

VU LEARNING HUB

vulearninghub.xyz

HANDOUT

ECO613

Globalization and Economics

ECO613 by VU Learning HUB

Prepared for VU students • Free study resources

<https://vulearninghub.xyz>

ECO613

Globalization and Economics

Lecture-Wise Study Handout
Virtual University of Pakistan

21 lectures • prepared for exam study

Table of Contents

1. What Is Globalization?
2. Theories of International Trade
3. Trade Policy: Tariffs, Quotas, and Protection
4. The WTO and the Trading System
5. Multinationals and Global Value Chains
6. Financial Globalization and Crises
7. Globalization, Growth, and Inequality
8. Pakistan and Globalization
9. Technology, Migration, and the Future
10. Balance of Payments
11. Exchange Rates and Currency Crises
12. Regional Trade Agreements
13. The 2008 Global Financial Crisis
14. Services and Digital Trade
15. The Industrial Policy Debate
16. Globalization and the Environment
17. Global Economic Governance: IMF and World Bank
18. Foreign Aid and Development
19. China, India, and the New Multipolarity
20. Question Bank and Pakistanized Answers
21. Deglobalization and Pakistan's Opening

About This Course

Globalization and Economics studies the integration of national economies through trade, capital flows, technology, and labor mobility — and what this integration means for growth, inequality, and policy. This handout covers the meaning and measurement of globalization, trade theory from Ricardo to the new trade theory, the WTO system, multinational corporations, financial globalization and crises, and the effects of globalization on developing countries with special attention to Pakistan.

Each lecture gives learning objectives, core explanations with definitions, examples, exam key points, a summary, and review questions.

Lecture 1: What Is Globalization?

Learning Objectives

- Define globalization
- Trace its historical waves
- Explain how it is measured

Globalization is the process by which businesses, technologies, and societies become integrated across national borders through flows of goods, services, capital, labor, and ideas. Economists distinguish economic globalization (trade and capital integration) from political and cultural globalization, though the three interact.

Globalization is not new: the first wave ran from roughly 1870 to 1914 (steamships, telegraphs, the gold standard), collapsing with World War I and the Great Depression; the second wave began after 1945 with GATT and accelerated after 1980 with containerization, ICT, and liberalization in China and India. What is new is the speed, the inclusion of services and data flows, and the fragmentation of production into global value chains.

Measurement uses indices like the KOF Globalization Index (economic, social, political dimensions) and simple ratios: trade openness = $(\text{exports} + \text{imports})/\text{GDP}$, and FDI/GDP . By these measures, the world globalized rapidly until 2008; since then 'slowbalization' — trade growing at roughly the pace of GDP — has set in.

Key Definitions

Globalization is defined as the increasing integration of national economies through cross-border flows of goods, services, capital, labor, technology, and ideas.

Trade openness is defined as the ratio of a country's total trade (exports plus imports) to its GDP, a basic measure of trade openness.

Examples

■ Trade openness: Pakistan's $(\text{exports} + \text{imports})/\text{GDP}$ is roughly 25–30%, far below Malaysia's 130%+.

■ Second wave: China's WTO entry in 2001 doubled its share of world exports within a decade.

Key Points — very important for exams

Economic, political, cultural globalization — this course focuses on economic.

Two waves: 1870–1914 and post-1945 (accelerating after 1980).

Measured by KOF index and trade-openness ratios.

Post-2008 'slowbalization': trade growing with, not faster than, GDP.

Note:

Note: 'describe the waves of globalization' is a standard long question — memorize the dates, drivers (steam/telegraph vs containers/ICT), and the 1914–1945 reversal.

Review Questions

- ? Why did the first wave collapse?
- ? Is slowbalization deglobalization? Discuss.

Section Summary

Globalization is the cross-border integration of economic life, with a long history, measurable intensity, and a recent slowdown worth understanding.

Exam Pointers

- Define globalization and its dimensions.
- Describe the two waves of globalization.

Lecture 2: Theories of International Trade

Learning Objectives

- Explain comparative advantage
- Apply factor-endowment and new trade theories

David Ricardo's theory of comparative advantage (1817) is the foundation: even if one country is better at producing everything, both gain if each specializes in the good where its opportunity cost is lowest and they trade. The logic is opportunity cost, not absolute productivity — and it implies consumers gain from imports even when domestic producers complain.

The Heckscher-Ohlin model adds factor endowments: countries export goods intensive in their abundant factors (labor-abundant countries export labor-intensive goods) and import the rest. The Stolper-Samuelson theorem follows: trade raises the return to the abundant factor and lowers it to the scarce one — explaining why trade creates domestic winners and losers.

New trade theory (Krugman) explains the large share of trade between similar countries: economies of scale and love of variety drive intra-industry trade (Germany and France both exporting cars to each other). This matters for policy because scale economies justify strategic support for industries — with all its risks.

Key Definitions

Comparative advantage is defined as the principle that countries gain from trade by specializing in goods with the lowest opportunity cost, regardless of absolute productivity.

Intra-industry trade is defined as trade in similar goods between similar countries, driven by economies of scale and consumer love of variety.

Examples

■ Ricardo: Portugal needs 80 workers for wine vs 90 for cloth; England 120 vs 100 — both gain by specializing (wine/Portugal, cloth/England).

■ H-O: Bangladesh exports garments (labor-abundant); Australia exports minerals (resource-abundant).

Key Points — very important for exams

Ricardo: specialize by lowest opportunity cost — both sides gain.

Heckscher-Ohlin: export goods intensive in abundant factors.

Stolper-Samuelson: trade helps abundant-factor owners, hurts scarce-factor owners.

Krugman: scale economies explain trade between similar countries.

Review Questions

- ? Does comparative advantage require absolute advantage? Why not?
- ? How does intra-industry trade challenge H-O?

