

Course Book

Seminar Development Economics (MA): Economic Globalization

Winter semester 2016/17

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Chapter 1: General information

1.1 Seminar contents

Falling transportation costs, the unprecedented ease of information transmission and changes in economic policies have fueled globalization over the last decades. Until recently globalization appeared to be an unstoppable development. Today, fears of losing control have led countries to raise fences, to question democratic values, and to withdraw from the European Union. In the economic sphere, the gap between the rich and the poor continues to widen; the financial system, particularly the Euro zone, is under increasing amounts of stress; and the negotiations over the Transatlantic Trade and Investment Partnership (TTIP) undermine trust in free trade. Is the current age of globalization coming to an end?

This Master seminar sheds light on some selected major challenges that the globalizing world faces, reviews the relevant economic literature, and seeks to foment discussions between students on the challenges and possible solutions. While the seminar starts with a discussion of globalization broadly understood, most of the topics focus on one of the various facets of globalization. It covers the movement of goods, services, money, and people. The seminar ends with a discussion of challenges to global governance, focusing on international economic organizations.

1.2 Aims of the seminar

The aims of this seminar are:

- To deepen the knowledge of participants in development economics in general and in the economics of globalization in particular,
- To train participants to review the relevant literature, to critically reflect on it and to undertake complementary own research,
- To prepare a well-argued piece of research, well written and consistent in its format,
- To present the outcome of this research in class and to engage in a discussion with other students and the teaching staff,
- To critically reflect on the research papers by other students.

1.3 Prior knowledge

An understanding of intermediate micro- and macroeconomics and basic econometric analysis is required. Prior knowledge in development economics is an advantage. Students without such prior knowledge may read the books by either Ray (1998) or Todaro and Smith (2006, or a newer edition) (see below).

1.4 Credits and workload

Course credits: 7 ECTS-LP.

	Contact hours	Self-study
Seminar	20h	36h
Research paper		134h
Written review of another paper		20h
Total		210h

1.5 Inscription and contact

Inscriptions via StudIP. The number of participants is restricted to 15. Applicants are selected based on their documented interest for the topic (past lectures, seminars, internships) and their study performance. **To apply, please submit your short letter of motivation (one page maximum), CV, and grade sheet to Andreas Fuchs (mail (@) andreas-fuchs.net) by Friday, October 21, 2016.** Decisions will be made by **Monday, October 24, 2016.** All students must fulfill the basic requirements, i.e., have an understanding of intermediate micro and macro-economics and basic econometric analysis. For the inscription no topic has to be chosen. Topics are distributed at the introductory meeting (see below).

For questions related to the administration of this course, please contact:

Christiana Augsburg

Chair of Development Economics, Secretary

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For questions related to the content of this course, please contact:

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69115 Heidelberg

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Chapter 2: Course Set-up

2.1 Organization

The seminar is scheduled for the winter semester 2016/17. The course will be taught in English in order to provide students with the opportunity to train their English language presentation and writing skills. While it is recommended that you write your paper in English, we also accept papers written in German. Seminar meetings and all presentations, however, will take place in English to allow for participation of non-German speakers.

2.2 Scheduling and locations

Introductory meeting (Tuesday, October 18, 18:00-19:30 (s.t.), room: (WIWI) R 301)

Brief introduction into the economics of globalization, allocation of topics to participants.

Deadline for draft outline and introduction (Friday, November 11, 23:59)

Please upload on StudIP an electronic version of your draft outline and introduction (about 1.5 pages of introduction plus outline; preferably as a pdf). The draft outline and introduction of all participants will thus be available on StudIP, so that each participant can prepare discussions of other draft outlines and introductions. Please prepare short critical reviews of the two draft outlines and introductions assigned to you for the seminar meeting (no written version required).

