

Strategic Trade and protectionism Theories and Empirics
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Lecture – 05
Introduction to Trade Theories: What Why and for Whom?

Good morning, welcome once again to this module of NPTEL; where we are going to discuss many things on Introduction to Trade Theories. We are now on the 5th lecture of first week, where we are suppose to understand further clarity is on theory chaptered and clear introduction it as well.

While we discuss the introduction to trade theory its our I know steps to understand what why and for whom trade. This is very very important to derive through theories. So, in order to understand trade theory is we must actually try to capture some of the basic background of statistics, which we discussed in the last two lectures within another 2 3 minutes.

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The slide is titled "Trade Patterns" and contains the following bullet points:

- Late 1800s: Relatively high due to rise in world trade
- Between 1890 and 1950: Less open to world trade
- Post World War II: Increasing openness due to technological advances and reduction in barriers
- Relative importance of international trade has increased by 50 percent during the past century
- Shift in trade patterns
 - From raw materials and agricultural products (1890s) to manufactured goods and services (today)

Handwritten annotations in red ink include: "Indian 1970s" with an arrow pointing to the "1890s" in the last bullet point, and a circle around "1890s".

We are supposed to understand another history to do trade patterns. Late 1800 century, where we are if we just try to observe the trade patterns of over the history, till the late 1800; it was relatively you know high rise in all trade. Till the 1800 we observe there was evidences their, where evidences of high rise in trade. Whereas between in 1890 and 1950 due to know many cycles and trade and many macroeconomic cycles, actually the countries are we know expressed in you know in number of restrictions which has caused less open to all trade.

And especially in post World War II increasing openness was again observed due to majorly due to technological advances. And also due to the prescription of many you know top most organization in the world like in a GATT; which was found in 47 in 1947, prescribed reduction in trade by goods. So, this has caused actually for further openness in trade especially in after World War II.

So, again now the import transfer trade actually increased by 50 percent during the last past century the. If I just try to understand again the patterns of trade, we majorly witnessed shift in patterns; shift in terms of you know raw materials in agriculture products. Especially, for Indian in know exports Indian cases a due to green revolution period you know from you know 1970's onwards for Indian case.

But world as a whole 1819 90's onwards you know we have experienced agriculture products and raw materials exports and imports. Similarly, the manufacturing goods and the contribution of services are observed in the today's new trade patterns. Now, how to understand you know trade theories anecdotal you know observation to the understanding of trade theories, we must to try our self to imbibe certain knowledge on some sort of you know confusions some sort of ambiguities in the international trade.

So, these are put here as fallacies of international trade for some kind of a confusion so, that if you ask yourself further concepts can be understand better. So, with the first aspects of confusion is it a zero sum game activities. Now, the classical theories not exactly the classical before classical mercantilism believe that it is zero sum game activity.

So, trade is been you know beneficial to sum at the cost of you know losses for others; which was actually later on counteracted and refused by the other theorist. There is not zero sum game all gain simultaneously.

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Fallacies of International Trade

- Trade is a zero-sum activity
- Imports reduce employment and act as a drag on the economy; exports promote growth and employment
- Tariffs, quotas, and other import restrictions will save jobs and promote a higher level of employment

Now, another fallacies and also myth in international trade discussion, which says that imports reduce employment and act as a drag on the economy. Whereas export actually enhance you know ex growth and employment, which is not true. If in many developing countries context, imports actually helps in bringing you know various no house, various raw materials also minimize you know cost of productions because of lots of possibility of comparative advantages.

Now, that is you know the fallacy also rejected by many other economist in the later part of their theories. Similarly, tariff, quotas in other important restrictions save jobs and also promote employment is not necessarily true always. Tariff and quota may be a restriction may be a facilitator for some countries may create trade may divert trade.

So, therefore, just by you know attaching information on tariff and quotas, which will promote you know higher growth is not necessarily true we are suppose to verified. Now, here what I wanted to discuss with you with certain you know latest examples published in

New York times very recently in you know 2018, where you can go through the link to verify the exact details.

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Why Economists Are Worried About International Trade

- New York Times, **Gregory Mankiw**, Feb. 16, 2018
- The Trump administration has imposed a **tariff on imported solar panels**, raising questions about America's commitment to free trade.
- The place to start is **18th-century Scotland**.
- [Adam Smith's book](#) "An Inquiry Into the Nature and Causes of the Wealth of Nations" is often credited as the beginning of economics.



