DEVELOPMENT

Lecture 11
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# Introduction

# Intro to Free Trade to Prepare for Guest Lecture

## Exports and Economic Growth go together

## Key point: Increased trade has 3 types of effects

### Employment effects

#### Makes things BETTER for capitalists and workers in companies that can EXPORT to other countries

#### Makes things WORSE for capitalists and workers in companies that must COMPETE WITH IMPORTS from other countries

### Price effects

#### Makes things better for consumers in BOTH countries

### Other effects

#### Inequality, environmental protection, etc.

#### Transition costs can be huge and long-lasting

# Overview: What are “gains from trade”?

## States, AS A WHOLE, gain from free trade

### By specializing in what they do better/cheaper than other countries, they can get more of what they want

### But NOT EVERYONE gains from trade

## Free trade helps consumers and exporters but harms import-competing sector

## States must COOPERATE in international institutions to achieve these gains from trade – it’s a Prisoners Dilemma, so it will NOT happen unilaterally

## States create institutions only if focused on absolute gains \*not\* relative gains

# Impacts of free-er trade by sector

|  |  |  |  |
| --- | --- | --- | --- |
| **SECTORS** | **Signof Impact** | **Impact****Per person** | **# of people impacted** |
| Export sector | + | Large | Small (but many are unemployed) |
| Import-competing sector | - | Large | Small |
| Consumer | + | Really small | VERY large |

# So: Why Does Free Trade *Not* Happen?

## Obvious effects of free trade

### Lower prices

### More stuff

### Different stuff

## Different jobs

# Political Mobilization & Free Trade

## Consumers: effects on each are small

### They don’t mobilize politically

## Import-competing sector: effects are large

### Employers stop campaign contributions

### Employees drive to Rome and Paris and protest

## Export sector: effects are large but latent

### Employers lobby but …

### “New hires” are currently unemployed…

# Protectionism occurs despite gains from trade because import-competing sectors have power

## A real story of tariffs & trade

## Sugar in US: 320M eat 24B lbs/year (75 lbs/person/yr)

## Tariffs make US price 6-10¢/lb higher than world price

## So increased cost is 75\*.06= $4.50 per person per year

## BUT $4.50\*320M or ~$1.5B total for US consumers

## ~4,000 US farmers might lose jobs if tariff removed

## 24 billion lbs of sugar/year NOT purchased from farmers in Brazil, Thailand, India who would hire new workers if tariff was removed

### [https://www.forbes.com/sites/timworstall/2017/01/18/if-us-sugar-tariffs-make-americans-poorer-then-donald-trumps-tariffs-will-make-americans-what/](http://www.worldstopexports.com/sugar-exports-country/)

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# Free Trade and International Organization

## More Trade Agreements

## Institutions: World Trade Organization

### “Developed countries’ tariff cuts were for the most part phased in over five years from 1 January 1995. The result is a 40% cut in their tariffs on industrial products, from an average of 6.3% to 3.8%.”

### “Over three quarters of WTO members are developing or least-developed countries. All WTO agreements contain special provision for them, including longer time periods to implement agreements and commitments, measures to increase their trading opportunities and support to help them build the infrastructure for WTO work, handle disputes, and implement technical standards.”

## Institutions: International Labor Organization

### Convention concerning Equal Remuneration for Men and Women Workers for Work of Equal Value

#### “ensure the application to all workers of the principle of equal remuneration for men and women workers for work of equal value”

# What is Globalization?

## Globalization as interdependence on steroids. "Social, economic and technological unification of the globe" (Gilpin in A&J, 353).

## Increasing flows of: People; Money, investments, and corresponding influence; Goods and services, corporations; Information, knowledge, and ideas; Culture; Disease, pollution, drugs, terrorists, weapons of destruction (whether mass or otherwise)

## Greater flow NOT equal to more equitable flow and NOT equal to more beneficial flows and NOT even that flows increasing in all countries. Increases among developed states greater than for developing states.

## Why is the world globalizing?

### Technological change: transportation (cars, ships, planes); phone; Internet connections that move ideas; money; services.

### Economic pressures: technology makes access to new markets possible, economic growth makes it desirable for those who would benefit from it.

### Social pressures: transnational linkages that are not driven by economics but by bonds forged across countries both directly by immigration and indirectly by transnational loyalties and allegiances

### Deliberate governmental policy choices trying to pursue a more global economy and culture that they see as benefiting them. Liberalization of trade, foreign direct investment, and capital

## Liberalization promoted by governments of richest countries and major international organizations, all dominated by richest countries:

### Organization for Economic Cooperation and Development (OECD), intergovernmental thinktank from world’s ~30 richest countries. OECD states produce 2/3 of world’s goods and services.

### International Monetary Fund, which makes loans to countries facing bankruptcy.

### World Bank, which makes loans for development projects.

### World Trade Organization, which oversees world trade.

## Globalization, in my view, involves a major change in where power is located in the world. What Gilpin calls the fact that the state is both too small and too large.

### Traditionally, states have been able to control the flows of all the factors mentioned above. What Wade calls "national borders continue to be control points where governments can affect the quantity and price of cross-border merchandise transactions" and flows more generally" (Wade in A&J, 368-369). Globalization involves a change in how much they can control these flows of people, information, etc.

