

# Economics of Globalization

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

# Who we are?

- Me ...
  - Assistant Professor at CY Cergy University.
  - 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](https://sebastien-laffitte.eu/teaching_globalization.html)
- You ...
  - Don't hesitate to participate ! We learn by interacting together.

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

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.

## Globalization news

The Canadian finance ministry said China's “intentional, state-directed policy of overcapacity and lack of rigorous labour and environmental standard” threatened workers and businesses in the global EV industry and undermined Canada's long-term economic prosperity.

“That is why our government is moving forward with decisive action to level the playing field, protect Canadian workers, and match measures taken by key trading partners,” said Chrystia Freeland, the finance minister and deputy prime minister.

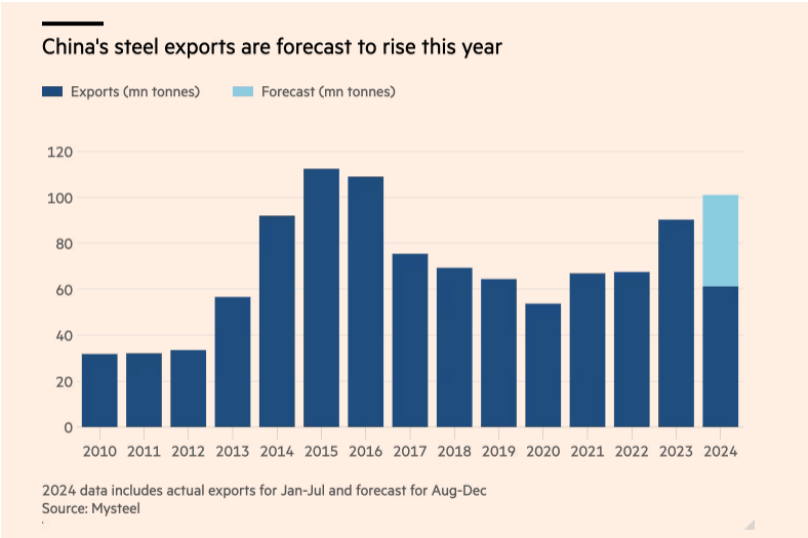
## Chinese steel exports to reach 8-year high

Imports into Europe expected to surge later this year



Exports from China, the world's biggest steel producer, are expected to top 100mn tonnes in 2024 © Qilai Shen/Bloomberg

# Globalization news



## Le savoir-faire de la filière liquide disparaît

Quand ArcelorMittal annonce la mise en sommeil du P6, le dernier des hauts fourneaux de Lorraine, en octobre 2011 c'est la fin de la filière liquide qui se profile. C'est un **tournant dans l'histoire de la sidérurgie lorraine** : après Longwy à la fin des années 70, Uckange en 1991, et enfin Gandrange en 2009.



# Globalization news

France Bleu

Aujourd'hui, Florange n'est plus un site où coule de l'acier fumant, mais un ensemble d'usines, fleuron des **acières à haute valeur ajoutée** qui emploie 2.200 personnes, alors qu'il y en avait près de 3.000 en 2012. [Il reste trois filières sur le site](#) : le packaging (emballages alimentaires), l'automobile, et l'industrie.

## Une transformation du paysage politique

Sur le plan politique, de nombreux élus de gauche ont perdu leur mandat dans la Fensch, après l'affaire Florange. Le paysage politique a bien changé : **la gauche est en net recul**. La ville de Florange est passée à droite, et le Rassemblement national s'est implanté durablement avec la conquête de la ville d'Hayange en 2014, puis de sa circonscription en 2022 avec le député Laurent Jacobelli. Mais Fabien Engelmann ne fait pas reposer son élection sur la seule fermeture des hauts fourneaux : *"L'ancien maire avait laissé fermer le tribunal d'Hayange et a validé la fermeture des urgences et de la chirurgie de l'hôpital. C'est, je pense, ce qui lui a vraiment fait perdre l'élection"*.

# What is this course about?

- Economics of globalization.
- What do you think about globalization?
- Objectives of the course.
  - Learn about globalization and its effects.
  - Mobilize (interdisciplinary) 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 (graphical reasoning mainly).
  - Learn to work in group and communicate with your audience.

# Course organization

- 11 classes of 2 hours.
- Grading.
  - One report on a policy issue (1/3).
  - One group presentation of the report (1/3).
  - Final exam (1/3) during the last session: 19/11.
  - Participation (bonus).