Source: <https://www.nytimes.com/2018/02/16/business/trump-economists-trade-tariffs.html>

www.ijer.in

You know what we try to understand international trade and tariffs is the following; where you know Trump government special in US; has written by Gregory Mankiew is one of the you know topmost economists in the world who is famous for you know macroeconomic analysis. There are many papers and also for international trade. Where, Trump administration actually impose tariff on the solar panel, which is given in the picture.

In the solar panel that was that is caused a major you know case for concern to the economist in America; as if there are lots of you know confusion lies with the Trump administration. So, let us examine that to understand trade theories in detail. To start with 18 century Scotland,

where the birth of systematic economics discussion made by Professor Adam Smith; in his writing a through a book called Inquiry into the Nature and Causes of Wealth of Nations.

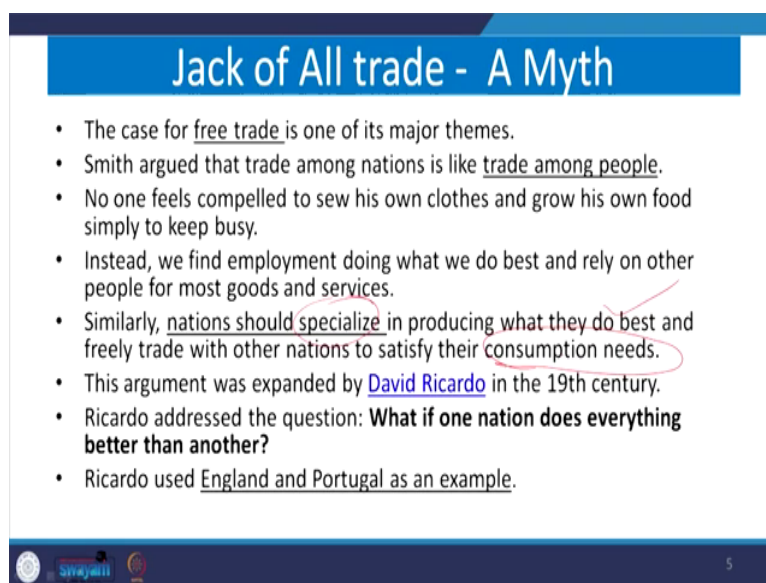
That was the case we are referring to late 18 century. And the cases were referred in the context of Scotland and England. Now, what we also try to summarize before going to start with the lecture in detail or what are the bullet points of understanding for trade. Is with the fact that trade by assumption for some of the countries may not be by with be with jack of all trade.

That means, some countries may not be having or possess with all resources or they may not be having with the characteristics of jack of all trade. This is simply a myth a counties two different does not mean the country is actually possessing all kind of economies. So, the case of free trade is one of the major in our themes; one of the major themes of discussing you know trade theories. The Smith argued Adam Smith argued that all nations you know that trade among nations is like trade among people. So, trade not necessarily jack exchange of goods and services.

So, trade also promote interactions among different cultures and people; he is also emphasize you know the trade among people. So, no one feels compel to you know sew his own clothes and grow his own foods simply because of keeping the person himself or herself busy. So, instead of instead what we could do, we find employment you know doing what we do best and rely on other people for most goods and services why did so?.

Because you know, let us you know deal with the cases where people you know certainly do they are based on sounds and specific you know goods or services. If you try to define a jack of all trade probably we cannot you know optimize that aspect.

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Jack of All trade - A Myth

- The case for free trade is one of its major themes.
- Smith argued that trade among nations is like trade among people.
- No one feels compelled to sew his own clothes and grow his own food simply to keep busy.
- Instead, we find employment doing what we do best and rely on other people for most goods and services.
- Similarly, nations should specialize in producing what they do best and freely trade with other nations to satisfy their consumption needs.
- This argument was expanded by David Ricardo in the 19th century.
- Ricardo addressed the question: **What if one nation does everything better than another?**
- Ricardo used England and Portugal as an example.

