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International trade policies: An evolutionary perspective

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Abctract. Cross-border trade has had a long history. It has enriched the lives of trading partners since the rise of ancient civilizations although it was the cause of some conflicts and even wars among trading partners; and between empires, colonies, and nation-states. It has increased cooperation due to harmony of interest between buyers and sellers, but occasionally has intensified rivalry, power-playing, destructive hegemonic impulses and cut- throat competition among neighbors. However, the fact that it has grown steadily through the centuries indicates that its impact on trading partners, near or distant, has been more positive than negative. One indicator of its growth, particularly in recent centuries and decades, is its size as a percentage of total world output. For example, exports, which constituted less than 5% of world GDP until the 1870s, grew to over 17% of world GDP by 1998, according to the World Bank, OECD, and WTO. This paper explores the rise of trade and changes in trade policies from the time of ancient civilizations to the present. It also examines some old and some recent trade disputes/wars. It adds to the literature by providing an overview of the foreign trade environment as well as trade patterns from different perspectives, particularly the perspectives of high versus low wage countries, the North versus the South.

Keywords. Free trade, Mercantilism, Protectionism, Balance of trade, Tariffs, WTO, Trade war.

JEL. F10, F11, F13.

1. Introduction

Trade has grown and become an engine of economic and social change in all societies for thousands of years. However, it has not been equally beneficial to all trading partners. It has benefited some more than others, and it has harmed some more than others; hence, the periodic rise of trade disputes and trade wars that frequently cause more harm than good to all concerned parties (Teeboom, 2018; Hankia, 2018; Krugman, 2018; Stewart, 2018). Conflicts often arise when trade is seen as a zero-sum game rather than a non-zero-sum game in which all players can potentially gain. Focusing on individual companies, Cavusgil (1993) indicates that trade in the age of globalization "threatens those players that confine themselves to a narrow set of opportunities and it rewards those that can envision and operate in a larger space. Those enterprises that learn to

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operate in a more complex, uncertain environment are more likely to succeed".

2. Early trade practices

Commodities and hand-made items, needed for survival or for the betterment of the quality of life, have been traded since ancient times between cities and towns; tribal jurisdictions; empires; and, in the modern history, between nations. Animals, like horses and camels were used during ancient history to carry goods across forests and disserts, and small boats were used to carry goods across bays and along rivers. Relatively safe and efficient trade routes were discovered and used regularly. For example, the electronic newsletter, History of Trade [Retrieved from] indicates that "caravan routes of the Middle East and the Mediterranean have provided the world's oldest trading system, ferrying goods to and fro between civilizations from India to Phoenicia …at the same time a maritime link… open(ed) between India and China".

Barter was used in early trade and, to a small extent, it is still being used, nowadays, in some trade transactions (Beattie, 2018; Oppenheimer, 2012), but the invention of money, which goes back to the times of the early Mesopotamian and Egyptian civilizations, has revolutionized and facilitated trade practices. Money, in its various forms, has made it possible for traders, who have things to sell, to decide when it would be best for them to conduct their business. It has also made possible for buyers to decide when and from where to buy what they needed. Gradual improvements in the safety of trade routes have also improved the conduct of trade through wider distances. The Chinese "silk road" that facilitated the movement of goods between China, the Middle East and Europe in ancient times, for instance, gained in "importance and popularity in the second century after the Han Dynasty managed to make it safer from attacks by nomadic tribes" that disrupted the flow of trade for hundreds of years (Merlinlinehan,2013; and Historyplex, 2017).

As trade became more common, it was inevitable for it to attract the attention of rulers and monarchs who needed new sources of revenue for their armies, or for purchasing and storing commodities and crops for rainy days or lean years. Thus, subsidies, tariffs, quotas, along with currency and other regulations that did not necessarily please either buyers or sellers were increasingly imposed (Abdul-Hye, 2017). Eventually, as governments continued to interfere with the flow of trade, "trade became an arm of governmental policy", as the World Encyclopedia of Law indicates [Retrieved from].

3. Mercantilism and Colonialism

Historians often associate mercantilism, which is a protectionist system that necessitates governmental interference in the economy and trade (Abdul-Hye, 2017), and the early wave of European colonialism that spread

European dominance and control over faraway nations and their resources. The European powers' colonization of large territories throughout the world is, thus, seen as a part of their effort to increase their presence and influence beyond the European Continent, and specifically establish control over new sources of power and raw materials. Todaro & Smith (2009), for example, observe that the colonial systems and the trading companies that they created, like the Dutch East India company and its British counter-part facilitated the "exploitation of human and other resources for the benefit of the colonizing elite". The colonies also served as markets for the colonial masters to sell their manufactures.

