Globalisation and Trade

Who Wins and Who Loses?

The domination of globalisation

- Dominant process in our economic lives for the past 60 years
- Accelerating since the 1970s
- ‘the ever-increasing integration of national economies into a giant one-size-fits-all global economy through trade and investment rules and privatisation, aided by technological advances, and driven by corporate power’—Colin Hines
- Integration of the world’s economies have become integrated
- An increasing proportion of what we produce and consume is traded—and over ever-increasing distances

Ideological domination

- The major achievement of the system of ‘free trade’ that has been the global regime governing the exchange of goods between nations since 1945
- The promotion of free trade is written into the Articles of Agreement of the IMF and World Bank)
- World Bank President Barber Conable stated in a press conference in 2000 that ‘If I were to characterise the past decade, the most remarkable thing was the generation of a global consensus that market forces and economic efficiency were the best way to achieve the kind of growth which is the best antidote to poverty’.

- It could give Least Developed Countries a new foothold in the booming markets of the rapidly growing economies. . . a 1% increase in African global market share would be worth many times more than what you currently receive in aid

- Peter Mandelsohn, EU Trade Commissioner
- Speaking about the Doha Round of WTO talks
- 29 February 2008

- Clinton, with strong backing from U.S. organised labour, has advocated a ‘time out’ in trade liberalisation and questioned whether the theory of comparative advantage that underpins free trade still applies in the 21st century

- Reuters, 10 March 2008

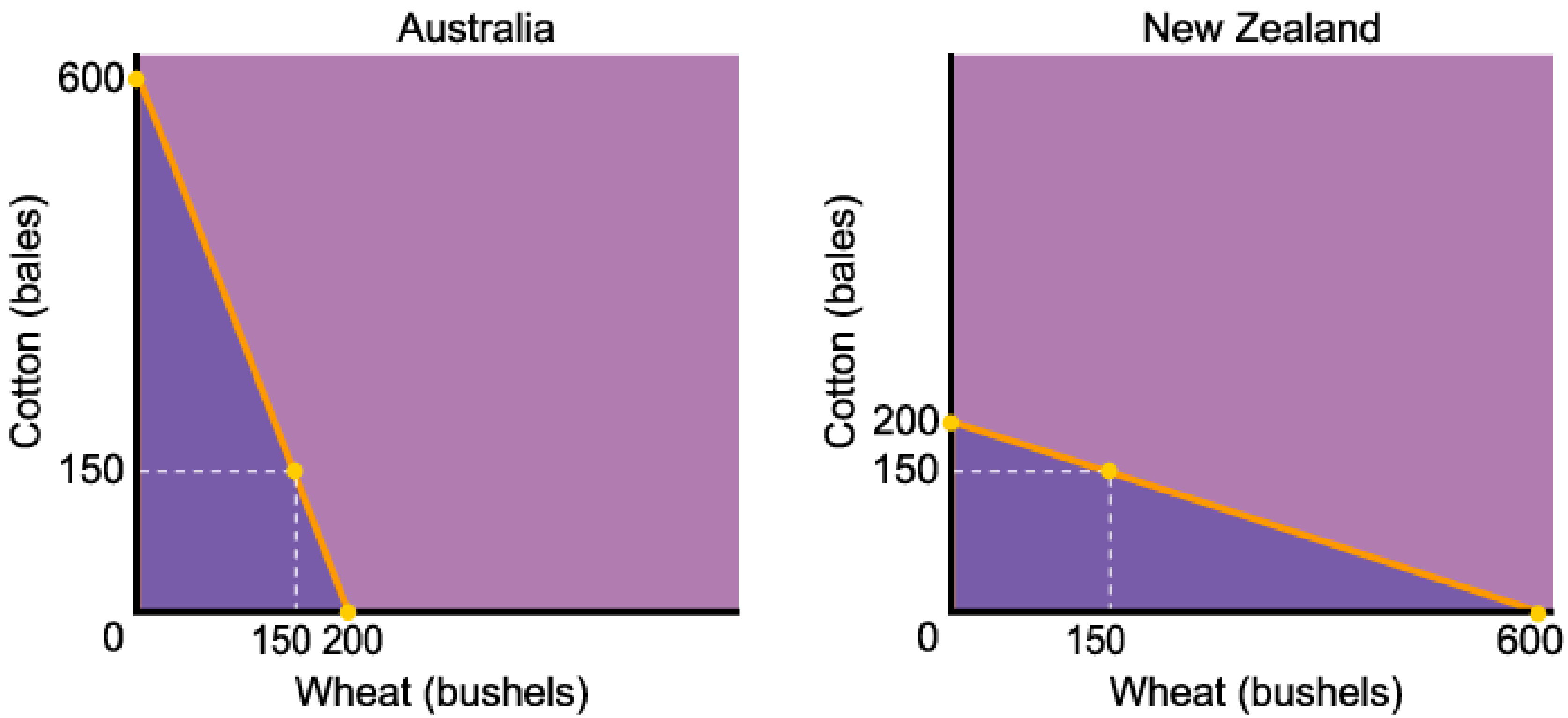
Absolute vs. Comparative Advantage

- Adam Smith argued that a country could gain from trade if it has the lowest cost of production of a good but what about when one country produces everything ‘more efficiently’?