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So, therefore, nations should specialize in producing what they do best and freely trade as propagated by that is school of thought in the 18 century. So, these simultaneously help in you know specializing as well as help in consumption needs of different countries. This argument was substantiated further by David Ricardo and also David Ricardo contracted by emphasizing it with a evidences of 19 century, where he says that you know jack of all trade is not the answer always behind trade.

What we need, if one nation does everything what you know you know David Ricardo says if only if one nation does everything better than another is there any trade possible. In this regard, Ricardo used you know England and Portugal as an example to verify if one country has advantages in all the products.

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EXAMPLES

- Even if Portugal was better than England at producing both wine and cloth, if Portugal had a larger advantage in wine production, Portugal should export wine and import cloth.
- The same principle **applies to people**.
- Given his athletic prowess, **Roger Federer** may be able to mow his lawn faster than anyone else.
- The advantage he has playing tennis is far greater than he has mowing lawns.
- So, according to Ricardo (and common sense), Mr. Federer should hire a lawn service and spend more time on the court.

Specially, Portugal was better; Portugal was better than England in producing wine; Portugal is better than that of England in producing wine and cloth, if Portugal had a larger advantage in wine production, Portugal should export wine and import cloth. So, now, here the important factor is where do you have larger advantage? If there are advantage is why import certainly you know it is suggested for the countries to specializing those product.

So, therefore, Portugal you know Portugal for wine and England for cloth so that there will be mutual possible trade and trade takes place. The same principle was also applies to people; since Adam Smith a categorically mentioned trade is not necessarily for in a goods and services, it connects to people. Now, to verify another examples make it to lose it to the you know understanding.

If Roger Federer who he is famous for tennis and Roger Federer if you know engage himself for his lawn to mown his you know lawn faster than anyone else. If he engage himself for mown his lawns then his major time he actually engaged in you know preparing his lawns.

Rather what we expect if another gardener or the person who is quite specialize in mowing the lawn correctly and can you know save the time for Roger Federer. So, that court will be ready and that much of time Roger Federer can spend for his own specialization and to specialize and to articulate in tennis. So, which will help will be actually making Roger Federer much better competitive advantage or competitive advantage than that of any other player.

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The slide is titled "More Recently" in a blue header. It contains three bullet points. The first bullet point states: "More recently, economists have emphasized how trade affects **productivity**." The second bullet point states: "In a model pioneered Marc Melitz, when a nation opens up to international trade, the most productive firms expand their markets, while the least productive are forced out by increased competition." The third bullet point states: "As resources move from the least to the most productive firms, overall productivity rises." Handwritten red notes are present: "Larger firms vs smaller firms" with an arrow pointing to "productive firms"; "92% of firms" with an arrow pointing to "least productive"; and "very" written vertically next to "least productive". The slide footer includes a Swajani logo and the number 8.

More Recently

- More recently, economists have emphasized how trade affects **productivity**.
- In a model pioneered Marc Melitz, when a nation opens up to international trade, the most productive firms expand their markets, while the least productive are forced out by increased competition.
- As resources move from the least to the most productive firms, overall productivity rises.

So, therefore, we must derive cases where some you know categories of people can specialize in some sections. So, this so, therefore, you know David Ricardo is famous for identifying

comparative advantage comparative cost advantages; where one products should be actually specialized. Where is the early school of thought, the specialization aspects where not emphasized to that extents.

Who is David Ricardo? He was not nearly a theorist, he was also a successful you know stock trader and also a parliamentarian member of parliament. Who use to you know talk about and ford for you know making the trade free. And often oppose for Carn laws, which was impose for you know restricting grain imports.

So, Ricardo is mercantilist actually who involved himself of in into stock trading but, actually he is a strong believer of free trade. So, therefore, he identified some of the cases where free trade is possible. So, more recently to understand the trade over time many other theorists emphasized productivity is the factor behind the recent days trade.

Specially referring to Melitz work Marc Melitz work, when a nation opens up to trade most productive firm expands; where as the least one actually suffers and forced out of increased competition. So, that is one of the major contribution of Melitz and therefore, we are suppose to understand many aspects of you know controversies related to whether trade you know.

Actually is beneficial for the developing countries context or less developing countries context. Since it facilitates larger firms larger firms are remains firms visa v small firms are remains smaller firms are remains firms are remains are very important for developing countries context. Now, since in developing countries specially in India a very large number of more than 92 percent you know enterprises are more than 92 percents enterprises are informer and they are very tiny.

