

POL201Y1: Politics of Development

Lecture 22:

Trade and globalization

Announcements

- Thursday:
 - In-class course evaluations—please bring electronic devices to the lecture
 - Last office hours

Recap

- Development through political development → ‘consensually strong state equilibrium’
- Efforts to address conflict, human rights violations, poverty, and lack of development:
 - Humanitarian assistance, international sanctions, peacekeeping, humanitarian intervention, mediation and support of negotiated elite settlements, peace dividends
 - Development assistance: from the relatively easy fixes to ‘wicked hard’ problems
- Takeaways:
 - Partial success (or failure) of such efforts in the absence of the ‘consensually strong state equilibrium’
 - Establishment of the ‘consensually strong state equilibrium’ as the most wickedly hard of all problems

Can there be (economic) prosperity without the 'consensually strong state equilibrium'?

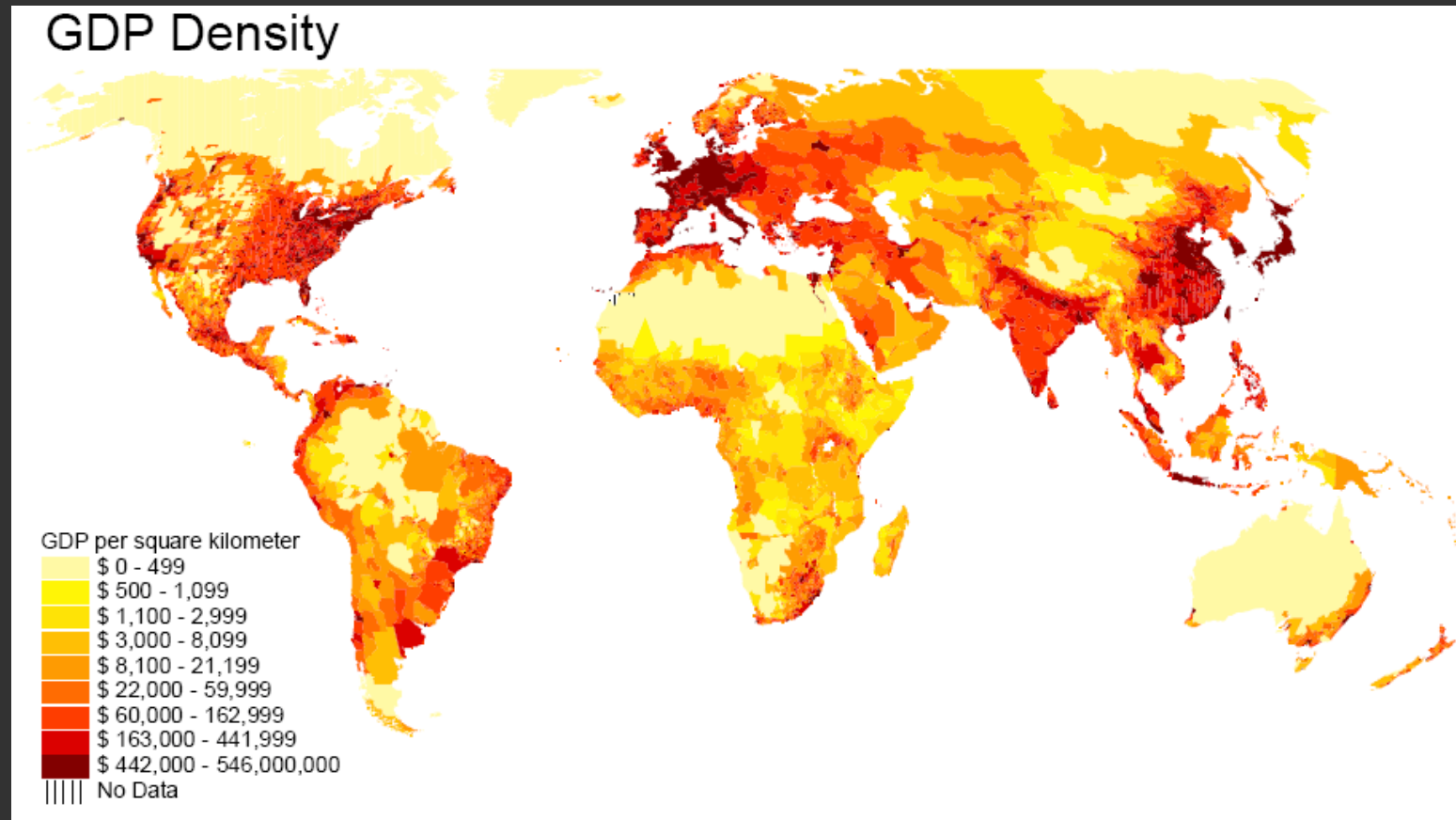
Possible solutions to the lack of (economic) development in the absence the 'consensually strong state equilibrium'

- Trade
- Migration

Benefits of trade

- “As by means of water-carriage a more extensive market is opened to every sort of industry than what land-carriage alone can afford it, so it is upon the sea-coast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself.”

- Smith, Adam. 1776. *Wealth of Nations*.



