

The liberal
international
economic order
economics essay



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The issues of the environment were not in the minds of the framers of the Liberal International Economic order (LIEO) when they met together at Bretton woods towards the end of World War II. LIEO was focused on promoting peace after the post war and destroy the economic competition that was destructive to the relationship between the countries of the world. LIEO is the key to future stability, peace and security globally. Right after the end of the Second World War, the World Bank creation, the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund established the foundations for the organization of a liberal trading order. These institutions promoted the state sponsored dedication to markets and ensured economic prosperities to the developing nations. Governments realized that liberal trading arrangements and efficiency of the market are essential prerequisites to realize the potential for the economic, political and social progress after Second World War. The expansion of the liberal trading order, the strength of the free market and the freeing of capital from domestic restrictions which was visualized by the framers of the Bretton Woods Institution took precedence over the provision of social development and on account of this people were left with the false promise that the efficiency in and of itself would produce political, social and environmental progress. Therefore even if the initial purpose was achieved, the numerous multilateral organizations created for the purpose of promoting a new LIEO has also created negative impacts. They have been instrumental in making the Governments exerting strong influence often with considerable but not with all the features of a centrally planned economy which is very much essential for the progress of a country. Therefore, the Governments must

ensure that their actions do not affect the purpose of the Liberal International Economic order (LIEO).

The United States of course played a vital role in the development of Liberal International Economic order (LIEO) the reason being as a dominant economy, it carried the primary burden of military defense for the entire free globe and it opened its huge market to foreign competition and free trade and it was able to and willing to carry on the burden of free trade as it was a powerful and rich country. At this point of time, the United States made the dollar a universally accepted parallel currency by fixing a relationship between the gold and the dollar and committed to exchanging at any point of time these two units. Therefore I believe that this regime could not have been developed without the influence of hegemony such as the United States.

I do believe that the decline in United States influence signals a threat to the LIEO's continued existence because the United States was no longer considered the dominant economic power as before. This might prove a threat to the LIEO's existence as they mostly depend upon the United States as they do not have sufficient resources and most of the time the expertise they required and funded or supplied by the United States. There is a considerable loss of the dominance of dollar which signals a threat to the LIEO's existence because they were solely dependent on the currency of the United States for their functioning.

The breakdown of hegemonic stability theory, collective goods, and free riders are as follows:

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Hegemonic stability theory: Identical to the materialization of hegemony, when a single nation rise to hold military and economical powers in a given situation along with the formation of international economic stability based on liberal principles which is a mixture of liberalism and mercantilism which paves the way for the elimination of fears is called as the theory of Hegemonic stability. Here, the mercantilists and realists hold common views that the key to global economic order is the balancing of power among competing state actors.

Collective goods: Everyone has equal chances of deriving benefits in the case of collective goods. Irrespective of a person's contribution in the case of service or taxes in the military, national security is a collective good from which everyone within a country benefits. The majority of economists view an open international economy as a collective good.

Free riders: Those who make the fullest use and exploit a common good are called as free riders. Imposition of trade restrictions by a nation and getting away from the negative impacts and thereafter deriving the maximum benefits from the free trade policies prevailing in other nations takes place with regard to free riders, But nevertheless, without rules and someone to enforce the rules, the cooperation required to maintain a common good is tedious to achieve.

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International trade has contributed to the economic development throughout the industrialized world and blended the cultures and traditions of different countries together and contributed to the cooperation among different

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countries with regard to sharing of resources through exports and imports which helped to maintain a positive equilibrium. Even though the world trade is increasing at a faster pace and it is favorable according to the world trade economists, it still has its own negative sides after the global economic crisis that hit the world in 2008. The global economy suffered severe losses and it paved the way for unemployment which increased drastically throughout the world for the past two years. In spite of all these setbacks, the rules and principles of world trade organization have assisted governments in keeping the markets open as provided for the world trade as there is some considerable improvement in world trade.

