Economics of Globalization

Sciences Po Saint-Germain-en-Laye
2nd year



Samuel Colman Jr., *Ships Unloading, New York*, 1868

Who are we?

- Me ...
  - Assistant Professor at CY Cergy University
  - Associate researcher at the International Tax Observatory
  - Research on international economics, firms' taxation and firms' tax avoidance.
  - Expect me to ask you questions.
  - Course webpage: https://sebastien-laffitte.eu/teaching_globalization.html
- You ...

Globalization news

From last summer

Trump tariffs + Add to myFT

US tariffs of 50% on steel and aluminium come into force

US president escalates trade war by doubling levies on all exporters except the UK

Globalization news

From last summer

Trump said on Tuesday that the tariffs were necessary to prevent dumping by foreign producers that would “threaten to impair the national security”.

“The increased tariffs will more effectively counter foreign countries that continue to offload low-priced, excess steel and aluminium in the US market and thereby undercut the competitiveness of the United States steel and aluminium industries,” Trump wrote in the order late on Tuesday.

Globalization news

From this summer

EU to increase steel tariffs on trading partners

Decision to slash duty-free quotas and double rate to 50% follows similar moves by the UK, US and Canada



An EU official said the bloc was hoping to form a joint 'steel club' with other advanced economies, including the US, to reduce barriers © Thilo Schmuelgen/Reuters

Andy Bounds in Brussels and **Peter Foster** in London

Published JUN 30 2026 | Updated JUN 30 2026, 13:40

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Globalization news

From this summer

Trump tariffs ＋ Add to myFT

US will cut aluminium tariffs to boost defence supply chain

Trump administration offering exemptions to companies that invest in American smelters



High-purity aluminium is used to produce everything from fighter jets and missiles to combat armour © AFP via Getty Images

Globalization news

From this summer

Industrial metals + Add to myFT

US bans exports of various used critical minerals

Washington announces year-long ban on overseas sales of scrap tungsten and 'black mass'



A chunk of 'black mass', which is created when batteries are shredded and is typically a mix of metals, including lithium, nickel, cobalt and graphite © Christinne Muschi/Bloomberg

Globalization news

From this summer

US-China trade dispute + Add to myFT

China restricts trading with some US rare earth companies

Beijing introduces more export controls in retaliation for Washington's 'wrongful' actions



MP Materials' rare-earth open-pit mine in California. China has restricted trading with the US company © Reuters

Edward White in Shanghai

Globalization news

From this summer

Plurilateral deals are last best hope for world trading system

Agreements between 'coalitions of the willing' can gain traction over time and be subsumed into WTO frameworks



Senior diplomats in Geneva concede, with mild understatement, that the World Trade Organization ministerial conference in Yaoundé, Cameroon, caused a 'dip in confidence' in the WTO, particularly given how much store had been publicly set on it succeeding © AFP via Getty Images

What is this course about?

- Economics of globalization.
- Objectives of the course.
  - Learn about globalization and its effects.
  - Mobilize economic concepts to form a view on hot topics such as the opportunity of doing new trade agreements, the distributional consequences of globalization, the European Carbon Border Adjustment Mechanism.
  - Use tools from the economic theory.
  - Learn to work in group and communicate with your audience.
- **This should not be your first econ course. Some form of Econ 101 is necessary: we are going to talk about utility, supply and demand curves, consumer and producer surplus, etc.**

Economics of globalization

What is economics?

- Study of how wealth is “produced, distributed, and consumed” (Say, 1841)
- Samuelson: “Economics is the study of how people and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various persons and groups of society.”

Economics of globalization

What is economics?

- J. N. Keynes tripartition of economics:
  - **Positive economics**: the study of what is and the way the economy works
    Ex: "A 10% tariff increases domestic prices by 7-8% on average"
  - **Normative economics**: the study of what should be
    Ex: "We should impose tariffs to protect domestic jobs" vs. "Free trade maximizes consumer welfare"
  - **The art of economics**: applied economics relating positive knowledge to normative goals, considering historical, institutional, political, social, and distributional factors
    Ex: "Given our unemployment situation and trade deficit, should we negotiate a free trade agreement? Should we include worker adjustment programs?"

Economics of globalization

What is globalization?