First and second seminar day (Friday, November 18, 2016, 16:00-19:30 (s.t.) & Saturday, November 19, 2016, 9:30-13:00 (s.t.), Room (WIWI) R 301)

Each seminar participant presents his or her draft outline and introduction and comments on two other draft outlines and introductions. Presentations should take 6 minutes and discussions of other papers should not exceed 2 minutes. 10 minutes are foreseen for the following Q&A session and feedback on presentations.

Deadline for final paper (Monday, January 9, 2017, 23:59)

Please upload on studIP an electronic version of your draft paper (see guidelines below in Chapter 3; preferably pdf). The research papers of all participants will thus be available on StudIP, so that you can prepare discussions of other research papers. Please prepare short critical reviews of the two research papers assigned to you for the seminar meeting (no written version required at this point).

Third and fourth seminar day (Friday, January 20, 2017, 16:00-19:30 (s.t.) & Saturday, January 21, 2017, 10:00-16:00 (s.t.), Room (WIWI) R 301)

Each seminar participant presents his or her research paper and comments on two other papers. Please prepare slides for your paper presentation. Presentations should take 15 minutes and discussions of other papers should not exceed 3 minutes. 9 minutes are foreseen for the following Q&A session and feedback on presentations.

Deadline for written review of another paper (Friday, January 27, 2017, 23:59)

Please send an electronic version of your written review of another paper (2 pages; preferably pdf) to Andreas Fuchs (mail (@) andreas-fuchs.net).

2.3 Grade components

Research paper, presentation and Q&A session (75%)

Written review of a research paper submitted by a fellow student, discussions of two other papers and participation during meetings (25%)

In order to pass the course,

- participants must be present and actively participate on all seminar dates,
- participants must submit all written course requirements (draft outline and introduction, research paper, and written review of another paper) on time, and
- the weighted average grade must exceed 4.3.

2.4 General background readings

- Dreher, A., N. Gaston and P. Martens (2008), *Measuring Globalization: Gauging its Consequences*. New York: Springer.

- Potrafke, N. (2015), The Evidence on Globalisation, *World Economy* 38, 3: 509-552.

- Ray D. (1998), *Development Economics*. Princeton: Princeton University Press.

- Rodrik, D. (2011). *The Globalization Paradox: Why Global Markets, States, and Democracy Can't Coexist*. Oxford University Press.

- Stiglitz, J.E. (2007). *Making Globalization Work*. WW Norton & Company.

- Todaro M.P. and S.C. Smith (2006), *Economic Development*. 9th edition (or newer). Essex: Pearson.

2.5 Course material

- Readings
- Research papers
- Presentation slides

Chapter 3: Research paper requirements

The research paper must remain within a maximum of 6,500 words, including footnotes, excluding references and annexes. Use wide margins and a line spacing of 1.5. The word count must be provided together with the number of tables and figures. Annexes may provide the details of a theoretical model or an empirical approach, data sources, a used questionnaire or some background tables and figures. Tables and figures that are essential for the research paper need to be included in the main text. Please make sure that you are consistent in your referencing and bibliography. Use a referencing style that is in line with basic conventions in the economic literature. To set a reference the mentioning of the authors and year of publication in the text is sufficient. Papers can be written in English or German.

Every idea, statement or fact taken from the literature or any other sources must be appropriately cited. Quotes need to be indicated as such. Plagiarism is sanctioned with the grade 5 (failed). The general rules of the Faculty of Economics and Business Administration apply.

Own empirical work is highly appreciated and strongly encouraged.

The work must be done independently by the student; the supervisor only provides advice on the outline and specific issues of the paper.

A good research paper implies a clear initial presentation of the research question. Relevant concepts and theoretical approaches need to be adequately discussed. If applicable, the methodological choices need to be justified. The analysis needs to focus on the research question. The paper ends with a well-argued synthesis that supports the conclusions. A good research paper is also fluently written (English or German) and is consistent in its form.

