

PLS 341

Politics of Development

Week 14, Lecture 1:
Trade and globalization

Recap

- Effectiveness and instrument-effects of development assistance

Plan for this week

- Developmental impacts of international flows of:
 - Capital, goods, and services —> trade and globalization
 - People —> migration

Plan for today

- Developmental benefits and pitfalls of trade and globalization
- Initiatives intended to make trade fairer

Trade

- David Ricardo's comparative advantage —>
- Specialization —>
- Expertise —>
- Innovations —>
- Efficiency +
- Economies of scale —>
- Prosperity



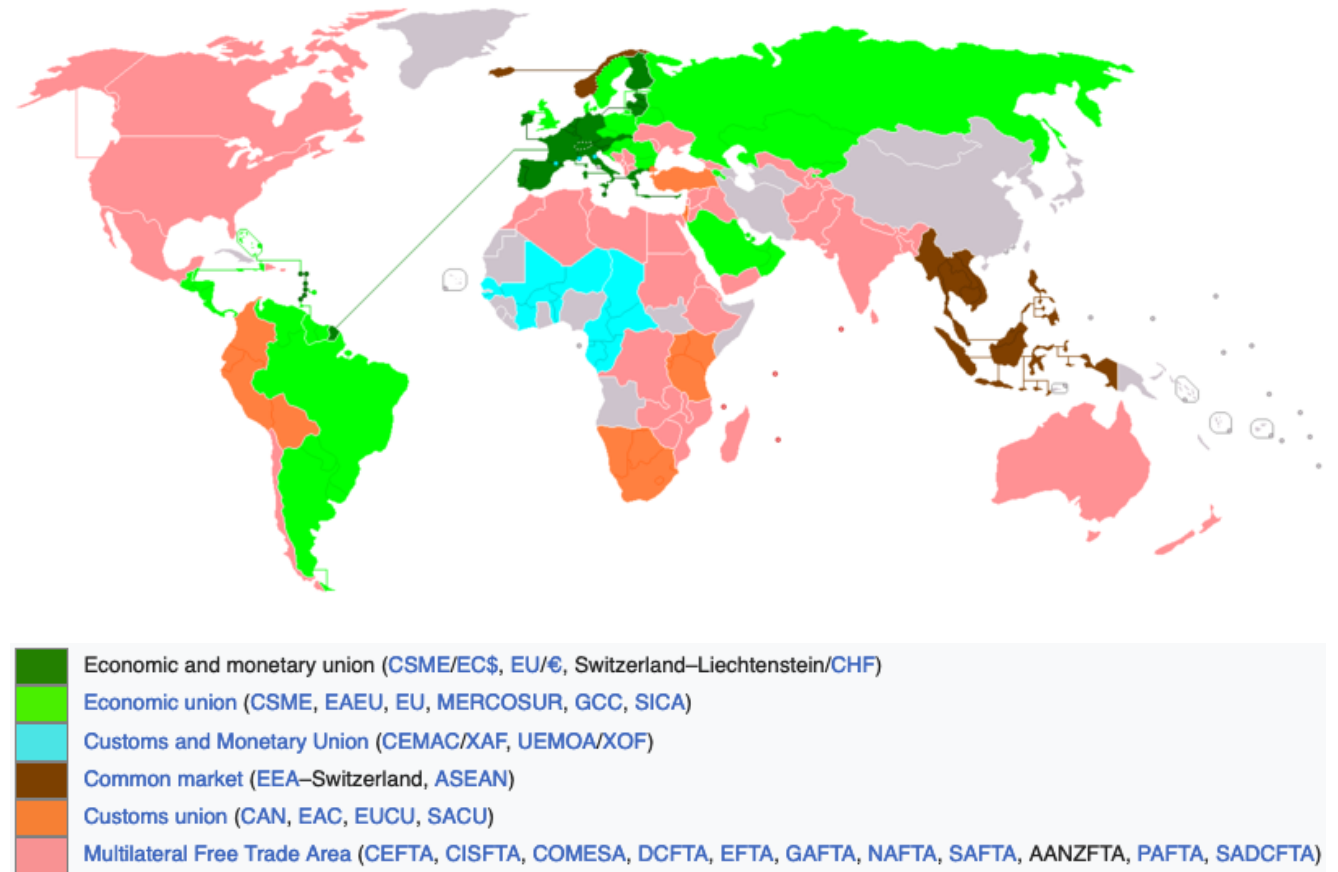
Waves of globalization

- First wave, 19th century-1914
- Second wave:
 - General Agreement on Tariffs and Trade (GATT), 1947-1994, and ‘thin globalization’ (“freer trade in some areas, not free trade in all”)
 - World Trade Organization (WTO), 1995-present, and ‘hyperglobalization’

• Dani Rodrik. 2011. *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: W. W. Norton and Company.