Benefits of trade

- Basic concepts:
 - (Primary) inputs / factors of production:
 - Land
 - Labour
 - Capital
 - Outputs:
 - Goods
 - Services

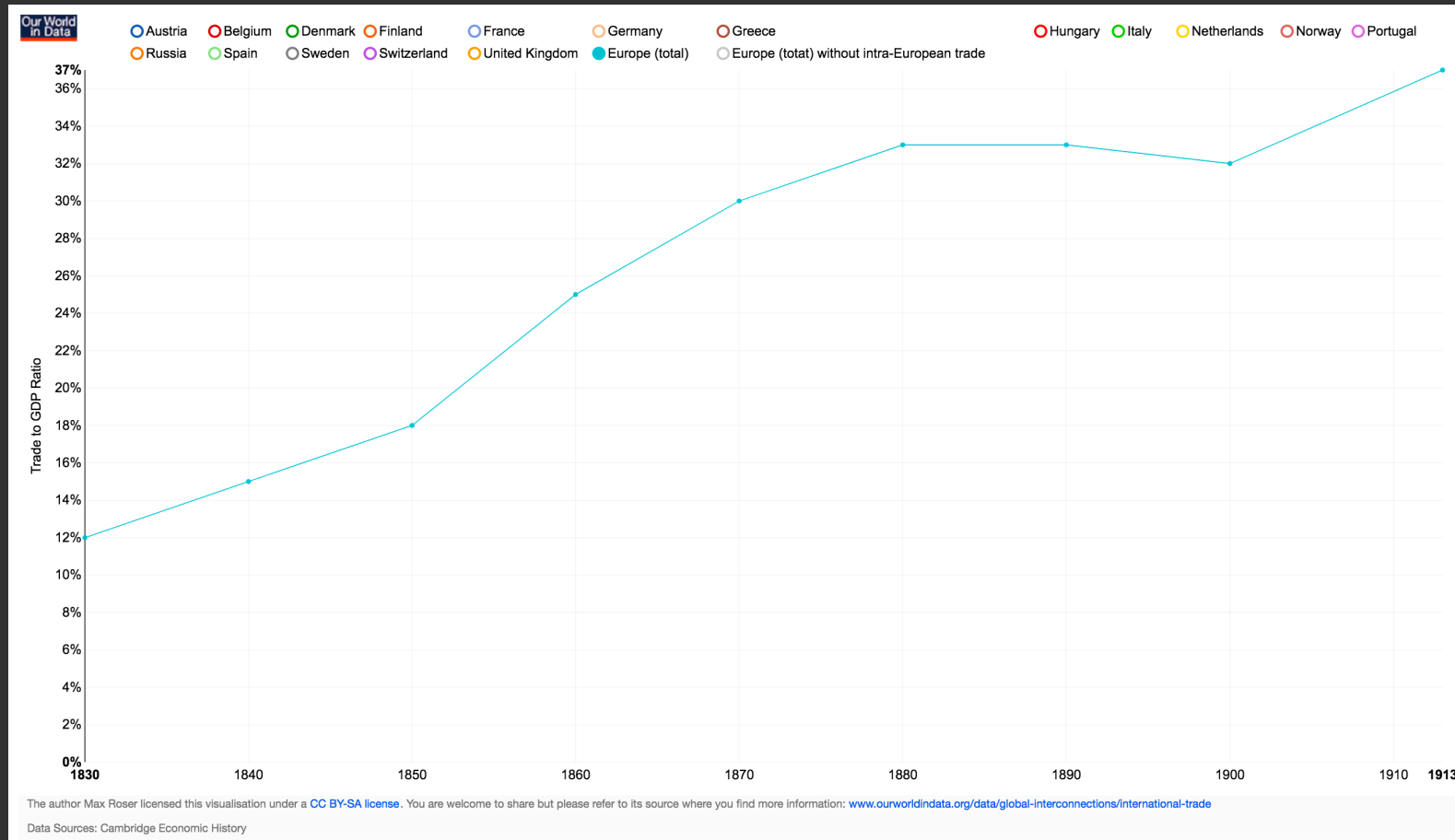
Benefits of trade

- Preference differentiation and agent matching
- Value creation:
 - Specialization and comparative advantage
 - Division of knowledge / labour
 - Innovation
 - Economies of scale

Benefits of trade

- Basic economics insight:
 - Poverty →
 - Specialization and trade →
 - Prosperity
- Implication:
 - More trade → more prosperity
- Trade in the course so far:
 - ISI vs. developmental states

