

Economics of Globalization

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

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 - Don't hesitate to participate ! We learn by interacting together.

Globalization news

From this 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 week

EU trade

+ Add to myFT

EU steelmakers plead for tariffs on cheap imports to avert collapse

Senior Thyssenkrupp executive warns industry is 'not going to survive' without emergency protection

Globalization news

From last year...

Global trade

+ Add to myFT

Justin Trudeau says Canada will impose steep tariffs on Chinese EVs and steel

Move replicates US measures and follows visit to Ottawa by top US national security official



Justin Trudeau says Canada is introducing the EV tariffs because China is 'not playing by the same rules' © Bloomberg

Globalization news

From last year...

Canada's Prime Minister Justin Trudeau said Ottawa would impose 100 per cent tariffs on imports of Chinese electric vehicles and 25 per cent levies on Chinese steel and aluminium, in a move replicating recent US measures.

Trudeau said Canada was introducing the EV tariffs because China was “not playing by the same rules”. It marks the latest example of the US and its allies taking actions to counter what they say are unfair economic practices.

“Actors like China have chosen to give themselves an unfair advantage in the global marketplace,” Trudeau said in Halifax, Nova Scotia during a cabinet retreat.

Opinion **Global trade**

We can't blame all global trade chaos on Trump

Many of the WTO's structures and procedures are broken and we should acknowledge that failure

HECTOR TORRES

+ Add to myFT

Moral Money Carbon trading

+ Add to myFT

Talk of a global carbon pricing scheme grows louder ahead of COP30

Brazil wants to use the presidency to push for an international framework

French government collapses as PM François Bayrou loses confidence vote

President Emmanuel Macron will look for a replacement who can break the budget impasse



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 - 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.**

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- 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.”

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- *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.

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As well, most would agree that the effects of globalization – of those economic, social, political, cultural and ideological processes to which the term would allegedly refer – are ubiquitous, and that different dimensions of globalization (economic, political, cultural, etc.) are interrelated, ergo, that globalization is multidimensional. (Robinson, 2007)

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.

Course organization

- 11 classes of 2 hours, tuesday 3:45-5:45, from 09/09 to 25/11
- Grading.
 - One group presentation (1/3).
 - Topics next week.
Ex: Should we sign the EU-Mercosur trade deal?
 - Final exam (2/3) during the last session: 25/11.
 - Participation (bonus).

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- **Use visual evidence.**
- If you use a LLM (I can't check anyway) but PLEASE use it wisely.

Presentation of the report

- No more than 12 minutes of presentation.
- 5-10 minutes of discussion with the class.
 - The rest of the class should have read the materials before and ask questions, participate to the debate.

Outline

- Introduction
- The State of Globalization
- Trade theory: why technology and endowment matter for trade
- Trade Policy
- Foreign Direct Investment: MNEs in today's globalization
- Globalization and inequalities
- International Taxation and Tax Havens
- Globalization and the Environment
- Geo-economy

Readings

- Textbooks (both available in French and English)
 - CORE Chapter 18
 - International Economics: Theory and Policy, Krugman, Obstfeld and Melitz, 11th edition
- Books
 - Rodrik, D., Straight Talks on Trade, Princeton University Press, 2017 (French translation: La mondialisation sur la sellette)
 - Roberts, A., Lamp, N., Six faces of globalization. Who Wins, Who Loses, and Why It Matters, Harvard University Press, 2021
 - Goldberg P., The Unequal Effects of Globalization, MIT Press, 2023 (free e-book)
 - The Deaton Review, Trade and Globalization, 4 articles:
<https://ifs.org.uk/inequality/themes/trade-and-globalisation/>
- Websites (policy notes)
 - Cepii, Bruegel Institute, Peterson Institute for International Economics
- Podcasts
 - Trade Talks
 - Conflict and Co-operation: A History of Trade (BBC)

What is specific about countries?

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- People in the same country share a lot more with their fellow countrymen than with foreign people.
- Currency, tariffs and tax system, economic policy, administrative procedures, language, social networks, etc...

⇒ National borders still have consequences for interactions.

What is specific about countries?