# How to write the policy report?

- Form groups of 2 or 3 students.
  - Chose a subject based on a selection of policy reports (CAE, Cepii, PIIE, Bruegel).
  - You can bring additional resources if you want/need.
  - Write a report:
    - What is the policy issue? Why does it matter? ( $\approx$  .5-1 page).
    - What are the policy propositions? Explain the technical details. ( $\approx$  .5-1 page).
    - What are the pros and cons? ( $\approx$  .5-1 page).
    - Assume you are advising a minister, what do you suggest him/her about this policy issue? ( $\approx$  .5 page).
  - Referring to theoretical concepts is strongly advised.
  - Reports will be shared with the class. I might ask related questions at the final exam.
  - Send it by email at [sebastien.laffitte@cyu.fr](mailto:sebastien.laffitte@cyu.fr) **BEFORE your presentation** (*malus* if after).

## Presentation of the report

- Present the report to the class.
- Not 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!
- Use visual evidence when possible.
  - Efficient way of conveying information.

# 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
- International Macroeconomy.

# 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



What is specific about countries?

## What is specific about countries?

- 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 difference from other types of shocks.
  - Rodrik and di Tella (2000): Treatment groups in the U.S. 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).
  - Policy preference: do nothing, government transfers, or trade protection.
  - Treatment  $\implies$  support for government policies. It differs according to the scenario.
  - 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).
  - 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.
    - A sovereign state puts individuals in a relation they do not have with the rest of humanity. 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

How would you define globalization?

# Defining 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.

## Defining globalization

*First*, the pace of social change and transformation worldwide seems to have quickened dramatically in the latter decades of the twentieth century, with implications for many dimensions of social life and human culture.

*Second*, this social change is related to increasing connectivity among peoples and countries worldwide, an objective dimension, together with an increased awareness worldwide of these interconnections, a subjective dimension.

*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)



# Theories of globalization I

- 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 condition of capitalism. The search for profit of capital owners 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.

## Theories of globalization II

- The Network Society (Castells) analyzes the role of technological change in globalization, emphasizing information-based, globally organized, and network-dependent forms of capitalism.
  - International networks of firms and of sub-units of firms are the basic organizational form of the global economy
- Theories of space, place, and globalization explore the relationship between social structure, territoriality, institutions, and changing spatial dynamics.
  - Each major crisis in capitalism has been resolved with new forms of social organization of capitalism made possible by new technologies and successive waves of globalization (Harvey).
  - Emergence of a network of global cities (New-York, London, Tokyo) producing specialized services for transnationally mobile capital: decentralization of production and a centralization of command and control within global cities.

## Theories of globalization III

- Theories of global culture highlight debates around cultural homogenization, heterogeneity, and hybridization as dimensions of cultural globalization.
  - Different approaches: homogenization (uniform consumption patterns and cosmopolitanism), heterogeneity (continued cultural difference and local cultural autonomy, cultural resistance to homogenization), and hybridization (evolving cultural forms and identities produced by transnational processes and the fusion of distinct cultural processes).

## 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.
- The gravity model is a powerful tool to understand globalization processes.

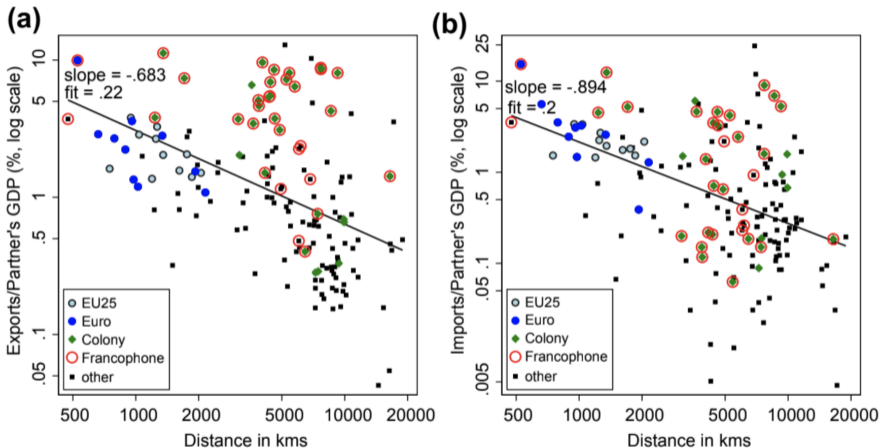
# How economists think about globalization

## 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  $\phi_{ij}$  a function of geographical, linguistic, political, cultural distance.
- $\approx 80\%$  of trade can be explained by gravity forces.