Globalization

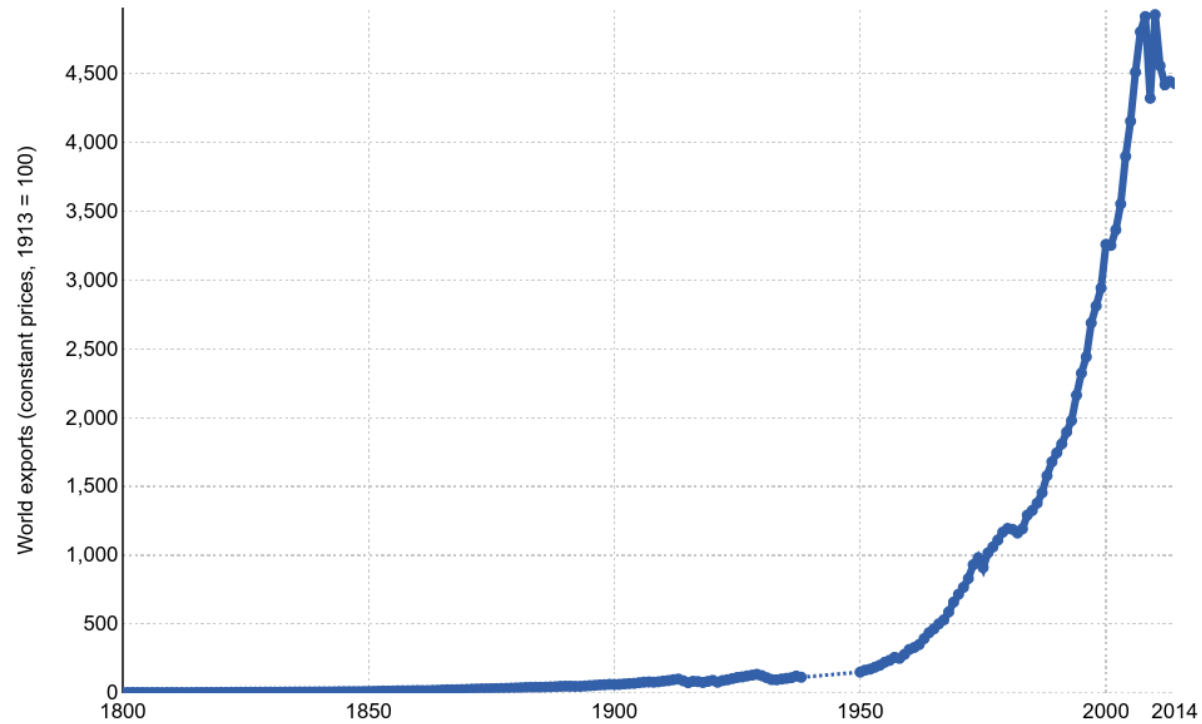


Globalization

The value of global exports

Time series of value of world exports relative to 1913 = 100.

OurWorld
in Data



Source: Federico and Tena-Junguito (2016)

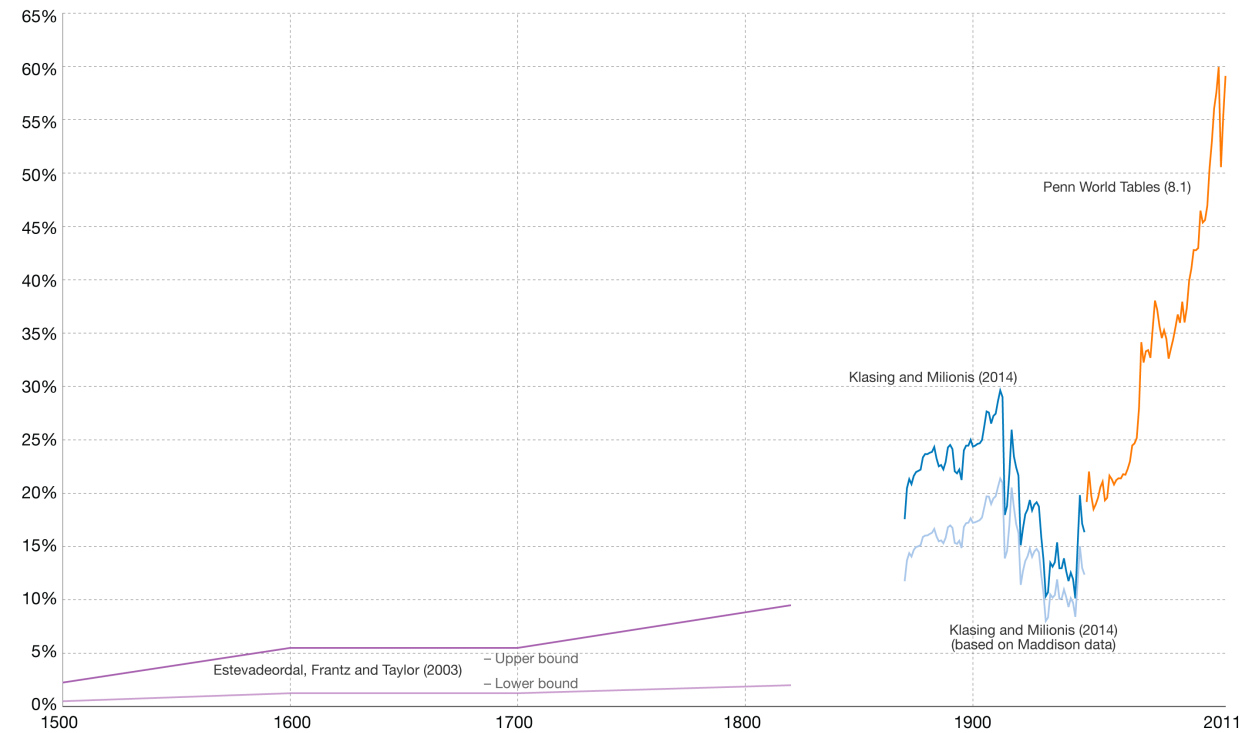
OurWorldInData.org/international-trade • CC BY-SA

Globalization

Globalization over 5 centuries (1500-2011)

Shown is the sum of world exports and imports as a share of world GDP (%)
The individual series are labeled with the source of the data

Our World
in Data



Data sources: Klasing and Milionis (2014), Estevadeordal, Frantz and Taylor (2003) and the Penn World Tables Version 8.1
The interactive data visualization is available at OurWorldinData.org. There you find the raw data and more visualizations on this topic.