An economic policy which is meant to favor domestic producers of services and goods is called protectionism. I read an article the other day by David Leonhardt of the NYtimes which fundamentally proposed the idea that China has adopted the biggest policy of protectionism since the World War II by intervention and manipulation of the foreign exchange markets and by following strict measures of protectionism creating negative impact for itself and countries like the United States (David Leonhardt, 2010). When a nation is having protectionist policies, producers are protected against competition from the foreign firms with the help of import restrictions whereas free trade is a policy where commodities are allowed to cross borders or boundaries without restrictions. The reason behind why some governments favor protectionism is, as soon as foreign commodities are made available in the domestic market, the domestic industries suffer heavy losses because the foreign goods are available at cheap prices or the producers who export commodities to other countries are able to keep costs low due to the

subsidies of the foreign government. Therefore the governments hold the views that it can increase the demand and market for the domestic goods by closing the market to foreign producers and marketers and by imposing strict quotas and import tariffs so that the domestic economic situation doesn't get bad and derives maximum benefit. Even though protectionism is intended for protecting domestic companies, this is not always the case. There is also a darker side: companies will tend to use the old technologies and they will seldom take any initiatives to produce innovative products and there is no spirit of good competition. Countries that go by protectionism are often faced by export barriers or restrictions from other countries who give the same response to countries that go by protectionism. Inflation of prices for prices and commodities takes place and the domestic companies may start fleecing the consumers by fixing their own prices when there are no foreign competitors.

In order to maintain a balance of trade surplus, a country can make exports to the foreign sector which exceeds imports from there and a balance of trade surplus takes place for a country if its domestic economy produces commodities which are in high demand by other countries and purchased by foreign countries enabling the country to increase its exports, the value of which is greater than the value of imports produced by the foreign countries. Therefore a country must ensure that it's makes maximum use of its own resources and after catering to its own need must ensure that there is no wastage and should find out the potential market abroad where there is high demand for its commodities which are lying in surplus. For example, Brazil is the colossal producer of coffee in the world and after catering to its own

need in a substantial manner, it exports the rest to foreign countries thereby creating a favorable method to maintain balance of trade surplus. It has the capability of exporting huge quantity of coffee seeds which surpasses all other imports which will help it to maintain balance of trade surplus.

The balance of payment imbalances needs to get cleared by the succeeding suitable methods for the purpose of maintaining a consistent balance of trade surplus. By making imports cheaper, the exports of a nation could be less competitive. This usually ends up in correcting the surplus of a current account which is also helped by the upward shift in the currency value of a nation.

With the help of an agreement between the nations to fix their rates of exchange against each other, any disproportion that is taking place by rules based and changes in exchange rates which are negotiated could be sorted out. Fixed adjusting rates of exchange rates which is the systems of Bretton Woods is a crucial example of a rules based system.

When a country adopts a regime of policy which centralizes currency decisions in the hands of a central government by controlling the movement of capital, discouraging imports and encouraging exports, such a policy is called as neomercantilism. Allowing more effective fiscal and monetary policy by increasing the level of foreign reserves is the goal of the policies of neomercantilism. This is believed to provide greater control and autonomy to the government. Japan and Germany have been believed to have derived the maximum advantages of the neomercantilist trade policies. Most of the nations of the world always believe that the trade policies of

neomercantalism always work for them and fail to notice its negative side. When every country starts following the neomercantilist trade policies, they discourage imports and start concentrating only on exporting. A nation definitely has the need to encourage imports when it is crucial for the welfare of the country and if majority of the nations follow this policy, the rest of the countries will follow the same and when they cut down imports, they are discouraging and preventing the other countries to export.

The countries which follow this policy should observe the comparative advantages of both export and import. The way in which value can be created by trade for both parties even when one could produce all goods with fewer resources than the other is highlighted by comparative advantage. This encourages for the occurrence of gains of trade which can be beneficial to both the parties that is the country which exports its commodities to another country and the country which imports the commodities exported by the other country.

Rationalization of neomercantilist trade policies is possible when there is cooperation among the countries involved in international trade. Developing countries need to participate more vigorously in trade negotiations during trade agreements with mutual trust and confidence with other nations.