

International Trade

Discussion for Parliamentary
Committee on Trade

Structure of Presentation

- Theory of International Trade – Basic Concepts
– Critique and Way Forward
- Regulation of International Trade - A Brief History of the GATT and its Basic Concepts
- The Role of Developing Countries in the GATT
- The Doha Round and its Impasse
- South Africa's Role in the Doha Round

Theory – Basic Concepts

- Ricardo's – Theory of Comparative Advantage
- Trade is beneficial: allows each to specialize
- Ricardo's Example: England can produce Cloth and Portugal can produce Wine relatively more efficiently
- Ricardo: A nation should specialize in that economic activity where it is less inefficient

Theory – Basic Concepts

- Ricardo's theory is counterintuitive – Erik Reinert as example below demonstrates:
- 1957 - Soviet Union launched the SPUTNIK
- Eisenhower could have followed Ricardo and decided to specialize in Agriculture and allow the Soviets to specialize in Space technology
- Instead:
- 1958 – USA created NASA to EMULATE Soviets

Theory – Basic Concepts

- However – 1980s – Economists return to Comparative Advantage in the “Washington Consensus”
- John Williamson – World Bank Paper argued desired reforms in developing countries include: Trade liberalization, privatization, deregulation, inward FDI, fiscal discipline etc
- Samuelson, Bhagwati, Srinivasen, etc - free trade ... led to increased growth and welfare

Theory – Basic Concepts

- Critique by heterodox economists, economic historians, and political economists – Stiglitz, Wade, Reinert, Millberg, et al – argued that Comparative Advantage logic flawed on Conceptual, Historical and Ethical Grounds
- Basic Critique of Comparative Adv. Logic:
- Wine – Portugal would have diminishing returns and increasing costs
- Cloth – England would have increasing returns and falling production costs
- Therefore: England would specialize in being rich and Portugal in being poor!

Theory – Basic Concepts

Conceptual Critique:

- Does not assume capital mobility: capital would move to Portugal to lower labour cost and produce both cloth and wine (Millberg)
- Assumptions of models: Perfect markets for risk and information; local firms have capacity to supply, workers are mobile (full employment)
- However: markets for risk and info imperfect and lack of credit markets and supply capacity in developing countries (Stiglitz)

Theory – Basic Concepts

Historical Critique:

- US Congressman stated of Ricardo's theory –
- English trade theory “like most English manufactured goods is intended for export, not for consumption at home” (Reinert)
- Econ. Hist. indicates that US, Germany, Japan and in East Asia “defied” Comp. Adv
- Successful Industrialization required “governing the market” (Wade) and getting the prices wrong (Amsden)

Theory - Basic Concepts

Ethical Critique:

- Comp. Adv – leaves many countries as low value added producers – poor and ignorant (Reinert)
- Studies – trade liberalization can lead to increased inequality eg, Vietnam rice – poor farmers lose but consumers can gain (Stiglitz)
- Trade liberalization – in short run – creates adjustment costs for workers (jobs), firms (competitiveness), and countries (revenue)

Theory – Basic Concepts

Way Forward - Evidence Suggests:

- Dev.Countries need to focus on long-run (not just today) dynamic (higher value-added) competitiveness (alt. to comparative advantage)
- Trade Reform needs to be managed gradually and carefully
- Trade Policies should be tailored to the particular circumstances of countries
- Compensation should be provided for Adj. Costs to Countries (revenue) and workers (social safety nets)