Georg-August-Universität Göttingen Public Law Foundation

Faculty of Business and Economics
Chair of Development Economics
Prof. Dr. Andreas Fuchs

Syllabus

International Economic Policy

(Internationale Wirtschaftspolitik)

Winter semester 2022/23

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1. General information

1.1 Course content

This course discusses globalization and its various dimensions. It introduces to students both the theoretical and empirical frameworks necessary to evaluate recent development in trade and investment. It specifically focuses on the implications of globalization on low-income and emerging economies, and discusses relevant policy options.

The course consists of a series of lectures, which each consist of a traditional lecture followed by group discussion. At the heart of each lecture is a specific dimension of globalization, in which the most important theoretical and empirical contributions from the economics literature are discussed. Each lecture includes one academic article, which provides the basis for the lecture and group discussion. It is mandatory for students to read the papers in preparation of each lecture.

More specifically, the course covers the following topics:

1. Introduction to Globalization (1 lecture)
2. Advances in Trade and Investment Theory (2 lectures)
   a. Firms, Exporting and Investing Abroad
   b. Multinational Firms in Supply Chains
3. Implications for Firms (3 lectures)
   a. Buyer-Supplier Linkages
   b. Technology Transfer
   c. Factor Reallocations

4. Implications for Households (3 lectures)
    a. Earnings
    b. Expenditure
    c. Development
5. Rising Market Power (2 lectures)
    a. Product Markets
    b. Labour Markets
6. Political and Societal Dimensions (2 lectures)
    a. Political Polarization
    b. Return to Protectionism

1.2 Course goals

After completing the course, students will acquire the following competences:

- Be able to deploy theoretical arguments and empirical approaches from the economics literature to assess various areas of globalization.
- Understand and evaluate the various dimensions through which globalization affects firms and households in low-income and emerging economies.

1.3 Prerequisites

There are no formal requirements, but a basic understand of econometrics, macro- and microeconomic theory and international economics is highly recommended.

1.4 Credit points

6 ECTS-LP (lecture with exercise session: 3 SWS).

1.5 Registration

Please register via FlexNow.

2. Course overview

2.1 Description of the teaching and learning methods

The lecture is supplemented by self-study based on provided materials and literature. In addition, the lecture is complemented by a one-day blocked exercise session with a simulated policy debate. Students take part in two policy debates, representing specific interest groups in the discussion. In

preparation of the policy debate, students have to submit two short position papers (maximum 1,000 words each). **The course language is English.**

2.2 Meetings

<mark>Parts of this course is planned to take place **on campus** under the University's regulations and measures for protection against infection. Parts of this course is planned to take place **on Zoom** via the link indicated below. Please add this course to your Stud.IP account as soon as possible so that you will receive all information on digital meetings and on possible changes due to the current situation (coronavirus).</mark>

Lectures take place every Monday (unless indicated below). Lectures in bold take place on campus in Gottingen from 8-12 c.t., the remaining lectures on Zoom from 10-12 c.t. The block session takes place on campus in Göttingen as well. Rooms will be announced in the university calendar (UniVZ/EXA) once they have been allocated.

Lecture (*Vorlesung*):

1. **Introduction to Globalization (24.10.)**
2. **Firms, Exporting and Investing Abroad (24.10.)**
3. Multinational Firms in Supply Chains (07.11.)
4. Buyer-Supplier Linkages (14.11.)
5. **Technology Transfer (21.11.)**
6. **Factor Reallocations (21.11.)**
7. Earnings (28.11)
8. Expenditure (05.12.)
9. **Development (12.12.)**
10. **Product Markets (12.12.)**
11. Labour Markets (19.12.)
12. Political Polarization (09.01.)
13. **Return to Protectionism (THURSDAY 12.01. 18-20 c.t.!)**

Blocked exercise session (*Übung*):

- **FRIDAY 13.01. 9:00-17:00 c.t.**
- Participation at the blocked exercise session is mandatory!

2.3 Examination and grading of the module

<mark>Due to the current situation, please add this course to your Stud.IP account as soon as possible so that you will receive all information.</mark>

The course examination consists of two components: (i) a written exam and (ii) two short position papers in preparation of the simulated policy debate. Active participation in the group discussions is required, but not graded. The final grade is based on the exam only.

Exam date: Monday, January 30, 2023, 10:00-12:00, see university calendar (UniVZ/EXA) for room

2.4 Course materials

• You find the reading list below.

• Supplementary course materials will be announced at the beginning of each lecture and/or published on Stud.IP.

