

International Trade: Facts and Fictions

Harald Badinger

WU

Jesus Crespo Cuaresma

WU, WIC, IIASA, WIFO

Harald Oberhofer

WU, WIFO

Protectionism: Causes, manifestations, economic effects

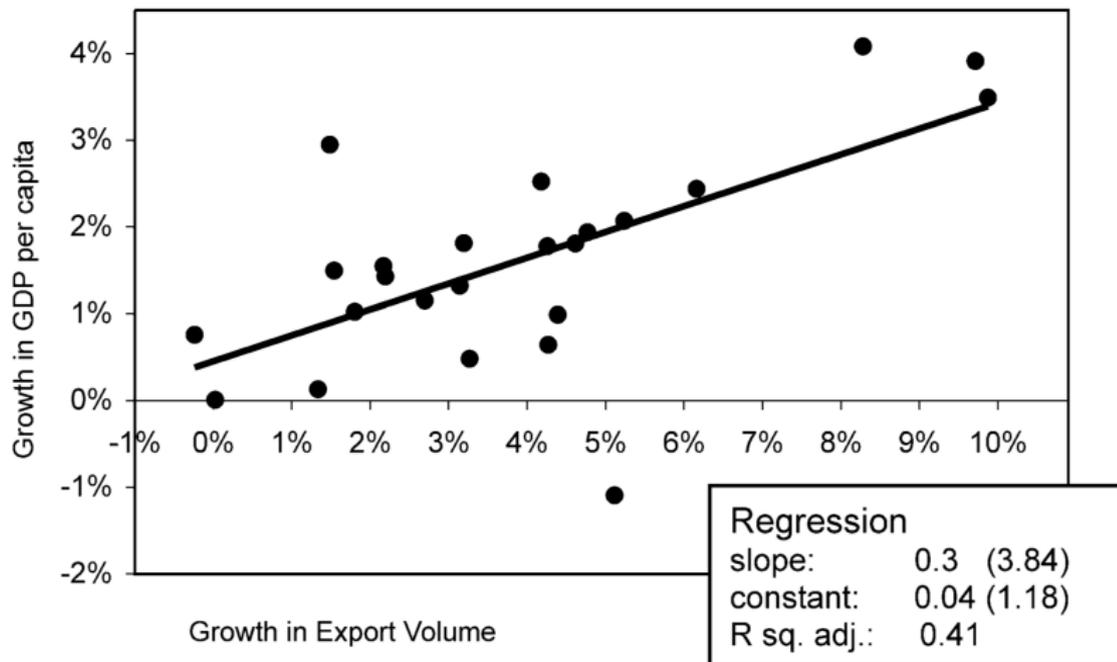
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GLOBALIZATION IN A POST-FACTUAL WORLD

- ▶ The recent rise of populism in the developed world and, in parallel, of protectionist policy proposals has led to a vivid discussion about the (macro)economic effects of globalization and trade
- ▶ Much of the discussion in the media builds upon ideological prejudices and bad science
 - ▶ “Free trade slows economic growth. [...] Globalization has been responsible for the sluggish global economic development of the last decade”
 - ▶ “[Globalization] has led to a worsening of working conditions, to wage pressure and child labour [...] as well as to a falling quality of products”
- ▶ Social scientists in general and economists in particular need to be vocal when it comes to disseminating the scientific consensus on the effects of globalization: (a) international trade and economic development, (b) international trade and income inequality and (c) international trade and environmental depletion

INTERNATIONAL TRADE & ECONOMIC DEVELOPMENT

- ▶ Exports and income growth for 6 world regions, 1870 – 1913, 1913 – 1950, 1950 – 1973 and 1973 – 1998 (Ventura, 2016)



INTERNATIONAL TRADE & ECONOMIC DEVELOPMENT

- ▶ Correlation is not causation: Countries whose income grows for different reasons than trade may trade more
- ▶ Utilize variation in trade driven by geography in order to assess the causal effect of trade on economic growth (Frankel and Romer, 1999)
- ▶ Empirical studies which do not account for such endogeneity problems may have systematically underestimated the effect
- ▶ Whaples (2006) surveys 210 Ph.D. economists randomly selected from the American Economic Association about different economic policy issues
 - ▶ The theme with maximal degree of agreement is international trade (87.5% supporting the elimination of tariffs and other barriers to trade, 90.1% opposing restrictions for employers to outsource work to foreign countries)
 - ▶ The level of consensus broadly comparable to that found among climate scientists in the question of whether humans are responsible for global warming (see Cook et al., 2016)

INTERNATIONAL TRADE & INCOME INEQUALITY

- ▶ The Stolper-Samuelson theorem predicts changes in income inequality after trade liberalization via factor price adjustments across sectors
- ▶ After a long period of increase, global inequality has decreased in the last decades, driven by a decrease in between-country inequality
- ▶ The empirical evidence concerning the link between trade and inequality has been largely inconclusive, due to
 - ▶ measurement problems when it comes to unveiling the mechanisms predicted by economic theory (Roser and Crespo Cuaresma, 2016, employ imports from developing economies and confirm the prediction of the Stolper-Samuelson theorem)
 - ▶ difficulty of assessing second-round (general equilibrium) effects, in particular for poor households (results about whether trade is pro-poor appear mixed, country and context-specific)
- ▶ Technology adoption through trade has been shown to decrease the need for physically demanding skills and improve the relative wage and employment of women (Juhn et al., 2013)

INTERNATIONAL TRADE & ENVIRONMENTAL DEPLETION

- ▶ As in the case of the trade-growth link, endogeneity problems make the effect difficult to estimate
- ▶ Modern literature (Frankel and Rose, 2005, Managi et al., 2009, and Le et al., 2016) find heterogeneous effects that depend on the type of pollutant
- ▶ Eskeland and Harrison (2003) find evidence that foreign plants of multinational enterprises tend to be both more efficient and cleaner in terms of energy use as compared to their domestic peers
- ▶ The evidence for the existence of “pollution heavens” is also mixed in the empirical literature, which effects that appear to depend on the type of FDI (Tang, 2015) and on the actual enforcement of environmental policy (Poelhekke and Van der Ploeg, 2015)

CONCLUSIONS

“Whether we consider the prohibition of some types of domestic trade or international exchange, or the preservation of antiquated techniques and production methods in businesses owned and operated by the “protected bourgeoisie”, there is a generic similarity between the sweeping advocacy of restricted competition and the flourishing of precapitalist values and habits of thought. (...) It is one of the ironies of the history of ideas that some who advocate radical politics today often fall for old economic positions that were so unequivocally rejected by Smith, Ricardo and Marx.”

Amartya Sen, *Development as Freedom*