggests that under certain conditions some of the theorems established for trade in goods can be extended, with appropriate interpretation, to international factor movements.
- Second, in the past, capital movement and labor migration were not significant, as compared with the trade volumes of most countries.

0.3 Rising Importance of Direct Investment and Labor Migration

- Both direct investment and labor migration have been getting more common and important. For example, from 1977 to 2017, the simple compounded growth rates of world’s GDP, trade volume (export), and total direct investment are 6.21%, 7.28%, and 11.49%, respectively. See the chart, with their values in 1977 set as 100.
• Although there is certain symmetry between production outputs and inputs in the neoclassical framework, once some of the assumptions for the framework are not satisfied, the symmetry may break down; for example, the existence of imperfect competition.
• Direct investment and labor migration involve some issues that do not exist in the case of international trade in goods. Thus, new analysis on the causes and effects of direct investment and labor migration is needed.

0.4 What Is This Course about?

• This course covers the analysis of trade in goods, foreign direct investment, and international labor migration, with an emphasis on the latter two.
• This course overlaps with Econ 471 slightly, especially in the part about trade in goods, but the latter is not a pre-requisite for this course. Therefore, students are not assumed to have learned anything about the theory of international trade before, although having taken or being taking Econ 471 may help in following the analysis about trade in goods.
• Econ 300 and 301 are indeed pre-requisites for this course.