Topics outline:

A. Do Multinational Firms benefit Domestic Firms?

Increasingly, a small group of large multinationals dominate global markets. One example is U.S. multinational Walmart, which has expanded rapidly into Latin America, Europe and Asia during the 1990s and 2000s, generating at present almost 30 percent of total sales abroad. In part, this expansion in globalization resulted from trade and investment liberalization. In Mexico, for instance, government reduced trade barriers and liberalized its foreign investment code in the mid-1980s and mid-1990s, attracting Walmart and other multinationals. Evidence suggests that the entry of Walmart in Mexico resulted in the exit of least-productive domestic firms, but increased efficiency and innovation in "surviving" firms. In light of the evidence on the gains from globalization, (how) should the Mexican government intervene?

Positions
- A1: U.S. government: in favour of (additional) liberalization in support of U.S. firms.
- A2: Mexican government: protecting domestic firms, its workers and its competitiveness.
- A3: World Bank: in favour of deregulation for efficiency purposes, but only if in support of productivity increases among domestic firms.
- A4: Local sector association: facilitating linkages with multinationals, but protecting domestic firm interests.
- A5: Your view.

B. Are Domestic Workers sufficiently protected from Trade Shocks?

One of the major drivers of globalization in the last two decades has been the rise of China. While the emergence of China as a great economic power has provided consumer benefits, there too have been large adjustment costs and distributional consequences from the China shock. Evidence from the U.S. suggests that increased import competition from China caused higher unemployment, lower labor

force participation, and reduced wages in those regions more exposed. As a result, in the U.S., there has been a return to (trade) protectionism. While the evidence on lower-income countries and its societal repercussions are limited, insights from South Africa suggest that the rise of China resulted in substantial job losses in the manufacturing sector. In this context, what should the South African government do?

Positions

- A1: Chinese government: expansion of exporting industries in support of economic growth.
- A2: South African government: advocating increased trade and investment, but protecting domestic workers, whilst addressing within-country economic inequalities.
- A3: WTO official: maintaining and improving enforcement of multilateral trade rules.
- A4: Domestic worker union: protecting the rights of domestic workers.
- A5: Your view.

Reading list:

Introduction to Globalization

Melitz, M. J., & Trefler, D. (2012). Gains from trade when firms matter. *Journal of Economic Perspectives*, *26*(2), 91-118.

Advances in Trade and Investment Theory

Krugman, Obstfeld, Melitz: International Economics, Pearson Education, Boston: Chapters 7-8.

Implications for Firms

On Buyer-Supplier Linkages: Alfaro-Urena, A., Manelici, I., & Vasquez, J. P. (2021). The effects of joining multinational supply chains: New evidence from firm-to-firm linkages. Working Paper.

On Technology Transfer: Jiang, K., Keller, W., Qiu, L. D., & Ridley, W. (2018). International joint ventures and internal vs. external technology transfer: Evidence from China. Working Paper.

On Factor Reallocations: Menezes-Filho, N. A., & Muendler, M. A. (2011). Labor reallocation in response to trade reform. Working Paper.

Implications for Households

On Earnings: Setzler, B., & Tintelnot, F. (2021). The effects of foreign multinationals on workers and firms in the United States. *The Quarterly Journal of Economics*, *136*(3), 1943-1991

On Expenditure: Atkin, D., Faber, B., & Gonzalez-Navarro, M. (2018). Retail globalization and household welfare: Evidence from Mexico. *Journal of Political Economy*, *126*(1), 1-73.

On Development: Méndez-Chacón, E., & Van Patten, D. (2021). Multinationals, Monopsony and Local Development: Evidence from the United Fruit Company. Working Paper.

Rising Market Power

On Product Markets: De Loecker, J., Goldberg, P. K., Khandelwal, A. K., & Pavcnik, N. (2016). Prices, markups, and trade reform. *Econometrica*, *84*(2), 445-510.

On Labour Markets: Lu, Y., Sugita, Y. & Zhu, L. (2019). Wage Markdowns and FDI Liberalization. Working Paper.

Political and Societal Dimensions

On Political Polarization: Autor, D., Dorn, D., Hanson, G., & Majlesi, K. (2020). Importing political polarization? The electoral consequences of rising trade exposure. *American Economic Review*, *110*(10), 3139-83.

On the Return to Protectionism: Fajgelbaum, P. D., Goldberg, P. K., Kennedy, P. J., & Khandelwal, A. K. (2020). The return to protectionism. *The Quarterly Journal of Economics*, *135*(1), 1-55.

Note: Dates and contents subject to change!