Theory of Comparative Advantage

- Ricardo argued that if each country concentrates on producing the goods it produces most efficiently and trades for other goods, all will gain (1817)

Production Possibility Frontiers for Australia and New Zealand Before Trade



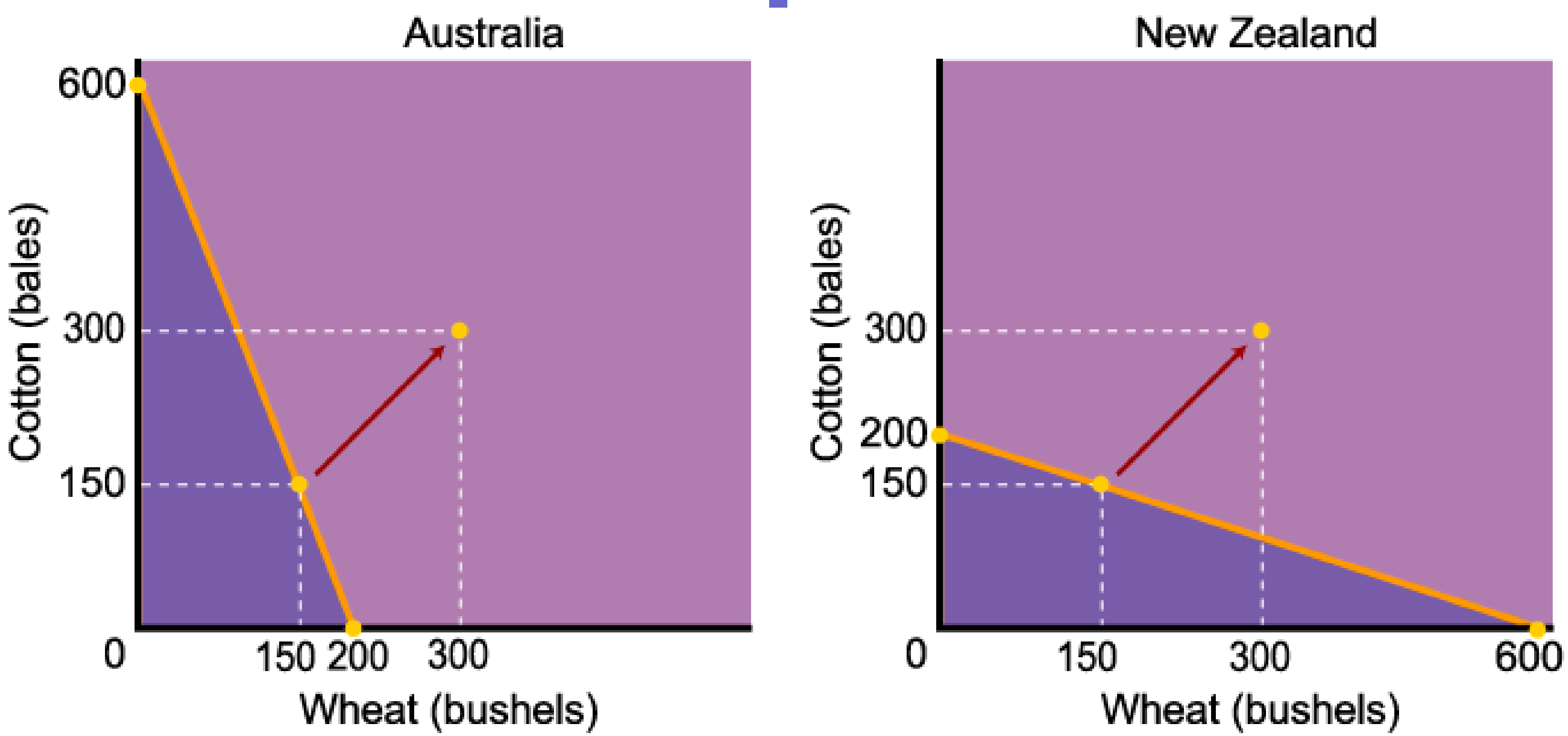
Gains from Mutual Absolute Advantage

- An agreement to trade 300 bushels of wheat for 300 bales of cotton would double both wheat and cotton consumption in both countries.

