Last Week

- Economic Response to assumed causes of WW2:
  - Stabilize financial system
  - Reduce tariffs
  - Develop and promote liberal ideas and values

Major Take-Aways

Entwined Politico-Strategic and Economic Developments 1945-1971

- US economic dominance under Bretton Woods:
  - Creates GATT,
  - IMF, World Bank and other international institutions
  - Sets of system of fixed exchange rates
  - Dollar is Reserve Currency based on Gold
  - Acceptance of Keynesian intervention to manage economic recessions
- Cold War
- Re-emergence of Western Europe - the EEC – EC – EU, and Japan
- Decolonization – third world, Cold War competition
- Rise of the Multinational Corporation (MNC)
- Emerging Economies
- Liberal reform and social democracy in Europe
- Vietnam War and inflation

End of Bretton Woods

1971 Nixon ends Bretton Woods - "New Economic Policy"

- Nixon sets tax cuts and a 90-day freeze on prices and wages
- Suspends the dollar's convertibility into gold
- 10 percent tariff be levied on all dutiable imports
- Effective end of fixed exchange rates

Post Bretton Woods

- After the collapse of the Bretton Woods system, the major powers authorized the IMF to widen the trading bands so that changes in currency values could more easily reflect the supply and demand of currencies.
- The oil shocks of the 1970s helped preserve the dollar's status as top currency, as OPEC demanded ever-greater quantities of dollars to purchase OPEC oil.
- OPEC nations placed many of these "petrodollars" in Western banks.
- Petrodollars were loaned out to developing countries, which substantially increased their debt.

1970s

1970s usher in big changes and challenges:

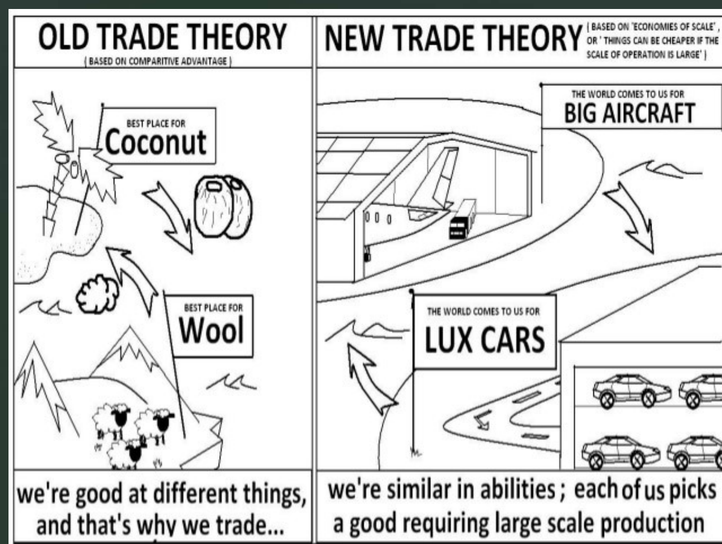
- Arab/Israeli Conflict, OPEC and global economic crisis
- Inflation “stagflation”
- Crisis in Europe – Cold War and Eurocommunism
- Expansion of US and now other MNCs
- Shift from manufacturing to service economies in West
- Changes in political power bases domestically in US
- Thatcher/Reagan and neo-liberalism

Post Bretton Woods – Setting the Stage for next Phase of Globalization

- Stagflation (concurrent inflation and slow economic growth) during the 1970s prompted the U.S. to raise interest rates to combat domestic inflation, which contributed to global recession.
- This economic downturn motivated a turn away from Keynesian orthodoxy in favor of a return to classical liberal “laissez-faire” ideology under Thatcher in the UK, and Reagan in the U.S.
- Concerned about the growth of communism in Latin and South America, the IMF and World Bank under U.S. pressure provided opportunities for developing countries to reschedule their debts (accrued during the petrodollar boom) in exchange for agreeing to structural adjustment policies (SAPS).
- By 1985, the U.S. had become the world’s biggest debtor nation, causing many to argue that the U.S. dollar was overvalued.