Section Summary

Trade theory explains why nations trade, what they trade, and who wins and loses at home — the essential toolkit for the rest of the course.

Exam Pointers

- Explain comparative advantage with a numerical example.
- What does Stolper-Samuelson predict about trade and wages?

Lecture 3: Trade Policy: Tariffs, Quotas, and Protection

Learning Objectives

- Analyze trade policy instruments
- Evaluate arguments for protection

A tariff is a tax on imports; a quota is a quantitative limit. Both raise domestic prices, protect producers, hurt consumers, and create deadweight loss — but they differ: tariff revenue goes to the government, while quota rents go to whoever holds the import licenses (often foreigners under VERs). Non-tariff barriers — standards, licensing, subsidies — are now the main protectionist tools because tariffs were cut by GATT/WTO rounds.

The infant-industry argument says temporary protection lets new industries reach scale; the strategic trade argument (Brueggemann-style) says subsidies can shift oligopoly profits home. Both are theoretically valid but practically dangerous: 'temporary' protection becomes permanent, and governments pick losers as often as winners.

Effective protection considers tariffs on inputs as well as outputs: protecting car assembly while taxing imported steel can leave assemblers worse off. Pakistan's history — high protection in the 1960s–70s, liberalization in the 1990s–2000s — illustrates both the industrialization gains and the rent-seeking costs.

Key Definitions

Tariff is defined as a tax levied on imported goods, raising their domestic price.

Infant-industry argument is defined as protection for a new domestic industry until it can compete internationally — valid in theory, often abused in practice.

Examples

- Pakistan's auto protection: high tariffs raised car prices for consumers for decades.
- VERs: 1980s US-Japan auto quotas gave windfall rents to Japanese exporters.

Key Points — very important for exams

Tariffs tax imports; quotas limit quantities; NTBs are today's main barriers.

Tariff revenue → government; quota rents → license holders.

Infant-industry and strategic-trade arguments are valid but risky in practice.

Effective protection nets out input tariffs — very important nuance.

Review Questions

- ? Why might a quota hurt more than an equivalent tariff?
- ? Give a Pakistani example of protection's costs.

Section Summary

Protection transfers income from consumers to producers (and sometimes foreigners). The case for it is narrow and its abuse is broad.

Exam Pointers

- Compare tariffs and quotas: who gains the revenue?
- Evaluate the infant-industry argument.

Lecture 4: The WTO and the Trading System

Learning Objectives

- Explain the WTO system
- Analyze the Doha impasse

The WTO, born in 1995 from the GATT, is the institutional core of the trading system: a forum for negotiations, a set of rules (MFN — treat all members equally; national treatment — don't discriminate against imports once inside), and a dispute-settlement mechanism. Eight GATT rounds cut industrial tariffs from ~40% (1947) to under 5% in rich countries.

The Doha Round (2001–) stalled on agriculture: developing countries demanded rich-country farm subsidy cuts; rich countries demanded services and industrial market access. The impasse pushed countries toward bilateral/regional FTAs — now numbering in the hundreds — creating a 'spaghetti bowl' of overlapping rules.

For Pakistan, WTO membership constrains tariffs (bound rates) but also opens markets; textiles — Pakistan's main export — faced the end of the MFA quota system in 2005, exposing exporters to full Chinese competition. The lesson: multilateral rules help small countries most, because bilateral deals favor the powerful.

Key Definitions

MFN (Most Favored Nation) is defined as the WTO principle that any trade favor granted to one member must be granted to all members.

Examples

- WTO dispute: Pakistan and others challenged EU textile restrictions through the system.
- Spaghetti bowl: Pakistan's FTAs with China, Malaysia, Sri Lanka each have different rules of origin.

Key Points — very important for exams

WTO = negotiation forum + rules (MFN, national treatment) + dispute settlement.

GATT rounds slashed industrial tariffs; Doha stalled on agriculture.

Stalled multilateralism → spaghetti bowl of bilateral FTAs.

Small countries gain most from rules-based multilateralism.

Review Questions

- ? How does dispute settlement help a country like Pakistan?
- ? Is the spaghetti bowl better or worse than no deals?

Section Summary

The WTO built the open trading system; its stagnation shifted action to bilateral deals, with mixed results for developing countries.

Exam Pointers

- What are the WTO's core principles and functions?
- Why did the Doha Round stall?

Lecture 5: Multinationals and Global Value Chains

Learning Objectives

- Explain why firms become multinational
- Analyze GVCs and their implications

A multinational corporation (MNC) controls production in more than one country, coordinating through foreign direct investment (FDI). Why do firms go multinational? Dunning's OLI framework: Ownership advantages (brands, technology), Location advantages (cheap labor, resources, market access), and Internalization advantages (keeping transactions inside the firm rather than licensing).

FDI brings capital, technology, management skills, and export market access — but also concerns: profit repatriation, transfer pricing that shifts taxable profits, crowding out of domestic firms, and enclave development with few linkages. Empirical evidence: FDI helps most where host countries have absorptive capacity — educated workers, decent infrastructure, functioning institutions.

Global value chains (GVCs) are the modern form: production fragmented across countries (design in the US, chips from Taiwan, assembly in Vietnam). Countries now compete to join GVCs rather than build whole industries — the 'smile curve' shows value concentrates in R&D; and branding, not assembly.

Key Definitions

FDI (Foreign Direct Investment) is defined as investment by a firm in productive assets in another country with lasting control (typically 10%+ ownership).

Global value chain is defined as the fragmentation of production across countries, with each stage located where it is cheapest or most capable.

Examples

- OLI: Toyota's brand (O) + Thai labor costs (L) + in-house quality control (I) → Thai plants.
- Smile curve: Apple captures most iPhone value in design/retail; assemblers earn thin margins.

