

Professor Sharyn O'Halloran
Office: 727 IAB
Phone: 854-3242
e-mail: so33@columbia.edu

GLOBALIZATION: MARKETS, INSTITUTIONS & POLICY
SIPA U6355
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Overview:

Globalization has become something of a fad, being credited for everything from the collapse of communism to El Niño to Y2K problems. But what is generally agreed upon is that the integration of markets for goods, services, and capital has created both new opportunities and challenges for firms, governments and international organizations. The tremendous opportunities lie in the potential to grow new markets, transfer ideas and technology, and foster cooperation across the disparate corners of the globe. The challenges lie in how to manage the conflicts that inevitably arise over the distribution of costs and benefits that a global economy entails.

The objective of this course is to highlight how U.S. domestic interests and institutions have met the demands of globalization. While globalization by definition is multi-faceted, this course focuses on one key dimension of globalization, international trade policy. Moreover, the course is interdisciplinary—it draws on analytical frameworks developed in economics, political science, and business to illustrate the linkages and tensions that firms and governments face in the new global context.

The course is divided into three parts. The first part focuses on the basics of globalization: what is it? what are the benefits? and what are its costs? The second part of the course focuses on how the U.S. trade policy making process works, and how domestic interests and institutions respond to the demands of globalization: who wins and loses, how do firms formulate effective market and non-market strategies, and how do the institutions of governance aggregate these demands? The third section of the course applies this logic of policy making to recent and ongoing issues in globalization and international trade.

Course Materials: Readings for each class are specified in the attached syllabus. All materials are on reserve at Lehman Library. Most readings are contained in the course reader, also available at the library. The books for this course, listed below, can also be purchased at the Bookstore:

- Rodrik, Dani, *Has Globalization Gone Too Far?*
- O'Halloran, Sharyn, *Politics, Process, and American Trade Policy*

Prerequisites:

I assume that all students have taken one course each in macroeconomics, microeconomics, and statistics.

Requirements:

Students are required to do all readings before class. In addition, most lectures include a case study. Students should read the case carefully, prepare the assigned questions, and come to class ready to discuss their answers. There will be a final research project on a topic of your choosing. Students will separate into teams of 2 or 3 and write a case that highlights issues of globalization and US trade policy, providing original data and analysis.

Grading:

- Class Participation (25%)
- Group Project, Web Page & Presentation (75%)

COURSE OUTLINE

PART I: ANALYTICAL FRAMEWORK

January 18: Introduction

January 25: Globalization: What Is It, and What's at Stake?

READINGS:

- *The Economist*, Series on Globalization
- Rodrik, *Has Globalization Gone Too Far?*
- **Video: Trade Policy and Firm Strategy (Part I)**

February 1: Comparative Advantage vs. Ross Perot's "Giant Sucking Sound" Theory of Trade

READINGS:

- Harvard Business School, *Economic Gains from Trade: Comparative Advantage* (Case 9-796-183)
- Harvard Business School, *Economic Gains from Trade: Theories of Strategic Trade* (Case 9-796-184)
- Harvard Business School, "New" *Theories of International Trade* (Case 9-390-001)
- Harvard Business School, *Is the US Competitive in the World Economy?* (Case 9-795-129)

RECOMMENDED READINGS:

- Wonnacott and Wonnacott, *Economics*, Chapters 25-26
- Samuelson, *Economics*, Chapters 34-35
- Krugman and Obstfeld, *International Economics*. Chapters 2, 4, 6, & 9

Cases: The Proposed U.S.-Chilean Free Trade Agreement
Chile: The Latin American Tiger
The Semiconductor Trade Agreement: Round II

PART II: THE POLICY MAKING PROCESS

February 8: Who Matters and What Do They Want?

READINGS:

- Baron, *Business and its Environment*, Chapters 6, 7, and 8

Case: Cafe Standards 1990

February 15: Deciding Winners and Losers

READINGS:

- Baron, *Business and its Environment*, Chapter 5
- O'Halloran, *Politics, Process, and American Trade Policy*, Chapters 1, 4, 5

*Cases: Cement Politics
Antidumping Policy*

PART III: POLICY OUTCOMES

February 22: NAFTA

READINGS:

- Harvard Business School, *North American Free Trade Agreement* (Case 9-592-039)
 - Harvard Business School, *NAFTA: Free for Whom?* (Case 9-792-049)
 - O'Halloran, *Politics, Process, and American Trade Policy*, Chapters 6 & 7
- **Video: Larry King Live: The Gore-Perot Debate**

*Cases:
Passing NAFTA
Regarding NAFTA*

February 29: GATT/WTO

READINGS:

- Baron, *Business and its Environment*, Chapter 16
- Harvard Business School, *Choices in U.S. Trade Policy*, (Case No. 9-796-117)
- Harvard Business School, *World Trade Organization: Toward Freer Trade or World Bureaucracy?* (Case 9-795-149)

*Cases: Launching the Uruguay Round
MPAA and GATT*

March 7: The Politics of Market Opening

READINGS:

- Bhagwati and Patrick, *Aggressive Unilateralism*
- Baron, *Business and Its Environment*, Chapter 17

Video: Nightline: Japanese Trade Controversy

Case: The Kodak-Fujifilm Trade Dispute

March 21: Trade and the Environment

READINGS:

- Bhagwati, “The Case for Free Trade”
- Daly, “The Perils of Free Trade”
- Vogel vs. O’Halloran, “Social Regulations as Trade Barriers”
- *Cases: Trade and the Environment: Judge Richey's Decision Environment and International Trade*

PART IV: PRESENTATIONS

March 28: Group Presentations

April 4: Group Presentations

April 11: Group Presentations

April 18: Group Presentations

REMEMBER: FINAL PROJECT IS DUE BY 5:00 PM, MAY 1, 2000.

JANUARY 25: GLOBALIZATION: WHAT IS IT, AND WHAT'S AT STAKE?

TOPICS COVERED:

- Setup of analytical framework
- Review of basic trends and issues
- Video: **Trade Policy and Firm Strategy**

READINGS:

- *The Economist*, Series on Globalization
- Rodrik, *Has Globalization Gone Too Far?*

FEBRUARY 1: COMPARATIVE ADVANTAGE VS. ROSS PEROT'S "GIANT SUCKING SOUND" THEORY OF TRADE

TOPICS COVERED:

- Theory of comparative advantage
- Costs and benefits of free trade
- Free Trade vs. Managed Trade Debate
- Cases

READINGS:

- Harvard Business School, *Economic Gains from Trade: Comparative Advantage* (Case 9-796-183)
- Harvard Business School, *Economic Gains from Trade: Theories of Strategic Trade* (Case 9-796-184)
- Harvard Business School, "New" *Theories of International Trade* (Case 9-390-001)
- Harvard Business School, *Is the US Competitive in the World Economy?* (Case 9-795-129)

RECOMMENDED READINGS:

- Krugman and Obstfeld, *International Economics*. Chapters 2, 4, 6, & 9
- Wonnacott and Wonnacott, *Economics*, Chapters 25-26
- Samuelson, *Economics*, Chapters 34-35

PREPARATION QUESTIONS:

Case I: U.S.-Chilean Free Trade Agreement

- The United States and Chile are beginning discussions about the possibility of entering into a free trade agreement. Assume you are a consultant hired by the Chilean government to assess the prospects of such an agreement. How would you answer the following questions:
 1. Given the theory of comparative advantage, what sectors of the U.S. economy should expect to profit from the agreement? What U.S. sectors should expect to be disadvantaged by the agreement?
 2. Given the theory of comparative advantage, what Chilean economic sectors will profit from the proposed agreement? What sectors will be disadvantaged?
 3. How comprehensive should the agreement be? Should the U.S. government pursue an elimination of all trade barriers across all goods? Should the U.S. government pursue a more limited agreement?
 4. Is there any good argument to be made why some U.S. industries should be exempt from the proposed free trade agreement? Give examples.
 5. Given the current prospects of Congress passing fast track authority, what strategy should Chile adopt?

- **Case II: The Semiconductor Trade Agreement: Round II**

1. Should the United States press for a new semiconductor agreement with Japan? If so, what goals should it set?
2. How should the U.S. advance its objectives? Formulate a political strategy.
3. What opposition should be expected?
4. How should the U.S. assure compliance with any new agreement?
5. What does the Semiconductor Industry Association (SIA) suggest about the free trade vs. managed trade debate? Relate your argument to Porter's Diamond.

FEBRUARY 8: WHO MATTERS AND WHAT DO THEY WANT?

TOPICS COVERED:

- Logic of collective action and group behavior
- Ways to overcome collective action problems
- Implications for trade politics--Who gets represented and what do they want?
- Case

READINGS:

- Baron, *Business and its Environment*, Chapters 6, 7, and 8

PREPARATION QUESTIONS

Case: Cafe Standards 1990

- Complete the assignment at the end the case. Then answer the following questions. Be prepared to discuss your answers in class.
 1. What is the nature of the politics of CAFE standards?
 2. Which interests are affected by this issue? Which are likely to take political action? Which will align with and against the American auto producers?
 3. What does CAFE standards suggest about the mobilization of interests and public policy?
 4. What strategy should the domestic auto producers adopt to address this problem? What strategy should the foreign auto producers adopt to address this problem?
 5. What is the relationship of these strategies to the legislative process?