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Globalization

- Waves of globalization:
 - First wave: 19th century-1914
 - Second wave:
 - General Agreement on Tariffs and Trade (GATT):
 - 1947-1994
 - ‘Thin globalization’ — “freer trade in some areas, not free trade in all”
 - World Trade Organization:
 - 1995-present
 - ‘Hyperglobalization’
 - Dani Rodrik. 2011. *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: W. W. Norton and Company.

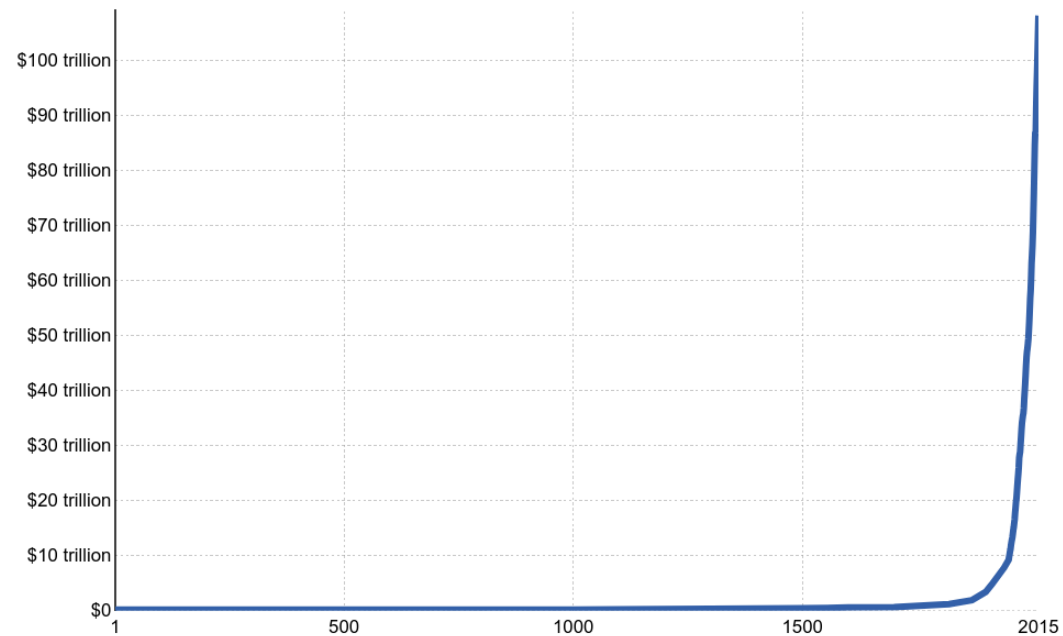
Globalization

- Bilateral and multilateral trade agreements:
 - Preferential trade arrangements
 - Free trade agreements
 - Common markets
 - Currency unions
 - Customs unions

Globalization and development

World GDP over the last two millennia

Total output of the world economy; adjusted for inflation and expressed in 2011 international dollars.



Source: World GDP (Our World In Data based on World Bank & Maddison)

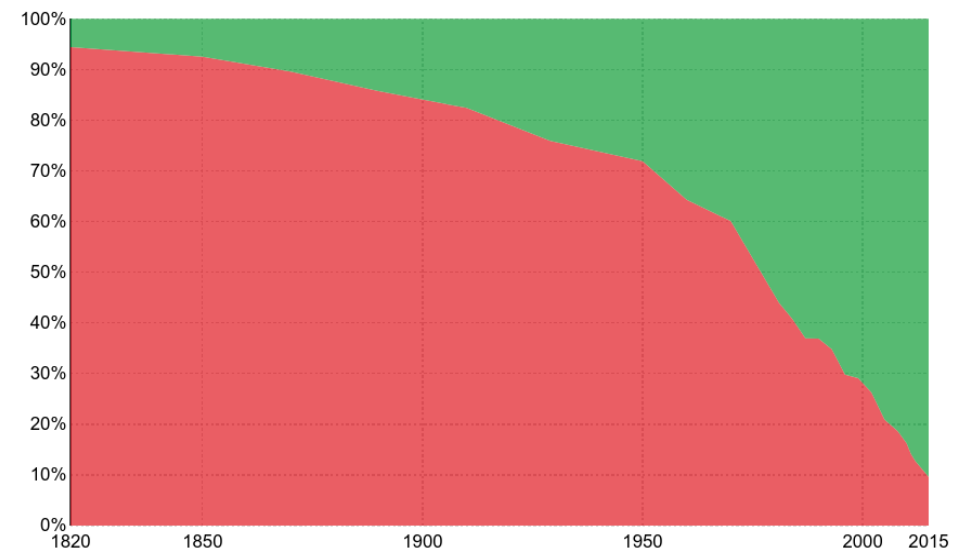
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World population living in extreme poverty, 1820-2015

Extreme poverty is defined as living at a consumption (or income) level below 1.90 "international \$" per day. International \$ are adjusted for price differences between countries and for price changes over time (inflation).