So, far as they are total you know gross output is concern or their you know gross capital is concern or their number of employees are concern. In all those three regards we have huge cases of you know infirmity in our setups. So, all what he also you know suggested as resources moved from the least to the most productive firms overall productivity rises.

So, countries productivity rise but that does not mean it will actually justify the distribution that is another concern over the time. So, what to believe then? You know, first we said you know theories suggested something is it believable always. Is it you know necessarily to believe unless we do not have evidences we did not you know believe theory.

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The slide is titled "Evidences to Believe" and contains a bulleted list of six points. Red circles and lines are drawn around certain words and phrases in the text, such as "just theory", "Where's the evidence?", "Jeffrey D. Sachs and Andrew Warner", "open economies", "closed economies", "1850s", "1960s", and "1990s".

- A skeptic might say that all this is **just theory**. **Where's the evidence?**
- One approach to answering this question is to examine whether countries that are open to trade enjoy greater prosperity.
- In a 1995 paper, the economists **Jeffrey D. Sachs and Andrew Warner** studied a large sample of nations and found that open economies grew significantly faster than closed ones.
- A **second approach** is to look at what happens when **closed economies** remove their trade restrictions.
- In the world economy, the typical result has been an increase in their growth rates due to open up.
- This occurred in Japan in the **1850s**, South Korea in the **1960s** and Vietnam in the **1990s**.

At the bottom of the slide, there are logos for "swayam" and "swayam" and a small number "9".

We simply say these are just theories. So, to examine those theories, many other economies like you know Sachs and Warner in their 1995 paper, they found that open economies grows significantly faster than closed ones. So; that means, trade facilitates countries and those countries which are open in nature it actually help the country to grow faster.

Now similarly one approach as examined by these, we said that you know open trade enjoy greater prosperity. And second set of approach, which said that what happens, when closed economies remove their trade restrictions? When you know firstly, we said open trade

actually help the country to grow but the second one if the closed economy simply opens the you know restrictions is it going to create some problems or not.

Now, the result has been an increase in growth, rest due to open up, which I have already said. Specially there are some examples as verified by different you know literatures different or you know economist Japan. In Japan case in 1950 are added to the develop countries list, South Korea in 1960 then, Vietnam were recently the 1990's. So, those countries who would opened of their trade actually gain significantly.

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The slide is titled "A Caveat of Trade Effects" and contains a list of six bullet points. Handwritten red annotations include: "I think, are right" above the first bullet; a checkmark above the second bullet; "Jeffrey A. Frankel of Harvard and David C. Romer" circled in red around the third bullet; "geography" circled in red at the end of the third bullet; "New Zealand is disadvantaged compared with Belgium" underlined in red in the fourth bullet; "→ demand" written in red next to the fourth bullet; and "Similarly, landlocked nations are disadvantaged compared with nations with their own seaports." underlined in red in the sixth bullet.

A Caveat of Trade Effects

- These results, while suggestive, come with a caveat. *I think, are right*
- Trade restrictions often accompany other government policies that interfere with markets. ✓
- To address this problem, a third approach to measuring the effects of trade, proposed by the economists Jeffrey A. Frankel of Harvard and David C. Romer of the University of California, Berkeley, focuses on geography.
- Some countries trade less because of geographic disadvantages.
- For example, New Zealand is disadvantaged compared with Belgium because it is farther from other populous countries. *→ demand*
- Similarly, landlocked nations are disadvantaged compared with nations with their own seaports.

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So, where is the caveat? Then where is the caveat where is the border line where is the limit by which the country must actually follow. Now in this context we know we are supposed to understand the caveat through government policies where to restrict and where to interfere to

the market. So, that you know things must be moving opening of the context with little rejection balances.

Now, in this context Frankel and a Romer Frankel of Harvard and professor Romer, who is also famous for endogenous growth. Romer is from University of California Berkeley focuses on a geographic you know proximity. They in their you know piece of papers they emphasized geographical disadvantages are actually are actually attached to the context of international trade.

Especially for example, the Newzland is disadvantage compare to Belgium; because it is further from other populous countries. Newzland Island country so, I mean do not have that much of proximity to other populous countries to the populous countries has a potentialities to create the base for demand.

