

Political Economy: Free Trade and Protectionism



The Boston Globe picture

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International Trade



Act of exchanging goods produced in one state across borders

Fundamental activity for the World Economy, but the nature of international trade is and has been a hotly debated issue

“In the absence of World Government, cross border trade is always subject to rules that must be politically negotiated among nations” Robert Kuttner

- Trade is always political
Indissoluble tie between politics and economics
Trade is an expression of political **power**

Power

- Power as a material concept (weapons, GNP)
- Power as relational coercion/entitlement: ability of A to get to B to do something *they would prefer not to do*
- Power and interdependence: exploitation of asymmetries (military capability, market access, capital)
- Power as persuasion: ability of A to get to B to *alter their preference* (ideas can play a powerful role)
- Fungibility of power resources

Mercantilism/Realism

- “Ancestor” of economics, developed in the 1500’s
- Believes power and wealth are central to the interest of states
- Territorial security of the state of paramount importance (era characterised by many wars)
- National wealth of strategic importance because it financed wars (financed, navies, weapons etc.)
- Wealth generates power, but power also generates wealth (e.g. Colonies provided raw materials and new markets)
- Trade surplus needed to create and retain wealth . *“The Overriding (...) need for England to pursue a positive balance of trade”* Thomas Mun, director of the East India Company in the 1600’s
- Trade heavily regulated through tariff imports

Liberalism

➤ “*Laissez faire, laissez passer!*” (Quesnay)



➤ Free trade across borders, free of government intervention, ideal situation of the world economy

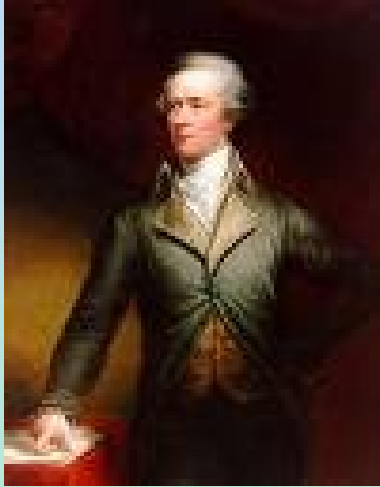
➤ trade is mutually advantageous for the individuals involved in a climate of free competition, unhindered by states' national objectives

➤ mercantilist tariffs on imports “*are a curse equal to the barrenness of the earth and the inclemency of the heavens*”

Theory of comparative advantage: nations should specialise in that sector for which they have a natural competitive advantage over other nations, or are relatively efficient. Following C.A.T. states will be better off, no need for import tariffs (David Ricardo)



Economic nationalism/Realism



- Economic Nationalism focuses on the internal development of the national economy and gearing the economy for the national interest
- Famous economic nationalists include Alexander Hamilton and Friedrich List
- Promotes the use of tariffs on imports to make them more expensive and so uncompetitive with national products;
- In so doing and by subsidising industry, protects national industry from competition → **Protectionism**
- **Infant industry**

Economic Realism

- similar approach to mercantilism (security comes first)
- Self-help international state system, where trade status is dictated by the states economic might

Marxism/Structuralism



- Lenin argued that the capitalist nations were on the brink of **economic crisis** and could not accumulate enough wealth from trade alone
- Need to acquire colonies : “*to serve as markets, investment outlets, and sources of food and raw materials*” → **Imperialism**
- Imperialism dictated the end of free trade regime (highest and last stage of capitalism)
- Free trade unequal, based upon class exploitations → **Unequal exchange** theory
- Lenin once in power withdrew Russia from international trade altogether
- Structuralists later very critical of free trade (particularly of MNC’s) because of its effect on developing nations
- **Exploitative nature** of free trade

Contrasting world views

Liberalism

- Characterised by **Relative gains and losses**
→ everyone gains from trade. It's a **Positive Sum** game
 - Everyone is a winner for liberalism

Mercantilism/Structuralism

- Characterised by **Absolute Gains and Losses** → **zero sum game**: there are winners and losers