Production and Consumption of Wheat and Cotton after Specialization

	PRODUCTION		**CONSUMPTION**	
	New Zealand	***Australia***	***New Zealand***	***Australia***
Wheat	100 acres x 6 bushels/acre 600 bushels	0 acres 0	300 bushels	300 bushels
Cotton	0 acres 0	100 acres x 6 bales/acre 600 bales	300 bales	300 bales

Expanded Possibilities after Trade



- Because both countries have an absolute advantage in the production of one product, specialization and trade will benefit both.

Gains from Comparative Advantage

- If both countries produced both goods this is how efficiently they could produce:

Yield Per Acre of Wheat and Cotton		
	NEW ZEALAND	**AUSTRALIA**
Wheat	6 bushels	1 bushel
Cotton	6 bales	3 bales

- New Zealand is more efficient in the production of both goods

Gains from Comparative Advantage

Total Production of Wheat and Cotton Assuming No Trade and 100 Available Acres		
	NEW ZEALAND	**AUSTRALIA**
Wheat	300 bushels	75 bushels
Cotton	300 bales	75 bales

- Countries are self-sufficient rather than engaging in trade.

Countries specialise production

	STAGE 1	
	New Zealand	***Australia***
Wheat	450 bushels	0 bushels
Cotton	150 bales	300 bales

- Australia transfers all its land into cotton production. New Zealand cannot completely specialize in wheat production because it needs 300 bales of cotton and will not be able to get enough cotton from Australia.

Countries trade

	STAGE 3	
	New Zealand	***Australia***
	100 bushels (trade) →	
Wheat	350 bushels	100 bushels
	(after trade)	
	200 bales (trade) ←	
Cotton	350 bales	100 bales
	(after trade)	

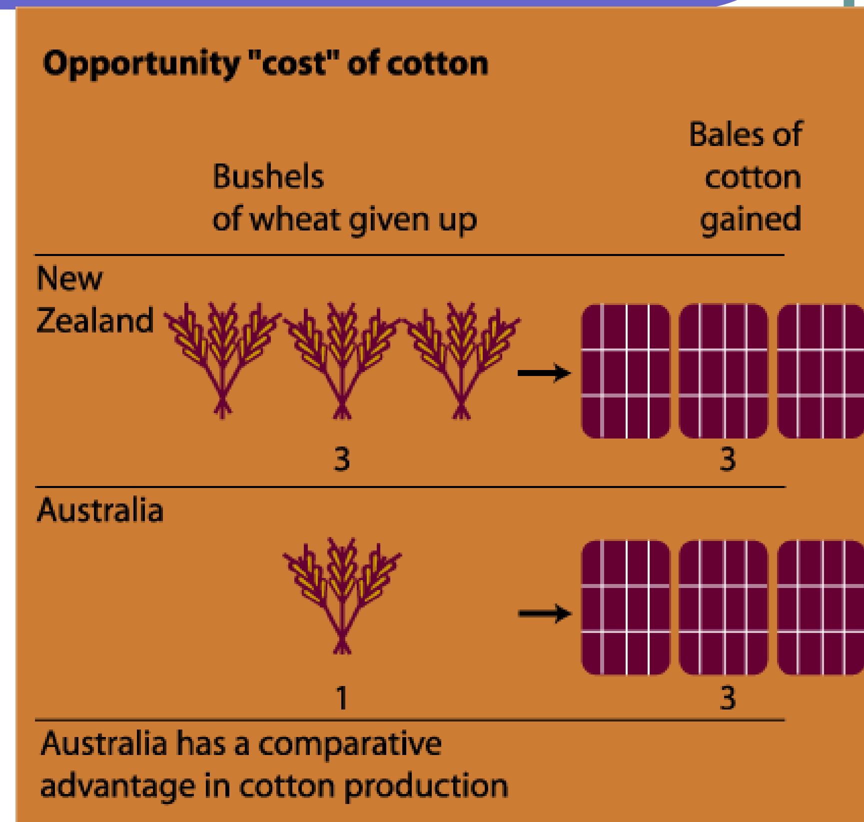
Situation for wheat

Country	Non specialisation	Specialisation	After trade
New Zealand	300	450	350
Australia	75	0	100

Situation for cotton

Country	Non specialisation	Specialisation	After trade
New Zealand	300	150	350
Australia	75	300	100

Comparative Advantage Means Lower Opportunity Cost



Both Australia and New Zealand will gain when the terms of trade are set between 1:1 and 3:1, cotton to wheat.