Vehicles of globalization

- Preferential trade areas
- Free trade areas
- Customs unions
- Common markets
- Economic unions
- Economic and monetary unions

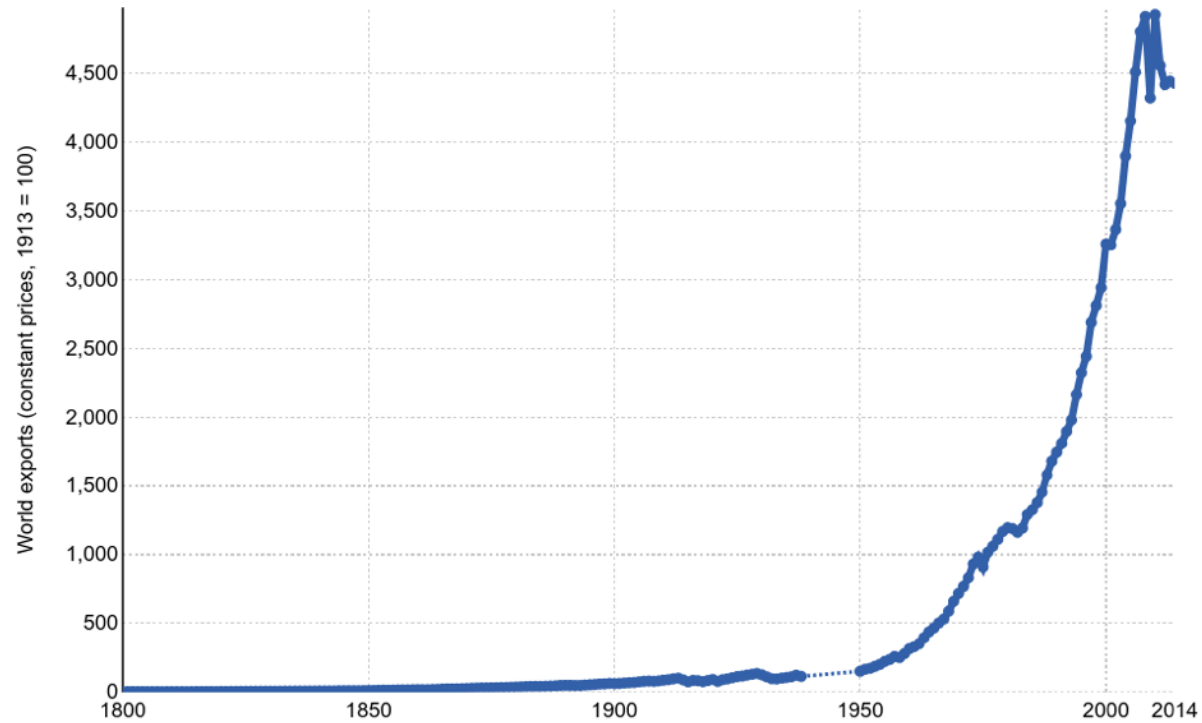


Globalization

The value of global exports

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

Our World
in Data



Source: Federico and Tena-Junguito (2016)