Chapter 4: Topics and some indicative readings

Block I: Introduction to Globalization

1. Measuring globalization: Is globalization coming to an end?

Arribas, Iván, Francisco Pérez and Emili Tortosa-Ausina, 2009, Measuring Globalization of International Trade: Theory and Evidence, *World Development* 37, 1: 127-145.

Docquier, Frederic and Hillel Rapoport, 2012, Globalization, Brain Drain, and Development, *Journal of Economic Literature* 50, 3: 681-730.

Dreher, Axel, Noel Gaston and Pim Martens, 2008, *Measuring Globalization: Gauging its Consequences* (New York: Springer).

Quinn, Dennis, Martin Schindler and A. Maria Toyoda, 2011, Assessing Measures of Financial Openness and Integration, *IMF Economic Review* 59, 3: 488-522.

2. Winners and losers: Shifting attitudes towards globalization

Geishecker, Ingo, Maximilian Riedl and Paul Frijters, 2012, Offshoring and Job Loss Fears: An Econometric Analysis of Individual Perceptions, *Labour Economics* 19, 5: 738-747.

Hessami, Zohal, 2011, Globalization's winners and losers—Evidence from life satisfaction data, 1975–2001, *Economics Letters* 112, 3: 250-253.

O'Rourke, Kevin, 2003, Heckscher-Ohlin Theory and Individual Attitudes towards Globalization. NBER Working Paper No. 9872. National Bureau of Economic Research.

Walter, Stefanie. Globalization and the Welfare State: Testing the Microfoundations of the Compensation Hypothesis, *International Studies Quarterly* 54, 2: 403-426.

3. What is the link between globalization and transnational terrorism?

Egger, Peter and Martin Gassebner, 2015, International Terrorism as a Trade Impediment? *Oxford Economic Papers* 67, 1: 42-62.

Li, Quan and Drew Schaub, 2004, Economic Globalization and Transnational Terrorism a Pooled Time-series Analysis, *Journal of Conflict Resolution* 48, 2: 230-258.

Bandyopadhyay, Subhayu, Todd Sandler and Javed Younas, 2013, Foreign Direct Investment, Aid, and Terrorism, *Oxford Economic Papers* 66, 1: 25-50.

Younas, Javed, 2014, Does Globalization Mitigate the Adverse Effects of Terrorism on Growth? *Oxford Economic Papers* 67, 1: 133-156.

Block II: International Trade and Investments

4. What explains opposition to trade liberalization?

Dür, Andreas, 2015, Interest Group Influence on Public Opinion: A Survey Experiment on the Transatlantic Trade and Investment Partnership, Working Paper, University of Salzburg.

Felbermayr, Gabriel, Rahel Aichele and Inga Heiland, 2016, Going Deep: The Trade and Welfare Effects of TTIP Revised. Ifo Working Paper No. 219. Ifo Institute-Leibniz Institute for Economic Research at the University of Munich.

Mayda, Anna Maria and Dani Rodrik, 2005, Why Are Some People (and Countries) More Protectionist than Others?, *European Economic Review* 49, 6: 1393-1430.

Milner, Helen V. and Dustin H. Tingley, 2011, Who Supports Global Economic Engagement? The Sources of Preferences in American Foreign Economic Policy, *International Organization* 65, 1: 37-68.

5. Globalization of services: a blessing or a curse?

Baldwin, Richard, 2006, Globalisation: the Great Unbundling(s), *Economic Council of Finland* 20, 3: 5-47.

Francois, Joseph and Bernard Hoekman, 2010, Services Trade and Policy, *Journal of Economic Literature* 48, 3: 642-692.

Geishecker, Ingo and Holger Görg, 2013, Services Offshoring and Wages: Evidence from Micro Data. *Oxford Economic Papers* 65, 1: 124-146.

Head, Keith, Thierry Mayer and John Ries. How Remote is the Offshoring Threat? *European Economic Review* 53, 4: 429-444.

6. Should we fear China's growing international investments?

Chen, Wenjie, David Dollar and Heiwai Tang, 2015, Why is China Investing in Africa? Evidence from the Firm Level, *Brookings Institute*.