Assumptions about labour

- Labour is the only ‘factor of production’ included in the model
- Within the country all people’s work is the same but across countries people’s work varies
- Labour be reallocated without cost but cannot move between countries
- There is no unemployment

Assumptions about goods

- Goods are assumed to be heterogeneous, i.e. people are indifferent between the same product made in different countries
- Goods can be transported costlessly – costs of pollution?

Other assumptions

- There are technological differences between countries
- Model is based on only two countries

Mapping your personal items

- Check the origin of the clothes you have with you today
- Discuss this with a partner
- We will conduct a survey later
- Mobile phones and shoes can be very interesting!
- A prize for the most exotic location!

The critique of the three Cs

- Competition between poor countries
- Control: the WTO is heavily politically dominated
- Climate change

Changes in the Terms of Trade of some Country Groups, 1980-2 to 2001-3

Group	*% change*
Developed economies	+7.9
Developing economies	-16.7
Developing economies: Africa	-24.1
Least developed countries	-35.2
Landlocked countries	-16.0
Sub-Saharan Africa	-20.7

Increases in inequality

- In Latin American countries, the wage gap between highly skilled and unskilled increased markedly between 1984 and 1995--UNCTAD
- Real purchasing power of the least skilled workers actually declined, in several cases by over 20%.
- ILO study of 30 countries in Africa, Asia and Latin America found that in two thirds of the countries the real wages of all workers fell between the late 1970s and the late 1980s, with the least skilled falling by the greatest percentage.
- For 38 countries between 1965 and 1992, greater openness to trade had reduced the incomes of the poorest 40% of the population but strongly increased those of the remaining groups. ‘The costs of adjusting to great openness are borne *exclusively* by the poor’—World Bank, 1999

Competition

- Competition for commodities such as coffee, sugar and tea, as well as in manufactures such as textiles
- Tsunami destruction exacerbated by tourism-related deforestation
- Two-thirds of exports from developing countries come from just eight countries, none of which are LDCs
- All the increase in the value of vegetables exported from sub-Saharan Africa has accrued to Kenya, and to larger farmers, who are actually depriving their neighbours of water they need for subsistence farming
- The rise of China as a trading power has been a mixed blessing:
  - Benefits to countries exporting raw materials
  - Disastrous for those competing in e.g. textiles

Solidarity in commodity markets

- For example, in May 2005 a new government in Ecuador (which exports more bananas than any other country) signed a degree to regulate the volume of bananas leaving the country. Two months later, Malaysia and Indonesia announced a bilateral plan to cooperate on the palm oil, rubber, cocoa, timber and other markets in order to ensure price stability and eliminate the undercutting of their position by others. . . . On the world tea market, discussions have been reported involving all four leading tea producers, China, India, Kenya and Sri Lanka.

General Agreement on Sustainable Trade

Support the local	Governments allowed to favour domestic production
Favouring certain partners	States will be allowed to choose to give preferential trade terms to goods and services from other states which respect human rights, treat workers fairly, and protect the environment
Performance requirements	States may impose requirements on corporations opening production facilities in their territories based on: a minimum level of domestic input to the production process; a minimum level of local equity investment; a minimum level of local staff; minimum environmental standards
Standstill and rollback	No state party to GAST can pass laws or adopt regulations that diminish local control of industry and services
Dispute resolution	Citizen groups and community institutions should be able to sue companies for violations of this trade code, under a transparent and public process.

Trade subsidiarity

- Local, non-intensive goods such as seasonal fruit and vegetables and other raw materials which can be grown without much complex labour input.
- Global, non-intensive goods, which do not need much labour but require a different climate from our own.
- Local, complex goods that require skill and time to produce but not the import of raw materials.
- Global, complex goods that need technical expertise and considerable time to produce and for which raw materials or the size of market suggests a problem with local production.

Production possibility grid

Labour		Raw materials	
		Local	Global
	Non-intensive	Farmers' markets; self-build; domestic textiles	Fair trade; replace WTO with GAST
	Intensive	Support of local craft workers	Mending to replace obsolescence; end to intellectual property laws

Sufficiency economy

- A watchword of sustainable economics is self-reliance—not self-sufficiency, which I believe holds very few attractions. Self-reliance entails combining judicious and necessary trade with other countries with an unapologetic emphasis on each country maintaining security of supply in terms of energy, food and even manufacturing.

Trade-related direct action in India

- Shut-down of a Coca-Cola plant in Plachimada, Kerala by local tribal women; the company had been exploiting the valuable local resource of water to the extent of 1.5 million litres a day
- Blockades of 87 Coca-Cola and Pepsi plants nationwide inspired by the Plachimada example
- Students at Jawaharlal Nehru University voted to replace their campus Nestle outlet with a café serving indigenous cuisine from the North East Tribal region of India.
- Seed Sovereignty: a nationwide movement encouraging non-cooperation with seed patent laws