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

Developmental impacts of globalization

China's Xi declares victory in ending extreme poverty

25 February



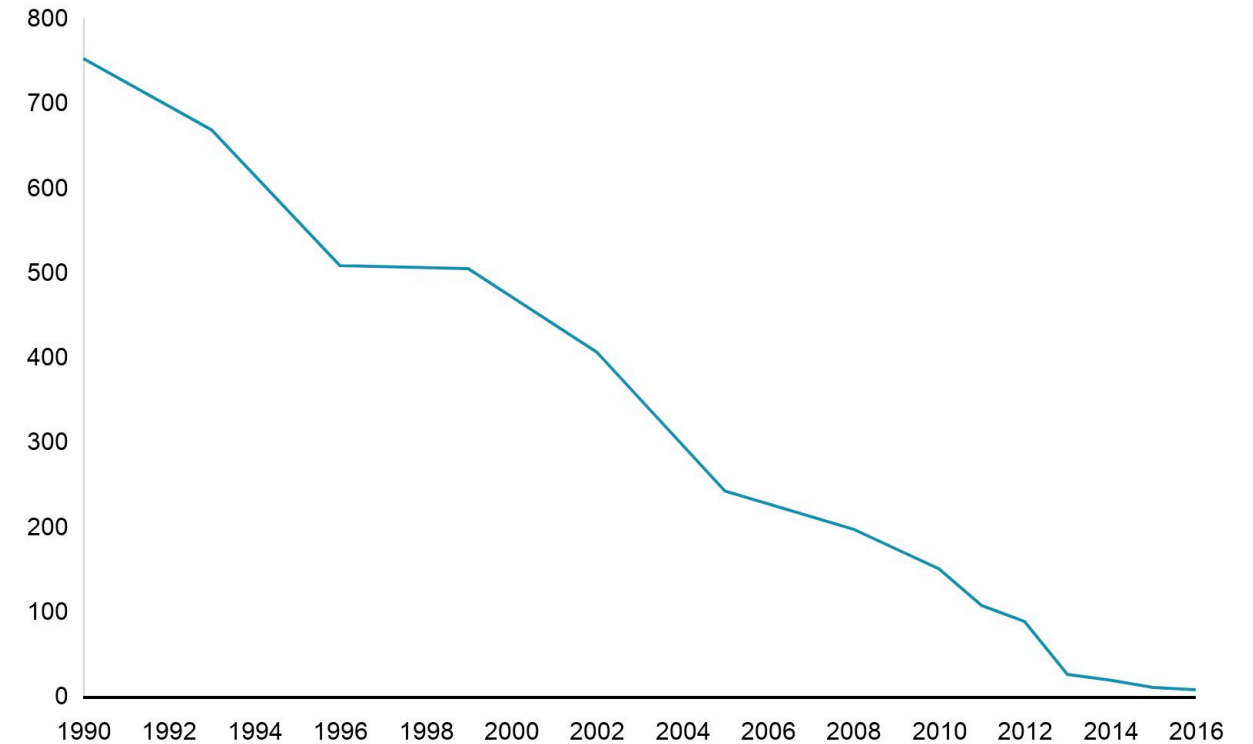
REUTERS

Eradicating rural poverty has been a key initiative of Xi Jinping's eight-year tenure