- Krugman (1993): What's the difference between an entrepreneur that finds a miracle way to transform wheat, lumber, and so on into cheap high-quality consumer goods vs. the same entrepreneur exporting the same wheat and lumber to Asia and buy the manufactured goods with the proceeds ?
- Both will have exactly the same impact on the economy but in case i) the entrepreneur is seen as a hero, in case ii) as someone that destroys jobs.

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. The control scenario is no job losses.
 - Different scenarios: negative demand shock, labor-saving technology, management mistake, international outsourcing (trade).

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 - Trade shocks \implies 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: 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.
 - 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.
- What is specific about countries? They are political units
 - Should we aim for a civil society of nations (Kant)? An economic society of nations (Hayek)?

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).

How economists think about globalization

The Gravity model

- Bilateral trade (i.e. how much is exchanged between two countries i and j) is well explained by “gravity” forces.
- Newton's Gravity: $F_{1,2} = G \frac{m_1 m_2}{r^2}$.
- Trade Gravity: $X_{ij} = \frac{Y_i Y_j}{\phi_{ij}}$ with ϕ_{ij} a function of geographical, linguistic, political, cultural distance.
- $\approx 80\%$ of trade can be explained by gravity forces.

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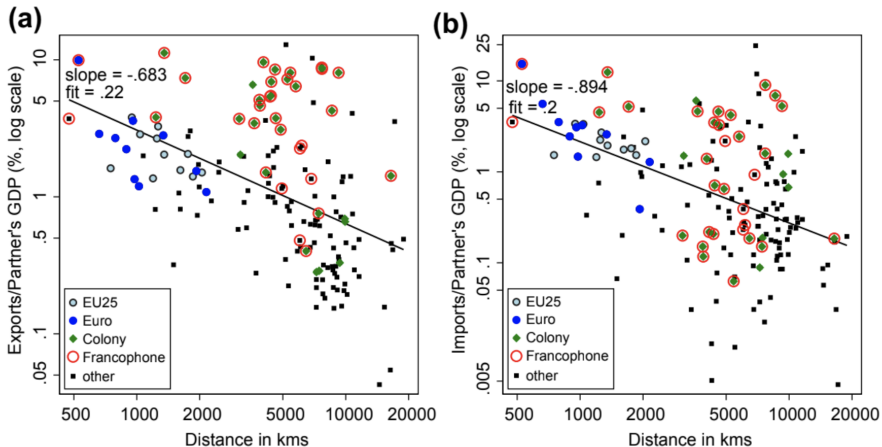


Figure 3.2 Trade is Inversely Proportional to Distance; (a) France's Exports (2006); (b) France's Imports (2006)

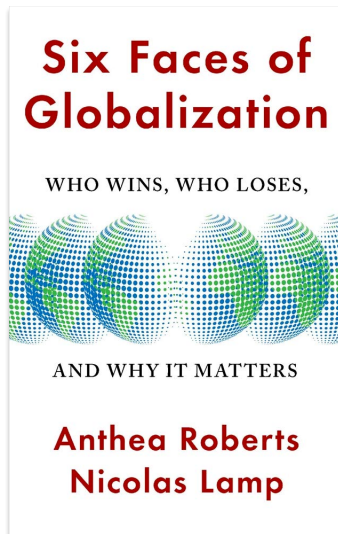
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- $\approx 80\%$ of trade can be explained by gravity forces.
- Works well for other bilateral forces: investment, trade in services, migration, diseases, etc.

What are the effects of globalization?

Narratives about globalization (Roberts and Lamp, 2021)



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 - Globalization have increased global threats (global warming, pandemics, etc.) (*global threats narrative*)
- Additional narratives exist: *neo-colonial narrative*, *rising-Asia narrative*, *Western hegemony narrative*, etc.

Narratives about globalization (Roberts and Lamp, 2021)

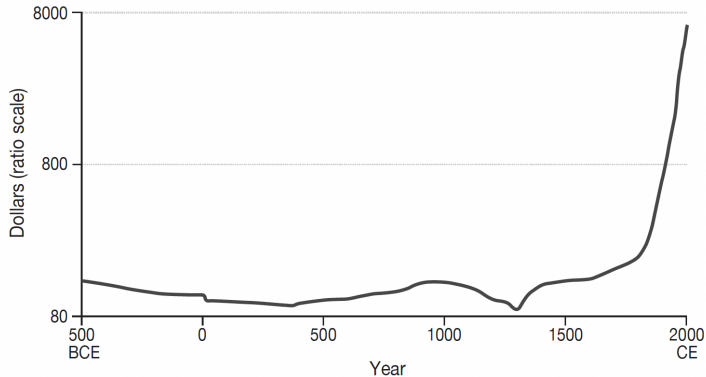


Fig. 3.1: The Hockey Stick of Human Prosperity

Note: This graph shows annual world GDP from 500 BCE to 2000 CE (in 1990 international dollars).

