

## 9. Current Issues / Controversies in Trade and Globalization

### Learning Objectives

- ❑ Review recent theoretical arguments that may lend support to “managed trade” policies.
- ❑ Review and critically evaluate some of the common anti-globalization critiques of the doctrine of free trade.
- ❑ Review and evaluate the implications of alternative paths to trade liberalization.

### Readings

Paul Krugman and Maruice Obstfeld, International Economics, Theory and Policy, 8<sup>th</sup> ed. (2009), chapter 10, “Trade Policy in Developing Countries”; and chapter 11, “Controversies in Trade Policy”.

Although you are not required to read the following, I draw some information from:

Jagdish Bhagwati, Free Trade Today (2002), lectures 2, “Fair Trade, Income Distribution, and Social Agendas”; and lecture 3, “Getting to Free Trade”.

### Outline

1. Concerns of LDCs (Less Developed Countries) regarding governance of the world trading system.
2. Export-oriented vs. Import-competing development strategies.
3. Activist arguments for intervention: The “new international trade theory” and strategic trade policies
  - a. The Brander-Spencer analysis
  - b. Some problems with the analysis
4. Getting to free trade (from Bhagwati, Lecture 3)
  - a. Aggressive unilateralism
  - b. Conventional unilateralism
  - c. Preferential trading arrangements
    - 1) Types
      - a) Free trade areas

b) Customs unions

2) Criticisms

a) Trade diversion vs. trade creation

*Trade diversion:* A shift in the pattern of trade from low-cost world producers to higher-cost FTA or CU members under a preferential trading arrangement.

*Trade creation:* Any expansion of world trade resulting from the formation of a preferential trading arrangement.

The overall welfare effects depend on the relative magnitudes of these effects.

b) Motivations for entering PTAs:

- Dynamic gains resulting in the enlargement of market areas that allow fuller exploitation of economies of scale.
- Political reasons, e.g., the EU might be thought of as a self-imposed economic integration to prevent political discord and war, or the GATT might be thought of as a political response to the damaging protectionist impulse of the Great Depression.

c) The “spaghetti bowl” problem (Bhagwati, 112 – 115)

3) NAFTA as a case study in PTAs.

5. New challenges to the doctrine of free trade (from Bhagwati, Lecture 2)

- a. Free trade / globalization & real wages and poverty
- b. Free trade / globalization & social / moral agendas; “cultural protectionism”
- c. Free trade / globalization & the environment
- d. “Fair trade” arguments

Important Terms and Concepts for Exam 3

Chapter 8	Specific and ad valorem tariffs Import demand and export supply functions / curves Nontariff barriers, local content, VERs, etc. Consumption and production distortions Effective rate of protection Terms of trade gain
Chapter 9	Efficiency case for free trade Political argument for free trade Terms of trade argument for tariff Optimum tariff Free trade area Preferential trading agreement; customs union Trade creation; trade diversion Domestic market failure argument Theory of the second best Marginal social benefit Bretton Woods agreement IMF, World Bank, GATT, WTO
Chapter 10	Import-substituting industrialization Export-oriented growth HPAEs (Asian Tigers) Economic dualism Appropriability Washington consensus*
Chapter 11	Strategic trade policy Brander-Spencer analysis Beggart-thy-neighbor policies Environmental Kuznets curve Cultural protectionism*

\*Indicates terms/concepts discussed in class; not defined in the text.