How extreme poverty fell in China

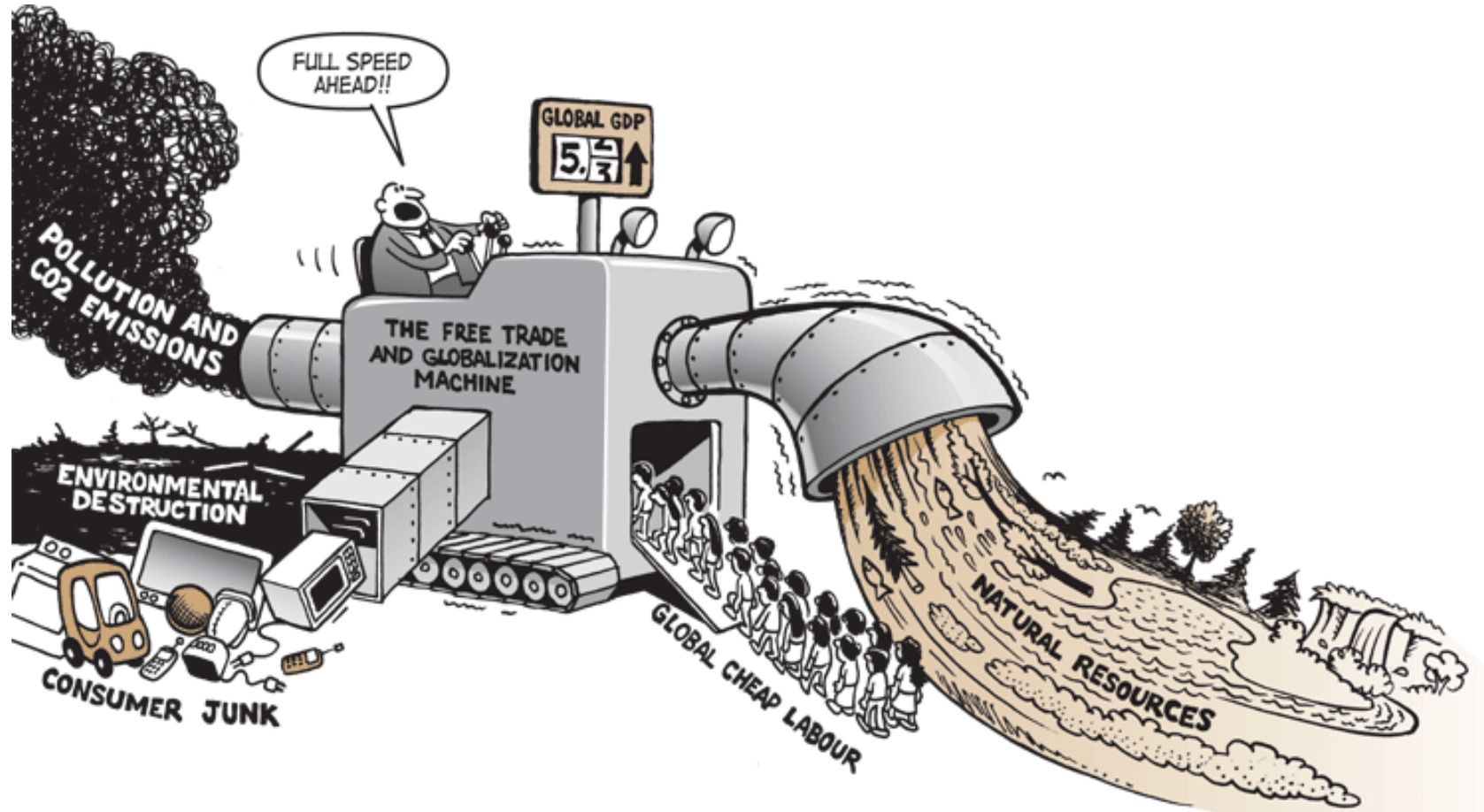
Living on less than \$1.90 a day

— Number of people (millions)