David, H., David Dorn and Gordon H. Hanson. The China Syndrome: Local Labor Market Effects of Import Competition in the United States, *American Economic Review* 103, 6: 2121-2168.

Eichengreen, Barry and Hui Tong, 2006, Fear of China, *Journal of Asian Economics* 17, 2: 226-240.

Gawellek, Bastian, Jingjing Lyu and Bernd Süßmuth, 2016, Did Chinese Outward Activity Attenuate or Aggravate the Great Recession in Developing Countries? *CESifo Working Paper Series No. 5735*.

7. Does politics affect trade in times of globalization?

Acemoglu, Daron and Pierre Yared, 2010, Political Limits to Globalization, *American Economic Review: Papers & Proceedings* 100, 2: 83-88.

Davis, Christina L. and Sophie Meunier, 2011, Business as Usual? Economic Responses to Political Tensions, *American Journal of Political Science* 55, 3: 628-646.

Fuchs, Andreas and Nils-Hendrik Klann, 2013, Paying a Visit: The Dalai Lama Effect on International Trade, *Journal of International Economics* 91, 1: 164-177.

Pandya, Sonal S. and Rajkumar Venkatesan, 2016, French Roast: Consumer Response to International Conflict—Evidence from Supermarket Scanner Data. *Review of Economics and Statistics* 98, 1: 42-56.

Block III: Migration

8. Brain Drain or Brain Gain?

Beine, Michael, Frédéric Docquier, Hillel Rapoport, 2001, Brain Drain and Economic Growth: Theory and Evidence, *Journal of Development Economics* 64, 1: 275-89.

Docquier, Frédéric and Hillel Rapoport, 2012, Globalization, Brain Drain and Development. *Journal of Economic Literature* 50, 3: 681-730.

Clemens, Michael A., 2011, Economics and Emigration: Trillion-dollar Bills on the Sidewalk? *Journal of Economic Perspectives* 25, 3: 83-106.

Faini, Riccardo, 2007, Remittances and the Brain Drain: Do More Skilled Migrants Remit More? World Bank Economic Review 21, 2: 177-191.

9. The role of diaspora networks in a globalized world: A growth promoter?

Leblang, David, 2010, Familiarity Breeds Investment: Diaspora Networks and International Investment, American Political Science Review 104, 3: 584-600.

Licuanan, Victoria, Toman Omar Mahmoud and Andreas Steinmayr, 2015, The Drivers of Diaspora Donations for Development: Evidence from the Philippines, World Development 65: 94-109.

Priebe, Jan and Robert Rudolf, 2015, Does the Chinese Diaspora Speed Up Growth in Host Countries? World Development 76: 249-262.

Rauch, James E., 1999, Networks versus Markets in International Trade, Journal of international Economics 48, 1: 7-35.

10. Does migration spread democracy?

Docquier, Frédéric, Elisabetta Lodigiani, Hillel Rapoport and Maurice Schiff, 2016, Emigration and Democracy, Journal of Development Economics 120: 209-223.

Dreher, Axel and Shu Yu, 2016, The Alma Mater Effect - Does Foreign Education of Political Leaders Influence Foreign Policy? CESifo Working Paper Series No. 5871.

Fuchs-Schündeln, Nicola and Matthias Schündeln, 2015, On the Endogeneity of Political Preferences: Evidence from Individual Experience with Democracy, Science 347, 6226: 1145-1148.

Spilimbergo, Antonio, 2009, Democracy and foreign education, American Economic Review 99, 1: 528-43.

Block IV: Development Aid

11. Is development aid effective?

Clemens, Michael A., Steven Radelet, Rikhil Bhavnani and Samuel Bazzi, 2012, Counting chickens when they hatch: Timing and the Effects of Aid on Growth, Economic Journal 122, 561: 590-617.

