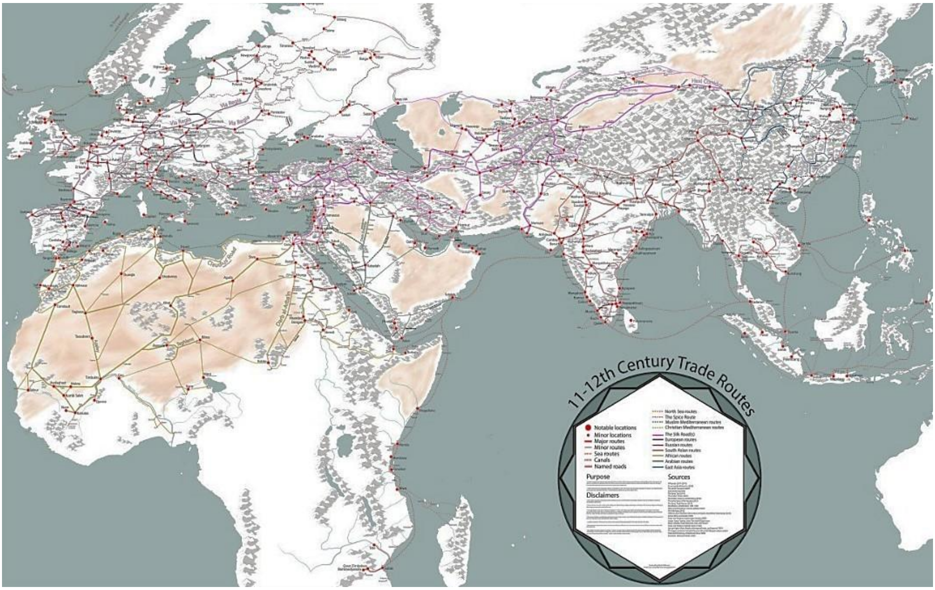


On (history of) TRADE, TARIFFS and the (Global) Economy

Feeling Europe FNDN, drafted 2020 and 2025 (because of Trump era's)

"tariffs are not the answer to a transforming global economy – they are rarely the answer to anything – they are the equivalent of shooting yourself in the foot to hurt the shoe salesman"

Cover:

a map of medieval trade routes

"*What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914! The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep.*

But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable.

The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalisation of which was nearly complete in practice."

John Maynard Keynes, The Economic Consequences of the Peace, 1919


NCH - DELICE
ALIMENTATION GENERALE
LIBRE SERVICE

INTRODUCTION

Voluntary exchange of goods, services, or both exists for many reasons:

- due to specialisation and division of labour, most people concentrate on a small aspect of production, trading for other products;
- exists between regions because different regions have a **comparative advantage** (**1**) in the production of some tradable commodity, or because different regions' size allows for the benefits of mass production. As such, trade at market prices between locations benefits both locations;
- trade in general contribute to prosperity.

Émeric Crucé (1590 – 1648) took the position that wars were the result of international misunderstanding and the domination of society by the warrior class, both of which could be reduced through commerce bringing people together.

Trading is important to the global economy: from the beginning of Greek civilization until the fall of the Roman empire in the 5th century, a financially lucrative trade brought valuable spice to Europe from the far east, including China. Roman commerce allowed their empire to flourish and endure. Their widespread empire produced a stable and secure transportation network that enabled the shipment of trade goods without fear of significant piracy.

The **EU** has free trade agreements (FTAs) with individual countries throughout the world. Beyond the usual Chapter providing for preferential tariff treatment, these agreements also often include clauses on trade facilitation and rule-making in areas such as investment, intellectual property, government procurement, technical standards and sanitary and phytosanity issues. The rules of origin applicable to a country's products are set out in an **Origin Protocol** attached to the specific agreement between the EU and the country concerned.

(1) In 1817, David Ricardo, James Mill and Robert Torrens showed that free trade might benefit in industrially weak as well the strong, in the famous **theory of comparative advantage**.