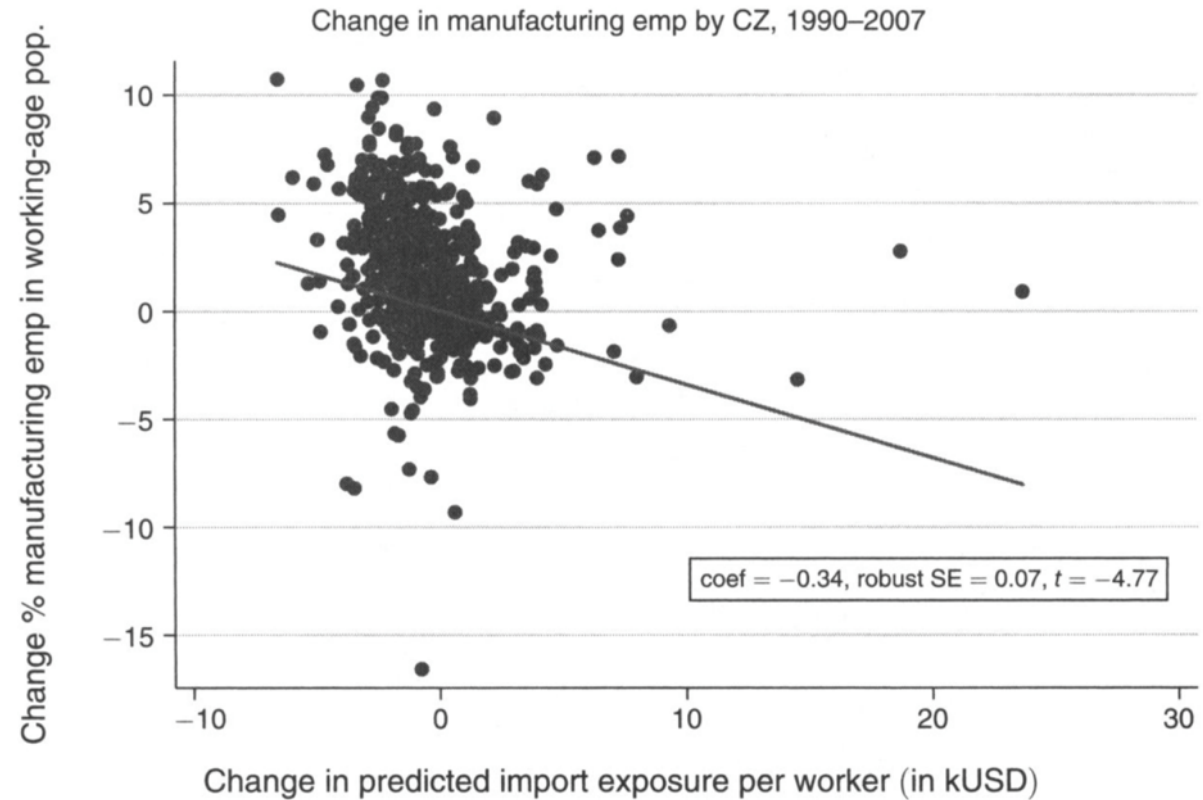
Source: World Bank

Developmental impacts of globalization



Developmental impacts of globalization

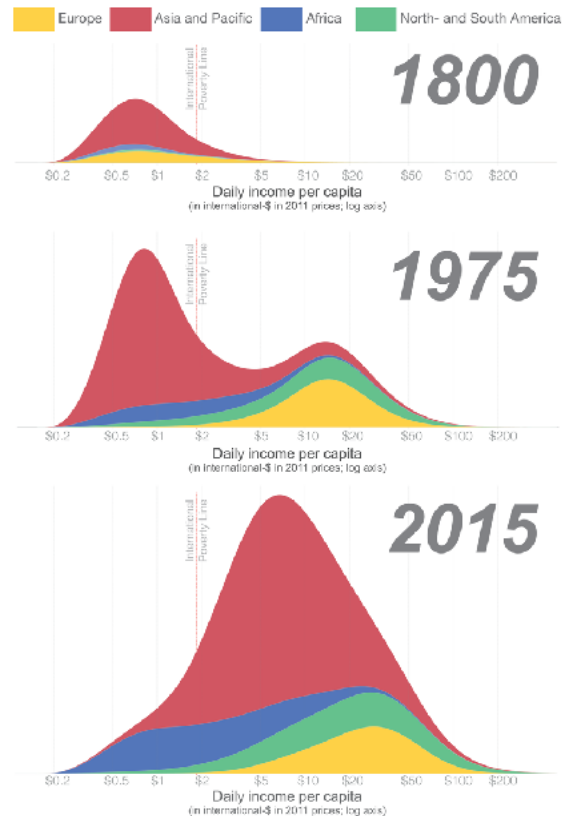
- Rising Chinese imports to the US from 1990-2007 —>
 - Higher unemployment
 - Lower labor force participation
 - Reduced wages in manufacturing-dependent labor markets
 - Autor, David H., David Dorn, and Gordon H. Hanson, 2013. "The China Syndrome: Local Labor Market Effects of Import Competition in the United States." *The American Economic Review*, 103(6), 2121–2168.



Developmental impacts of globalization

Global income distribution in 1800, 1975, and 2015 Our World In Data

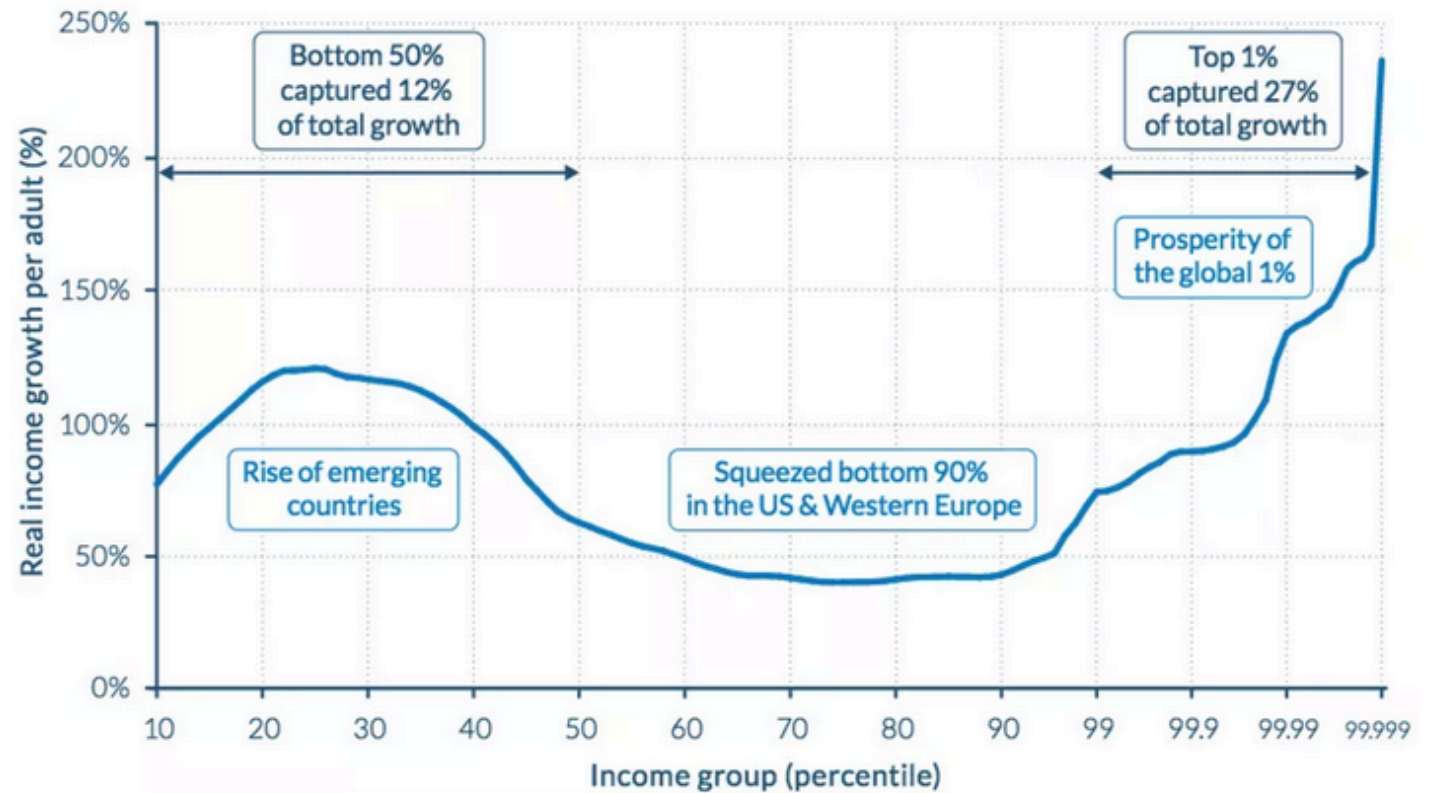
Income is measured by adjusting for price changes over time (inflation) and for price differences between countries (purchasing power parity (PPP) adjustment). These estimates are based on reconstructed National Accounts and within-country inequality measures. Non-market income (e.g. through home production such as subsistence farming) is taken into account. The International Poverty Line is set by the United Nations and is the poverty line that defines extreme poverty.