FEBRUARY 15: DECIDING WINNERS AND LOSERS

TOPICS COVERED:

- Review the nuts and bolts of how a bill becomes a law
- Examine the logic of congressional organization and the inefficiencies associated with the legislative process
- Examine why Congress delegates authority to the executive
- Implications for U.S. trade policy
- Cases

READINGS:

- Baron, *Business and its Environment*, Chapter 5
- O'Halloran, *Politics, Process, and American Trade Policy*, Chapters 1, 4, 5

PREPARATION QUESTIONS

Case I: Cement Politics

1. For each of the five options, list the steps that the companies would have to take in order to get protected.
2. Which strategy or strategies would be the most effective?
3. What does this tell you about legislative decision making and congressional-executive relations?

Case II: Antidumping Policy

1. What is the nature of the politics of antidumping?
2. What are the relative strengths of the various interests involved?
3. What strategy should the United States adopt to advance its objective of changing the antidumping provision of GATT?
4. How should such provisions be enforced?
5. What does this case suggest about the ability of special interests to use trade laws to their advantage?

FEBRUARY 22: NAFTA

TOPICS COVERED:

- The politics surrounding the North American Free Trade Agreement
- Video: **Larry King Live: The Gore-Perot Debate**
- Case

READINGS:

- Harvard Business School, *North American Free Trade Agreement* (Case 9-592-039)
- Harvard Business School, *NAFTA: Free for Whom?* (Case 9-792-049)
- O'Halloran, *Politics, Process, and American Trade Policy*, Chapters 6 & 7

PREPARATION QUESTIONS

Case I: Passing NAFTA

1. Cite every instance of congressional preferences being accommodated by President Clinton.
2. Why do you think President Clinton agreed to accommodate these specific demands?
3. What type of coalition do you think he was trying to build? Do you think Bush would have built the same coalition? Cite evidence.
4. What does the final form of NAFTA tell you about our current trade policy making process?
5. What are the implications of this analysis for the proposed U.S.-Chilean Free Trade Agreement?

Case II: Regarding NAFTA

1. What is the primary market activity for each of the three firms affected by NAFTA?
2. How is each firm likely to benefit from NAFTA?
3. What challenges did NAFTA create for each firm's overall market strategy?
4. Develop a post-NAFTA strategy for each firm to follow.
5. What non-market issues were created by NAFTA?

FEBRUARY 29: GATT/WTO

TOPICS COVERED:

- Background on the General Agreement on Tariffs and Trade
- U.S. agenda for multilateral negotiations
- Cases
- Questions about group project

READINGS:

- Baron, *Business and its Environment*, Chapter 16
- Harvard Business School, *Choices in U.S. Trade Policy*, (Case No. 9-796-117)
- Harvard Business School, *World Trade Organization: Toward Freer Trade or World Bureaucracy?* (Case 9-795-149)

PREPARATION QUESTIONS

Case I: Launching the Uruguay Round

1. Who were the key players or sets of players in the pre-negotiations leading up to the Uruguay Round of GATT?
2. What were their interests at this stage of the process?
3. What issues were on the table to be discussed?
4. How did coalition dynamics affect the result of the negotiations?
5. How did domestic politics affect the result of the negotiations?

Case II: MPAA and GATT

1. Who was right in the debate over audiovisual services? Why did the GATT negotiations on audiovisual matters become so heated?
2. Why is the United States the world leader in the film entertainment industries?
3. Evaluate the strategy the MPAA used during the GATT negotiations. What would you have done similarly? What would you have done differently?
4. What approach should the MPAA take with respect to the EU in the aftermath of the GATT signing?
5. What does this case imply about the ability of multilateral negotiations to open foreign markets through the elimination of non-tariff barriers?