So, which is lagged highly in Newzland against Belgium. Similarly, the land lock countries there are many land lock countries are actually disadvantaged which were actually emphasized. So, directly or indirectly whether county promoted or country is do not promoted not necessarily it is the fault of the country it might be also due to many other reasons.

Now, a since is you know what kind of questions guys you are expect from all you know four lectures previously every time. We are trying to understand what are the exact reasons behind trade? And the theory is actually try to emphasize the reasons, the factors based on various context it was observed by different economies. So, theories are actually develop based on the experiences by the what you know experts in their different context.

So, I mean if I just try to understand what could be the questions here? Now the question is, first question is what which are the myths which are or what are the myths in the trade theories? Each trade is trade actually beneficially always each trade is creating a context of zero sum game. And is that you know having you know; I mean is it the fact that all the countries must open up always for the case of benefits so, in order to verify from the different slides.

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Rationale...From Data

- geographic characteristics are correlated with trade, but arguably uncorrelated with other determinants of prosperity, they can be used to separate the impact of trade on national income from **other confounding factors**.
- After analyzing the data, Mr. Frankel and Mr. Romer concluded that "a rise of one percentage point in the ratio of trade to G.D.P. increases income per person by at least one-half percent." *1% ↑ (T/GDP) ⇒ GDP ↑ 1/2%*
- In other words, nations should take the theories of Smith, Ricardo and Melitz seriously. *⇒ opening trade with no restriction*

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Now, what are the rationales from data further? Specially economist derived confounding factors is I have already discussed all other related factors which are very much closely connected to the you know, trade and to the geography characteristics of the country that must not be neglected.

Then after analyzing the data Frankel and Romer in their work they find or they found that a rise of one percent point in the ratio of trade to GDP; increases income per person at least one half percent. So, half the percent actually increases in GDP; GDP increased by half the percent half percent increase, if there is 1 percent rise in trade rise in export plus import, if this implies half percent rise in you know GDP.

So, in their work is also it is been proved that you know trade is actually helpful. So, in other words, nation should take the theories of Smith, Ricardo and Melitz which was already said

who are the strong believer of opening of trade, with opening of trade with no restrictions; that is prima facie proved through theories.

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The slide features a blue header with the text "Free Trade . . . Not Good Always". Below the header, there is a list of bullet points. The first bullet point is circled in red and has the word "Time." written in red above it. The second bullet point is underlined. The third bullet point is underlined. The fourth and fifth bullet points are bolded. At the bottom of the slide, there are logos for Swajathi and a page number "12".

- To be sure, expanding trade hurts some people in the short run, especially those in import-competing sectors who have to find new jobs.
- That fact may call for a robust safety net and effective retraining.
- But it does not undermine the conclusion that free trade raises average living standards.
- **Should we impose a tariff on Americans vacationing at Scotland's Trump International Golf Links?**
- **Or should vacationers make their consumption choices free from the heavy hand of government?**

So, free trade not always not good always yes pointed by you know some experts, they are trying to emphasizing the context of time is the factor it might hurt some of the expanding you know some of the countries who are expanding. And its hurts you know for the developing countries especially in the short run.

And especially for the import competing sectors, those sectors those areas of developing countries or the emerging countries who are competing with the imports. And the concerns are also important for new jobs, jobs which might be at risk in those sectors. So, therefore, the country must go for must go for robust safety and effective sustentative and effective retraining of their resources own you know employment and or returning jobs.

If it does not undermine the conclusion that free trade raises average standard of living then what else. Now, after analyzing Trump's policies which was a case for a concern for the economist in us in 2018; especially for solar panel and import tariff which I started the discussion for it. Now, it must step in understood to us that is what should the government do?

Now, in this context should we impose a tariff on Americans vacationing at Scotland's specially Trump Internationally Golf Links; should we impose a tariff on a Americans vacationing. Or should vacationers make their consumption choices free from the hand of government. Now, so the administration be very causes about imposing you know any kind of tariff.

So, tariff will actually if the sentiment of the country is very good and they have very good fundamentals why should impose tariff. So, the economist is largely we are not supporting you know Trump strategy of imposition of import tariffs in certain segments. Then why is trade good? Question always comes, we already said many times you know its a combination of capitalism and free trade.

