

International Trade, WTO, and Economic Development

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ADS770

9/24/22

Article Presentation Agenda

- Summary
- Motivation
- Theory
- Evidence
- Big Picture

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Siddiqui, K. (2016). International trade,
WTO and economic development.
World Review of Political Economy, 7(4).
<https://doi.org/10.13169/worrevipoliecon.7.4.0424>



WORLD
REVIEW
OF
POLITICAL
ECONOMY



Summary: Main Concepts

- Examining the World Trade Organization (WTO), developing countries, and the concept of fair trade through historical analysis to help predict future growth patterns
 - Trade liberalization negotiations started to enable countries to reach agreements over access to each other's markets and develop trade relationships between developed and developing nations
- Increased globalization means increased international cooperation and trade, more economic interdependence, and a deeper integration into the world economy
 - Examining free trade in a historical perspective in order to understand its implications and future prospects for development
- Local intervention and management in the national economy has proved to be a crucial policy element in achieving successful economic development, especially when developing nations first enter international trade

Summary: Historical Background

- Rapid increase in trade starting between 1870-1914 which changed how countries interacted due to decreasing trade barriers and increased production
 - Colonization of Asia and Africa by European countries (particularly the UK)
 - Low tariffs and a higher demand for free trade
 - Certain countries grew and benefitted from these regulations while others were forced to comply with policies that did not help their economy grow
- The start of economic inequality on a global scale
- Britain became a global promoter of free trade policies and pushed for increased industrialization and increased competition to procure inputs and markets for products
- **The value from trade policies seemed to be “concentrated in the developed countries while the developing countries compete over the spoils of the low-value segments” (Siddiqui, 2016, p. 433).**

Summary: WTO and Local Governments

- GATS, TRIPS, TRIMS and a variety of other agreements/policies are in place to open markets and encourage trade of goods and commodities between developed and developing nations
 - GATS: intends to remove restrictions and government regulations about service delivery that might be considered trade barriers
 - For example: transform education into a tradable commodity to increase international competition (and also includes finance, insurance, transport, and health)
- “The governments displayed an inability to deploy effective policies in situations where their assistance might be needed to spur economic development or fight high levels of underemployment. Their domestic policy space and flexibility was being constrained by the proposals under the WTO negotiations based on **comparative advantage**, which has major weaknesses on both theoretical and empirical grounds. On theoretical grounds, its weakness stems from not addressing externalities such as market failures, environmental costs and investment in education” (Siddiqui, 2016, p. 425-6).

Summary: Globalization

- Globalization in this context is described as a process of integration into the world economy and consists of three key areas: trade, investment and finance
- Globalization in the 19th century coincided with the rapid changes in technology, particularly in transportation costs and time, both of which were reduced drastically
 - These reduced geographic barriers for global trade
- Comparative advantage is proposed as beneficial for all countries as free trade should theoretically lead to increased benefits in areas other than trade as well
 - “For example, once the poor countries open up their markets and join free trade, living conditions will improve. The WTO argues that economic welfare can be maximized through free trade. However, comparative theory rests on assumptions that there are no trade imbalances between countries” (Siddiqui, 2016, p. 440).

Motivation

Why do the authors think that their topic or question is important? What does the author (implicitly or explicitly) regard as incomplete in existing research such that his or her research constitutes a significant contribution? How is the motivation provided by the various others similar or different to each other?

- Trade policies for developing countries
 - "Free trade" doesn't necessarily work for most countries, especially those just entering the global market
 - There is a lot of inequality in trade and trade expectations among developing countries
 - Colonization has had a long lasting impact on a number of countries
- "In contrast to West European countries, Japan in the East Asian colonies invested heavily in infrastructure, education and modern technologies, which played a crucial role in raising productivity and economic diversification" (Siddiqui, 2016, p. 439).
 - Against previous practices developed during the height of colonization and has encouraged growth and development

Motivation: Economic Inequality

- “The proponents of trade liberalization argue that multilateral trade negotiations would achieve these goals, and poor countries particularly would benefit from it; while critiques say that trade rules under the WTO and international financial institutions will acquire more power, which could restrict the ability of developing countries to pursue an independent economic policy” (Siddiqui, 2016, p. 425).
- Neo-classical theory assumes the existence of full employment, increasing levels of competition and technology in the economy, and an equal increase of economic growth and efficiency and productivity. However, it is “widely recognized that the gap in average per capita between the richest and the poorest countries has increased substantially in recent decades” (Siddiqui, 2016, p. 443).