Key Points — very important for exams

OLI: ownership + location + internalization advantages explain FDI.

FDI benefits depend on host absorptive capacity.

GVCs fragment production; value concentrates at the smile curve's ends.

Policy goal: join GVCs and upgrade, not just host assembly.

Review Questions

- ? Should Pakistan chase any FDI, or selective FDI?
- ? How can a country move up the smile curve?

Section Summary

MNCs and GVCs are how globalization organizes production. Host countries gain most when they build the capacity to absorb and upgrade.

Exam Pointers

- Explain Dunning's OLI framework.
- What are the benefits and risks of FDI for host countries?

Lecture 6: Financial Globalization and Crises

Learning Objectives

- Explain financial globalization's benefits and risks
- Apply the trilemma

Financial globalization — cross-border capital flows — accelerated after 1980 as countries liberalized capital accounts. Flows include FDI (stable, long-term), portfolio investment (stocks/bonds — volatile), and bank lending (pro-cyclical). The 'impossible trinity' (trilemma) says a country cannot simultaneously have free capital flows, a fixed exchange rate, and independent monetary policy — it must choose two.

Benefits: capital flows to where returns are highest, funding investment beyond domestic savings; risks: sudden stops and reversals cause currency and banking crises. The Asian Crisis (1997–98) is the textbook case: short-term foreign borrowing funded long-term domestic projects; when confidence broke, currencies collapsed and banks failed.

Pakistan's experience — IMF programs, exchange-rate management, remittances as the stable inflow — illustrates the trilemma in practice: defending the rupee while keeping the capital account partly open has repeatedly forced painful adjustments. Capital controls ('sand in the wheels', e.g., Chilean-style) remain a debated tool.

Key Definitions

Impossible trinity (trilemma) is defined as the principle that free capital mobility, fixed exchange rates, and monetary autonomy cannot all hold at once — at most two.

Sudden stop is defined as an abrupt reversal of capital inflows that forces currency depreciation and austerity.

Examples

- Trilemma: Pakistan's managed float + partial capital openness + SBP policy rate choices.
- 1997: Thailand's baht peg collapsed under short-term foreign debt; contagion hit Indonesia and Korea.

Key Points — very important for exams

Flows: FDI (stable), portfolio (volatile), bank lending (pro-cyclical).

Trilemma: pick two of free capital, fixed FX, monetary independence.

Asian Crisis = currency + banking twin crisis from maturity-mismatched borrowing.

Pakistan's IMF cycles reflect trilemma pressures and sudden-stop risk.

Review Questions

- ? How do remittances differ from portfolio flows for stability?
- ? Are capital controls ever justified?

Section Summary

Financial integration brings capital but also crisis risk. Managing the trilemma is the central macroeconomic challenge of globalization.

Exam Pointers

- Explain the impossible trinity with examples.
- What caused the Asian Financial Crisis?

Lecture 7: Globalization, Growth, and Inequality

Learning Objectives

- Assess globalization's growth and distributional effects
- Explain the role of domestic policy

Globalization's growth record is strong: open economies have grown faster on average, and extreme poverty fell dramatically (notably in China and India). But distribution is contested: within rich countries, trade with low-wage economies and skill-biased technology hollowed out middle-skill jobs — the 'elephant curve' of global income growth shows the global middle class and the top 1% gaining while lower-middle classes in rich countries stagnated.

In developing countries, globalization created manufacturing jobs and raised wages from very low bases, but also exposed workers to sweatshop conditions and environmental damage — the 'race to the bottom' fear. Evidence suggests openness raises average incomes but its distributional effects depend on domestic policy: education, safety nets, and labor standards decide who gains.

The policy conclusion is not openness versus closure but managed openness: capture the efficiency gains while compensating losers (trade adjustment assistance), enforcing core labor standards, and investing in human capital so workers can move to winning sectors.

Key Definitions

Elephant curve is defined as the curve showing income growth by global percentile: strong gains for the emerging-market middle class and the top 1%, stagnation for rich-country working classes.

Examples

■ Elephant curve: 1988–2008, the global median gained ~70% while rich-country 80th percentiles stagnated.

■ Bangladesh garments: trade created millions of female jobs — with Rana Plaza showing the safety failures.

Key Points — very important for exams

Openness correlates with faster growth and falling extreme poverty.

Elephant curve: emerging middle class + top 1% gained; rich-country workers squeezed.

Domestic policy (education, safety nets, standards) decides distribution.

Answer: managed openness + compensation, not autarky — very important.

Review Questions

? Is the 'race to the bottom' supported by evidence?

? Design a compensation package for trade-displaced workers.

Section Summary

Globalization grows the pie but slices it unevenly. Whether openness is inclusive depends on what governments do at home.

Exam Pointers

→ What is the elephant curve and what does it show?

→ Does globalization increase or reduce inequality? Discuss.

Lecture 8: Pakistan and Globalization

Learning Objectives

- Evaluate Pakistan's integration experience
- Explain the role of remittances

Pakistan globalized partially: trade liberalization in the late 1980s–1990s, WTO membership, FTAs (notably with China), and a large diaspora generating remittances (now among the world's largest relative to GDP). Exports remain narrow — textiles dominate — and the trade balance is chronically negative, financed by remittances and borrowing.

The China-Pakistan FTA illustrates the double edge: cheaper inputs and machinery for industry, but a flood of Chinese manufactures that widened the bilateral deficit. CPEC added infrastructure investment and energy capacity — genuine gains — alongside debt and transparency concerns. The lesson: trade deals need complementary competitiveness policies (energy costs, skills, logistics).

Remittances are Pakistan's globalization success story: stable, counter-cyclical, poverty-reducing. But they also permit delayed reform — financing consumption and the trade deficit without fixing export

competitiveness. The exam-relevant synthesis: Pakistan has integrated through people (migration) more successfully than through goods (exports).