# How economists think about globalization

## The Gravity model



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

# How economists think about globalization

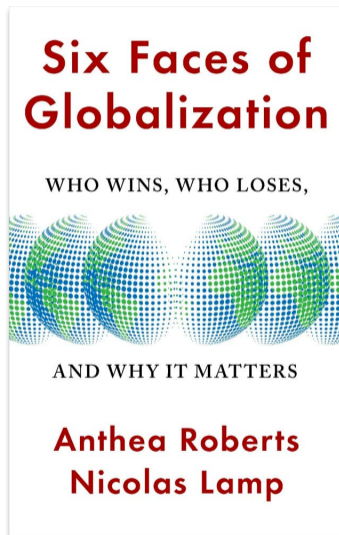
## The Gravity model

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- Trade Gravity:  $X_{ij} = \frac{Y_i Y_j}{\phi_{ij}}$  with  $\phi_{ij}$  a function of geographical, linguistic, political, cultural distance.
- $\approx 80\%$  of trade can be explained by gravity forces.
- Works well for other bilateral forces: investment, trade in services, migration, diseases, etc.

What do you think are the effects of globalization?



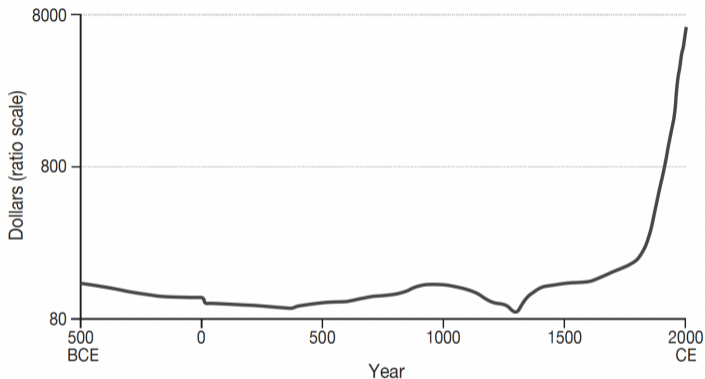
# Narratives about globalization (Roberts and Lamp, 2021)



## Narratives about globalization (Roberts and Lamp, 2021)

- Many different **narratives** about globalization (in Western countries).
  - Everybody wins (*establishment narrative*)
  - Gains are concentrated among the top 1%: increase in inequality (*left-wing narrative*)
  - Multinational corporations are the real winners of globalization (*corporate power narrative*)
  - (Western) Workers have lost, economically and culturally (*right-wing narrative*)
  - Globalization have created security vulnerabilities with respect to China (*geo-economic narrative*)
  - Globalization have increased global threats (global warming, pandemics, etc.) (*global threats narrative*)
- Additional narratives exist: *neo-colonial narrative*, *rising-Asia narrative*, *Western hegemony narrative*.

# Narratives about globalization (Roberts and Lamp, 2021)

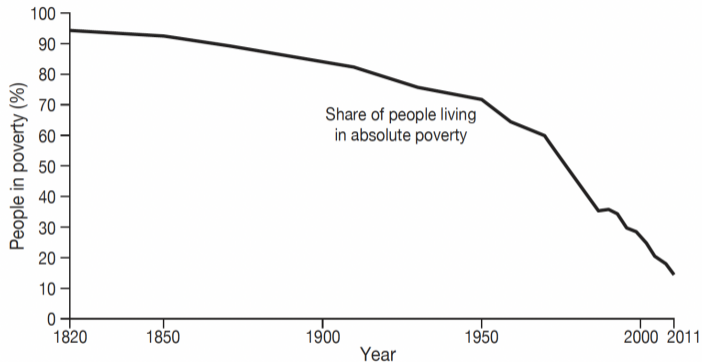


**Fig. 3.1: The Hockey Stick of Human Prosperity**

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.

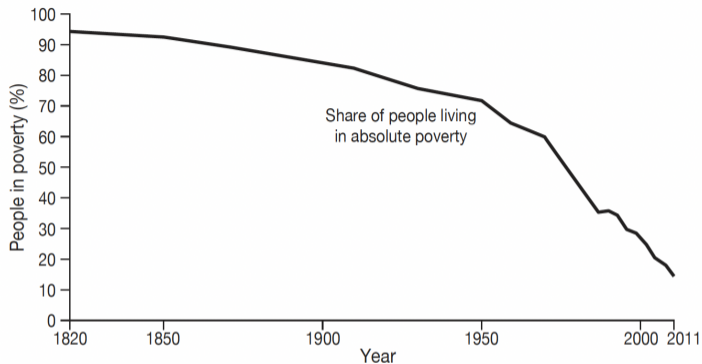
# Narratives about globalization (Roberts and Lamp, 2021)