CONTENT

ABSTRACT

Trade is about economic prosperity, and also about culture, people and values. But contemporary trade agreements raise still questions as '*Do trade treaties deliver enough wealth*?', '*What are the effects on income distribution, the environment, working conditions, or geopolitical relations*?' '*Is there a nonzero-sum outcome*?' '*How to turn the value of a FTA into policy, involving regional and local effects*?' '*How can losers of international trade be compensated*?' *Can disruptions by globalization be solved through FTAs*?'

Paul de Grauwe wondered November 2016 '**How far should we push globalisation?**' and answered "*that as long as we do not keep in check the environmental costs generated by free trade agreements and as long as we do not compensate the losers of globalisation – or worse, continue to punish them for being losers – a moratorium on new free trade agreements should be announced. This is not an argument for a return to protectionism, it is an argument to stop the process of future trade liberalisation until we come to grips with the environmental costs and harmful redistributive effects of free trade. This implies introducing more effective controls on CO2 emissions, raising the income tax rates o the top income levels and strengthening social security systems in the industrialised countries*."

Dani Rodrik argued that the rewards of globalization can be realized only if it is not taken to an extreme. What he calls "maximum globalization" or "hyper globalization" can work only if *all* countries adopt the same set of rules that are overseen by an accountable global government. But this degree of integration is impossible and undesirable, he maintains: *nations have different preferences about the types of institutions and regulations they want. And they should be entitled to those preferences in order to make democratically accountable decisions within their borders*. Therefore his "**trilemma**":

- a nation can be democratic and sovereign, but then it cannot be hyper globalized;
- it can be hyper globalized and democratic, but then it would have to give up its national sovereignty to a global government;
- or it can be sovereign and hyper globalized, but it would have to abandon democratic accountability.

DEVELOPMENT of 150,000 YEARS of TRADING

Globalization is so well established in today's world that we don't think twice about where our bananas or socks come from. But long before fleets of container ships criss-crossed the world's oceans, camel caravans and single-sail cogs transported regional goods across the world, trade originated with the start of communication in prehistoric times.

Trading was the main facility of prehistoric people, who artered goods and services from each other when there was no such thing as the modern day currency.

Materials used for creating jewellery were traded with Egypt since 3000 BC. Long-range trade route first appeared in the 3rd millennium BC, when Sumerians in Mesopotamia traded with the Harappan civilization of the Indus Valley.

The Phoenicians were noted sea traders, travelling across the Mediterranean Sea, and as far north as Britain for sources of tin to manufacture bronze. For this purpose they established trading colonies which the Greeks called emporia.

Currency was introduced as standardised money to facilitate a wider exchange of goods and services. This first stage of currency, where metals were used to represent stored value, and symbols to represent commodities, formed the basis of free trade in the Fertile Crescent for over 1500 years. Numismatists have examples of coins from the earliest large-scale societies, although these were initially unmarked lumps of precious metal.

Ancient Sparta minted coins from iron to discourage its citizens from engaging in foreign trade. The system of commodity money in many instances evolved into a system of representative money.
In this system, the material that constitutes the money itself had very little intrinsic value, but none the less such money achieves significant market value through scarcity or controlled supply.

The fall of the Roman Empire, and the succeeding Dark Ages brought instability to Western Europe and a near collapse of the trade network. Nevertheless, some trade occur. For instance, a medieval guild or group Jewish merchants who traded between the Christians in Europe and the Muslims of the Near East.
From the 8th to the 11th century, the Vikings and Varangians traded as the sailed from and to Scandinavia. Vikings sailed to Western Europe, while Varangians to Russia.

Through the 11th and 12th centuries the world's trade networks centuries arose (image of medieval trade routes on the cover), which helped to connect kingdoms and merchants throughout Asia, Africa and Europe, and the **Hanseatic Leage** was an alliance of trading cities that maintained a trade monopoly over most of Northern Europe and the Baltic, between the 13th and 17th centuries. Vasco da Gama restarted the European Spice trade in 1498.

Prior to his sailing around Africa, the flow of spice into Europe was controlled by Islamic powers, especially Egypt. The spice trade was of major economic importance and helped spur the **Age of Exploration**. Spices brought to Europe from distant lands were some of the most valuable commodities for their weight, sometimes competing gold.