Credit: Reformatted from Victor V. Claar, "The Urgency of Poverty and the Hope of Genuinely Fair Trade," *Journal of Markets and Morality* 16, no. 1 (Spring 2013): 273–279, figure 1.

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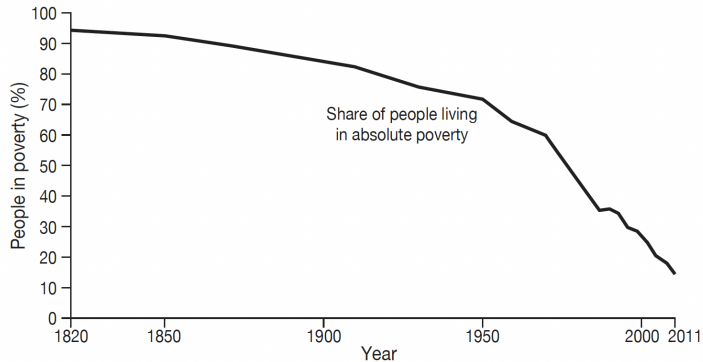


Fig. 3.2: The Declining Share of People Living in Absolute Poverty

Note: This graph shows the declining share of people living in absolute poverty from 1820 to 2011.

Narratives about globalization (Roberts and Lamp, 2021)

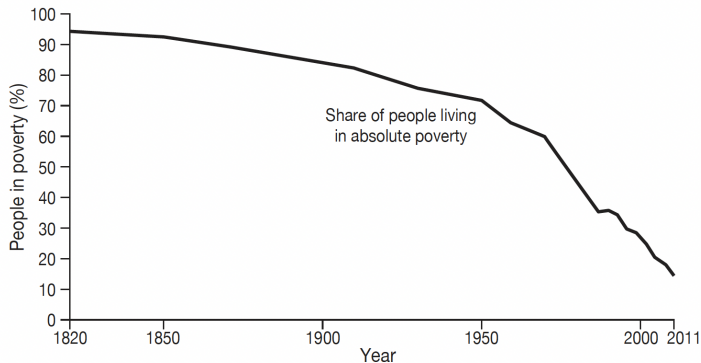
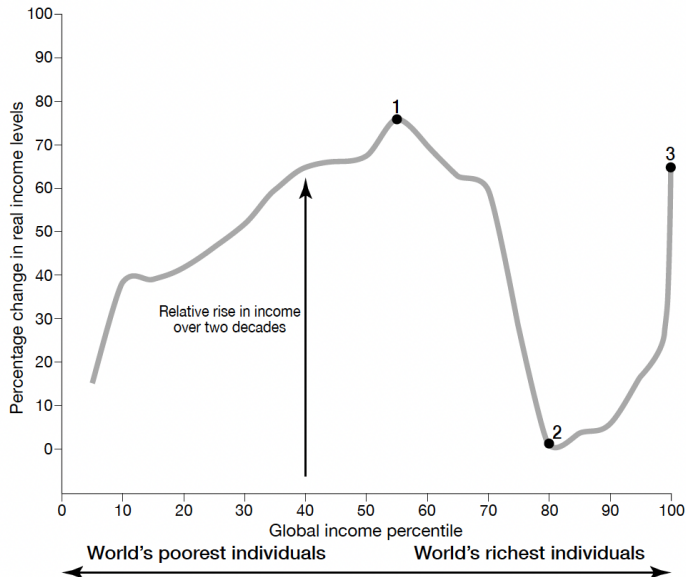


