Trade is not zero-sum game

Introduction

“ Trade is not a zero-sum game, in which those who win do so at the costs of others; it is, or least it can be, a positive-sum game, in which everyone can be a winner.”

Joseph E. Stiglitz

In general, free trade is an instrument with the help of which countries can increase productivity of their resources, develop their specialization in a certain product, and therefore increase volume of production. Sovereign states and its separate regions can benefit enormously by producing goods in which they have an advantage, while exchanging them on the goods that they are not able to produce as effectively as the other countries do.

Indeed, trade is an engine of growth, but still we have to answer a lot of questions to understand whether trade liberalization is good for economic performance, and whether it will lead the developing countries to further economic development. We should look back to the history of trade, draw lessons from it, and answer the central questions. What is the basis for international division of labor? What are the factors that determine competitiveness of the country on international trade arena? Is trade liberalization harmful for the developing countries or not, and what is the best way for them to achieve an economic development?

Participation in international trade brings a lot of advantages to the developing world. It helps to join other countries in the development of science and technology, effectively use the resources, to provide the country with a wide range of products from the other countries, and to implement the structural changes in the economy in a short period of time. Can the developing countries do so in such short periods of time? It took decades and generations for the developed countries to build what they have now. Is their experience suitable for the rest of the world? Are they pushing the " good policies" in order to help the developing world, or they are simply " kicking away the ladder" in order to save their own wealth? Let us see the two main points of view on these questions…

Is trade liberalization good for economic performance?

We can differentiate two mainstreams in international economic relations – liberalism and protectionism. The first who developed theoretical and practical approaches of protectionism were mercantilists. Politics of high tariffs, restrictions of imports, and financial support of infant industries took place in XVI -XVIII in many now developed countries. During the politics of protectionism industries of many developed countries expanded, and Great Britain, France, Germany, USA and other developed countries took their leading positions in the market. In the XVIII century mercantilism was strongly criticized by Adam Smith, and later by David Ricardo. They believed that other countries achieved their highest level of development and prospered only when they took away all the barriers and applied politics of free trade. Before the WWI trade was already developing with a high speed. It was quite easy at that time due to stable currencies, relatively free move of capital and labor, and macroeconomic stability. Between WWI and WWII attempts to liberalize trade were not that successful, but after the World War II all the questions concerning trade liberalization appeared in the center of agenda, many international trade organizations emerged, and a lot of agreements were signed.

In our days countries are more and more involved into the free trade: developed countries obviously see the benefits from free trade for themselves and they are trying to implement different politics (“ good policies”, “ good institutions”, free markets) for developing countries in order to foster economic development. Economic literature has a variety of works written by different economists concerning positive and negative effects of international trade on economic growth. For example, Ha-Joon Chang in his book “ Kicking away the ladder” reviews the history of different now developed countries and argues that there are a lot of myths concerning the policies which were used by the governments of these countries on their way to economic growth. Especially, he mentions the economic policies of both Britain and the USA, which now seem to be really concerned about world free trade and opening markets. During different historical periods different instruments of protectionism were used by these countries: infant industry protection, export subsidies, export quality control by the state, tariff and nontariff barriers, etc. Looking back to different historical periods we can see that today’s developing countries are using protectionism much more less that developed countries did in the earlier times. For example, the World Bank argues that the average tariff on manufactures for developing countries is high enough, compared to the one industrialized countries used before, but the productivity gap increased which means that developing countries need to use much higher tariffs in order to promote economic growth for their industries.

As soon as the developed countries reached the necessary level of development they started using so called “ pulling-away exercises”. “ As soon as NDC’s reached the top, they used all kind of tactics to “ pull-away” from the follower countries. Policies deployed were, of course, different according to the political status of the latter-colonies, semi-independent countries bound by unequal treaties, and independent competitor countries. Britain was particularly aggressive in preventing development in the colonies.”(Ha-Joon Chang “ Kicking the ladder away”) One more important point arises from the history of institutional development. It took quite a long period of time for the developed countries to build their institutions, however now they are pushing developing countries to the “ global standards”, demanding reforms in 5-10 year period, which is not that real and actually maybe even harmful. Chang in his work also states that developing countries were growing economically much faster when they were using “ bad policies”, rather when they are using “ good policies” right now. Drawing lessons from history then we can assume that developed countries are simply trying to prevent further development of other countries and save their own prosperity.

There are a lot of arguments among the economists concerning the question of harm that free trade can bring for domestic industries. No doubt, it is good for consumers, because they are getting goods for lower prices, but domestic industries will lose their profits due to lower prices of imported goods. This can slow down further development of domestic industries, lead to deindustrialization and specialization mainly on raw materials in a long run; though in a short run it can increase currency earnings from exports, help pay debts and decrease deficits. The strategy of exporting and liberalization of trade is not always suitable for the countries with transition economy, because it may lead to further gap in life level (poverty) and technological progress. Indeed, it can be really harmful for the developing world to open up their markets without finding a right policy, suitable for their specific situation inside the country, but countries can benefit as well.

An example of USSR shows us that politics of active government intervention and dirigiste politics doesn't have a positive influence on economy as well; on the other hand we have an export oriented policy, policy of integration with the world economy of Japan and East Asia, which brought them to fast economic growth.

A lot of arguments in favor of free trade can also convince us that free trade can be an engine of economic growth and countries can benefit enormously. Joseph E. Stiglitz in his book " Making Globalization Work" brings us a lot of arguments of positive effects of free trade, especially for the developing world. It seems like right now we still haven't got all the benefits out of it, because different instruments of unfair trade are still being used by the developed countries.

Free trade maximizes competition, which leads to the increase of output, as a result prices fall down and this has a positive effect for consumers. Openness may lead to economical growth, reduce of poverty, increase of health and education level, liberalization of labor markets can bring huge remittances to developing countries; development of institutions in a short period of time and it can help close the gap in knowledge and resources between developed and developing world, by providing developing countries with more opportunities. In today’s globalizing world countries with a closed economy are under the risk to stay far behind the developed world, stay undeveloped.

Conclusion

To trade or not to trade is not a question any more – it is obvious that countries need to trade in order to promote their economic performance. The problem that we should be concerned about is how we can make trade fairer for everybody and whether these specific policies are suitable for every country. Of course, those countries whose industries are more developed are voting in favor of free markets, trade liberalization and lower tariff barriers in order to get rid of extra production and open new markets for themselves. We can actually make this work without harming infant industries of developing countries. Trade liberalization can have a positive effect as well as negative, especially for developing world and we should be concerned to maximize positive effect, and take the most out of it.

“ Allowing developing countries to adopt the policies and institutions that are more suitable to their stages of development and to other conditions they face will enable them to grow faster. This will benefit not only the developing countries, but also the developed countries in the long run, as it will increase the trade and investment opportunities available to the developed countries in the developing countries.” (Ha-Joon Chang “ Kicking away the ladder”)

Literature:

- Ha-Joon Chang “ Kicking Away the Ladder”

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- Ajit Singh “ Special and Differential Treatment. The Multilateral Trading System and Economic Development in the Twenty-first Century”
- Joseph E. Stiglitz “ Making Globalization Work”
- Moon “ The theoretical and Historical Origins of Trade Issues”