Data source: Calculations by Our World in Data, based on Our World in Data's research and data to make progress against the world's largest problems. Licensed under CC-BY by the author Max Roser.

Figure 2.1.4

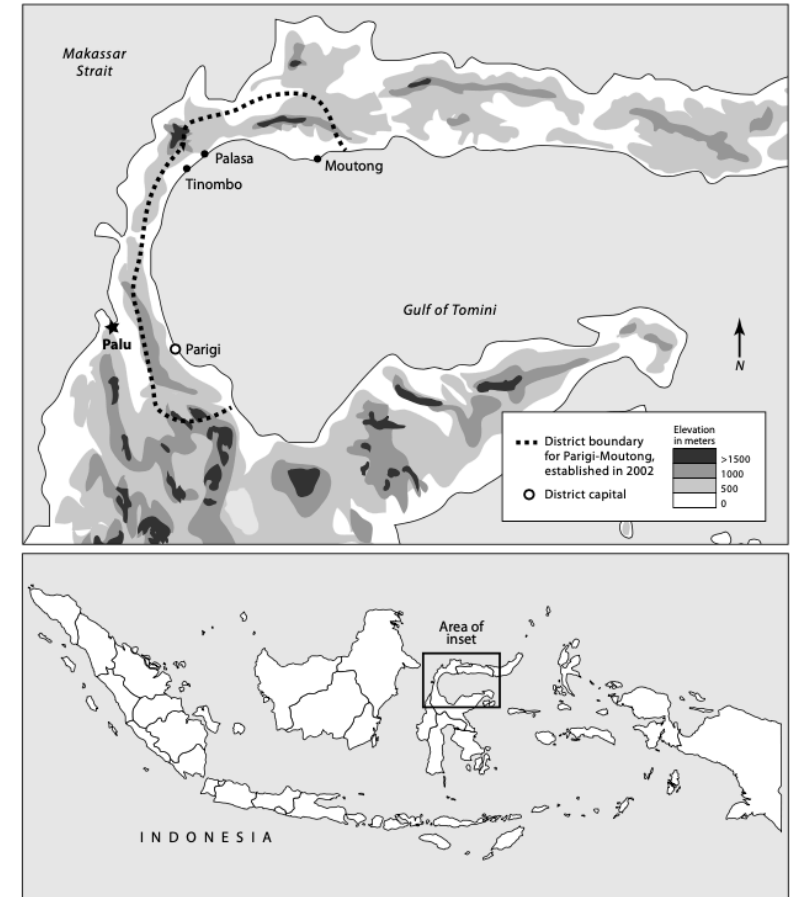
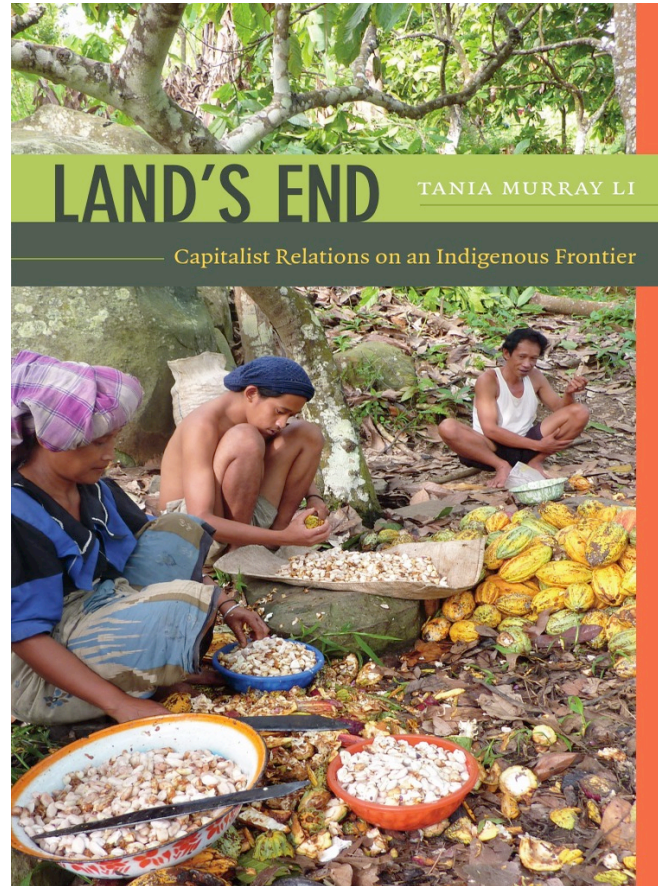
Total income growth by percentile across all world regions, 1980–2016