Although mercantilism in its original form was eventually abandoned by one nation after another, particularly after Adam Smith in 1776 published his famous book, the Wealth of Nations, in which he convincingly advocated specialization among nations, less control by governments over the economy, and free trade (Walter, n.d.), colonial rule often persisted, particularly in Africa. In some areas, it has persisted beyond the mid-twentieth century. In many cases, the European masters wanted to maintain their influence and continue to protect their economic interests – trade and investments. Even after some colonies eventually got their political independence, they continued their close economic ties and trade links with their former colonial masters in what some, rightly or wrongly, started to be called a phase of "neo-colonialism".

4. The first wave of globalization and the return of Protectionism

The trade liberalization period that followed Adam Smith's advocacy of free trade is often referred to as the first wave of globalization. Although such trade liberalization led to an increase in trade in many parts of Europe and elsewhere, world trade as a percentage of world output remained small until the 20th century. As Table I indicates, exports continued to constitute less than 5% of world output until the 1870s.

Table 1. *Exports as a Percent of World GDP*

Year	Percent of GDP
1870	4.6
1913	7.9
1950	5.7
1973	10.5
1989	17.0
1993	17.1
1998	17.2

Sources: World Bank, OECD, and WTO

Political tensions that persisted after WWI, and the rise of isolationist political leaders caused a major retreat from globalization (trade liberalization policies) as tariff walls were raised in the United States and other nations (Estevadeordal *et al.,* 2002). As Krueger (2006) indicates, "the

1930s were characterized by rising trade barriers" that caused trade to stagnate. For example, in the United States, the anti-trade Smoot-Hawley Act was passed in 1932. It significantly raised the average import tariffs and resulted in a sharp decrease in both imports and exports. According to Miller (2018) and other scholars, Smoot-Hawley may have even elongated and intensified the remaining effects of the Great Depression of 1929.

5. Return to trade liberalization after WWII

Realizing the negative consequences of the economic stagnation that resulted from the post-WWI trade restrictions, WWII winners, led by the United States, adopted new trade liberalization policies, signed agreements (mainly the General Agreement on Tariffs and Trade – GATT) to gradually lower trade barriers, and created new institutions like the World Bank and the International Monetary Fund (IMF for post-war reconstruction and development. and to stabilize the world financial system enhance reconstruction and development as well as stabilize the world's financial system. In effect, those agreements and institutions have created a new world economic order that, by and large, has elevated the economies of most trading nations.

As a result of the staged trade and investment liberalization measures that many nations have undertaken over the last few decades as well as the advances in information/ communication technology, the world economy has become far more integrated than ever. By 2011, world exports have reached $18 trillion, and trillions of dollars have been invested by multinational corporations all over the world, creating global supply chains and global brands, according to the World Bank and the World Trade Organization (2013). Multinational corporations have, in fact, helped, to some degree, in the re-distribution of world manufacturing capacity and related activities.

Although this level of globalization is recognized by its supporters as an indicator of a 21st century reality that globalization is here to stay and that the world has become borderless as far as economic and business activities are concerned, some scholars observe that the extent of cross-border business activities and the level of global economic integration are still limited and highly exaggerated. For example, in a column in the Washington Post, Steven Altman (2019) indicates that the high level of exports attained until the present time still constitutes only 20 percent of world economic output. He also points out that only "9 percent of global output comes from the foreign operations of multinational firms….Trade, capital, information and people flows are still dampened significantly by distance".

5.1. Benefits of exporting

Most nations take pride in having some competitive advantage in producing products that are needed, demanded, and can be sold in foreign markets. Thus, an examination of the positive outcomes of exporting reveals such benefits as:

- Earning additional revenues (beyond those earned from domestic markets)
- Diversifying sources of revenue
- Earning foreign exchange
- Creating export-related jobs and industries
- Taking advantage of abundant natural resources, which otherwise would not be fully exploited
- Taking advantage of under-utilized production capacities
- Maximizing the benefits of R&D by marketing patented products in other markets
- Extending the life-cycle of products that have reached their maturity stages, or are stagnating in the domestic market
- Impacting the cultures, economies, and life styles in other markets, which help in sustaining future demand

5.2. Benefits of importing

Imports bring about many benefits to consumers and the economy at large, including:

- Lowering prices for consumers by increasing supplies and competition
- Motivating domestic producers to improve the quality of their products to remain competitive
- Providing domestic industries with raw materials and intermediate products for making finished products and, possibly, increasing exports
- Infusing new technologies and innovations
- Obtaining products, in which other nations have a greater comparative advantage
- Improving the consumer's quality of life
- Allowing the nation to specialize in the production of what it can produce more efficiently
- Reducing market shortages that result from natural disasters, wars or other unusual circumstances
- Supplementing or complementing domestic production

5.3. Risks and problems with import dependence

A limited domestic production capacity often leads to high import dependence that may have long term political, financial, and economic consequences, such as:

- Possible supply interruption due to political disagreements or wars
- Inability to control quality
- Logistical delays
- The risk of the exporting nations using trade as an instrument of foreign policy
- Exchange rate fluctuations
- Export controls imposed by other countries

- Balances of trade and payments issues
- National security concerns
- Price shocks due to unanticipated global supply shortages
- Increased uncertainty in making long term plans

5.4. Risks and problems with export dependence

As already indicated, exporting is a highly desirable activity, particularly in the age of globalization. However, excessive export dependence may create some challenging consequences that, at times, exceed the benefits or make them less appealing, such as:

- Increased risks and uncertainties due to operating in a more dynamic and complex competitive environment
- Possibility of sudden foreign market shifts or a decline in demand due to changes in regimes and political ideologies, balances of payments and trade deficits, foreign policy disputes, economic difficulties, wars, etc.
- Having to develop more elaborate operational and marketing strategies to comply with diverse/increasingly complex foreign market regulations
- Having a high degree of exposure to sharp foreign exchange rate fluctuations that affect profitability both in the short and long terms
- Having to comply with different, and increasingly challenging, health and environmental protection regulations in every foreign market entered
- Establishing and maintaining the infrastructure needed to handle complex marketing logistics
- Adapting to conditions and practices in every market entered short of violating home country laws and company ethics code
- Adapting products, as well as pricing and advertising strategies, to foreign economic and market conditions
- Complying with international sanctions and "country of origin" regulations

5.5. Trade Wars

Among the aims of the World Trade Organization (WTO) that succeeded GATT in 1995 are: (1) Continuing to seek the lowering of tariffs and other trade barriers through a series of negotiations (trade negotiation rounds), (2) helping in the resolution of trade disputes among member nations, and (3) monitoring trade policies and transactions to help in the elimination of unfair trade practices. A presumption behind seeking WTO membership is that all members would cooperate to lower trade barriers and abstain from engaging in unfair trade practices. Yet, this commitment is violated by some governments from time to time. Sometimes, governments increase, rather than lower, trade barriers like tariffs in the name of national security or the national interest. Other trade distorting actions are also taken by some governments, causing trading partners to take retaliatory actions of their own. This is how the seeds of trade wars are planted. Figure I shows some of the trade wars that have impacted the flow trade for varying periods of time from 1886 to 2009.

Table 2. *Trade Wars/Skirmishes (1886-2009)*

Name	Countries directly involved	Duration in Years
Franco-Italian Trade War	Italy and France	1886-1895
Canadian- American Trade Wars	Canada and The United States	1866-1916
The Hawly-Smoot Trade War	U.S., Switzerland, France, Italy, Spain, Canada	1932-1934
The Anglo-Irish Trade War	U.K. and Ireland	1932-1935
The Chicken Trade War	U.S. and the European Union	1962-1963
The U.S.-Japan Trade Skirmishes	U.S. and Japan	The 1970s and the 1980s
The Banana Trade War	U.S. and the European Union	1993-2009

Sources: Stewart, 2008. [Retrieved from].

Concerned about the loss of manufacturing jobs due to the movement of plants to low wage countries, the persistent trade deficit, the infringement on intellectual property rights, and the decline of production capacity in some strategic industries like steel and aluminum, the U.S. Administration started in 2017 to reverse a 70- year pattern, in U.S trade relations- of lowering trade barriers and promoting globalization of trade and investment. The actions taken primarily involved raising tariffs on imported steel and aluminum, as well as on selected imports from China. The U.S. Administration used the threat to national security to justify taking such steps, and threatened further increases in tariffs if new negotiations with the affected countries do not succeed. Some observers see in those steps, not only the beginning of a de-globalization trend, but also the start of a new trade war since the affected countries immediately have retaliated by raising their import tariffs on selected American-made products. Negotiations have been initiated, however, to avoid the negative consequences of an escalating and elongated trade war that could damage the world economy and lead to world-wide recession.