Key Definitions

Remittances is defined as money sent home by migrant workers abroad; Pakistan's largest and most stable foreign inflow.

Examples

- Textiles ~60% of exports: concentration risk when global demand shifts.
- CPEC energy projects cut load-shedding — a binding constraint on manufacturing.

Key Points — very important for exams

Partial liberalization; narrow export base (textiles); chronic trade deficit.

China FTA: cheaper inputs vs wider bilateral deficit.

CPEC: infrastructure gains + debt/transparency questions.

Remittances = success story, but they can delay reform — key synthesis point.

Note:

Note: 'discuss Pakistan's experience with globalization' is a likely long question — structure it as: trade policy history → FTA/CPEC assessment → remittances → the competitiveness agenda.

Review Questions

- ? What would a competitiveness agenda for Pakistani exports include?
- ? Did the China FTA help or hurt Pakistan overall?

Section Summary

Pakistan is globalized through migration more than through exports. Turning openness into development needs competitiveness, not just liberalization.

Exam Pointers

- Assess Pakistan's globalization experience: successes and failures.
- Why do remittances matter so much for Pakistan?

Lecture 9: Technology, Migration, and the Future

Learning Objectives

- Explain technology's role
- Analyze migration and future trends

Technology is globalization's engine: containerization cut shipping costs, ICT collapsed communication costs, and now digital flows — data, services, platforms — grow faster than goods trade. Digital globalization lets a Lahore software house serve clients worldwide, but also concentrates power in platform monopolies and raises data-governance questions.

Labor mobility is globalization's most restricted flow: goods and capital move far more freely than people. Migration's economics are clear — migrants earn multiples of home wages, and remittances dwarf aid — but politics restricts it. Brain drain versus brain circulation is the policy debate: emigration of doctors and engineers costs training investment but creates diaspora networks and remittance flows.

Looking ahead: 'slowbalization', friend-shoring, and industrial policy (US CHIPS Act, EU Green Deal) signal a partial retreat from hyper-globalization toward managed, geopolitics-aware integration. For students, the takeaway is analytical: apply trade theory, the trilemma, and distributional analysis to each new development rather than memorizing slogans.

Key Definitions

Friend-shoring is defined as the reorganization of supply chains toward politically allied countries rather than purely lowest-cost locations.

Examples

- A Pakistani freelancer earning on Upwork: services globalization without leaving home.
- Friend-shoring: Western firms shifting electronics sourcing from China to Vietnam/India.

Key Points — very important for exams

ICT and containers drove past waves; data flows drive the current one.

Labor is the least globalized factor — migration economics vs politics.

Brain drain vs brain circulation: the diaspora can be an asset.

Future: slowbalization, friend-shoring, geopolitics-aware integration.

Review Questions

- ? Will AI accelerate or reverse globalization? Argue both sides.
- ? What should Pakistan's digital-trade strategy include?

Section Summary

Globalization's next chapter is digital and geopolitical. The analytical tools from this course — comparative advantage, trilemma, distributional analysis — apply to it directly.

Exam Pointers

- How is digital globalization different from goods globalization?
- What are the economics of migration?

Lecture 10: Balance of Payments

Learning Objectives

- Explain BOP structure
- Assess current-account deficits

The balance of payments (BOP) records all economic transactions between residents and the rest of the world: the current account (trade in goods and services, primary income, transfers like remittances) and the capital/financial account (FDI, portfolio, borrowing). By accounting identity, the accounts sum to zero — a current-account deficit must be financed by financial-account inflows or reserve losses.

A current-account deficit is not inherently bad: it means the country invests more than it saves, financed from abroad — sensible for a growing economy with good projects. It is dangerous when it finances consumption or when financing is short-term debt that can flee. Pakistan's recurring deficits, financed by borrowing and IMF support, show the risky pattern.

Adjustment mechanisms: under floating rates, the currency depreciates, making exports cheaper; under fixed rates, adjustment comes through painful domestic deflation. This is why exchange-rate regime choice is so consequential — it decides how BOP pressure is released.

Key Definitions

Balance of payments is defined as the record of a country's international transactions, split into current account and capital/financial account.

Examples

- Pakistan: trade deficit + remittance surplus = current account; financed by Eurobonds/IMF on the financial account.
- US: persistent deficits financed by the dollar's reserve-currency privilege.

Key Points — very important for exams

BOP = current account + capital/financial account; sums to zero by identity.

Deficits financing investment: fine; financing consumption via hot money: dangerous.

Adjustment via exchange rate (floating) or domestic pain (fixed).

Review Questions

- ? Why can the US run deficits indefinitely but Pakistan cannot?
- ? How do remittances appear in the BOP?

Section Summary

The BOP is the scoreboard of globalization. Read it for financing quality, not just the headline deficit.

Exam Pointers

- What are the components of the BOP?
- Is a current-account deficit always bad?

Lecture 11: Exchange Rates and Currency Crises

Learning Objectives

- Compare exchange-rate regimes
- Explain crisis mechanics

Exchange-rate regimes range from hard pegs (currency boards, dollarization) through managed floats to free floats. Pegs give price stability and credibility but sacrifice monetary independence and invite speculative attack when fundamentals diverge; floats absorb shocks automatically but create volatility that traders and borrowers dislike.

Fear of floating is widespread in developing countries: firms borrow in dollars, so depreciation bankrupts them — hence central banks intervene even under 'floating' regimes. Pakistan's history runs from fixed pegs (with periodic devaluations) to the current managed float, with the SBP intervening to smooth disorderly moves.