- *Globalization refers to fundamental changes in the spatial and temporal contours of social existence [...]*, Stanford Encyclopedia of Philosophy
  - Process of reconfiguration of time and space.
- Globalization is a complex phenomenon characterized by increased connectivity and interdependence among people and countries worldwide.
- It encompasses economic, social, political, cultural, and ideological processes.

Economics of globalization

What is globalization?

- Wide range of interdisciplinary theories about globalization.
- Vary in their definition of globalization.
  - Process going on since the dawn of history ($\approx$ 5000-10000 years).
  - Process linked to the rise of capitalism ($\approx$ 500 years).
  - Recent process associated to post-industrialization and the restructuring of capitalism ($\approx$ 50 years).
- Marx saw globalization as a consequence of capitalism. The search for profit of capital owners through capital accumulation is a powerful incentive to find new markets.
- World-system theory, pioneered by Wallerstein, sees globalization emerging with the spread of capitalism around 1500.
  - Historical system with a core, periphery, and semi-periphery, shaping the international division of labor.

How economists think about globalization

- “The increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies.” (Shangquan, 2000)

- Major drivers:

  - Reduced communication and transport costs.
  - Reduced policy barriers to trade and investment.

- Two waves of globalization (Baldwin and Martin, 1999): 1820-1914 *vs.* 1960-present.

- An long-run interest in what motivates trade and globalization.

  - From Smith to the modern international economics theory.

- More recent interest in globalization’s institutions and the construction of a global order (positively and normatively).

Course organization

- 10 classes of 2 hours, tuesday 4pm-6pm, from 08/09 to 17/11
- Grading.
  - One group presentation (1/3).
    - Presentation of an academic paper.
  - Final exam (2/3) during the last session: 17/11.
  - Participation (bonus).

How to do the class presentation?

- Form groups of 3 students.
  - A presentation consists in presenting a paper or answering a policy question
  - Your talk need to be informative:
    - What does the paper want to do? What is the research question?
    - What is the methodology?
    - What are the results? Favor graphical evidence and present it clearly.
    - What do you think about it? What did you like? Didn't like?
  - **Presentation rules.**
    - **No phone during presentations, only paper is allowed, nothing is ideal.**
    - **Don't use concepts that are neither in the course nor in the paper.**
    - **Presentations last 20 minutes and are timed. I will stop you.**
- I'll send a personal email with feedback (not a final grade though).

Outline

- Introduction
- The State of Globalization
- Trade theory (2 classes): why technology and endowment matter for trade
- Trade Policy
- Foreign Direct Investment: MNEs in today's globalization
- Globalization and the Environment
- International Taxation and Tax Havens, feat Samuel Delpeuch (International Tax Observatory, former OECD)
- Geoeconomics

Readings

- The following resources can be useful.
  - Textbooks (both available in French and English)
    - CORE, Chapter 18
    - International Economics: Theory and Policy, Krugman, Obstfeld and Melitz, 11th edition
  - Websites (policy notes)
    - CEPII, Bruegel, Peterson Institute for International Economics
  - Podcasts
    - Trade Talks
- Mandatory readings, one out of these two books
  - Rodrik, D., *Straight Talk on Trade*, Princeton University Press, 2017 (French translation: *La mondialisation sur la sellette*)
  - Orain, A., *Le Monde confisqué*, Flammarion, 2025

$\longrightarrow$ There will be a question about it at the exam.

What is specific about countries?

Or why “international” economics matters beyond “domestic” economics?

What is specific about countries?

- National borders still have consequences for interactions.
  - ⟶ Currency, tariffs, tax system, economic policy, administrative procedures...
  - ⟶ History, language, social networks, constitutions, political systems, etc.

What is specific about countries?

- Assume a domestic entrepreneur transform inputs (e.g. rubber, steel) into outputs (e.g. cars)
- The entrepreneur decides to sell the inputs to a foreign country and buy cars with the proceeds.
- The domestic economic allocation is the same: trade can be seen as a “production” technology that changes inputs into outputs through imports and exports.
- Yet the two transformations are perceived very differently **because the second one crosses a national border**.
- Crossing a border creates externalities that would not exist in the domestic case.
  - security motives, domestic employment, inequalities, etc.

What is specific about countries?