Economists largely agree that elongated trade wars create more losers than winners among the countries involved (Evans, 2018; Market Watch, May 4, 2018). As historic experiences indicate, trade wars stagnate or slow the flow of trade, slowdown economic growth, increase consumer prices, reduce consumer choices, and cause a reduction in efficiency and innovation. As Orlik (2018) explains in a Bloomberg Businessweek report, "higher import costs (due to increased tariffs) drive up inflation, squeezing the purchasing power of households and dragging consumption down".

5.6. Changes in North-South, and South-South trade patterns

Until the 20th centuries, most world merchandize trade took place among the more industrialized/developed economies of the North (mainly Europe and North America). Industrialized countries imported only low-priced raw materials (primary goods) from the developing countries (the South), and sold them manufactured products at continually rising prices (SUNY's Levin Institute, 2016). In fact, South-South trade (i.e. between developing countries) was a small fraction of world trade, until the rise of China and its becoming the largest world exporter in the last few decades.

As Shishir Priyadarshi (2015) of the World Trade Organization indicates, developing country exports to the North, and to some countries in the South, have risen substantially in the last few decades. They accounted for close to 50% of world merchandise exports in 2014, thanks mainly to the impressive rise of China, which almost tripled its share of world exports between 2000 and 2012, and, to a lesser extent, the increased production and trade capacities of the other emerging economies (The BRICS). Generally, changes in the world economy and business environment, like the increased flow of foreign direct investment (FDI), particularly since the mid-20th century, the dramatic progress in information/communication technology, and the improvement in some developing countries' governance and human capital have helped in changing the old trade pattern between the North and the South. Despite the progress achieved by some countries in the South, however, the gap between the North and the South in industrial, technological, and financial capabilities is still quite wide, and, in some cases, it is even getting wider.

Because most of the developing countries' trade has traditionally been conducted with the industrialized countries (the North), many agreements have been negotiated, over the last few decades, between countries in the South to increase the South-South trade volume. In the meantime, the South continue to call for gaining a greater access to the economies of the North, through such measures as the elimination of agricultural subsidies and other import barriers that WTO has not yet agreed upon. From the perspective of some countries in the North, however, the change in the kind of products traded and in trade patterns, for the last several decades, has not been entirely in their favor. Thus, some countries in the North, have begun to call for reforming WTO, and for greater tightening of bilateral and multilateral trade cooperation agreements; hence, the fear that the world may end up going through a new phase of de-globalization.

6. Conclusion

Trade is an important part of the world economy. As it grew in size and importance through the centuries, it started to attract the attention of monarchs, heads of governments, and governmental regulators who saw it as an attractive source of revenue, and eventually started to use it as an instrument of public and foreign policies. Nowadays, it is used to reward friends and is withheld to punish enemies. At times, it is used as a part of power-playing among strategic competitors. The tools of trade policy that include tariff and non-tariff barriers, quotas, subsidies, export/ import licensing, trade boycotts, trade sanctions, dumping, country of origin restrictions, low interest/concessionary financing, high technical specifications, among others, reflect the power that sovereign governments have given themselves to influence the flow of trade. Despite the unprecedented reduction of trade barriers, under GATT/WTO since the end of WWII, trade in some sectors is still subjected to restrictions under the guise of the need to protect domestic jobs and national security, or to ensure the survival of selected strategic industries. Talks within WTO (The Doha Round) for new reductions in some remaining products have been deadlocked for a number of years. Some bilateral trade negotiations, outside the WTO framework, however, continue to show promise, like those taking place in 2019 between Japan and the European Union to further lower import barriers on a large percentage of each other's products.

Trade policies in the second decade of the 21st century reflects a division in the world community about dealing with the unintended consequences of unrestricted movement of goods, services, and factors of production. Sometimes, globalization, as we know it, is blamed in some high-wage countries for the movement of some manufacturing activities and manufacturing jobs to low-wage countries, instead of creating new ones. The result, according to some observers in those old industrialized countries, is the loss of some manufacturing capacity, manufacturing organizations, and jobs, to the detriment of the economic structures in the old industrialized/rich countries (Mayeda & Baschuk, 2018). From the perspective of lower-wage countries, including the newly industrialized one, globalization, and the changes in the pattern of trade have been long overdue, and globalization is just marking the arrival of a new global order, i.e. a new global industrial division of labor.

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