Currency crises follow patterns: first-generation (fiscal deficits monetized under a peg), second-generation (self-fulfilling speculation), third-generation (balance-sheet/banking crises, Asia 1997). The defense toolkit — interest-rate hikes, intervention, capital controls — each has costs, which is why prevention (adequate reserves, limited FX debt) beats cure.

Key Definitions

Fear of floating is defined as reluctance of developing-country central banks to let currencies float freely, due to foreign-currency debts and pass-through inflation.

Examples

- 1992: Soros vs the Bank of England — second-generation attack on an overvalued peg.
- Pakistan 2018–19: reserves fell defending the peg; the eventual float + IMF program stabilized.

Key Points — very important for exams

Regime spectrum: hard peg → managed float → free float.

Pegs: stability + credibility, minus independence; floats: shock absorption, plus volatility.

Fear of floating: FX debt makes depreciation contractionary.

Crises come in generations; prevention beats defense.

Review Questions

- ? Should Pakistan fix or float? Argue with the trilemma.
- ? How do reserves prevent crises?

Section Summary

The exchange rate is where globalization meets macro policy. Regime choice distributes pain between prices and output.

Exam Pointers

- Compare fixed vs floating regimes.
- What causes currency crises?

Lecture 12: Regional Trade Agreements

Learning Objectives

- Analyze RTAs
- Apply the creation/diversion framework

Regional trade agreements (RTAs) — free-trade areas, customs unions, common markets — proliferated as the WTO stalled: the EU, USMCA, CPTPP, RCEP, and hundreds of bilaterals. They liberalize among members but discriminate against outsiders, creating trade creation (efficient new trade) and trade diversion (shifting to less-efficient partners).

South Asia's SAFTA is the cautionary tale: political tensions kept it shallow, so intra-regional trade is ~5% versus ~25% in ASEAN. Pakistan's trade with India — potentially huge — remains hostage to politics, costing both sides. Contrast ASEAN's success: production networks spanning members, built on credible liberalization.

For exams: evaluate RTAs with Viner's creation/diversion framework, and note the building-block vs stumbling-block debate — whether RTAs lead back to multilateralism or fragment it permanently.

Key Definitions

Trade creation vs trade diversion is defined as Viner's distinction: efficient new trade between members versus inefficient switching from efficient outsiders to less-efficient members.

Examples

- Trade creation: Pakistani textiles displacing inefficient domestic EU production.
- Trade diversion: importing costlier partner machinery instead of cheaper Chinese machines due to FTA preference.

Key Points — very important for exams

RTAs proliferated as WTO stalled; EU/USMCA/CPTPP/RCEP lead.

Viner: creation (good) vs diversion (bad) — net effect is empirical.

SAFTA failed on politics; ASEAN succeeded on production networks.

Review Questions

- ? Is Pakistan's China FTA trade-creating or diverting?
- ? What would unlock South Asian trade?

Section Summary

Regionalism is the practical face of trade policy today. Judge each deal by creation versus diversion, not by signing ceremonies.

Exam Pointers

- Evaluate RTAs using trade creation and diversion.
- Why did SAFTA fail where ASEAN succeeded?

Lecture 13: The 2008 Global Financial Crisis

Learning Objectives

- Explain crisis transmission
- Assess policy responses

The 2008 Global Financial Crisis began in US subprime mortgages, amplified by securitization, leverage, and regulatory failure, then transmitted globally through frozen interbank markets and collapsing trade — world trade fell ~12% in 2009, the sharpest drop since the 1930s. It proved financial globalization transmits shocks as efficiently as it transmits capital.

Policy responses — bank bailouts, fiscal stimulus, unconventional monetary policy (QE) — prevented a depression but created legacies: massive public debts, a decade of low rates that inflated asset prices, and political backlash fueling protectionism. The Eurozone crisis (2010–12) showed the trilemma's cousin: a currency union without fiscal union.

For developing countries, 2008 taught reserve accumulation ('never again' after Asia 1997 helped), the value of counter-cyclical fiscal space, and the danger of foreign-currency borrowing. COVID-19 (2020) repeated the lesson with supply chains: efficiency without resilience is fragile.

Key Definitions

Quantitative easing (QE) is defined as central-bank purchases of long-term assets to lower long-term rates when short rates hit zero.

Examples

- Transmission: European banks holding US mortgage securities froze lending worldwide.
- Pakistan: remittances held up in 2009 — the stabilizing inflow when trade collapsed.

Key Points — very important for exams

Subprime → securitization → global freeze: finance transmits shocks.

Responses: bailouts, stimulus, QE — prevented depression, left debts and asset inflation.

Eurozone: currency union needs fiscal union.

Lesson: reserves, fiscal space, and resilient (not just efficient) supply chains.

Review Questions

? Why did trade collapse faster than GDP in 2009?

? What did COVID add to the 2008 lessons?

Section Summary

2008 was financial globalization's stress test. It passed on preventing depression, failed on preventing the next backlash.

Exam Pointers

→ How did a US housing crisis become global?

→ What legacies did 2008 leave?

Lecture 14: Services and Digital Trade

Learning Objectives

- Explain services trade
- Analyze digital-trade issues

Trade in services — transport, tourism, finance, IT, professional services — now grows faster than goods trade and faces different barriers: not tariffs but regulations (licensing, data rules, visa regimes). GATS (the WTO services agreement) liberalized little; real opening happens bilaterally or unilaterally.

For Pakistan, services are the opportunity: IT exports and freelancing have grown rapidly, needing only connectivity and skills — no ports or tariffs. Tourism, with proper security and infrastructure, is another latent export. The constraint is domestic: education quality, payment systems, and predictable regulation.

Digital trade adds new issues: data localization demands, digital taxes, and platform regulation. Developing countries must balance attracting digital investment against protecting consumers and tax bases — the same openness-management problem as goods, in new clothes.