Theory

What distinguishes the theoretical viewpoint of the authors under consideration? What causal mechanism or mechanisms do the authors focus on and why? What are the potential advantages of a given focus and what are the drawbacks?

- Looks at multiple economic and trade theories
 - Explores how they apply to different time periods and how the analysis has shifted as the global market and the understanding of globalization has expanded
- “Ricardo’s comparative advantage theory seems to be inadequate due to a number of assumptions such as perfect competition, full employment, homogeneous goods, and empirical irrelevance” (Siddiqui, 2016, p. 441).
- Neo-classical theory argues that “free trade alone has the potential for development and convergence between rich and poor countries” (Siddiqui, 2016, p. 442). However, studies do not show the “expected associations between trade liberalization and increase in income levels” (Siddiqui, 2016, p. 442).

Theory: Select Theories

- David Ricardo, Comparative Advantage
 - Mutually beneficial exchange, regardless of respective productivities and prices
 - Productivity growth in one country leads to mutually beneficial trade and economic growth among trade partners
 - Rejected on theoretical, logical, and empirical grounds and therefore comparative trade theory cannot determine trade patterns
- Heckscher-Ohlin-Samuelson (H-O-S)
 - Countries must export products based on inputs they have in abundance and import products based on inputs that are scarce
- Paul Krugman
 - Difference between the economies of developed and developing countries does have an impact on trade
 - Manufacturing plays an important role in expanding areas for employment and raising the overall productivity of a nation's economy
 - Trade patterns could be explained by increasing the returns to scale and imperfect competition

Theory: Challenges

- Traditionally applied economic theories should be reconsidered when examining modern developing countries and the impact of globalization
- **“Global economic integration without taking into consideration the different levels of developing and the specific economic situation of the country would be a futile and meaningless attempt at such integration” (Siddiqui, 2016, p. 444).**
 - Globalization itself will promote growth and convergence in income levels between developed and developing countries
 - Globalization also influences fast communication channels, high technology improvements, more capital freedom, increased integration into the national markets, and increased challenges for economic policy implementation at the local level
 - Despite higher levels of economic integration between countries within the last few decades, there has continued to be a rise in income inequality and poverty rates in areas like sub-Saharan Africa, Latin America, and South Asia

Theory: Conclusion

- **“Globalization and policies of ‘free trade’ in the past decades did not lead to rapid growth and economic convergence in most developing countries.** The theory of comparative advantage is presented in support for worldwide trade liberalization. The theory claims that free trade is beneficial for all countries. It further assumes that free trade will automatically lead to the realization of various other benefits. **The contribution of this article is that a number of empirical evidence from the majority of developing countries proves such claims are a fallacy”** (Siddiqui, 2016, p. 446-7).

Evidence

What types of evidence do the authors bring to bear to support their argument? Which sorts of analyses do you find most compelling and why?

- Historical analysis including descriptions of WTO policies, trade among developing countries, and theories
- Uses past evidence to predict future outcomes of developing countries and connects concepts to economic theories
- Charts evidence of trade and economic growth among developed and developing nations, taking into consideration comparative advantage

Big Picture

Explain how the papers fit into leadership and how you can apply these papers in your field.

- Globalization and global economy
- Multicultural and global workforce
 - Understanding where people come from
 - Understanding diverse beliefs, values, and ways of communicating
 - How is their economy structured?
 - How is their workforce structured?
- Leadership and Policy connection
- Higher education connection

Questions?