The historical development of international trade economics essay

International trade is a topic that has been around for a long time. The ITO was initially established to complement the International Monetary Fund (IMF) and the World Bank. Each organization has a different purpose; the IMF is responsible for international liquidity imbalances, the World Bank provides long-term funds for post-war reconstruction and the ITO would oversee international negotiations on trade, investments, cartels, commodity agreements, employment and economic development. These three organizations would complete the management system for economic affairs for the world (Moss, Appling and Archer, 1998).

A draft charter of the ITO otherwise called the Havana Charter was concluded in 1948. This charter established provisions for trade, investing, services, and business practices. However, it was not ratified by the United States. Also being negotiated in 1947 in Geneva, was an agreement to reduce tariffs on trade, this agreement became known as GATT and was enforces on January 1, 1948. GATT was expected to be an interim agreement. However, it was the only agreement governing international trade for nearly forty seven years and at the height of its existence it involved roughly 130 countries (Moss, Appling and Archer, 1998).

Over the course of the forty seven years various changes, enhancements, and provisions to GATT were added during periodic rounds of agreements to update its role in the global economy. However, in the eighth round, the Uruguay Round, of international talks and agreements on economic issues taken on by the GATT, it was determined that all changes prior to the Uruguay Round would be known as GATT 1947 and those negotiations otherwise called (Understandings) ending in 1994 would be known as GATT

1994 (Moss, Appling and Archer, 1998). GATT 1994 played an integral part of the agreement that established the WTO.

The World Trade Organization (WTO), established in 1995, was implemented to supervise and liberalize world trade, and superseded the General Agreement on Tariffs and Trade (GATT) created in 1947 (Moss, Appling and Archer, 1998). The WTO's primary objective is to ensure trade flows smoothly, freely, fairly and predictably as possible (What is the WTO, 2009). It has six principal functions: to set and enforce rules for international trade, to provide a forum for trade negotiations, to resolve trade disputes, to monitor national trade policy, to provide technical assistance and training for developing countries, and to cooperate with other international economic organizations. As of July 2008 the WTO's membership consisted of approximately 153 countries and accounts for 97% of world trade (What is the WTO, 2009). In conclusion " the World Trade Organization is the only international organization dealing with the global rules of trade between nations" (What is the WTO, 2009).

Trade Model Descriptions

The Specific factors model, Heckscher-Ohlin model and the Ricardian model of trade are three of the models used in international trade. The specific factors model suggests that labor between industries is possible; however, specific factors of production such as capital are not easily transferable between industries. The model assumes two countries producing two goods using labor as the only factor of production. Thus, the specific factors model explains why a country produces a product and also imports it. For instance, the US produces but also imports oil from the Middle East. The theory suggests that if one production item experiences an increase in price only those owners of that item will profit. Additionally, owners of opposing specific factors of production such as capital and labor are likely to have conflicting agendas when angling for controls over immigration of labor. In contrast, both capital and labor owners, profit from an increase in the capital endowment.

The Ricardian model of trade assumes two countries producing two goods using labor as the only factor of production. Goods are assumed identical across firms and countries. Labor is identical within a country but non-identical across countries. Goods can be transported at no cost between countries. Labor can be reallocated without cost between industries within a country but cannot move between countries. Labor is always entirely employed. Production technology differences exist across industries and across countries and are reflected in labor productivity parameters. The labor and goods markets are assumed to be perfectly competitive in both countries. Firms are assumed to maximize profit while consumers are assumed to maximize utility. The Ricardian model is a general equilibrium model; it describes a complete circular flow of money in exchange for goods and services.

In a Heckscher-Ohlin model both factors capital and labor are assumed to be mobile and the production technologies are identical in both countries. In production decisions, some factors are fixed and therefore specific in the short run, but all factors are variable inputs in the long run. Consequently, the HO model is a long-run model, whereas the specific factors model is a short run model in which capital and land inputs are fixed but labor is a variable input in production. In the Heckscher-Ohlin model, comparative advantages and trade are determined by international differences in factor endowments (the ratio of capital to labor).

Protectionism

Protectionism is defined as the policy of protecting domestic industries against foreign competition by means of tariffs, subsidies, import quotas, or other restrictions or handicaps placed on the imports of foreign competitors. Protectionism is expensive: it raises prices. The United States has had a long history of protectionism. The most popular protectionist measures are government-levied tariffs. These tariffs raise the price on an imported item to make it less appealing and therefore promoting the domestic product. Another means of protectionism is an import quota. These quotas set a limit on how much of a particular item can be imported into a country. Quotas are far more effective than tariffs, simply because some people are still willing to pay the higher price to have an imported product.

President Obama has re-generated protectionism for the United States. Most might think it’s a result of our economic climate and our unemployment rate, but it is more likely to further his agenda, with little regard for the unintended and potentially serious economic consequences. He is trying to stimulate the economy and persuade all American’s to “ Buy American”.

An example of one of the protectionism measures he implemented in September of 2009 was a 35% tariff on low cost tires imported from China. The tariff would be in effect for three years, declining to 30% and 25% over the last two years (Whoriskey and Kornblut, 2009). There are a number of examples that could be given in support of Obama's use of protectionism but I think the point was made.