

## Trade and Globalization Outline

1. International trade is a subset of exchange between two or more parties
  - a. More visible because it occurs across borders
  - b. Principles are the same
  - c. Tariffs and quotas in international trade are equivalent to taxes and regulations in domestic trade
2. Both direct parties to trade always gain, provided that trade “arm’s length” that is:
  - a. not coerced by one party or other,
    - i. Robbery at gunpoint
    - ii. Gunboat diplomacy
    - iii. Opium wars
    - iv. Child labor
  - b. both parties are fully informed of consequences
    - i. Employees may not recognize risks of hazardous working conditions
    - ii. Homebuyers may not recognize risks of subprime mortgages
    - iii. Insurance buyers may not recognize loopholes in coverage
    - iv. Importers of Chinese drugs and toys may not recognize adulteration
  - c. Both parties are competent to understand the bargain
    - i. Laws protect children and other “mentally incompetent” individuals
    - ii. Banks buying CDO’s did not understand what they were getting
    - iii. American Indians “sold” Manhattan to Peter Minuit in 1626 for \$24 in trinkets; did they understand the deal?
    - iv. What about alcoholics and drug addicts?
  - d. Overall gains from trade are huge, by allowing specialization and cooperation; they make modern economies possible
3. All trade takes place in an economic, legal, social and historic context.
  - a. Textbooks ignore this context
    - i. Focus mainly on distribution of gains and effect of tariffs or quotas
    - ii. Ignore the reality that trade agreements between nations change the rules of trade, not just prices and quantities traded
    - iii. Multinational corporations also change the context by monopolistic behavior, as described in *Cornered*

- iv. Do not distinguish short-term gains from long-term; protection while an industry gets established may generate long-term gains—this is the “infant industry” argument under which nations like South Korea industrialized
  - b. Context of trade may be “unfair”
    - i. Extreme inequality in wealth or education gives advantage to one party
    - ii. Regulations may give advantage to one party.
      - 1. laws against unionizing
      - 2. Jim Crow laws
      - 3. laws against hiring illegal aliens
      - 4. laws permitting credit card companies to change terms at will
  - c. Context may be economically inefficient
    - i. One or other party is a monopolist or monopsonist, extracting rent from the other and imposing deadweight loss on society. eg. Exploitation of garment workers in Pakistan and Bangladesh.
    - ii. Seller may be extracting resources from a commons, to detriment of others
    - iii. One or other party may be subsidized or taxed, resulting in deadweight loss
      - 1. US subsidizes exports of cotton and other products
      - 2. US imposes import quotas on sugar and other products
  - d. Critics of trade confuse trade itself with the context
    - i. Walmart pays its employees “starvation” wages and no health insurance
    - ii. Coffee buyers “rip off” Latin American coffee farmers, paying a few cents a pound
    - iii. Chinese factory workers earn pennies a day to make shoes for US customers
    - iv. In all such cases, trade is voluntary and benefits both parties; the problem is the power of monopolists
4. Trade almost always hurts some third parties, even when it’s “arm’s length,” “fair,” and economically efficient
- a. Under “perfect competition” there are necessarily some losers
    - i. When A builds a better mousetrap, the manufacturer of the inferior mousetrap loses business
    - ii. When transportation and communication costs fall, competition from other states or countries increases
      - 1. Cheap clothing from China causes garment unemployment
      - 2. Computer programmers and tech support from India; tech unemployment or wage decrease in US

3. Telephone order-takers in Canada and Ireland
    - iii. However, under “perfect competition” it can be shown that the beneficiaries gain more than the losers lose, so beneficiaries could compensate the losers
  - b. When competition isn’t perfect, there are even more losers
    - i. Victims of monopolies and monopsonies who are excluded from beneficial trade
    - ii. Victims of trade barriers who are excluded from beneficial trade
    - iii. No longer clear that winners gain more than losers lose
  - c. In the real world, with trade in millions of goods and services, it’s often impossible to identify most winners and losers, let alone calculate the amount of losses to individuals
  - d. It’s important to have a social “safety net” or insurance, limiting losses so society can enjoy gains from trade. This is like no-fault auto insurance, to make sure that victims get help quickly without litigation to prove fault
  - e. There is no international safety net; safety nets in developed countries have been deteriorating especially in US since 2008
5. Contracts are agreements to trade; actually or potentially involving government officials in drafting or enforcing them. Contracts engender rent-seeking behavior
    - a. Officials can give out valuable titles (contracts with government)
      - i. Rights to explore for oil in exchange for royalties
      - ii. Rights to develop a subdivision with utilities supplied by local government
      - iii. Sole-source military contracts for Iraq and Afghanistan
    - b. Officials can make existing titles more valuable by providing subsidies, reducing taxes, or restricting competition
      - i. Owners of land on the west side of California’s Central Valley got huge gains from the State Water Project
      - ii. Sugar growers benefit from import quotas; peanut growers benefit from peanut allotments
      - iii. Fed and Treasury have bailed out Bear Stearns, AIG, and CitiCorp, and assumed the bad debt as loan collateral for many more
    - c. Officials can make vague or incomplete contracts more (or less) valuable; this is what commercial litigation is about, day in and day out;
      - i. Absurdity of Coase concept of clear property rights; property rights are always shifting and evolving. Eg patent litigation and torts litigation
      - ii. Political gridlock in US Congress prevents legal system from adapting to these changes Eg. the invention of Credit Default Swaps which helped blow up the financial system