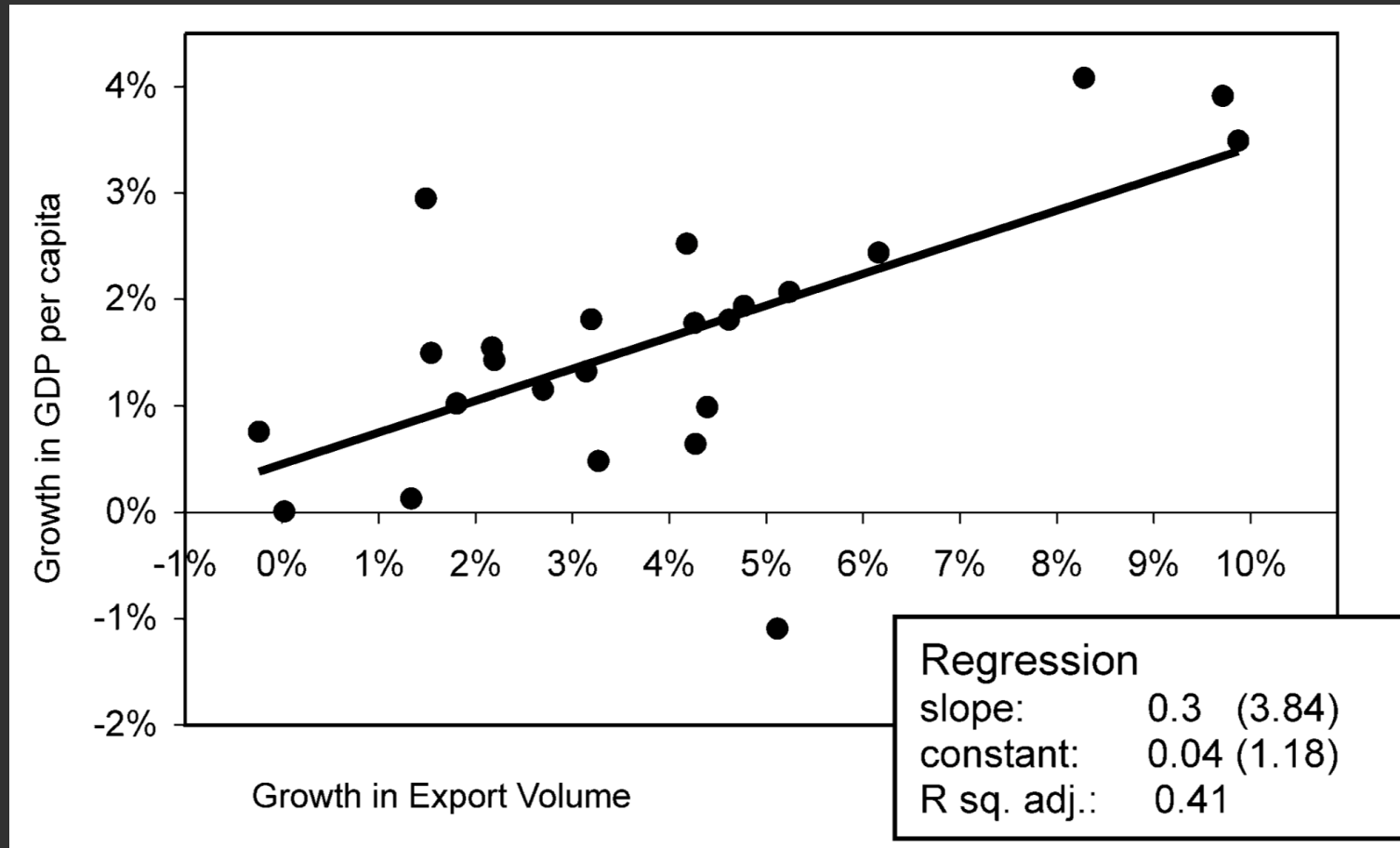


Number of people living in extreme poverty (red) Number of people not in extreme poverty (green)