### From state governments to multinationals

### From developing state governments to industrialized state governments and corporations

### From industrialized state governments to transnational actors that are not corporations, such as NGOs

### From governments to international institutions and regimes like WTO, EU, NAFTA, ILO, and other international organizations that can, within limits, restrict the freedom of states

### Complex phenomena which is likely to lead to greater concentrations of power in some cases and, at the same time, empowering of some who are not yet empowered

# The situation of developing states and its causes:

## "It would be an extraordinary world in which asymmetries in military and economic power were not reflected in asymmetries in economic relations." [Russett, Starr, Kinsella, 2006 – World Politics] This suggests that NATIONAL power is what determines distribution of economic resources. But isn’t an equally plausible explanation that its due to race/ethnicity and the artifacts of colonialism?

## Increasing-but not fairer-flows of everything

### Due to:

#### Technological change

#### Economic pressure

#### Social pressures

#### Deliberate governmental policy

## The facts:

### GNP/capita: North = $19,000, South = $800/year;

### Lifespan: North = 76 years, South = 63 years;

### Calories: North = 4 times South;

### Infant mortality: North = 8/1000, South = 65/1000;

### Major economic problems in many developing states that are absent or far less common in developed countries, e.g., hyperinflation, extreme unemployment, etc.

### Kofi Annan’s facts page

## Sources of problems

### Structure of world economy

#### Dependence of South makes it vulnerable to North (NOT interdependence)

#### Marxist view: domestically, owners exploit workers; internationally, core exploits periphery

#### Standpoint view: major divide is based on race, not nationality

### Policy errors and domestic elites use foreign policy to promote own economic interests. "Clientele" elite in LDCs are holdovers from colonial period with vested interest in maintaining position of power domestically and therefore fostering MNC agenda.

#### Search for raw materials; Outlet for surplus capital; Search for new markets;

#### Economic policies driven by short-term political forces rather than long-term economic factors

### Monopsonistic purchasers of exports: single product economies in which 50% or more of economy based on one export (sugar, cocoa, copper, tea, bananas) with many other developing country suppliers competing to provide good but few other developed countries willing to compete in buying (especially during colonial era). Essentially a "buyer’s market" for many of these economies.



#### Consider why oil is not like this – largely because of OPEC coordination, however imperfect.

#### Similar attempts at developing country coordination to limit supply and thereby boost price have fallen victim to standard collective action problems

#### Declining terms of trade: same amount of southern exports buy less and less Northern imports that developing country citizens are trained (through advertising) to want.

### Monopolistic MNC suppliers of imports:

#### Markets too small to support competition and so higher prices in each country.

#### Penetration of domestic political and economic structure by foreign capitalists: Penetration by foreign capitalists => economic distortion and uneven development => non-democratic domestic political structure => powerful central government => deprivation of human rights and economic rights to decent living conditions and political rights to representation and protest (Russett & Starr, 419).

### Debt burden: dynamics of creation of import demand in these countries lead to borrowing and spending rather than borrowing and investing. Money goes from foreign banks to domestic elite to foreign MNCs selling imports.

#### Loans should go to acquiring assets that have a return higher than interest rates on the loan.

#### Instead go for conspicuous consumption by elite, and just enough purchasing of consumer goods (or other means) to prevent revolt at home.

#### "Showcase" economic projects for political benefits rather than economic growth.

# Possible solutions

## Autonomy – developing countries gaining more control or sovereignty over resources and territory. Sometimes simply by claiming it, although they lack significant power to do this successfully

## International institutions

## Collective bargaining - OPEC unique successful case

## Socialist revolution and changing to New International Economic Order

## Liberal orthodoxy: devalue currency to increase price of imports and decrease price of exports

## Structural changes to economies - structural adjustment policies at behest of IMF and World Bank

# Structural Adjustment

## What is it? Policy reforms designed to reduce government intervention in the economy and reduce barriers to international trade and foreign investment. Goal is to increase exports in order to cover costs of debt repayment and imports, and to restore own creditworthiness.

## Whats involved?

### Devaluing currency.

### Reducing trade and FDI barriers to make domestic industry more competitive.

### Reduce or eliminate budget deficits by decreasing public expenditures.

### Get government out of state enterprises and marketplace, such as controls on food prices

## How do rich countries impose structural adjustment on poor? They have money that the poor countries need. Why do they need it.

### To pay their debt burden: borrowed money in past and now cannot afford to repay the on their loans. Almost all countries, need to borrow money but if credit rating is bad, it costs more to borrow.

### To pay their trade deficits: import more than they export. Borrow to finance this deficit.

### Bolster currency: International investors and currency speculators can influence local stock markets and, to avoid devaluation borrow money to bolster currency

## Can’t borrow directly from banks so borrow from governments or from banks with governments as backup. IMF loans money but conditions attached and major condition is structural adjustment policies

### IMF money is brought in to stop falling currency in which nobody wants local currency so it is losing value. Government uses borrowed money to buy local currency and prevent its slide. But they are buying it from foreign currency speculators and investors who want out and who generally are from the countries loaning money. So, essentially, money goes from industrialized government to IMF to developing country to investors in industrialized country. BUT borrowers have to pay us interest for the privilege of paying off our own investors!

# Conclusion