In the 16th century, Holland was the centre of free trade, imposing no exchange controls, and advocating the free movement of goods. Trade in the East Indies was dominated by Portugal in the 16th century, the Netherlands in the 17th century, and the British in the 18th century.

In the early 17th century, the **Dutch East India Company** (VOC) was founded, diversifying into multiple commercial and industrial activities such a international trade (especially intra-Asian trade). The company had an own army and warships to maintain or expand her position and, if necessary, to enforce trade with the local population. In the early years, the company plunged into expensive military campaigns to drive the Portuguese out of their Asian trading posts and keep other competitors at bay. In 1799, the VOC, formerly the world's largest company, became bankrupt, partly due to the rise of competitive free trade.

In 1776, **Adam Smith** published the paper '**An Inquiry into the Nature and Causes of the Wealth of Nations**'. It criticised Mercantilism, and argued that economic specialisation could benefit nations just as much as firms. Since the division of labour was restricted by the size of the market, he said that countries having access to larger markets would be able to divide labour more efficiently and thereby become more productive. Smith said that he considered all rationalisations of import and export controls "dupery", which hurt the trading nation at the expense of specific industries.

The ascendancy of free trade was primarily based on national advantage in the mid 19th century. That is, the calculation made was whether it was in any particular country's self-interest to open its border to imports.

John Stuart Mill (1806-1873) proved that a country with monopoly pricing power on the international market could manipulate the terms of trade through maintaining tariffs and that the response to this might be reciprocity in trade policy.

David Ricardo and others had suggested this earlier. This was taken as evidence against the universal doctrine of free trade, as it was believed that more of the economic surplus of trade would accrue to a country following reciprocal, rather than completely free, trade policies. This was followed within a few years by the infant industry scenario developed by Mill anticipated New Trade Theory by promoting the theory that government had the "duty' to protect young industries, although only for a time necessary for them to develop full capacity.

During **The Great Depression** there was a great drop in trade and other economic indicators. The lack of free trade was considered by many as a principal cause of the depression causing stagnation and inflation. In 1944, 44 countries signed the **Bretton Woods Agreement**, intended to prevent national trade barriers, to avoid depressions. It set up rules and institutions to regulate the international political economy: the **IMF** and the **IBRD** (later divided into the **World Bank** and **BIS**). In 1947, 23 countries agreed to the **GATT** (at present **WTO**), to promote free trade.

Free trade advanced further in the late 20th century and early 2000s:

- 1992 European Union lifted barriers to internal trade in goods and labour;
- January 1, 1994 **NAFTA** took effect but was terminated on June 30, 2020 and replaced on July 1, 2020 by the United Sates – Mexico – Canada Agreement (**USMCA**);
- 1994, the **GATT** Marrakech Agreement specified formation of the WTO;
- January 1, 1995 **WTO** was created to facilitate free trade, by mandating mutual most favoured nation trading status between all signatories;
- EC was transformed into the European Union, which accomplished the Economic and Monetary Union (EMU) in 2002, through introducing the Euro, and creating this way a real single market between 13 member states as of January 1, 2007;
- 2005, the Central American Free Trade Agreement was signed; it includes the United States and the Dominican Republic.

Seeking to promote greater equity in international trading, partnerships started from the 1940s and 1950s by religious groups and NGO's. Today, the "**fair trade**" **movement**, also known as the "trade justice" movement, promotes the use of labour, environmental and social standards for the production of commodities, particularly those exported from the Third and Second Worlds to the First World.

FREE TRADE AGREEMENTS (FTAs)

Trade in general contributes to prosperity and has become increasingly important as a form of globalization. But not all FTAs have such effect, they also work inequality in the hand:

TTIP (Transatlantic Trade and Investment Partnership), a proposed trade agreement between the E.U. and the U.S. Negotiations were halted by President Trump, who then initiated a trade conflict with the EU. Proponents argue that the (envisaged) agreement would drive economic growth, while opponents argue that the agreement would further increase the power of large companies and make it difficult for governments to regulate markets in the interest of the country.