So, the you know the concentration of power or may be getting distributed to other hands due to free trade. And we know it generates wealth. So, it has been observed that it has huge trickled down effects billions of people around the world actually have been lifted you know out of poverty line. So, there are many cases those a 19 century trade patterns majorly guided by the beggar.

The neighbor economic you know nationalism you beggar making the beggar you know poor strategies. These are they are but the industrial revolution in the you know, 19th century has actually carried forward to many you know other countries specially development of middle class sections.

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Why is trade good?

- generates wealth by allowing the free flow of goods across international borders, without taxes and other such barriers.
- combined power of capitalism and free trade.
- Have trickle down effects
- billions of people around the world have been lifted out of poverty
- 19th century – ending centuries of **beggar-thy-neighbour** economic nationalism – opening up new markets to boost the industrial revolution and drive forward the development of the middle class.
- Two ideas remain central to the theory of international trade more than **200 years later.** → Absolute Cost Advantage
Comparative ..

Source: <https://www.theguardian.com/business/2018/aug/13/is-free-trade-always-the-answer>

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Now, two ideas remain central to the theory of international trade. More than 200 years, the ideas is that they are must be actually must be free trade and free trade may be based on absolute advantage; absolute cost advantage or may be through comparative cost advantage. Cost advantage those through two idea is propagated by Smith and Ricardo actually have been valid for 200 years; later since they are you know since they are suggested to the economies.

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Revisiting Theories

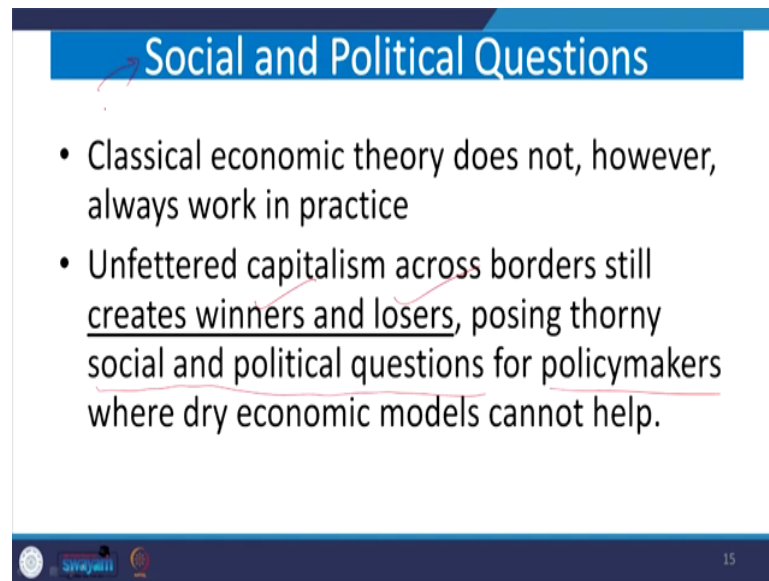
- In his seminal work *The Wealth of Nations*, Adam Smith taught countries to concentrate their efforts on producing and selling goods in which they have an "absolute advantage" over their trading partners.
- Cheaper labour costs give modern-day China an absolute advantage over most western nations for manufacturing.
- **what happens when a country has absolute advantage in multiple industries?** → D. Ricardo
- So the theory on 'Comparative Advantage'

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So, in his seminal work, the wealth of nations of Adam Smith taught countries to concentrate their efforts on producing goods and selling. Goods in which, they have absolute advantage which are just talking about. Now in the recent times if you are try to collect tax China modern day China; the recent China has absolute advantage in specially for cheap labor cost over most western nations for manufacturing.

What happens when a country has absolute advantage in multiple industries? We are actually referring to the context of comparative cost advantages by David Ricardo. So, I have discussed couple of minutes back.

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Social and Political Questions

- Classical economic theory does not, however, always work in practice
- Unfettered capitalism across borders still creates winners and losers, posing thorny social and political questions for policymakers where dry economic models cannot help.

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So, classical theory does not work; however, always work in practice and does not work always in practice. What we try to say unfettered capitalism across borders still creates winners and losers. If I just sum it of all the previous lights posing thorny social and political consequences.