Review of FX

- https://www.youtube.com/watch?v=xwtgByffoUw&t=14s



International Trade

- Way too many Theories:
  - Theory of absolute cost advantage
  - Theory of comparative cost advantage
  - Factor endowment theory
  - Theory of competitive advantage
  - Product life cycle theory
  - Theory of identical preferences
  - Product differentiation
  - Outlet for domestic surplus

THEORY OF ABSOLUTE COST ADVANTAGE (Basically, Adam Smith)

- Producing a good with fewer inputs (capital, labor, land, raw materials, etc.) per unit of output than other countries
- If input prices are the same in two countries, the country with an absolute advantage in a good will have a lower unit cost of production for that good
- A country should produce and export products in which it has an absolute advantage
- A country should import products in which it has an absolute disadvantage

THEORY OF COMPARATIVE COST ADVANTAGE (Ricardo)

- Focus on comparative cost advantage not on absolute cost advantage.
- Each country specialises in the production of that commodity in which its comparative cost of production is the least.
- A country will export those commodities in which its comparative costs are less.
- A country will import those commodities in which its comparative costs are high.

FACTOR ENDOWMENT THEORY (Heckscher and Ohlin)

- A country that is relatively abundant in a factor of production should export goods that use a lot of that factor in the production process, and import other goods
  - Example: a country like China with a lot of labour should export labour-intensive goods
- Why? If a factor is relatively abundant, it will be relatively cheap, and a country will be more globally competitive in products that use a lot of that factor

THEORY OF COMPETITIVE ADVANTAGE (Michael Porter)

"A Japanese company will deliver them to us for £6.75 a thousand."

- To compete in the world a country requires a strategy to gain a competitive edge over the others.
- Competitive advantage is created by technological and institutional change, not just inherited from a country's natural endowments.
- For example, getting really good at making photovoltaic cells

PRODUCT LIFE CYCLE THEORY (Vernon)

- Industrialised countries contribute more resources to research and development which results in development of new products in that country
- In early stage they have monopoly on such new products and enjoy easy access to foreign markets – think US computers?
- Later, other countries start imitating their products and initial advantage disappears – computers now made overseas and sold back into the US?

THEORY OF IDENTICAL PREFERENCES (Linder)

- Based on the principle that trade opportunities are more among countries at similar stage of development with similar demand structure
- E.g. USA and Japan are largest trade partners because of identical consumer preferences and similar stage of development.

PRODUCT DIFFERENTIATION

- Another reason or basis for international trade can be the product differentiation.
- It means differentiating a product in some manner such as adding different and new features in the same basic products – think cereals (Wheaties vs. Generic, organic) or automobiles?

OUTLET FOR SURPLUS

- Most countries involve in international trade because they have surplus production
- Surplus commodities or some unused resources can be exported
- US surplus soybeans and there was no additional storage capacity, so it was decided to export soy at cheaper rates in the international market.

WTO Interactive Map

- https://www.wto.org/english/res_e/statis_e/statis_maps_e.htm

Globalization and Trade

Globalization is about mobility and speed to stretch beyond political boundaries

- Technologies of mobility
- Ideas of mobility
- Capitalism
  - Requires efficiency for economic competition
  - Efficiency requires mobility
  - Efficiency requires speed
  - Speed and efficiency require new technology

Post 1970s Neo-Liberalism

The underlying causes of the current phase of globalization…..

- Neo liberalism + fall of communism + rise of Asian Tigers and China
- Factor mobility—growing global commodification of land, labor, and capital
- Rising competition
- Be efficient or die!
- Develop technologies of efficiency + pressure governments to lower wages, taxes, regulation

Washington Consensus

New Technologies of efficiency….

- Convergence of policies around the world "Washington Consensus"
- More efficiency
- More productivity, more specialization, more trade
- global economic growth
  - But global income inequality..
- Convergence of cultures—global liberal culture
  - Homogenizing effects of mass consumerism

And is being challenged in international institutions

- Old arrangements are relics
  - In IMF and World Bank, Benelux has a larger quota than China
- China challenges the "Washington Consensus"
  - Why should it be the premise for economic development
  - And a condition for loans?