A bit of history

- Mid-1800's – early 20th century: free trade predominant under the *Pax Britannica*, already partially globalised economy
- *Fin de Siècle* – 1920's: mounting protectionism, disruption of free trade following outbreak of world war I, trade blocs
- 1930's: Great Depression. *Smoot-Hawley* tariff
- 1944: Bretton Woods Agreement lays the foundation for a liberal economic order (creation of the IMF and of the World Bank)
- 1947: creation of the General Agreement on Tariffs and Trade (GATT). Trade negotiation rounds begin for the removal of tariffs and non-tariff barriers to trade
- 1950's – 1990's: trade rounds incorporate more and more fields of the economy leading to the lowering of trade barriers, The process is enlarged to developing countries during the Uruguay Round
- Creation of the World Trade Organization (WTO)
- Current stall of the Doha round (2005-)

Signing of the GATT agreement, 1944 (The Pitch blog); Doha night skyline (wikipedia); entrance to the WTO Headquarters in Geneva (AFP- Google news)



Paradoxes of Free Trade

- Rise of Non-Tariff Barriers (NTB's) during the second half of the twentieth century: quotas on imports, product standards, licensing, dumping and technical regulation
- Despite the majority of economists professing the preference for free trade, protectionism still very common among states. Success of the *Developmental* economies: e.g. Japan, Asian Tigers
- Large-scale use of Protectionism by US and EU in the agricultural sector; always exempt by trade rounds → is it really free and fair trade?

Criticism of Free Trade

- Free trade economy often held accountable for unemployment and income inequality
- S. Strange: *comparative advantage is ever more open to question as the world economy becomes more dynamic* → European post war boom was helped more by massive injections of American cash than by multilateral tariff reduction in Europe

Fair Trade

Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South

Organised social movement in favour of a review of current trade practices based on 4 principles:

- Market Access for Marginalised Producers
- Sustainable and Equitable Trading Relationships
- Capacity Building & Empowerment of marginalised producers
- Consumer Awareness Raising & Advocacy

Fair Trade mainly operates via selling products produced according to fair trade standards and clearly labelled

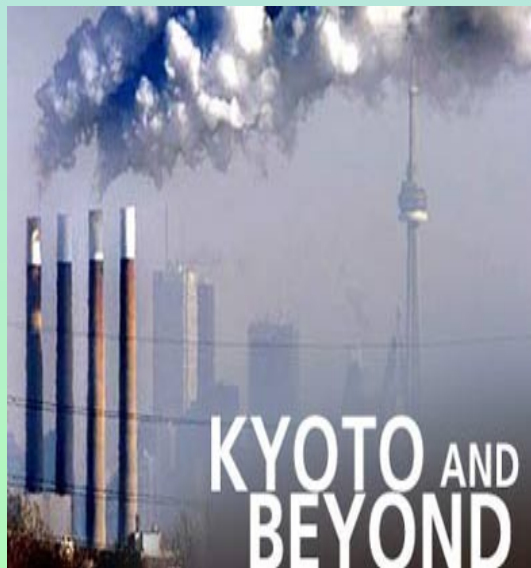
Fair Trade impact studies have shown that it has sensibly improved income and living standards of producers in the developing world

Free Trade and Environment



- Concern that more trade and liberalisation will mean more pollution and a lowering of environmental standards
- WTO rules could be interpreted to undermine environmental standards ('level-playing field argument')

BUT



- North American Free Trade Association (NAFTA) included a cooperation agreement on the environment
- 20 multilateral Environmental agreements agreed in the Doha round
- Could international free trade lead to global environmental cooperation and 'race to the top' of environmental standards?

Criticism of the WTO



- Effects of Northern states trade policies on Southern states and predominance of the US
- ‘Race to the bottom’ argument
- Criticism of how business is conducted and deals are made (Jawara and Kwa)
- Fair trade instead of Free Trade
- Stiglitz, economic liberal (former chief economist of the World Bank) argues in *Making Globalization Work*, that free trade should be converted into ‘fair’ trade, and criticised the WTO for its ‘one size fits all’ policy.

Images

- A merchant vessel commandeered for the Armada: print by Peter Brueghel, <http://www.britishbattles.com/spanish-war/spanish-armada.htm>
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