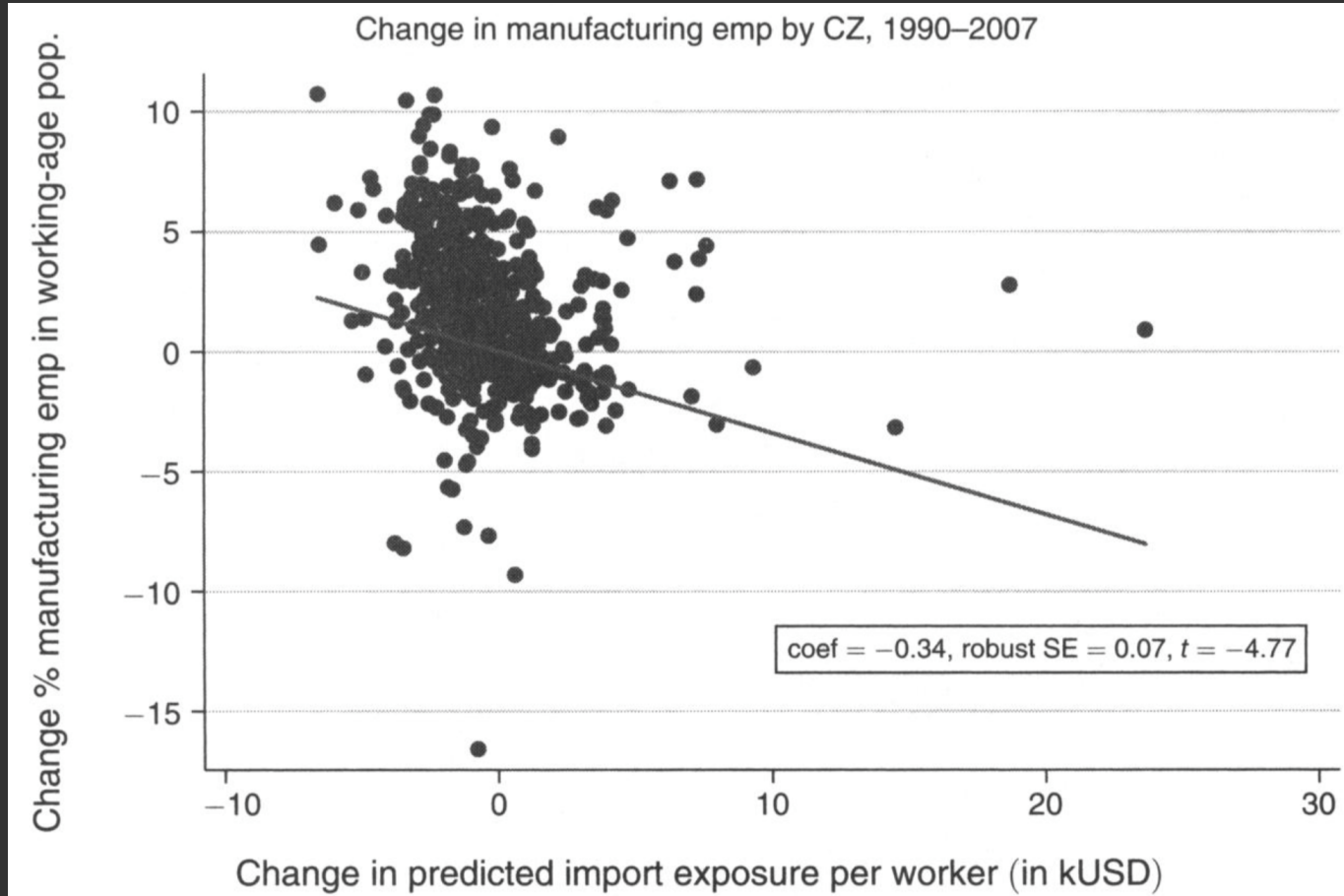
Source: World Poverty in absolute numbers (Max Roser based on World Bank and Bourguignon and Morrisson (2002))
OurWorldInData.org/extreme-poverty/ • CC BY-SA

Globalization and development



Ventura, J. 2005. "A Global View of Economic Growth." *Handbook of Economic Growth*, 1, 1419-1497.