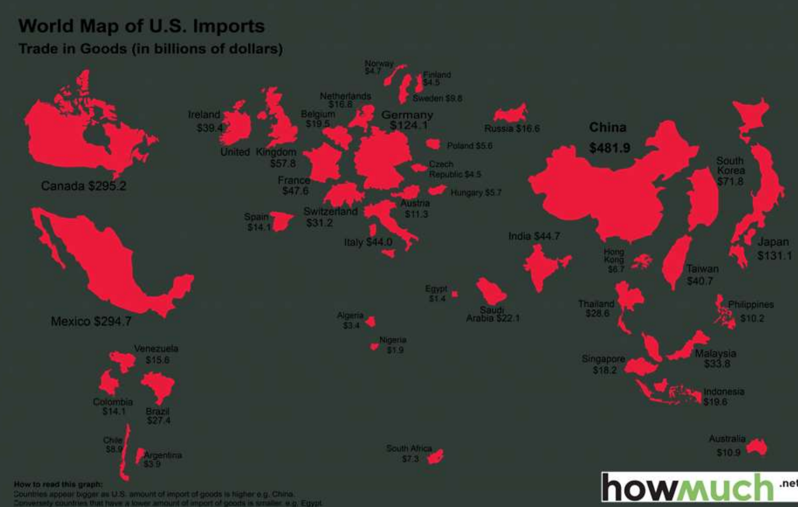
Who Trades with Whom?

TABLE 5.2 Regional Merchandise Trade (U.S. $ billions)

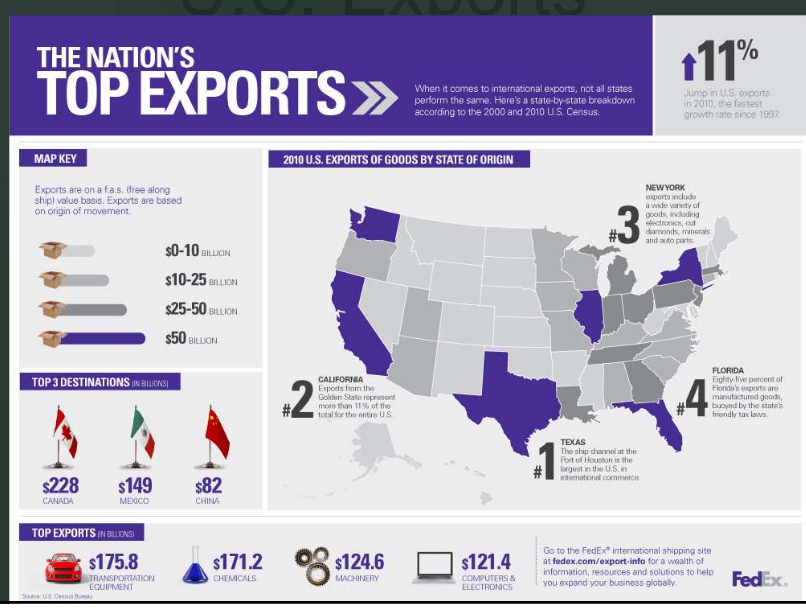
	Destination							
Origin	North America	South and Central America	Europe	Commonwealth of Independent States	Africa	Middle East	Asia	World
North America	905	107	279	8	22	42	314	1678
South and Central America	135	112	86	6	11	8	62	430
Europe	430	67	3652	142	120	129	366	4963
Commonwealth of Independent States	24	8	247	80	6	13	46	426
Africa	80	11	148	1	33	6	73	363
Middle East	72	4	103	3	21	72	340	646
Asia	708	70	604	50	70	111	1639	3278
World	2355	378	5118	290	283	381	2839	11783