- People tend to see trade as different from other types of shocks (Rodrik and di Tella, 2020)
  - Survey in the U.S: Different groups are distributed a piece of news about the closure of a garment plant.
  - Different scenarios: negative demand shock, labor-saving technology, management mistake, international outsourcing (trade).
  - Policy preference: do nothing, government transfers, or trade protection.
  - People support government policies to counter the negative shock.
  - Trade shocks $\Longrightarrow$ drastic protectionist response. The demand for trade protection also increases when jobs are outsourced to a developing country compared to a developed one.
  - Idea of fairness: developing countries might have lower standard (in terms of labor, environment, *etc.*), making the competition with them unfair.

What is specific about countries?

The political philosophy point of view (Nagel, 2005)

- Cosmopolitanism (Kant): we owe an equal concern to all human beings and state boundaries, which are accident of history, should not matter. We should aim for a common system of institutions to achieve global justice.

  $\longrightarrow$ What is specific about countries? Morally, nothing!

- Hobbes: Justice can be achieved only within a sovereign state (law + monopoly of force).

What is specific about countries?

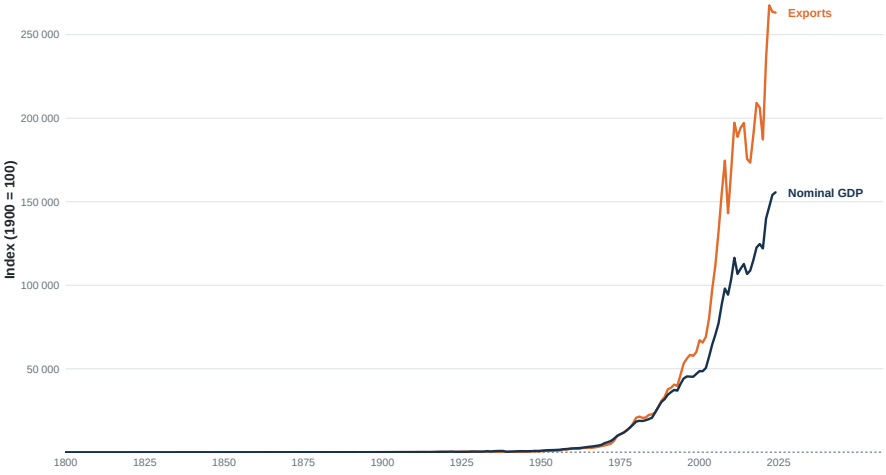
The political philosophy point of view (Nagel, 2005)

- Rawls: Justice is a political demand. It does not derive from a moral system but is the result of social and political institutions i.e. of individual nation states.
  - States are accidents of history but because a state exercises sovereign power on its citizens they have a duty of justice towards each other through the legal, social and economic institutions of the sovereign.
  - We owe humanity to everybody but justice is only owed to those with which I share political institutions.

  $\longrightarrow$ What is specific about countries? They are political units
    - Choices can be made collectively within these units, while coordination between countries is harder. This is the level at which decisions are made.
    - There are few, until now, ways to enforce rules between countries as compared to within countries.
  - Should we aim for a civil society of nations (Kant)? An economic society of nations (Hayek)? Should countries care for their own welfare or world's welfare?