Trade and inequality

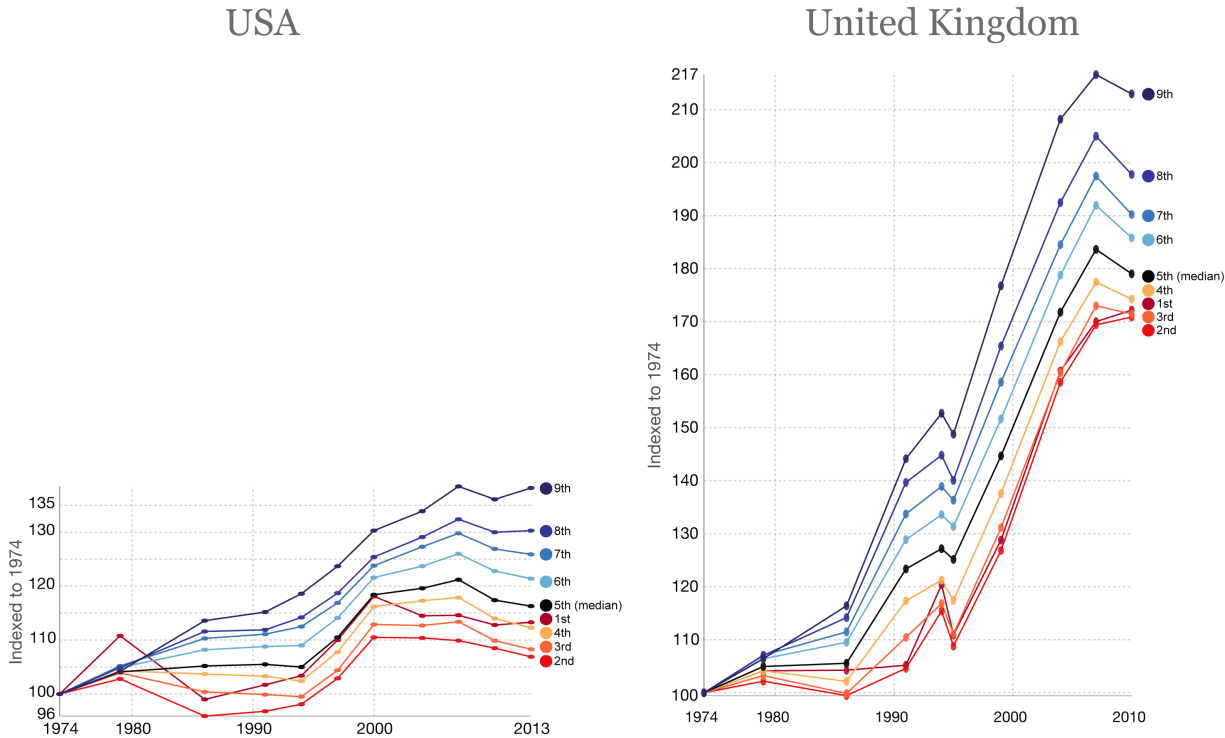


David, H., Dorn, D., & Hanson, G. H. 2013. "The China syndrome: Local Labor Market Effects of Import Competition in the United States." *The American Economic Review*, 103(6): 2121-2168.

Trade and inequality

Our World
in Data

Growth of Real Disposable Household Income by Decile in the US and the UK



Data source: 'Incomes across the Distribution Database' published by Stefan Thewissen, Brian Nolan, and Max Roser. The database with data for 27 countries is available for download at OurWorldInData.org/incomes-across-the-distribution. Household income is equalised with the square root of the household size and includes paid employment and self-employment income, capital income, transfer income, which includes social security transfers (work-related insurance transfers, universal benefits, and assistance benefits) and private transfers, minus income taxes and social security contributions. Incomes at decile cutoffs are shown in this visualization. Licensed under CC-BY-SA by the authors Stefan Thewissen, Brian Nolan and Max Roser.

Trade and inequality

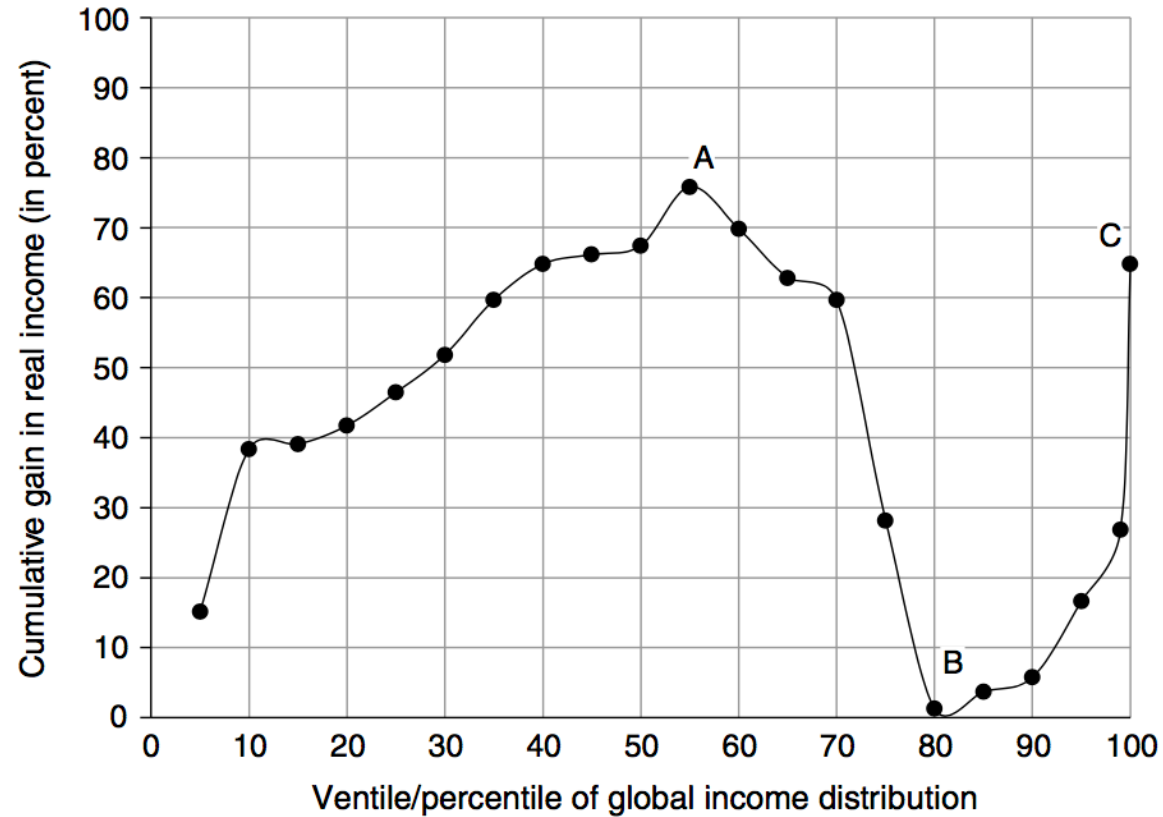


FIGURE 1.1. Relative gain in real per capita income by global income level, 1988–2008

What explains the apparent relationship between globalization and inequality?