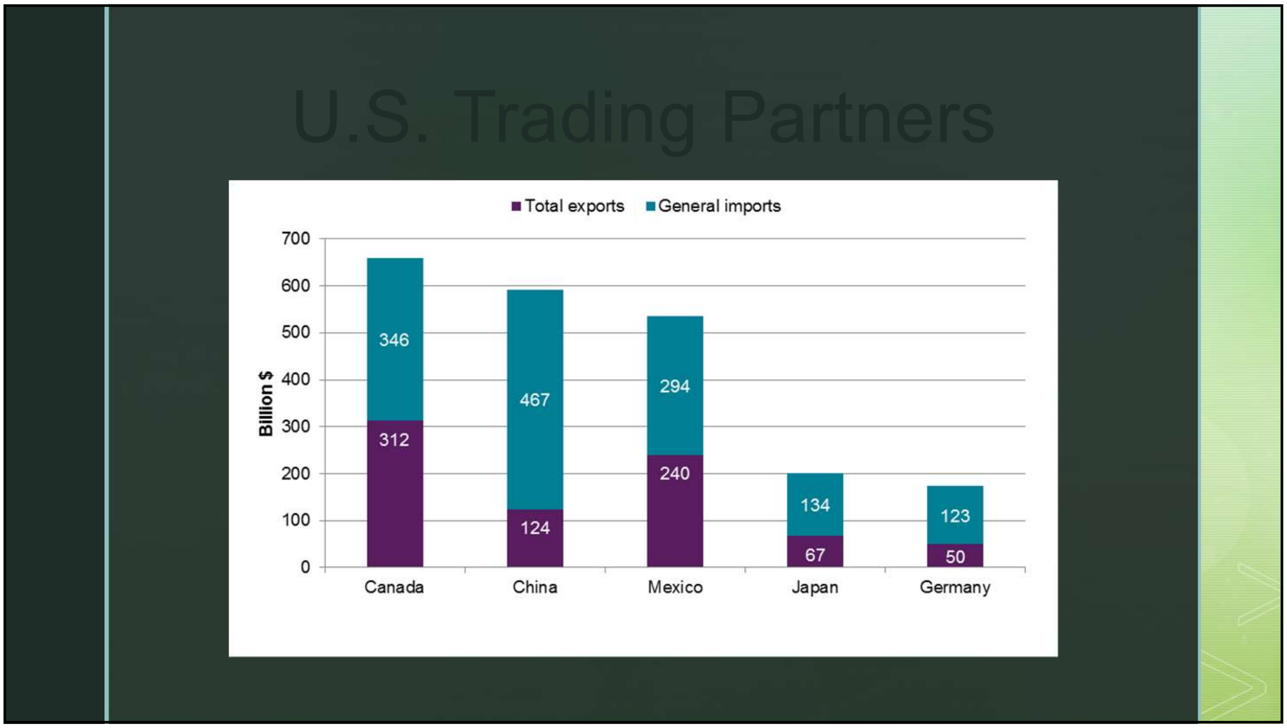
Note: Regional figures do not equal world totals because of rounding and World Trade Organization data collection methods.
Source: *International Trade Statistics 2007* (Geneva: World Trade Organization, November 2007) (www.wto.org), Table I.4.

U.S. Imports



U.S. Exports

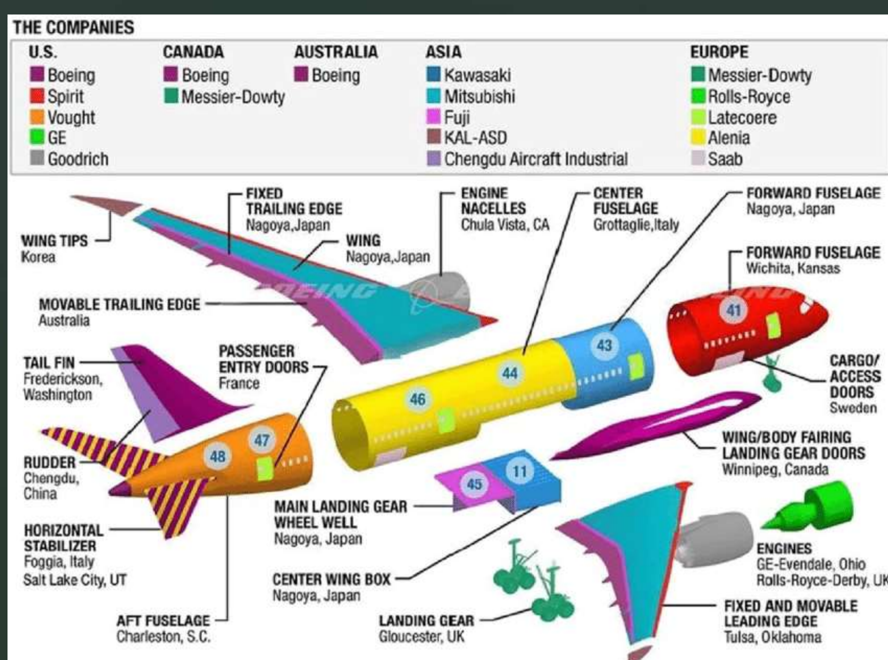



U.S. Trading Partners
Total exports
General imports
Billion $
700
600
500
400
300
200
100
0
346
312
467
124
294
240
134
67
123
50
Canada
China
Mexico
Japan
Germany