Doucouliafos, Chris and Martin Paldam, 2009, The Aid Effectiveness Literature – The Sad Result of 40 Years of Research, Journal of Economic Surveys 23, 3: 433-461.

Dreher, Axel, Vera Eichenauer, Kai Gehring, Sarah Langlotz and Steffen Lohmann, 2015, Does foreign aid affect growth? Available at <http://voxeu.org/article/foreign-aid-and-growth-new-evidence>.

Rajan, Raghuram G. and Arvind Subramanian, 2008, Aid and Growth: What Does the Cross-Country Evidence Really Show? Review of Economics and Statistics 90, 4: 643-665.

12. How does the rise of China challenge the international aid architecture?

Bräutigam, Deborah, 2009, The Dragon's Gift: The Real Story of China in Africa, Oxford/New York: Oxford University Press.

Dreher, Axel and Andreas Fuchs, 2015, Rogue Aid? An Empirical Analysis of China's Aid Allocation, Canadian Journal of Economics 48,3: 988-1023.

- Dreher, Axel, Andreas Fuchs, Roland Hodler, Bradley Parks, Paul A. Raschky and Michael J. Tierney, 2015, Aid on Demand: African Leaders and the Geography of China's Foreign Assistance., CESifo Working Paper No. 5439.
- Woods, Ngaire, 2008, Whose Aid? Whose Influence? China, Emerging donors and the Silent Revolution in Development Assistance, *International Affairs* 84, 6: 1205–1221.

Block V: Global Governance

13. Who controls the international financial institutions?

- Dreher, Axel, Jan-Egbert Sturm and James Vreeland, 2009, Global Horse Trading: IMF Loans for Votes in the United Nations Security Council, *European Economic Review* 53: 742-757.
- Dreher, Axel, Stephan Klasen, James Vreeland and Eric Werker, 2013, The costs of Favouritism: Is Politically-driven Aid Less Effective? *Economic Development and Cultural Change* 62: 157-191.
- Fratzscher Marcel und Julien Reynaud, 2011, IMF Surveillance and Financial Markets – A Political Economy Analysis, *European Journal of Political Economy* 27, 3: 405-422.
- Kersting, Erasmus K. and Christopher Kilby, 2016, With a Little Help from my Friends: Global Electioneering and World Bank Lending, *Journal of Development Economics* 121: 153-165.

14. What are the economic consequences of the WTO?

- Busch, Marc and Edward Mansfield, 2003, Multilateral Determinants of Regionalism: The Effects of GATT/WTO on the Formation of Preferential Trading Arrangements, *International Organization* 57, 4: 829-862.
- Rose, Andrew K., 2004, Do We Really Know That the WTO Increases Trade? *American Economic Review* 94, 1: 98-114.
- Rose, Andrew K., 2004, Do WTO Members have More Liberal Trade Policy? *Journal of International Economics* 63, 2: 209-235.
- Subramanian, Arvind and Shang-Jin Wei, 2007, The WTO Promotes Trade, Strongly But Unevenly, *Journal of International Economics* 72, 1: 151-175.

15. Does it pay off to be a member of the European Union?

- Egger, Peter and Michael Pfaffermayr, 2013, The Pure Effects of European Integration on Intra-EU Trade, *World Economy* 36, 6: 701-712.
- Becker, Sascha O., Egger, Peter and Maximilian von Ehrlich, 2012, Too much of a good thing? On the growth effects of the EU's regional policy, *European Economic Review* 56(4): 648-668.
- Becker, Sascha O., Egger, Peter and Maximilian von Ehrlich, 2010, Going NUTS: The Effect of EU Structural Funds on Regional Performance, *Journal of Public Economics* 94, 9-10: 578-590.
- Dhingra, Swati, Hanwei Huang, Gianmarco Ottaviano, Thomas Sampson and John Van Reenen, 2016, The Consequences of Brexit for UK Trade and Living Standards. Available at: <http://voxeu.org/article/economic-consequences-brexit>.