

Simon Johnson: One Page Summary

15.223, class #6: The Politics of Trade

The international economic system and our market-based economies operate ostensibly on the principle of “free trade.” And there is a huge difference between how the US-centric part of the world organized its transactions after 1945 and what happened in the Soviet bloc. The latter had a substantial degree of central planning, including for foreign trade; this was not a great success.

At the same time, governments in market economies want to create and maintain good jobs – meaning with specialized skills and paying relatively high wages. Industries that are capital- and technology-intensive tend to have higher productivity and therefore to be further up the economic development “ladder”. Pursuing these sectors and focusing on developing good jobs is exactly what has propelled Singapore to the top.

Aircraft production is a good example of a sector that requires a great deal of capital and should generate good jobs both in final assembly and all related suppliers. Aircraft also have an important strategic role, although the edge there may lie more with whoever has the more advanced technology applied to military purposes.

The US has more nuclear powered aircraft carrier groups than the rest of the world put together. Does this give the US a long-lasting military edge – or is it vulnerable to disruptive military technologies? Does a large navy – or other dimensions of military superiority – create any kind of lasting economic advantage? Does trade policy also have a defense dimension?

The WTO administers a set of rules that are designed to stop countries from cheating on their commitments to free trade, either by keeping out imports (e.g., non-tariff barriers) or by subsidizing exports.

The appealing aspect of how the WTO operates is that even a small country can take on – and win against -- a big country for violation of the rules. There is an important issue about the scale of the punishment that can be meted out, including the issue of who really pays when – for example – Canada restricts imports from Brazil in “punitive countermeasures”.

But the court of international public opinion does matter and the WTO offers a framework that pushes countries to work out their differences in an amicable manner. Avoiding trade wars is a sensible goal; this was a big part of what went wrong in the 1930s.

Of course, all of this just pulls government more deeply into the business of business. Most “pro-market” lobbyists in Washington are very focused on what exactly the government can and should do for their companies.

The Canadians provided support to aircraft development initially through state-run Canadair but then more successfully through Technology Partnerships Canada (TPC, a form of R&D assistance). They also used the Canada Account and Export Development Canada. Military contracts, e.g., maintenance and training, were also helpful.

Brazil’s Embraer faced very high market interest rates – due the history of inflation and depreciation in that country. PROEX provided export financing at below market rates – with the goal of supporting technology development and jobs in Brazil.

Dispute resolution panels help establish the facts – e.g., the relative value of PROEX vs. TPC. The WTO framework helps press countries to reach an amicable agreement limiting subsidies.

MIT OpenCourseWare
<http://ocw.mit.edu>

15.223 Global Markets, National Politics and the Competitive Advantage of Firms
Fall 2011

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.