History of Trade and Globalization

- Pre – 1800
  - East Asian Economy
    - Rice, textiles, metals
  - Atlantic Economy
    - Agricultural Products
    - Silver
    - Luxuries
- Small distance trade in necessities
  - Rice in S-E asia, grain in Europe
- Long-distance trade water-based
- Global Link was Europe
  - Interestingly, Europe had little SE Asia wanted
British Colonialism

- 1800-WWI (1914)
  - Drastic reductions in cost of overseas transportation
  - Land travel cost reduction after 1870 (railroad)
- First period of globalization
- British emphasis on export
  - Mfg. Goods out, grain and raw materials (cotton) in
  - Interestingly enough, there is evidence of deindustrialization among weavers in India
- Railroad help growth in interiors (Germany, US)
What did Globalization I look like (as opposed to Globalization II)

- Tremendous investment in periphery countries
  - Outflow of capital from UK was 8%, only slightly lower for France, Netherlands and Germany
    - Avg for developed countries today is 2% (even with EU)
  - Historian Niall Ferguson estimates that in Britain decolonized, taxes could have been reduced 25%
  - Capital investments primarily in infrastructure and government bonds
    - Today in virtually every sector
- Tremendous migration
  - Primarily to New World (Non British), and to British colonies
Migration

- Migration winners:
  - US: +24%
  - Argentina: +86%
  - Brazil: +1%
  - New World: +40%

- Migration losers:
  - Ireland -45%
  - England: -11%
  - France: -1%
  - Europe: -13%

- Unknown impact on China and Japan (poor data)
Was Globalization I bad?

- Conventional wisdom: Britain profited, Colonies were exploited and underdeveloped
- How was Britain a winner?
  - Evidence that landed class was demolished compared to precolonial status
  - Laborers gained the most (perhaps worldwide)
- Rest of World – Conflicting evidence?
  - On aggregate – rising inequality; but what if we look at those that participated in global economy that those that didn't?
Inequality during Globalization I

- As a whole, participating countries benefitted
- Diminishing inequality between countries
  - It seems that gap between rich and poor countries declined
  - Countries participating in the Atlantic economy became more equal
    - Clear the US was a big winner
    - But even Mexico benefitted compared to its neighbors
    - Equalization in Europe
Inequality during Globalization I

- Mixed evidence about inequality within countries
  - Britain, more equal
  - Land poor countries more equal in general
  - Land rich countries more unequal in general
- What was the impact of migration?
  - Countries losing people experienced wage growth
    - Ireland: +32%
    - Italy: +28%
    - Norway: +10%
  - Countries gaining people experience wage decline
    - Argentina: -22%
    - Australia: -15%
    - US: -8%
Biggest result of migration was not wage change, but productivity change
  - Migrating people are the most productive
  - Wages can decline while productivity goes up, prices go down, relative quality of life up

Similar effect in Asia, but less pronounced
  - With exception of Japan
Possible summary of Globalization I

- Tremendous labor movement
- Tremendous capital movement
- British rule of law was a guarantee on loans to colonies
- Finance took precedence over goods
- Free trade, mass migration and investment propelled British colonies to prosperity
  - India seems to have fared poorly, but perhaps not in comparison to rest of Asia
  - Obvious disparity between “new” economies and “existing” economies
Inter-War Period

- Deglobalization
- Two major wars and fragile peacetime (Depression and Cold War)
- Economics didn't change:
  - Demand and Supply of labor unchanged
  - Transportation only got cheaper
- Anti-globalization policies
  - Lockdown on immigration in developed countries
  - Increasing tariffs
Globalization of Capital

- 1944 – Bretton Woods Agreements
  - Desire to rebuild post-WWII world
  - Each country obliged to fix currency to gold standard (of which the US held 80%)
  - Response to Depression – countries devalued currency to promote exports – race to bottom
- Establishment of IMF (International Monetary Fund)
  - Managed currency exchanges and trade deficits
  - Offer monetary advise
  - Ideology – control inflation (to protect US investments)
  - Short-term loans to needy member nations
  - More recently criticized for “bail-outs”
Globalization of Capital

- World Bank -
  - Given an initial endowment from which to provide private loans for development
  - Pressures to keep countries “open”
  - Largely finance the green revolution of the 1960s

- Problems:
  - Price of gold wasn't fixed;
  - Disparity between gold prices and dollar prices became too great
  - Currency Market grew
  - Relative power of US declined
Globalization II

- FDI is less than Globalization I
  - Primarily developed-developed countries
- High migration into developed countries
  - As opposed to developing countries
  - Migration in developing countries largely internal
- Rise of TNCs
  - Possibly overstated:
    - Mergers and Acquisitions as opposed to greenfield
    - Largest TNCs are financial institutions
  - Slicing of value chain
    - No longer exporting finished goods, but intermediate goods
    - Evidenced by majority of trade being from parent to subsidiary
Inequality Trends?