Key Definitions

Trade in services is defined as cross-border trade in intangibles — IT, finance, transport, professional services — governed more by regulation than tariffs.

Examples

- Pakistani IT exports/freelancing: dollars earned with a laptop and fiber connection.
- Data localization: requiring servers at home raises costs for cloud users.

Key Points — very important for exams

Services outgrow goods; barriers are regulatory, not tariff.

Pakistan's edge: IT/freelancing need skills + connectivity, not ports.

Digital issues: data localization, digital tax, platform power.

Same principle: managed openness, domestic reform first.

Review Questions

- ? Design a policy to double Pakistan's IT exports.
- ? Should Pakistan mandate data localization?

Section Summary

The future of trade is services and data. Countries that build skills and digital infrastructure capture it.

Exam Pointers

- Why do services face different barriers than goods?
- What is Pakistan's services export opportunity?

Lecture 15: The Industrial Policy Debate

Learning Objectives

- Debate industrial policy
- Extract design lessons

Industrial policy — state support for chosen sectors — is back: the US CHIPS Act, EU Green Deal subsidies, and China's state-guided upgrading all reject pure laissez-faire. The economic case: coordination failures, learning spillovers, and strategic value (semiconductors, green tech) justify intervention where markets underinvest.

The objections are historic: governments lack the information to pick winners, support gets captured by lobbies, and 'temporary' protection persists. East Asia's success (Korea, Taiwan) came with discipline — export performance as the test, sunset clauses, competition among recipients — while Latin America's import substitution often lacked it.

For Pakistan, the debate is practical: existing protection (autos, for example) has rarely met performance tests. The exam answer: industrial policy can work with embedded autonomy (close to business, independent of capture), clear metrics, and exit strategies — otherwise it becomes rent distribution.

Key Definitions

Industrial policy is defined as government support targeted at specific industries to accelerate upgrading — subsidies, protection, coordination.

Examples

- Korea: subsidized Hyundai/Kia but demanded export success — discipline made it work.
- Pakistan autos: decades of protection, still high prices and limited exports — capture without discipline.

Key Points — very important for exams

Back in fashion: CHIPS Act, Green Deal, China's upgrading.

Case: coordination failures, spillovers, strategic sectors.

Risk: capture, bad picks, permanent 'temporary' support.

Discipline decides: export tests, sunsets, competition — very important.

Review Questions

- ? Design a disciplined industrial policy for one Pakistani sector.
- ? Is CPEC industrial policy? Discuss.

Section Summary

Industrial policy is a tool, not an ideology. Its record depends entirely on institutional discipline.

Exam Pointers

- Make the case for and against industrial policy.
- Why did East Asian industrial policy outperform Latin America's?

Lecture 16: Globalization and the Environment

Learning Objectives

- Analyze trade-environment linkages
- Evaluate policy responses

Globalization's environmental ledger is mixed: trade spreads cleaner technology and raises incomes that fund environmental protection (the Environmental Kuznets Curve hypothesis), but it also enables pollution havens — dirty production moving to lax-regulation countries — and carbon leakage that undermines climate policy.

Responses include multilateral agreements (Paris Agreement's nationally determined contributions), carbon border adjustments (the EU's CBAM taxes embedded carbon in imports), and green industrial policy. For Pakistan — highly climate-vulnerable — the issue is adaptation finance and avoiding

carbon-intensive lock-in while industrializing.

The exam synthesis: globalization and environment interact through scale effects (more output, more pollution), composition effects (cleaner sectors), and technique effects (cleaner methods). Policy must target the externality (carbon price) rather than trade itself.

Key Definitions

CBAM (Carbon Border Adjustment Mechanism) is defined as an EU mechanism taxing the carbon embedded in imports to prevent leakage and protect domestic climate policy.

Examples

- Pollution haven: tanneries relocating to weak-regulation zones.
- CBAM: Pakistani steel exporters to the EU will face embedded-carbon accounting.

Key Points — very important for exams

Mixed ledger: technology diffusion vs pollution havens and leakage.

Analyze via scale, composition, and technique effects.

Tools: Paris NDCs, CBAM, green industrial policy.

Target the externality (carbon price), not trade itself.

Review Questions

- ? Will CBAM hurt Pakistani exporters? How should they prepare?
- ? Does the Environmental Kuznets Curve hold? Critique it.

Section Summary

Trade is not the enemy of the environment; unpriced externalities are. Price carbon and the ledger improves.

Exam Pointers

- How does trade affect the environment? Use scale/composition/technique effects.
- What is carbon leakage and how is it addressed?

Lecture 17: Global Economic Governance: IMF and World Bank

Learning Objectives

- Explain the Bretton Woods institutions
- Debate their reform

The IMF (surveillance, lending, conditionality) and World Bank (development finance) govern globalization's money side. Critics charge the IMF with one-size-fits-all austerity that deepens

recessions; defenders note that conditionality is the price of other people's money and that programs have softened over time (more social-spending floors). Pakistan — with 20+ IMF programs — is the recurring case study.

Reform debates: quota/voice shares still underweight emerging economies; conditionality should be streamlined and ownership-based; and the Fund needs better tools for capital-flow volatility. Regional alternatives (Chiang Mai Initiative) and Chinese lending (often collateralized, less transparent) now compete with the IMF.

The bottom line for exams: global governance is incomplete by design — sovereign states won't cede enough authority for perfect management. Crises will recur; the question is whether institutions make them shorter and shallower.

Key Definitions

Conditionality is defined as IMF loan conditions — fiscal, monetary, structural reforms — required for disbursement.

Examples

- Pakistan's repeated programs: stabilization without sustained reform — the ownership problem.
- Chiang Mai: Asia's self-insurance pool built after 1997's IMF trauma.