Source: WID.world (2017). See wir2018.wid.world for more details.

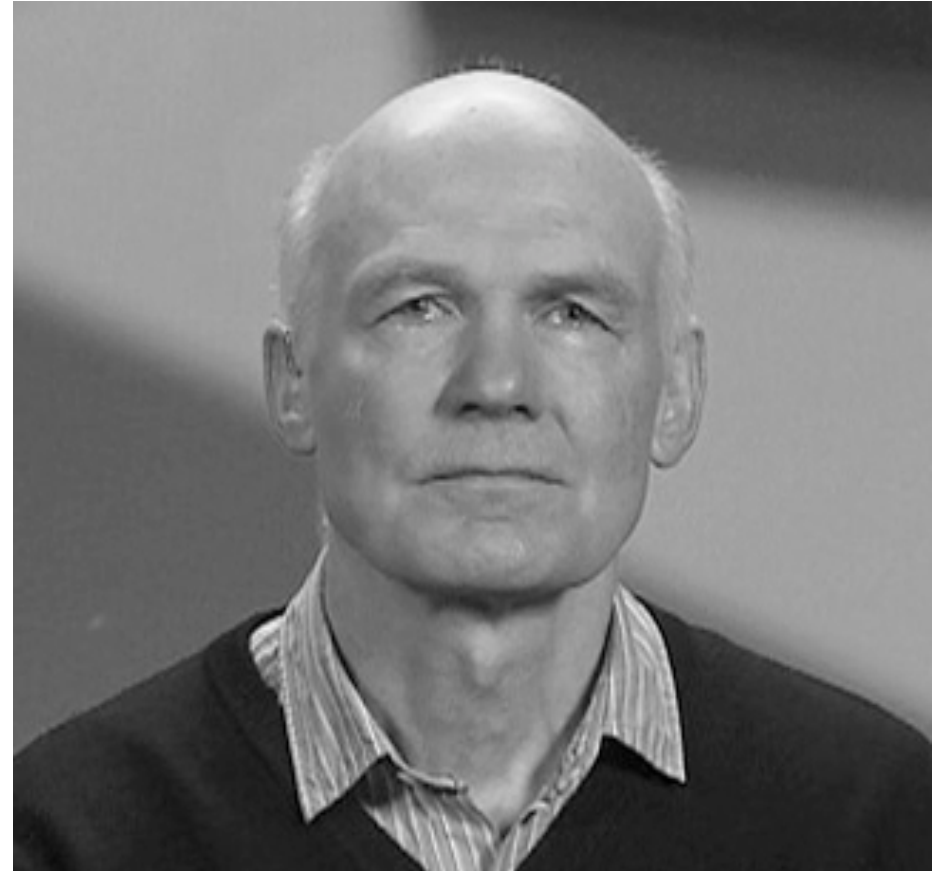
Developmental impacts of globalization

- Capitalist incorporation of the Lauje people of Northern Sulawesi
- Inequality and the pitfalls of efficiency and competition
- Erosion of societal norms



Developmental impacts of globalization

- Wade's account of the pernicious effects of globalization:
 - 'Kicking away the ladder' of development
 - Shrinkage of development and self-determination space
- Breakdown of the Doha Round and rise of alternative multilateral arrangements



Fair trade

- Certification of products that meet 'fair trade' rules and principles
- Limitations:
 - Cooperation with unethical companies
 - Sales vs. poverty reduction tension
 - Disadvantages of competition
 - Entrenchment of raw material reliance
 - Small size and limited economic success



Fair trade

- Lower farmer income and worse working conditions

- Cramer, Christopher et al. 2014. "Fairtrade, Employment and Poverty Reduction in Ethiopia and Uganda." London: School of Oriental and African Studies.

- Limited income benefits, but high cost and better alternatives

- Gingrich, Chris D, and Emily J King. 2012. "Does Fair Trade Fulfill the Claims of Its Proponents? Measuring the Global Impact of Fair Trade on Participating Coffee Farmers." *Journal of Cooperatives* 26: 17–39.