On April 15, 2019, the negotiations have been declared "obsolete and no longer relevant" by the European Commission.

MERCOSUR (Southern Common Market) and **CETA** (Comprehensive Economic and Trade Agreement) has become questionable: the current sustainable provisions in trade contracts are not bearing enough fruit. MERCOSUR aims to improve market access for European service providers and products, to promote harmonization of plant and animal health standards and to confirm international agreements on climate and labour standards. There's no pressure to force the South American countries to sustainable production methods. As a result, there are justified and unjustified concerns about the competitiveness of European farmers and the protection of the environment and the rainforest in South America.

WORLD TRADE ORGANIZATION (WTO)

The WTO is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to ensure that trade flows as smoothly, predictably and freely as possible.

The Doha round of WTO negotiations aims to lower barriers to trade around the world, with a focus on making trade fairer for developing countries. Talks have been hung over a divide between the rich, developed countries and the major developing countries (represented by the G20). Agricultural subsidies are the most significant issue upon which agreement has been hardest to negotiate. By contrast, there was much agreement on trade facilitation and capacity building.

But what about '**Truths about Trade**'? The speech of September 2019 by EU Trade Commissioner Cecilia Malmström let us know that "not a lot of progress has been made at the WTO in recent years. This has led to some losing faith in it – whilst others take it for granted or disregard its rules.

But it is the system that has underpinned trade for decades. It is like oxygen – you would not notice it until it is gone, and then you are in serious trouble.

The end of the WTO would be the end of predictability in international trade. Businesses could not rely on exports as they once did – trade would become chaotic, unstable. Our trade policy, our economies and global value chains at large would reconfigure – and not always in the most efficient or desirable ways.

The WTO is crucial to the functioning of global trade, but is also out of date. We must update rules to tackle issues like illegal state subsidies. This would bring fairness back to the heart of global trade. We must also resolve the Appellate Body crisis. The **Appellate Body** brings discussion of the rules out of capitals to neutral ground – avoiding tit—for-tat tariffs and the escalation of trade tensions.

These are some of the immediate issues the WTO faces. In parallel, we need to work to show the organisation can still deliver. For example, in digital rulemaking. We are pleased that after years of attempts, we are finally seeing some progress. The WTO negotiations on e-commerce were launched in Davos with 80 countries in January 2019. Proving the organisation can tackle 21st century issues helps demonstrate its value – but a important as the content is, the style of negotiation itself is crucial. We have gathered a smaller group o interested countries to move forward.

The EU has presented proposals on these issues and more. Other countries have too – this is good, it shows appetite for change. But we need broad buy in:

- from countries;
- from business;
- from all who have an interest in international trade.

Reforming and rebuilding faith in the WTO is a big task, and we will need all the allies we can get.

So, now we have touched on a few of the broad misconceptions about trade: From tariffs to surpluses, benefits to environmental impacts. And we have seen that things are not as simple as they seem. Life would be easier if we could simply follow our gut instincts. But society and policy are more complex than that.

The best that we can do is hold on to our values – what we believe to be good and right – but always be ready to challenge received ideas through rigorous research and understanding. This is how truth will prevail in the end. This is how we move forward."

The EU and TRADE

The European Commission, Trade and Economic Security writes about **EU's position in world trade**:

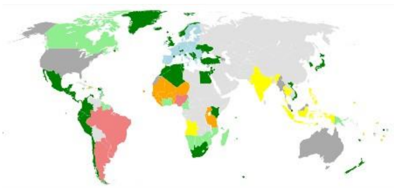
"The EU is in prime position when it comes to global trade. The openness of the trade regime has meant that the EU is the biggest player on the global trading scene and remains a good region to do business with.

The EU:

- has 44 million consumers looking for quality goods;
- Is the world's largest single market, with transparent rules and regulations;
- has a secure legal investment framework that is among the most open in the world;
- is the most open market to developing countries in the world;
- is the largest economy in the world;
- is the world's largest trading bloc;
- ranks first in both inbound and outbound international investments;
- is the top trading partner for 80 countries (the US for a little over 20 countries;
- is the most open to developing countries. Fuels excluded, the EU imports more from developing countries than the USA, Canada, Japan and China put together.