Key Points — very important for exams

IMF = surveillance + lending + conditionality; World Bank = development finance.

Critique: austerity bias; defense: conditionality prices risk; truth: programs evolved.

Reform agenda: quotas/voice, streamlined conditionality, capital-flow tools.

Sovereignty limits governance — expect recurrent, hopefully milder, crises.

Review Questions

- ? Has IMF advice to Pakistan been wrong or just unimplemented?
- ? Should China join/parallel the IMF system?

Section Summary

Global institutions manage globalization's risks imperfectly. Understanding their logic — and limits — is essential for policy analysis.

Exam Pointers

- Critique IMF conditionality using Pakistan's experience.
- Why is global economic governance incomplete?

Lecture 18: Foreign Aid and Development

Learning Objectives

- Evaluate aid effectiveness
- Compare external flows

Foreign aid — official development assistance — is the most debated flow: it finances investment beyond domestic savings and funds public goods, but it can breed dependency, Dutch disease (aid inflates the exchange rate, hurting exporters), and corruption where institutions are weak. The evidence: aid works where policy and institutions are decent, fails where they aren't.

The micro-macro paradox: projects succeed while country growth disappoints. Explanations include fungibility (aid frees government money for other uses) and the institutional channel — aid's real test is whether it builds state capacity. Remittances, by contrast, go directly to households and consistently reduce poverty.

For Pakistan — a major aid recipient — the lesson mirrors the course theme: external flows help when domestic governance is sound. Aid, like trade and capital, is an amplifier of domestic policy quality, not a substitute for it.

Key Definitions

Dutch disease is defined as aid-induced real exchange-rate appreciation that damages export competitiveness.

Examples

- Dutch disease: aid-financed spending bids up non-tradable prices, squeezing exporters.
- Fungibility: education aid lets the government shift its own funds to subsidies.

Key Points — very important for exams

Aid helps where institutions are sound; fails where they aren't.

Risks: dependency, Dutch disease, fungibility, corruption.

Micro-macro paradox: good projects, disappointing growth.

Amplifier, not substitute, for domestic policy — the course's master theme.

Note:

Note: this 'amplifier not substitute' idea is the single best thesis sentence for essay questions across the whole course — globalization magnifies the quality of domestic policy.

Review Questions

- ? Should Pakistan prefer aid, loans, or remittances? Rank and justify.
- ? How would you design aid to build institutions?

Section Summary

Aid, trade, capital, migration — all amplify domestic policy. Get the domestic part right and openness delivers; get it wrong and openness punishes.

Exam Pointers

- Does foreign aid promote development? Discuss conditionally.
- Compare aid and remittances as development flows.

Lecture 19: China, India, and the New Multipolarity

Learning Objectives

- Compare Asian models
- Draw Pakistan's lessons

China's model: state-directed capitalism — SEZs (Shenzhen 1980 — the experiment that scaled), export-led industrialization, massive infrastructure (BRI — the Belt and Road Initiative), and now 'dual circulation' (domestic demand + tech self-sufficiency). The China shock: its WTO entry (2001) hollowed manufacturing worldwide — globalization's clearest distributional lesson.

India's model: services-led (IT exports — Bangalore's rise), gradual liberalization (1991 reforms), demographic dividend (youngest major workforce), and digital public infrastructure (Aadhaar, UPI — the 'India Stack' model Pakistan studies). Comparison: China built factories first; India built code first — different ladders, both climbed.

The BRICS+ and multipolarity: the Global South's institutional pushback (New Development Bank, de-dollarization debates). Pakistan's lesson: industrial policy matters (East Asia proves it), but so do institutions — SEZs fail without power, logistics, and policy consistency (Rashakai's slow start as caution). Very important: compare, don't copy.

Key Definitions

Dual circulation is defined as China's post-2020 pivot: domestic demand plus technological self-sufficiency.

Examples

- Shenzhen: fishing village to tech megacity in 40 years — the SEZ done right.
- UPI: India's free instant payments — the stack Pakistan's Raast echoes.

Key Points — very important for exams

China: SEZs, export-led, BRI, dual circulation.

India: services-led, 1991 reforms, India Stack.

China shock: WTO entry's global distributional lesson.

BRICS+: the Global South's institutional pushback.

Review Questions

- ? Why did Rashakai underperform vs Shenzhen?
- ? Services-led or manufacturing-led for Pakistan?

Section Summary

Two Asian ladders, one lesson: industrial policy plus institutions — compare the models, don't copy them.

Exam Pointers

- Compare China's and India's globalization models.
- What is the China shock?

Lecture 20: Question Bank and Pakistanized Answers

Learning Objectives

- Drill questions
- Argue Pakistan's case

Question bank: Q1. Trade vs financial vs production globalization — one example each. Q2. IMF vs World Bank vs WTO: mandates compared. Q3. Trade creation vs diversion: Pakistan's FTA example. Q4. Heckscher-Ohlin: Pakistan's factor endowment predicts what exports? Q5. FDI spillovers: three channels. Q6. 2008: how did contagion reach Pakistan? Q7. Brain drain: costs vs remittance benefits — net assessment. Q8. CPEC: opportunities and three risks.

Q9. China shock: winners and losers. Q10. Dutch disease: could remittances cause it in Pakistan? Q11. WTO dispute settlement: how it worked, why it stalled. Q12. Design Pakistan's globalization strategy: trade, FDI, diaspora — one page. Long Q: 'Has globalization benefited Pakistan?' — structure: exports/FDI/remittances (gains) → deindustrialization/volatility/inequality (costs) → verdict with policy agenda.

Exam technique: always Pakistanize — global theory anchored in Pakistani evidence (CPEC, remittances, textile exports). Every 'evaluate' answer: gains → costs → net verdict → policy prescription.