U.S. Trade Balance
U.S. exports
U.S. imports
Trade balance
Billion $
2500
2000
1500
1000
500
0
-500
-1000
2010
2011
2012
2013
2014

Trade

- The production and trade structure is the set of relationships among states, international organizations (IOs), international businesses, and nongovernmental organizations (NGOs) who together influence and manage international rules and norms related to what is produced, where, by whom, how, for whom, and at what price.
- The economics of trade cannot be separated from its politics.
- International trade has increased both in value and volume dramatically since the 1980s, in part, as a reflection of the internationalization of production and growth of the MNC
- Advances in communication technology have precipitated a fragmentation of production, with firms outsourcing parts of the production process to different areas of the world.
- Leading to sophisticated and intricate supply chains



Trade

- Because of capital mobility, foreign direct investment has grown—though most of it is still concentrated in the already-developed nations.
- The expansion in international trade is a reflection of the internationalization of production processes.
- Trade promotes social, political, and economic interdependence between trading partners.
- In the absence of comprehensive and binding international trade rules, tensions between trading partners are likely as states try to maximize domestic gains from trade, often at the expense of trading partners' welfare.

Post-War Trade Regimes

GATT and the Liberal Postwar Trade Structure:

GATT negotiating "rounds" were fairly successful in lowering trade barriers on manufactured goods, but not on some goods that were attached to security considerations such as agriculture commodities and products.

Trade Regimes

Mercantilism on the Rebound

Protectionism increased among industrial nations in the 1960s and 1970s due in part to declining U.S. hegemony, the rise of Europe and Japan, and changing patterns of global production.

The Tokyo GATT Round attempted to deal with a growing number of nontariff barriers (NTBs) and other discriminatory practices such as dumping.

In the 1980s trade accounted for an increasingly higher percentage of GDP in the industrialized states, generating demand for new protectionist policies. This led to the Uruguay Round of GATT multilateral trade talks in 1986.

Strategic trade policies grew in importance, especially in the 1980s and 1990s.

The idea of strategic trade policy is that comparative advantage is not fixed, but is dynamic.

Effective state policies can create comparative advantage, making the economics of trade even more closely associated with its politics.

The notion of fair trade has gained prominence, where states counteract the protectionism of trading partners in order to create a level playing field.

Quick and Dirty History of GATT Rounds

Name of the Round or Location	Dates	Value of Trade Involved *(roughly)*	No. of Countries Participating	Notable Outcomes
Geneva	1947	$10 billion	23	45,000 tariff cuts -- average 35 percent cut
Annecy (France)	1949	n/a	13	tariff reductions
Torquauy (England)	1950-51	n/a	38	tariff reductions
Geneva	1956	$2.5 billion	26	tariff reductions
Dillon Round	1960-61	$4.9 billion	26	tariff reductions
Kennedy Round	1962-67	$40 billion	62	35 percent average cut on industrial goods; commitments on use of anti-dumping laws
Tokyo Round	1973-79	$155 billion	102	34 percent average cut on industrial goods; commitments on non-tariff measures
Uruguay Round	1986-93	$3.7 trillion	123	services trade and intellectual property included; "built-in agenda" on agriculture, WTO institution created
Doha Round	2001-	n/a	148+	fully incorporates services and agriculture, trade facilitation, development agenda

History of GATT – the Video

History of GATT:

https://www.youtube.com/watch?v=27J3CByXKow

Uruguay Round

The Uruguay Round and the WTO

The Uruguay GATT Round (1986-1994) attempted to deal with a number of newer trade issues including services and intellectual property rights (IPRs).

Domestic support for agriculture and LDCs was also issues dealt with in the Uruguay Round, but that had not been dealt with effectively (or at all) in previous GATT Rounds.

Agriculture remained an especially sticky issue throughout the negotiations and held up the talks several times. Agreement was finally reached on agriculture, opening the door to agreements on services, IPRs, and other issues.

While the Uruguay Round did make progress on these and other issues, many of them remain for the WTO to either deal with or solve.

The WTO took over the GATT's role in 1995.

Unlike the GATT, the WTO has enforcement power through its Dispute Settlement Panel, which is empowered to interpret WTO agreements and authorize sanctions on member-states that violate trade rules.