The EU has achieved this strong position by acting together with one voice on the global stage, rather than with separate trade strategies.

EU Trade agreements 2024 ->



Good for investors, who thrive in a stable, sound and predictable environment and looking or investment barriers to be dismantled and investments to be protected.

However, there remain difficult areas for negotiation:

- **Agriculture**: in this sector there are three main issues: subsidies, product controls and tariffs;

- **Culture**: the EU has rules to protect the audio-visual sector from non-EU takeovers and to allow public subsidies; this exemption from usual EU rules is in particular valued by France where it is seen as a safeguard against the French film industry being taken over by Hollywood;

- **Civil aircraft**: the granting of subsidies to manufacturers of large civil aircraft in the US and the EU was governed from 1992 to 2004 by a bilateral agreement which reflected the fact that Boeing (USA) and Airbus (EU) are the two largest manufacturers of civil aircraft in the world. The US decided to withdraw from this agreement in 2004 and refer the matter to the WTO which ruled that both parties had broken the rules on subsidies. Discussions continued as the EU adopted counter-measures against the US in 2012;

- **Defence**: defence equipment is a contentious area in international trade and particularly so for the US and the EU because they are the world's key centres of design and manufacture of such goods. The US Congress has in the past been inclined to favour a buy US policy in this field and several EU Member States are ken to protect their national defence industrial sector from US competition;

- **Services**: negotiation better access for services (both ways) will be challenging, as barriers to services generally involve behind the-border regulatory issues. In the EU, some of these concern regulation that has not yet been harmonised via the Single Market. In the US, they conclude regulation at both federal and sub-federal level, with all the complications of securing agreement from independent federal regulatory agencies, on the one hand, and individual US states, on the other. And services include some contentious sectorial issues, among them widening transatlantic differences in financial services regulation;

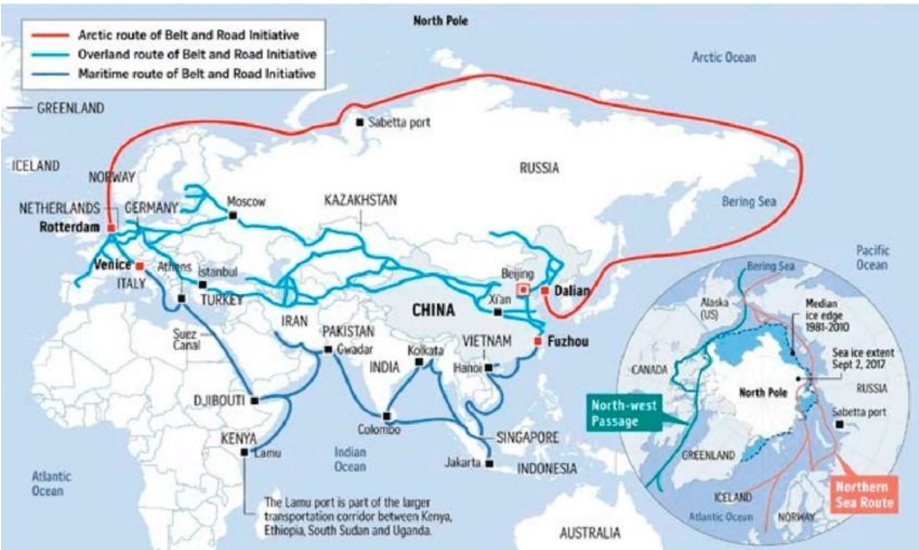
- **Other obstacles**: the financial transactions tax, air services, coastal shipping, the EU's data protection rules and inward investment being frustrated by national rules.

EU_US

There are some significant cultural differences between the EU and the US, for example over labour and consumer rights, that provoke dispute. The question of metric labelling is also an issue; US federal law currently prohibits metric only labelling and requires both metric and US customary weights (similar to but not the same as UK imperial measures). This led the EU in 2009 to adopt a measure allowing supplementary labelling with non-metric measures in order to help companies exporting to the US (and the UK too). Differences over environmental standards also form an obstacle to agreement.