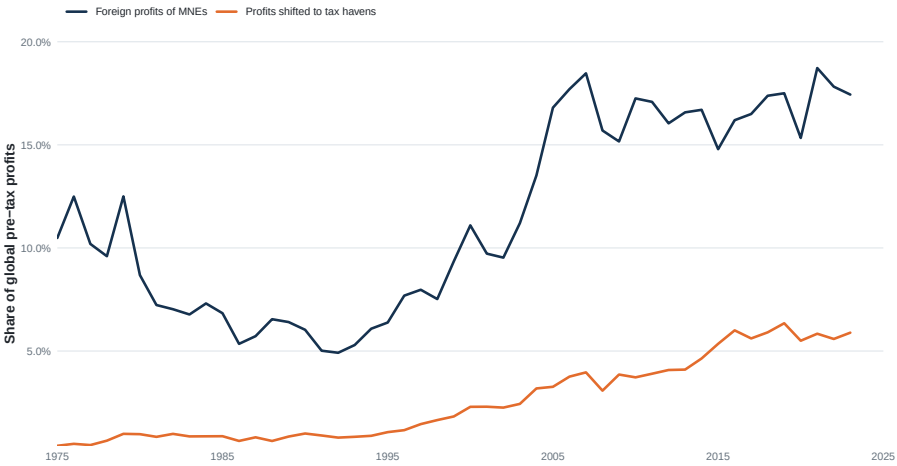
Four facts about globalization

Fact I: Growth and Trade over the long run



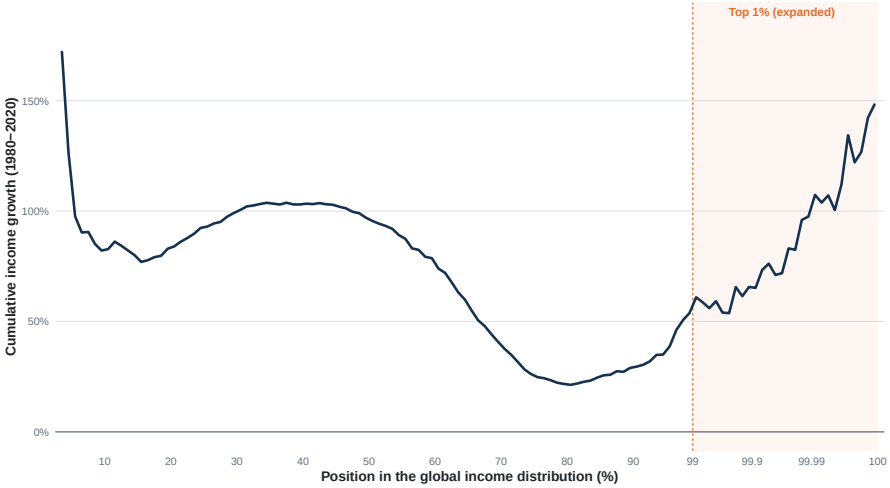
Linear scale; Source: Global Macro Database, release 2026_06, nominal GDP and exports indexed to 100 in 1900. Current US dollars.

Fact II: The rise of multinational firms



Global foreign pre−tax profits and globally shifted profits as shares of global pre−tax profits, 1975−2023.
Source: Gidron, Wier, and Zucman (2026), Global Profit Shifting, 1975−2023.

Fact III: The Elephant Curve



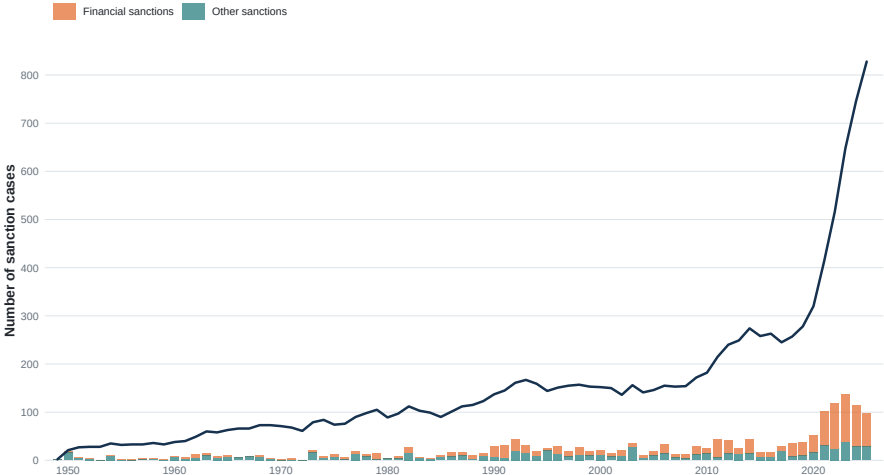
Cumulative real pre−tax income growth by global income group, 1980−2020. Source: WID.world, pre−tax national income per equal−split adult.

Fact IV: The comeback of geoeconomics



Monthly historical Geopolitical Risk Index, January 1900–August 2026; 1900–2019 average = 100. Thick line: trailing 12−month average.
Source: Caldara and Iacoviello (2022), data downloaded September 1, 2026.

Fact IV: The comeback of geoeconomics



Sources: Global Sanctions Data Base – Release 5 (1,794 cases) and Financial Sanctions (1,072 cases); Felbermayr et al. (2020); Yotov et al. (2026).