Globalization and power

- Power:
 - Economic
 - Political

Globalization and economic power

- Distribution of benefits of globalization:
 - Businesses
 - Labour:
 - High-skill
 - Low-skill

Globalization and economic power

- Distribution of benefits of globalization:
 - Businesses
 - Labour:
 - High-skill
 - Low-skill
- Milanović (2016)—global inequality trends:
 - Rise of the global middle class
 - Stagnation of middle- or lower-middle class groups in the rich world
 - Emergence of a global plutocracy
 - Milanović, Branko. 2016. *Global Inequality: A New Approach for the Age of Globalization*. Cambridge, MA: Harvard University Press.

Globalization and economic power

- Possible socially deleterious impacts of globalization:
 - Inequality:
 - Economic
 - Social
 - Political
 - Low wages and lack of employment protections
 - Disregard for work safety conditions and standards
 - Environmental damage

Globalization and political power

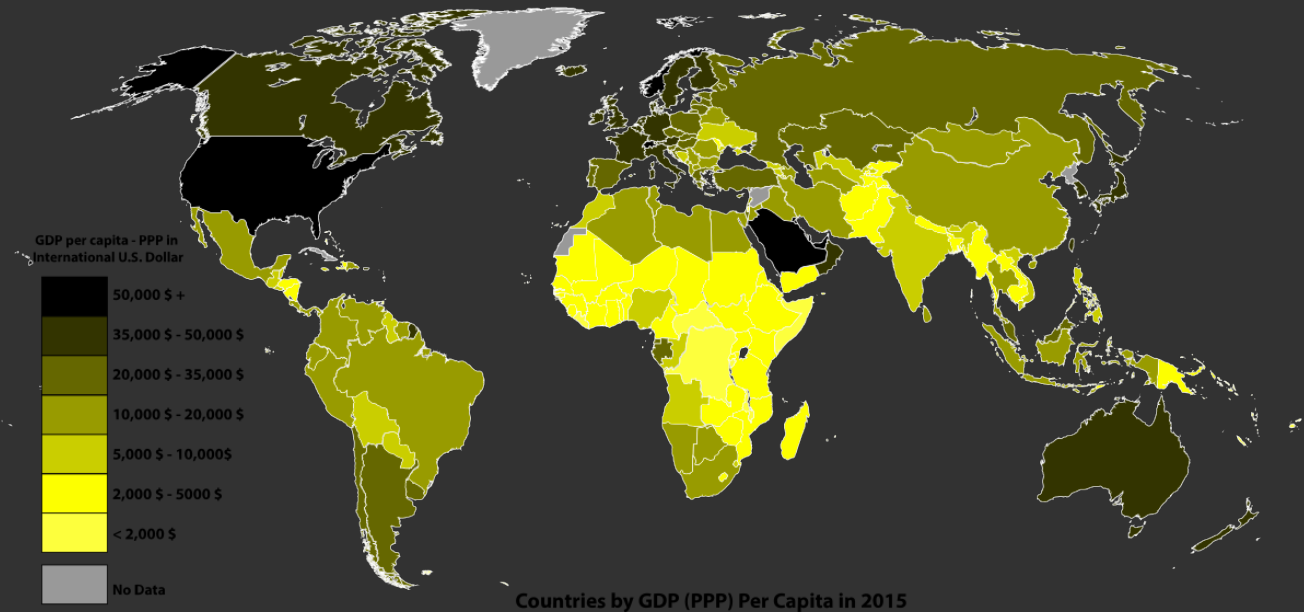
- Distribution of economic and political power in the world

- Uruguay Round (1986-1994) → creation of the World Trade Organization

- Wade (2003):

- “[T]he main international agreements from the Uruguay Round—TRIPS, TRIMS and GATS—systematically tip the playing field against developing countries”
- Expansion of “the options of developed country firms to enter and exit markets more easily, with fewer restrictions and obligations, and to lock-in their appropriation of technological rents”

- Wade, Robert. 2003. “What Strategies Are Viable for Developing Countries Today? The World Trade Organization and the Shrinking of ‘development Space.’” *Review of International Political Economy* 10 (4): 621–44.



Globalization and political power

- Milanović (2016)—global inequality trends:
 - Rise of the global middle class
 - Stagnation of middle- or lower-middle class groups in the rich world
 - Emergence of a global plutocracy
- How much political power do these groups have?
- In what political arenas do they operate?
- What are their interests?

Globalization and political power

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Trump Cuts Business Regulations

President Trump pulled out of the Trans-Pacific Partnership on Monday and proposed massive cuts in taxes and regulations for businesses. By THE ASSOCIATED PRESS. Photo by Doug Mills/The New York Times. Watch in Times Video >

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