6. International trade in natural resources is a major cause of environmental destruction and human suffering
  - a. International trade in natural resources engenders rent-seeking behavior
    - i. Multinationals make deals with corrupt local officials, eg Shah of Iran or Shell in Nigeria—at expense of local populations
    - ii. Call on US or Britain to “enforce” these sacrosanct “contracts”
    - iii. This is not “free trade”; this is organized theft. See John Perkins: [Confessions of an Economic Hit Man](#)
  - b. Stripping of open-access resources where governance is poor
    - i. Clear-cutting of rainforest timber in Central and South America, Africa and Indonesia
    - ii. Stripping of fisheries off coast of West Africa
    - iii. Massacre of elephants for ivory
  - c. Rent-seeking can generate warfare
    - i. “Conflict diamonds” in West Africa or coltan in Congo
    - ii. War in Iraq
    - iii. Coup against Mossadegh in Iran to restore the Shah
    - iv. Darfur conflict over land and oil
    - v. Displacement of American Indians
7. What sorts of international agreements can increase gains from international trade while limiting damage?
  - a. In all countries, domestic producers pressure their governments to restrict foreign competition with quotas, tariffs and dubious “standards”—eg. Bans on [“undersized” Mexican tomatoes](#).
  - b. Some such restrictions may be justified by long-run considerations, as when a nation is establishing a new industry (not just protecting a monopoly), or insuring against risk—eg maintaining production of staple foods.
  - c. Therefore we need uniform international rules to keep nations from cheating: purpose of World Trade Organization (WTO) to develop rules and resolve disputes
  - d. International rules are better than bilateral agreements, which may allow stronger nations to impose on weaker ones, and also create confusion, transactions costs, and loopholes for protection
  - e. In reality, international and bilateral rules often trump legitimate local concerns, especially environmental concerns
8. What international agreements can help protect the environment?
  - a. GATT Article XX, countries may restrict trade to “conserve exhaustible natural resources” or to protect “human, animal or plant life or health”

- i. Much controversy over what that means: eg. Europeans ban import of beef grown with hormone supplements
  - b. PPM: cannot ban products based on Process and Production Methods
    - i. Much controversy over production processes, eg tuna fishing that kills dolphins, shrimp fishing that kills turtles
    - ii. Reason for rules: stop anticompetitive practices disguised as health or environmental concerns
9. What about the “Free Trade” agreements, like NAFTA , agreements with Colombia, Korea and Panama, passed 10/12/11, and proposed Trans Pacific Partnership.
  - a. NAFTA North American Free Trade Agreement of 1993, had unprecedented side agreements on labor and environment
  - b. Foreign investors can sue for damage due to environmental regulations eg. Canadian suit over gasoline additive MTBE
  - c. A better term for them would be “managed trade” agreements, as they change rules on such matters as intellectual property, probably to the greater benefit of the US
  - d. To what extent should the US try to dictate employment and environmental policies to its trading partners?
  - e. Has NAFTA created unemployment and reduced wages in the US? Or are we blaming NAFTA for the consequences of tax and subsidy policies increasingly benefiting the top 1%?
  - f. Purpose of World Trade Organization is to preclude limited deals like this in favor of uniform world-wide trade rules. Jagdish Bhagwati writes: *Termites in the Trading System: How Preferential Agreements Undermine Free Trade*.
  - g. The new proposed [Trans-Atlantic Free Trade Agreement \(TAFTA\) and the Trans Pacific Partnership \(TPP\)](#) are even worse
10. What are the risks and side-effects of international trade? International trade can make commodities like rice much cheaper, benefiting third world urban populations. BUT
  - a. Concentrated production of commodities increases the risk that pests or bad weather can affect global production
  - b. Cheap commodity imports put local farmers out of business, so when trade is disrupted, as happened recently, there are sudden steep rises in price—an argument for maintaining local production, even at a cost in efficiency
  - c. Per *Cornered*, international traders like Walmart are vulnerable to disruptions in supply—because they have weeded out and beaten down their suppliers.
  - d. Carbon emissions from shipping and air transport add to global warming
  - e. Advocates of free trade, like Paul Krugman and Jagdish Bhagwati, hurt their case by not acknowledging the importance of international rent-seeking, and harmful side-effects even of trade that is net beneficial

11. Organizations that give good or bad publicity to foreign governments and multinational corporations
  - a. [Corporate Accountability International](#)
  - b. [Social Accountability International](#)
  - c. [Transparency International](#)
  - d. [Oxfam International](#)
12. Dani Rodrik on [The Globalization Paradox](#): Democracy and the Future of the World Economy. On the intrinsic contradictions of international trade:
  - a. "...we cannot simultaneously pursue democracy, national self-determination, and economic globalization. When the social arrangements of democracies inevitably clash with the international demands of globalization, national priorities should take precedence."
  - b. There is no global antitrust authority, no global lender of last resort, no global regulator, no global safety net, and, of course, no global democracy. In other words, global markets suffer from weak governance, and are therefore prone to instability, inefficiency, and weak popular legitimacy.
13. Another good book, [Development Redefined: How the Market Met Its Match](#), by Robin Broad and John Cavenagh, traces the rise and fall of the "Washington Consensus" in favor of unrestricted free trade.