- Obviously difficult to say
- Income inequality in US
  - Structural Readjustment
- “Exploited” Countries
  - Lax labor laws
  - But even regions of Chinese exploitation are better off than agricultural areas
  - Education rate higher in development zones
- Ignored Countries
Mexico and Globalizing Industry

- Maquiladora – Factories where imported materials are assembled into products for export
History of Maquiladora

- **1965 – Border Industrialization Program**
  - Import duties only on value-added
  - Exports are tariff and duty free
  - Restricted to 12 miles of border
- **Growth through 1970s**
  - Mexico actively discouraged union organization
- **NAFTA made all of Mexico a duty free zone**
- **How big is it**
  - In 2000: 3700 maquiladoras, 1.3 million workers
  - ½ of all exports
  - 30% of GDP is exports (90% of exports to US)
Maquiladoras since NAFTA

- Perot's “Giant Sucking Sound”
- Expected to halt migration
- Total trade volume: 300 billion to 700 billion
- First year coincided with economic crisis – 1 million jobs lost in Mexico
  - Most likely caused by rapid liberalization – airports, banks, railroads
  - Halted evidence of wage convergence with US
- Estimated that 750,000 jobs lost in US.
- Number of maquilas in 1993: 2100, in 2000: 3700
  - But many economists doubt that maquila growth is tied to NAFTA
Recent maquila decline

- In early part of decade (2000-2003), 250,000 maquiladora jobs were lost
- Fear of increasing competition from China
Recent maquila decline

- In early part of decade (2000-2003), 250,000 maquiladora jobs were lost
- Fear of increasing competition from China

Chart 3

Together, for Better or for Worse
(Industrial production, seasonally adjusted)
Base: January 1998 = 100

SOURCE: IHS / Analytics.
## Labor Market Changes


<table>
<thead>
<tr>
<th>Sector</th>
<th>Job Increment</th>
<th>Job Decline</th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>14,364</td>
<td>1,280,795</td>
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<td>Extractive Industry</td>
<td>275,329</td>
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<tr>
<td>Transport and Communications</td>
<td>749,114</td>
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<tr>
<td>Construction</td>
<td>108,694</td>
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<tr>
<td>Manufacturing: domestic production and non-maquila</td>
<td>1,727,108</td>
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<tr>
<td>Manufacturing: Maquila</td>
<td>699,873</td>
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<tr>
<td>Trade</td>
<td>275,329</td>
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<tr>
<td>Services*: Formal</td>
<td>1,455,899</td>
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<tr>
<td>Services: Informal*</td>
<td>928,461</td>
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<tr>
<td>Other</td>
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<tr>
<td>Total</td>
<td>6,563,094</td>
<td>1,280,795</td>
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<td>Net increment</td>
<td>5,282,299</td>
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### Table 6. Imports and Prices

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<tr>
<td>BEANS (%)</td>
<td>2.0</td>
<td>0.4</td>
<td>0.6</td>
<td>5.0</td>
<td>3.5</td>
<td>11.4</td>
<td>8.2</td>
<td>15.5</td>
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<td>CORN IN GRAIN (%)</td>
<td>5.3</td>
<td>4.4</td>
<td>1.5</td>
<td>10.3</td>
<td>12.0</td>
<td>31.2</td>
<td>11.9</td>
<td>21.4</td>
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<tr>
<td>SORGHUM IN GRAIN (%)</td>
<td>59.0</td>
<td>71.3</td>
<td>107.1</td>
<td>88.8</td>
<td>41.6</td>
<td>52.3</td>
<td>37.4</td>
<td>48.4</td>
<td>72.8</td>
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<td>WHEAT GRAIN (%)</td>
<td>8.5</td>
<td>22.7</td>
<td>32.9</td>
<td>25.3</td>
<td>44.5</td>
<td>54.1</td>
<td>65.1</td>
<td>101.9</td>
<td>77.8</td>
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<td>TOTAL (%)</td>
<td>16.1</td>
<td>22.1</td>
<td>20.4</td>
<td>29.4</td>
<td>31.3</td>
<td>42.8</td>
<td>37.3</td>
<td>41.1</td>
<td>42.4</td>
<td>45.3</td>
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<tr>
<td>PALAY RICE</td>
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<td>564.4</td>
<td>666.1</td>
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<td>596.4</td>
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<td>455.9</td>
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<td>2537.4</td>
<td>2230.5</td>
<td>1840.7</td>
<td>1383.2</td>
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<td>2359.1</td>
<td>2196.3</td>
<td>1700.0</td>
<td>1541.0</td>
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<tr>
<td>CORN IN GRAIN</td>
<td>886.6</td>
<td>852.4</td>
<td>796.6</td>
<td>635.5</td>
<td>695.6</td>
<td>716.0</td>
<td>583.8</td>
<td>525.8</td>
<td>470.8</td>
<td>450.4</td>
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<td>SORGHUM IN GRAIN</td>
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<td>492.1</td>
<td>444.0</td>
<td>394.0</td>
<td>600.0</td>
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<td>423.4</td>
<td>370.2</td>
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<td>SOY</td>
<td>1588.8</td>
<td>1144.6</td>
<td>1031.5</td>
<td>830.4</td>
<td>939.1</td>
<td>1061.4</td>
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<td>831.2</td>
<td>797.8</td>
<td>535.7</td>
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<tr>
<td>WHEAT GRAIN</td>
<td>754.8</td>
<td>688.8</td>
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<td>591.5</td>
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<td>885.7</td>
<td>563.3</td>
<td>499.0</td>
<td>443.0</td>
<td>456.4</td>
</tr>
</tbody>
</table>

*Source: SAGARPA-SIACON; INEGI*
Gender Implications

- Originally designed to employ male displace agricultural farmers
- Workers were traditionally young females
  - 1982: 77.2% were female
  - 1999: 41.4% were female
  - Recent evidence of female workforce becoming older
- Many examples of sexual discrimination
  - Employment screening
  - Random pregnancy tests
- Evidence that women need to enter the workforce (i.e. not by choice)
Other implications

- Internal migration
  - Border maquiladoras estimated to be responsible for the migration 1 million people to border region
  - May have increased (not decreased) migration to US.
- Rapid urbanization
- Unknown impact on politics
  - PRI party was ousted in 2000 after 70 years of rule
  - Increased efforts to reduce corruption at federal level