CHINA

Beginning around 1978, the government of the People's Republic of China (PRC) began an experiment in economic reform. Previously, the Communist nation had employed the Soviet-style centrally planned economy, with limited results. They would now utilise a more market-oriented economy, particularly in the so-called Special Economic Zones located in the Guangdong, Fujian, and Hainan. This reform has been spectacularly successful. By 2004, the GDP of the nation has quadrupled since 1978 and foreign trade exceeded $1 trillion US.



As of 2005, China had become the 3rd largest exporter behind Germany and the US. This occurred in spite of the backlash from the shootings following Tiananmen Square protests of 1989. The PRC maintains a $29 billion trade surplus, and is rapidly becoming a leader in industrial manufacturing. In 1991 the PRC joined the **Asia Pacific Economic Cooperation** group (APEC), a free-trade organisation.

More recently, in 2001 they also joined the World Trade Organization. And in 2015, with a decade of unprecedented economic growth, China is now entering a new era of economic, social and political development, impacted by its new position as the world's second largest economy, with booming middle class population but crippling environmental concerns. The **Belt and Road Initiative** should strengthen PRC's position. The intention to build a "Polar Silk Road have stalled or failed.

TRADE TARIFFS, EXPORT SUBSIDIES, TRADE WARS

As already noted at the outset, leading economists have argued for free trade above protectionism that is advocated by nationalistic politics. The lack of free trade considered by many as a principal cause of the **The Great Depression**, causing stagnation and inflation. Keynes believed that free trade could exacerbate domestic unemployment and economic imbalances and argued for the use of tariffs and trade protections to safeguard national industries, preserve employment, and promote the balance of trade.

Today, (bilateral) trade deficits are being used as an argument to justify import tariffs to benefit national interest and, in this way, to pressure third parties by rulers, who have set themselves the task of reforming the world as they see it.

In general, however, the tariffs create a deficit on the current account of the balance of payments and have far-reaching implications for international trade flows, despite negative effects with export subsidies are (partly) scaled down.

What are the structural consequences for the economy? Should you take countermeasures against imposed trade tariffs or not?

Economic statistical reports focused 3 scenarios (Dutch):

1. Import tariffs without reaction from other countries:

   When import tariffs are increased, imports decrease. The government's financing balance improves as a percentage of GDP, thanks to the proceeds from import tariffs. As a result, government debt decreases percentage points of GDP. Consumers lose significantly. The unemployment rate also increases. The foreign position improves, one of the few bright spots in this scenario, as is evident from the improvement in the current account of the balance of payments.

2. Import tariffs with a reaction from other countries:

   If foreign trading partners also impose tariffs on imports, the negative effects on the economy become considerably worse: GDP is reduced, imports and exports fall, hardly any change in the balance of the current account of the balance of payments, the price level of private consumption rises considerably and unemployment increases.

3. Import tariffs with a response and export subsidies:

   If a government decides to stimulate the declining exports by means of export subsidies, this helps to keep the exports somewhat at the same level, which also has a positive effect on the current account of the balance of payments. The decline in GDP remains within limits and the increase in unemployment is considerably smaller. As a result of the additional expenditure, the government debt increases as a percentage of GDP.

When an economic conflict arises from extreme protectionism where states raise or create tariffs or other trade barriers against each other in response to trade barriers created by the other party, it can cause a trade war, resulting in a number of economic crises.

BIOGRAPHY

Erik van der Kooij is director Feeling EUROPE FNDN, which takes action for Europe. He lives and studied in the Netherlands and worked for decades in various professions and branches at financial institutions, mainly in the operational control sector.

Crumbling moral values and norms, led Erik in 2004 to look for a counterpoint to get ideas, resulting in a network to contribute to development of societies.

Knowledge and understanding of various departments of learning, science and art was acquired through formal and informal education, as well as through worldwide acquired experiences in the areas of policies, technology, politics, business, and media, humanism, capitalism, the role and future of Europe.

Occasionally, positions are disseminated and sometimes there is media attention.

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