**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)

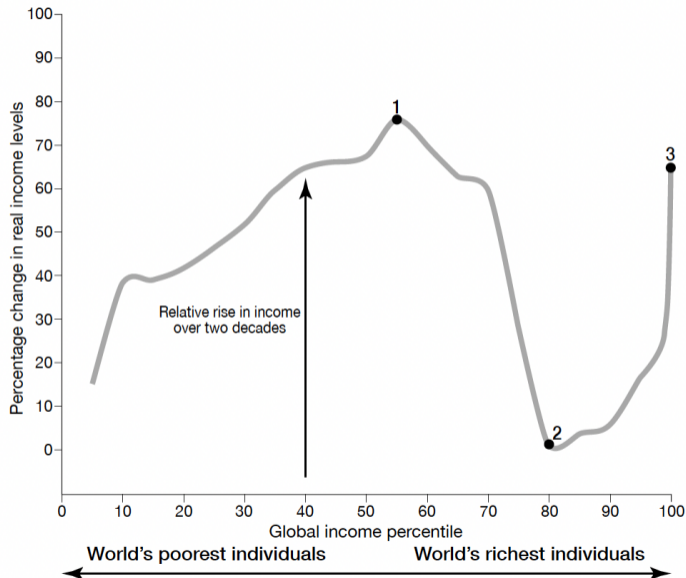


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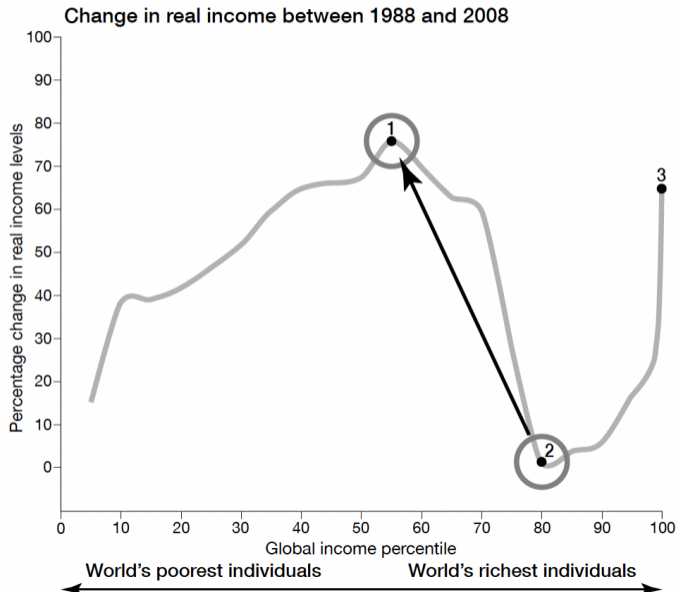
Note: This graph shows the declining share of people living in absolute poverty from 1820 to 2011.

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”

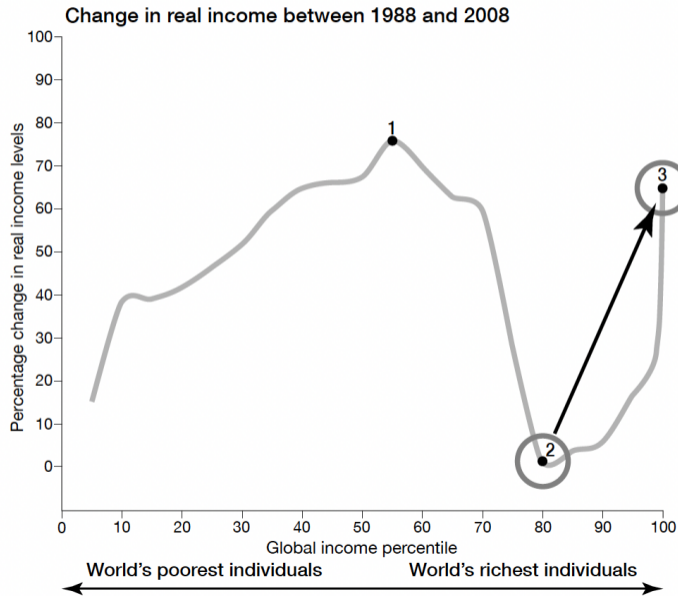
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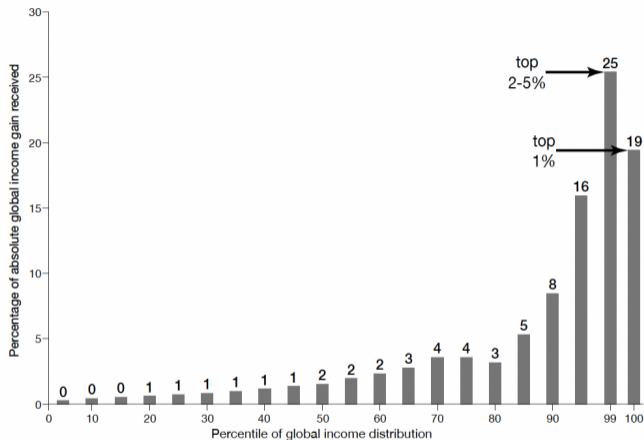


# Narratives about globalization (Roberts and Lamp, 2021)





# Narratives about globalization (Roberts and Lamp, 2021)



**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.