Many NGOs and other interest groups have criticized the WTO for its (lack of) rules related to child labor, low wages (especially in Third World countries) and supposed lack of interest in the environment.

Doha

The Doha "Development Round"

Many LDCs depend on trade for economic development and argue that many promises made during the Uruguay Round went unfulfilled.

The Cancun ministerial talks in 2003 broke down in large part because developed countries refused to sufficiently reduce the agricultural subsidies paid to their farmers.

Also contentious were efforts by the United States, EU, and Japan to promote the "Washington Consensus" model of opening up developing countries' markets, as well as the TRIPS (Trade Related Intellectual Property Rights) agreement, which many developing nations fear will compromise their access to generic medicines.

To restart trade talks, the United States offered to cut agricultural subsidies if the EU followed suit. However, the renewal of the U.S. farm bill and the EU's decision to leave the Common Agricultural Policy (CAP) unchanged have raised questions about the commitment of the United States and EU to agricultural reform.

Both the EU and United States face tremendous domestic political pressure to leave agricultural protections in place to safeguard local farmers, in spite of the incentive these policies create for overproduction and dumping, which depress global prices for agricultural commodities.

No subsequent proposal has been agreeable to all sides, and once again agriculture derails the Doha Round.

In the meantime, many states are putting new energy into bilateral and regional trade agreements to advance the objective of trade promotion.

Regional Trade Blocs

The U.S. has signed more than 300 bilateral agreements, and belongs to a number of regional trade agreements (RTA) like NAFTA.

RTAs are often easier to form because fewer states are involved, which means fewer interests to reconcile.

Many economists theorize that RTAs are a stepping-stone to global free trade, by strengthening economic integration between the bloc's members.

However, other economists oppose RTAs as obstacles to *world* free trade, because they proliferate tariffs and preferences between the bloc's members that become durably institutionalized.

Trade Blocs:

https://www.youtube.com/watch?v=YDUq0DINhYk

North-South

North-South Trade Issues

Trade is an important issue of growth for LDCs.

Trade is controversial for LDCs, however, because of concerns regarding the distribution of the gains from trade (related to the terms of trade).

In the 1970s, a coalition of developing nations in the UN called the Group of 77 led the call for a new international economic order (NIEO) with conditions more favorable to LDC trade—including greater access for their primary commodities into developed countries' markets, and a code of conduct for transnational corporations.

Structural adjustment policies by the IMF and World Bank have made assistance to LDCs conditional on the transformation of their economies in line with the "Washington consensus"—a set of economic liberal policies.

Doha Continued

Many LDCs also view the WTO as a body whose role is to pressure LDCs into bringing down their tariff barriers, thereby exposing LDC infant industries to the more competitive imports of industrialized countries.

Many structuralists point out that while trade has generated economic growth, the benefits in developing countries have been distributed very unevenly, promoting greater inequality.

Other economists argue that the most successful developing economies and nearly every current industrialized country insulated themselves from the international market during their economic assent, which calls into question the Washington consensus's demand that developing countries completely abandon protectionist measures.

Attention has been focused on the role of TNCs in precipitating a "race to the bottom" in wages, and environmental and labor standards.

In looking for alternate development strategies, many NGOs have spearheaded a "fair trade" movement, which certifies that specific LDC products (which are labeled for consumer recognition) meet higher standards for environmental sustainability and wages.

Conclusions

Trade as A Foreign Policy Tool

Trade has been used to serve national interests in many ways.

During the Cold War, for example, access to the U.S. market was used as a “carrot” to entice allies away from communism.

Trade sanctions and the threat of sanctions have also been used as a tool to punish nations that take foreign policy stands the U.S. opposes.

Conclusion: The Elephant of International Trade

Liberals applaud the WTO for fulfilling the dreams of liberal officials who favor further opening up the international trade system.

Even so, a number of countertrends co-exist with this liberal objective. Many state officials, as yet, remain divided about the value of the WTO.

An increasing number of actors such as MNCs and NGOs are likely to be interested and will try to influence trade policy in the future.

Many interest groups have mounted campaigns to challenge the benefits of free trade and the policies of the WTO.

The liberal trade structure appears to be giving way to a managed trade system that mixes liberal, mercantilist, and structuralist practices.