Now, since it has double impacts, we are expose to have major social and political questions specially for the policymakers; where dry economic models may not help or cannot help. So, we are now in the situation of understanding its consequences and for the policymakers it has a several you know question further.

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A short history of protectionism

- There has been trade protectionism throughout history.
- The Romans prohibited the cultivation of wine beyond the Alps and the ancient Greeks imposed 5% duties at all ports in their empire.
- The renaissance brought the gradual end of **Mercantilism**, pushed further by the free market principles developed by David Ricardo and Adam Smith in the 18th and 19th century.
- Before then, the Navigation Act forced goods to come ashore from British ships, while records as far back as the 12th century refer to import taxes.
- The key moment came with the **abolition of the Corn Laws in 1846**.

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So, it is as short history for the protectionism. We have observed that you know in the 18 and 19th century proposed by the trade theory is proposed by you know David Ricardo; as against the proposition made by mercantilism where continued for 200 years. So, specially in the mercantilism period, where restrictions were actually proposed for the sake of growing their own you know countries development.

Now, Romans prohibited the cultivation of wine beyond the Alps and the ancient Greeks imposed five percent duties on all ports in their empire. I am if I am just counting down some of the you know facts before the 18 century trade; the navigation act was they are restricted trade as well. So, key moment came with the abolition of the corn laws in 1846; that is in a standard you know period referred is you know the period started with free trade.

Now, similarly the smoothening of the trade actually started counted over the time especially when the big institutions are developed after World War II or Second World War. And because of World Bank, IMF, general agreement on tariffs and trade get were instituted in 1947. Later on it was you know the gate was (Refer Time: 31:49) WTO in 1995, China become the member since 2001 but since the inception from 1995 India has been the founding member of WTO.

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Birth of WTO..smoothening continues

- Grain shortages caused by Britain's growing population and blockades during the Napoleonic wars meant prices were steep.
- Peace in 1815 could have pushed down the price of imports, yet tariffs kept them high.
- **Robert Peel**, the prime minister, sided with the factory owners and spurred the move to trade liberalisation in Europe.
- The **Wall Street crash of 1929** led to the Smoot-Hawley tariffs of 1930 to protect US domestic industrial production but it triggered tit-for-tat responses which economists think deepened the Great Depression.
- Following the **second world war**, the world's biggest economies created the World Bank and the International Monetary Fund, and the General Agreement on Tariffs and Trade (GATT) in 1947 – which would become the forerunner to the World Trade Organisation (WTO) in 1995.

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So, we have discussed many things before this, you may read all other you know examples here for the understanding of you know the birth of WTO or the institution over the time.

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Is free trade always the answer?

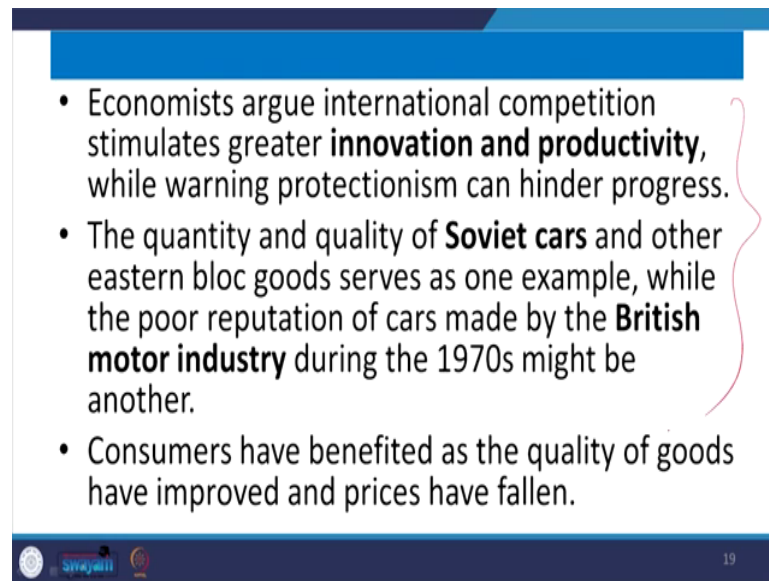
- Trade deals always create winners and losers.
- these decisions often come amid an onslaught of **lobbying from powerful vested interests**.
- The failed Transatlantic Trade and Investment Partnership between the US and the EU is one recent example,
- where corporate interests including the US private health industry wanted to expand to new markets in Europe.
- The deal ultimately failed amid widespread public opposition.
- Domestic producers can be squeezed out by global rivals with huge economies of scale.
- “freedom for the pike is death for the minnows” - - **political theorist Isaiah Berlin**

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So, is free trade always the answer, we have already discussed but one thing to be emphasize here is lobbying strategies by the bigger firms. So, its rise as a political economic question. So, it is the best interested of the powerful groups or the you know bigger firms which is facilitates trades.