- Modest direct income and production effects

- Ruben, Ruerd, and Ricardo Fort. 2012. "The Impact of Fair Trade Certification for Coffee Farmers in Peru." *World Development* 40(3): 570–82.

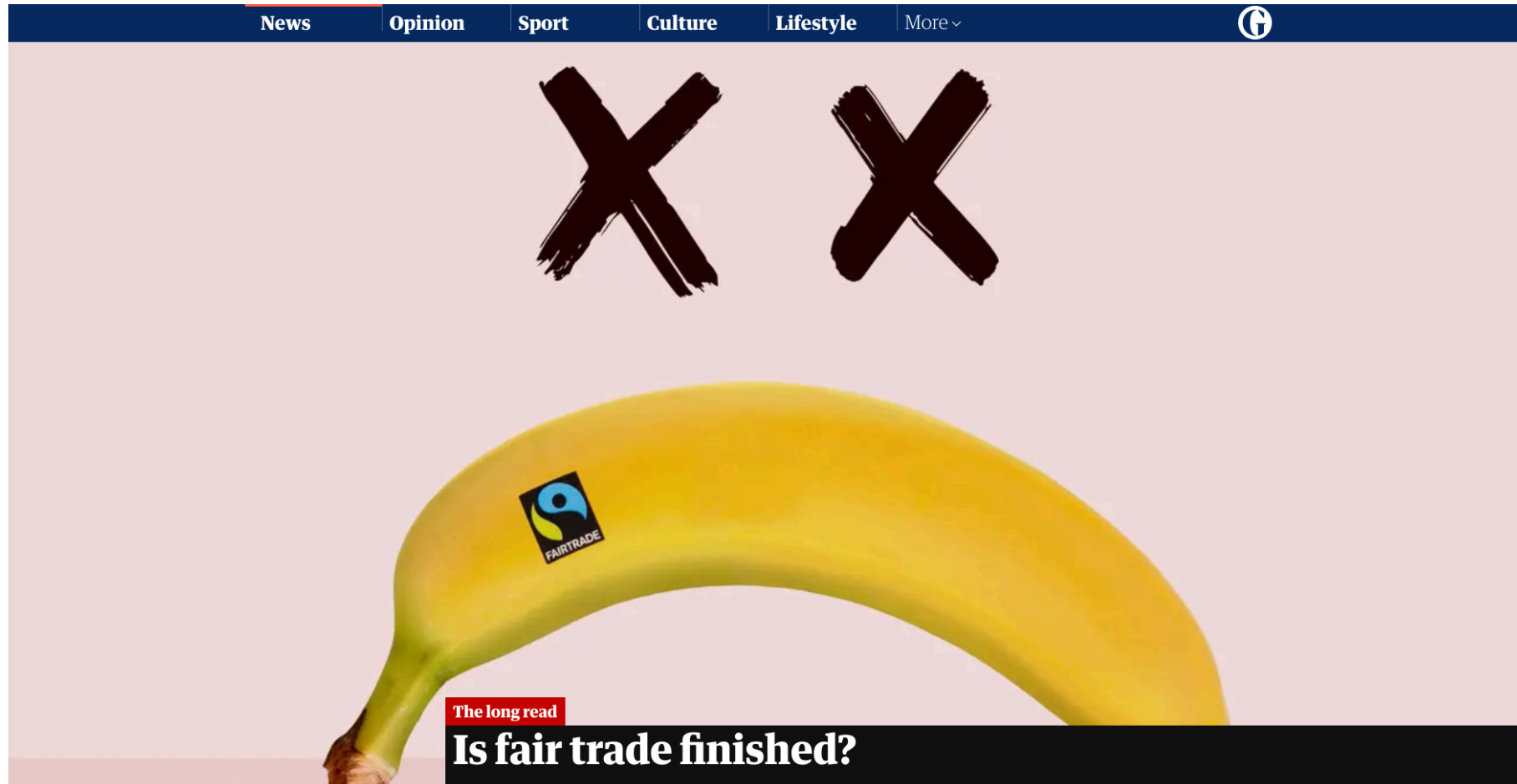
- 10% household income increase due to certification

- van Rijsbergen, Bart, Willem Elbers, Ruerd Ruben, and Samuel N. Njuguna. 2016. "The Ambivalent Impact of Coffee Certification on Farmers' Welfare: A Matched Panel Approach for Cooperatives in Central Kenya." *World Development* 77: 277–92.

- More benefits for roasters than farmers

- Naegele, Helene. 2020. "Where Does the Fair Trade Money Go? How Much Consumers Pay Extra for Fair Trade Coffee and How This Value Is Split along the Value Chain." *World Development* 133: 105006.

Fair trade



Takeaways

- Limited success of efforts to make trade fairer
- Indirect evidence of developmentally beneficial 'instrument-effects' of globalization