Key Definitions

Pakistanize is defined as anchoring every global concept in Pakistani evidence — the ECO613 answer signature.

Examples

- Q4: labor-abundant Pakistan → labor-intensive exports (textiles) — theory confirmed.
- Long Q: four-station structure — gains, costs, verdict, agenda.

Key Points — very important for exams

Twelve questions: theory → institutions → Pakistan.

Long Q: globalization's net verdict for Pakistan.

Pakistanize: CPEC, remittances, textiles in every answer.

Gains → costs → verdict → policy: the evaluate template.

Review Questions

- ? Compute a trade-creation example numerically.
- ? Write the Long Q verdict paragraph.

Section Summary

ECO613 is won by Pakistanized argument: global theory, Pakistani evidence, honest net verdict, policy agenda.

Exam Pointers

- Has globalization benefited Pakistan?
- Design Pakistan's globalization strategy.

Lecture 21: Deglobalization and Pakistan's Opening

Learning Objectives

- Explain the deglobalization turn
- Position Pakistan

Deglobalization and slowbalization: the post-2016 turn — trade-to-GDP ratios plateauing, supply-chain 'reshoring' and 'friend-shoring', the US-China decoupling (chips, tech controls), and COVID's lesson (just-in-time → just-in-case). The drivers: security over efficiency, industrial policy's return (CHIPS Act, EU Green Deal), and geopolitics pricing into trade.

What it means for Pakistan: risks (export markets fragmenting, FDI choosier) and openings (China+1 spillovers in textiles/electronics, near-shoring for Gulf markets, the digital-services bypass — code crosses borders that goods can't). Strategy: diversify export destinations (not just US/EU), climb into China+1 supply chains, and bet on digital exports (freelancing, IT — Pakistan's 100,000+ freelancers as the deglobalization hedge).

Exam thesis: 'Is globalization ending?' — answer: no, it's regionalizing and digitizing. The goods globalization of 1990–2008 is over; the services-and-data globalization is accelerating. Pakistan's play: be the beneficiary of both — factories for friend-shoring, freelancers for the digital wave. Very important: argue with evidence, not nostalgia.

Key Definitions

Slowbalization is defined as the post-2016 plateau: trade growing slower than GDP — globalization stalling, not reversing.

Examples

- CHIPS Act: industrial policy's return — security over efficiency.
- China+1: textile orders shifting — Pakistan's opening.

Key Points — very important for exams

Slowbalization: trade plateaus, chains regionalize, tech decouples.

Drivers: security, industrial policy, geopolitics.

Pakistan's openings: China+1, Gulf near-shoring, digital exports.

Thesis: goods globalize less, data globalizes more.

Review Questions

- ? Reshoring vs friend-shoring: which helps Pakistan?
- ? How do freelancers hedge deglobalization?

Section Summary

Globalization isn't ending — it's changing shape: regional chains, digital flows, and Pakistan positioned for both.

Exam Pointers

- Is globalization ending?
- What is Pakistan's deglobalization strategy?

Glossary of Key Terms

Globalization — the increasing integration of national economies through cross-border flows of goods, services, capital, labor, technology, and ideas.

Trade openness — the ratio of a country's total trade (exports plus imports) to its GDP, a basic measure of trade openness.

Comparative advantage — the principle that countries gain from trade by specializing in goods with the lowest opportunity cost, regardless of absolute productivity.

Intra-industry trade — trade in similar goods between similar countries, driven by economies of scale and consumer love of variety.

Tariff — a tax levied on imported goods, raising their domestic price.

Infant-industry argument — protection for a new domestic industry until it can compete internationally — valid in theory, often abused in practice.

MFN (Most Favored Nation) — the WTO principle that any trade favor granted to one member must be granted to all members.

FDI (Foreign Direct Investment) — investment by a firm in productive assets in another country with lasting control (typically 10%+ ownership).

Global value chain — the fragmentation of production across countries, with each stage located where it is cheapest or most capable.

Impossible trinity (trilemma) — the principle that free capital mobility, fixed exchange rates, and monetary autonomy cannot all hold at once — at most two.

Sudden stop — an abrupt reversal of capital inflows that forces currency depreciation and austerity.

Elephant curve — the curve showing income growth by global percentile: strong gains for the emerging-market middle class and the top 1%, stagnation for rich-country working classes.

Remittances — money sent home by migrant workers abroad; Pakistan's largest and most stable foreign inflow.

Friend-shoring — the reorganization of supply chains toward politically allied countries rather than purely lowest-cost locations.

Balance of payments — the record of a country's international transactions, split into current account and capital/financial account.

Fear of floating — reluctance of developing-country central banks to let currencies float freely, due to foreign-currency debts and pass-through inflation.

Trade creation vs trade diversion — Viner's distinction: efficient new trade between members versus inefficient switching from efficient outsiders to less-efficient members.

Quantitative easing (QE) — central-bank purchases of long-term assets to lower long-term rates when short rates hit zero.

Trade in services — cross-border trade in intangibles — IT, finance, transport, professional services — governed more by regulation than tariffs.

Industrial policy — government support targeted at specific industries to accelerate upgrading — subsidies, protection, coordination.

CBAM (Carbon Border Adjustment Mechanism) — an EU mechanism taxing the carbon embedded in imports to prevent leakage and protect domestic climate policy.

Conditionality — IMF loan conditions — fiscal, monetary, structural reforms — required for disbursement.

Dutch disease — aid-induced real exchange-rate appreciation that damages export competitiveness.

Dual circulation — China's post-2020 pivot: domestic demand plus technological self-sufficiency.

Pakistanize — anchoring every global concept in Pakistani evidence — the ECO613 answer signature.

Slowbalization — the post-2016 plateau: trade growing slower than GDP — globalization stalling, not reversing.