MARCH 7: THE POLITICS OF MARKET OPENING

TOPICS COVERED:

- Debate over market opening
- Video: **Nightline: Japanese Trade Controversy**
- Case

READINGS:

- Bhagwati and Patrick, *Aggressive Unilateralism*, Chapter 1
- Baron, *Business and its Environment*, Chapter 17

PREPARATION QUESTIONS

• Case: The Kodak-Fujifilm Trade Dispute

1. How did the distribution arrangements in color film become the way they are today? Does Fujifilm have a profit sanctuary?
2. Assess Kodak's market strategy in Japan prior to George Fisher becoming CEO. What are the causes of Kodak's problems in the Japanese market?
3. What market alternatives does Kodak have to penetrate the Japanese market? How successful are those alternatives likely to be?
4. What non-market alternatives does Kodak have to penetrate the Japanese market? How successful are those alternatives likely to be?
5. What strategy has Fisher adopted and how well integrated are its market and nonmarket components? What other steps, if any, should Fisher take?
6. In its discussions with the USTR, what specific concessions should Kodak press for?
7. Assess Fujifilm's strategy in response to the petition. What should it do if negotiations begin between Japan and the United States over the petition?
8. How is this case likely to be resolved? What outcome do you expect? For a Section 301 petition, does it matter whether Kodak made strategic mistakes in the Japanese market?

MARCH 21: TRADE AND THE ENVIRONMENT

TOPICS COVERED:

- The debate over trade and the environment
- Issues involved
- Cases

READINGS:

- Bhagwati, “The Case for Free Trade”
- Daly, “The Perils of Free Trade”
- Vogel vs. O’Halloran, “Social Regulations as Trade Barriers”

PREPARATION QUESTIONS

• Case I: Trade and the Environment: Judge Richey's Decision

- You are a political consultant, and the Mexican government calls you with an urgent request. A federal district court judge has just issued a ruling that could possibly delay or derail the North American Free Trade Agreement. The Mexicans hire you to analyze its possible impact and suggest a political strategy.
1. Explain the central issue being debated.
 2. Explain to the Mexicans (who are in a state of shock and disbelief) how it is possible for three small, unrepresentative environmental groups to derail an international trade agreement involving the world’s largest trading block. What does this suggest about U.S. trade policy making?
 3. Evaluate Judge Richey’s reasoning concerning:
 - Fast track procedures (pp. 2-3);
 - Jurisdiction, especially the distinction between the present case and *Franklin v. Massachusetts* (pp. 5-11);
 - Separation of powers arguments (pp. 12-13); and
 - Plaintiffs’ injury due to NAFTA (pp. 13-18).
 4. How should the Clinton administration react to the ruling?
 5. Suggest the best strategy for the Mexican government.

Case II: Environment and International Trade

1. What is the strongest argument to make for the American side in the dispute over tuna and dolphins? What is the strongest argument for the Mexican side? In your view, did the GATT dispute settlement panel do the right thing?
2. Who has the stronger arguments in the tropical timber dispute? What are the business implications for each of these disputes?
3. What is your appraisal of CITES? Of the Basel Convention?
4. Under what conditions should nations use trade policy as an instrument to achieve environmental objectives?
5. Do you think that the GATT rules on the environment make sense? Is NAFTA a good model of sound international environmental policy?
6. Are there circumstances under which OECD governments should require their firms to comply with environmental standards set in the home country when the firms operate in countries with less stringent regulations? Are there circumstances under which the firms should do so anyway, even if this is not required?

FINAL PROJECT

DUE MAY 1, 2005

You work for a consulting firm and have been hired by a client (a firm, a lobbying group, or a country, for instance) who is trying to develop a comprehensive strategy for addressing a particular issue arising from globalization. Your assignment is to prepare a thorough, yet easily understandable, report for your client, outlining the central problem at hand, possible alternative strategies, and recommendations for a plan of action. Your final report should be about 25 pages long, complete with references, tables, graphs, and supporting documentation. Be sure to include a 1-page executive summary at the beginning. Also, since your client is web-savvy you should construct a web page containing all the pertinent background material.

In preparing your report, you should focus on answering the following questions:

- 1) What is the problem to be solved? Provide a brief overview and any necessary background information.
- 2) Who are the key actors, and what do they want?
- 3) What are the alternative market and non-market strategies available to your client?
- 4) In pursuing these strategies, who are the key decision makers for each alternative, and what are their preferences? (i.e., would your client work through Congress, the President, the USTR, a foreign legislature, in concert with other firms, and/or an international body?)
- 5) What strategy should your client pursue, and why? Justify your answer with supporting documentation and evidence.

For instance, typical projects might include:

- The US beef industry and growth hormones in the European Union
- International standards for telecommunications under the WTO
- Intellectual property rights protection under GATT and the WTO
- China, human rights, and Most Favored Nation status
- Starbucks' globalization strategy and problems with market entry
- The Clean Air Act, gasoline standards, and WTO dispute settlement procedures
- Antidumping ruling against LG Semicon and Hyundai Electronics

You may work on this project in teams, as approved by the instructor. You should have both your teams and your topic approved by February 15, so that you can prepare to give a presentation in class. The final report and web page are due on **May 1, 2005**.