And at the sake of other small you know form firms or the industries. So, therefore, you know domestic producer can be squeezed out by global rivals with huge economies of scale due to the connections.

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- Economists argue international competition stimulates greater **innovation and productivity**, while warning protectionism can hinder progress.
- The quantity and quality of **Soviet cars** and other eastern bloc goods serves as one example, while the poor reputation of cars made by the **British motor industry** during the 1970s might be another.
- Consumers have benefited as the quality of goods have improved and prices have fallen.

So, therefore, what we try to mention, we need not emphasize these are further examples to our all your understanding.

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India must focus on areas it has comparative advantage rather than fear rise of China

- Much of China's economic success is due to the rapid growth in its exports, specially in manufacturing
- Ironically this sharp divergence in their respective export performance has come despite the fact that while India was a founding member of **WTO in 1995** **China became a member only in 2001**.
- China's economy is more than five times larger than India's and its manufacturing sector is ten times India's but do these factors alone explain China's success in exports?
- Or does one need to delve a little deeper? After all, India has some of the world's largest reserves of iron ore, bauxite and manganese.



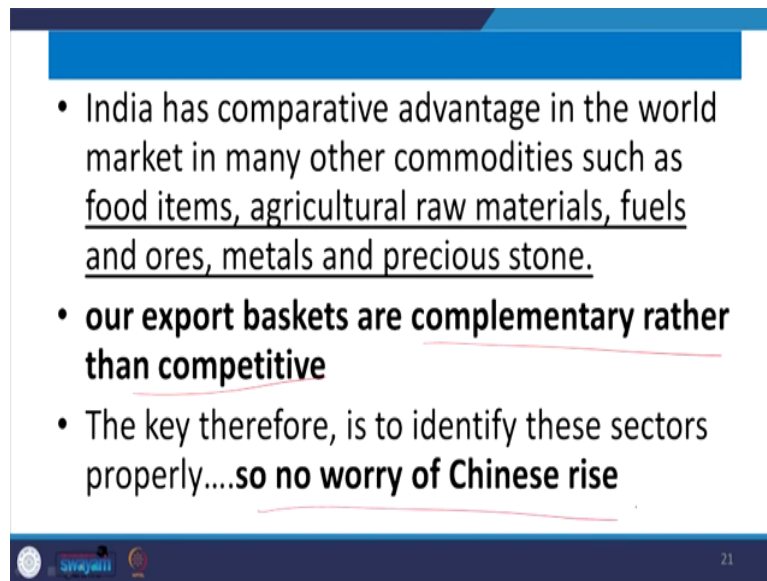
<https://www.financialexpress.com/india-news/india-must-focus-on-areas-it-has-comparative-advantage-rather-than-fear-rise-of-china/18524/>

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So, what India should do? India actually in the recent time India should not be worried too much, India though you know member from the beginning of WTO. We have huge you know shares against to China; China is the we know is having you know strongest parts in manufacturing but, India should not worry because of the fact that. We have huge other advantage in other sectors.

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- India has comparative advantage in the world market in many other commodities such as food items, agricultural raw materials, fuels and ores, metals and precious stone.
- our export baskets are complementary rather than competitive
- The key therefore, is to identify these sectors properly....so no worry of Chinese rise

And our export baskets are complementary rather than competitive as against China so, we should not worry so much for the Chinese trades. So, these are all background to trade theory is to start with. In our next class we are going to talk about mercantilism theory. And next class it will be a absolute cost advantage. With this let me stop here we will carry for our rest of the details to the next class in detail for mercantilism theory, where we will talk about the restriction in detail.

Thank you so much, we will continue.