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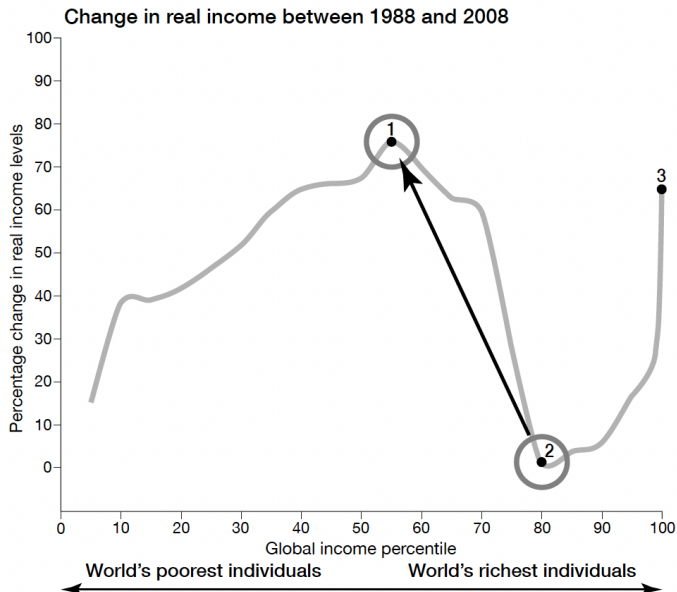
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Krugman (1999): “The raw fact is that every successful example of economic development this past century—every case of a poor nation that worked its way up to a more or less decent, or at least dramatically better, standard of living—has taken place via globalization; that is, by producing for the world market rather than trying for self-sufficiency”

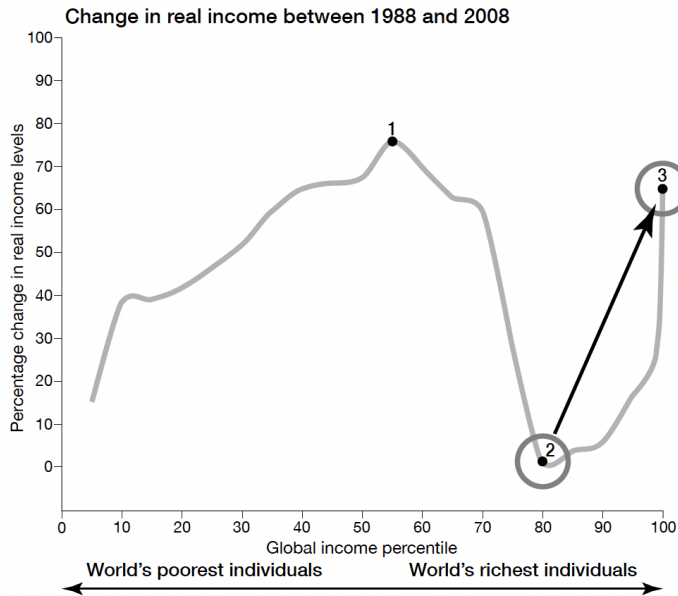
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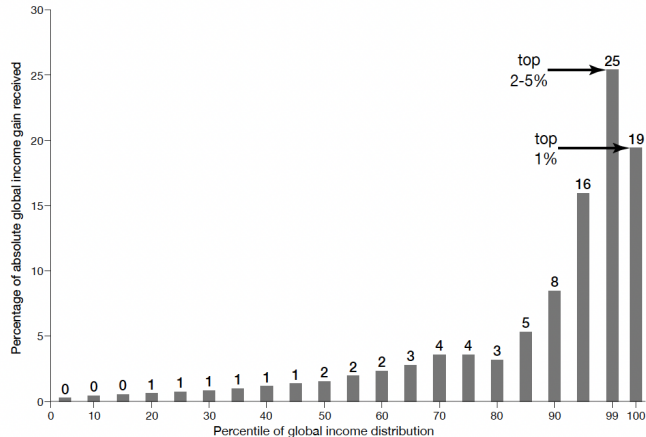


Fig. 2.4: Who Has Gained the Most in Absolute Terms?

Note: This graph shows the percentage of absolute real income gains received by individuals at different points in the global income distribution from 1988 to 2008 (the same period that is covered by the Elephant Graph).

Credit: Branko Milanovic, *Global Inequality: A New Approach for the Age of Globalization* (Cambridge, MA: The Belknap Press of Harvard University Press, 2016), figure 1.2.

Narratives about globalization

- At the end of this course you should be able to:
 - Distinguish each narrative.
 - Find the empirical evidence supporting them (or not).
 - Mobilize the economic theory to explain these narratives.
 - Make your own opinion about globalization.