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TRADE POLICY IN NEOLIBERAL ERA

Abstract

The aim of this paper is to study international economic relations and the position of developed and undeveloped countries within them. We will show that existing social-economic order – represented by the neoliberal phase of the capitalist world-economy – unequally treats countries and that it has established institutional framework to maintain that state. This situation condemns certain countries to permanent poverty. The subject will also deal with the criticism of neoliberalism and neoclassical and ricardian philosophy of free markets and a competitive advantage in the context of international trade. Moreover, we will emphasize the fact that neoliberalism causes numerous economic and social inequalities, and that developing countries have a narrowed maneuvering space for an autonomous trade policy, because they are in a subordinate, often neocolonial position.

***Key words**: trade policy, neoliberalism, undeveloped countries, free trade, inequality, inferiority.*

JEL Classification: B5, F1

ТРГОВИНСКА ПОЛИТИКА У ЕРИ НЕОЛИБЕРАЛИЗМА

Апстракт

Циљ овог рада је проучавање међународних економских односа и положаја развијених и неразвијених земаља у међународним трговинским и финансијским односима. Показаћемо да постојећи међународни друштвено-економски систем – оличен у неолибералној фази светског капитализма – неравноправно третира земље и да има утврђени институционални оквир за одржавање таквог стања. Тиме се поједине земље осуђују на трајно сиромаштво. Предмет ће бити и критика неолиберализма и неокласичне рикардијанске филозофије слободних тржишта и компаративне предности у контексту међународне трговине. Такође, апострофираћемо и чињеницу да неолиберализам производи бројне економске и друштвене неједнакости и да неразвијене земље имају знатно сужени маневарски простор за вођење самосталне трговинске политике, јер се налазе у подређеном, а често и неоколонијалном положају.

***Кључне речи**: трговинска политика, неолиберализам, неразвијене земље, слободна трговина, неједнакост, неравноправност.*

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Introduction

Since its beginning until now, capitalism has been going through different development phases. Its roots can be traced back to the Middle ages (V-XV century) in the area of Western Europe, when the Netherlands and Great Britain started to form massive organized markets, large companies, stock exchanges, banks, insurance companies, etc. The ways in which different market subjects accumulated capital also determined different capital development phases. *Neoliberal* or *financial capitalism* is the last phase in that development; when the financial asset ownership becomes more lucrative than the organization of industrial production, private ownership most powerfully represses the state and the public ownership, when the economic and social stratification occurs, deindustrialization, the prominence of services, the annulment of social state functions, etc.

Neoliberal capitalism development phase affects the international economic relations (global trade and financial flows), which obviously have the impact on deepening the economic gap between developed and undeveloped countries[3]. This makes the unequal position between country members in the international trade and financial relations, condemning them to the sectors with low accumulation and the bare support that the developing countries should act in the process of supplying the developed countries with the low-cost resources. Thus, neoliberalism precludes the undeveloped countries in the independent economic and trade policy choices, which guarantees them the exploitation and puts them in advance in the unjust and subordinate role in the world hierarchy.

In the context of the European Union countries, the situation is such that a Southern and an ex-socialist countries ("transition economies"), due to the technological lag, are not able to compete with the developed and prosperous "centre" of Europe. "Periphery countries" do not manage to pay off their debts on the basis of the export and thus maintain the level of exchange rate and are forced to defend it by the other resources: by loans, privatization of state companies and natural resources, consumption reduction, wellfare state functions reduction, etc. In order to pay off their debts, "periphery countries" must assume the additional debt, which becomes self-perpetuating damaging circle without the exit. The goal of this paper will mainly be to enlighten the influence of the neoliberal capitalism phase on the international economic and political relations, especially emphasizing their consequences in terms of the trade policy of the developed and undeveloped countries.

The consequences of neoliberalism

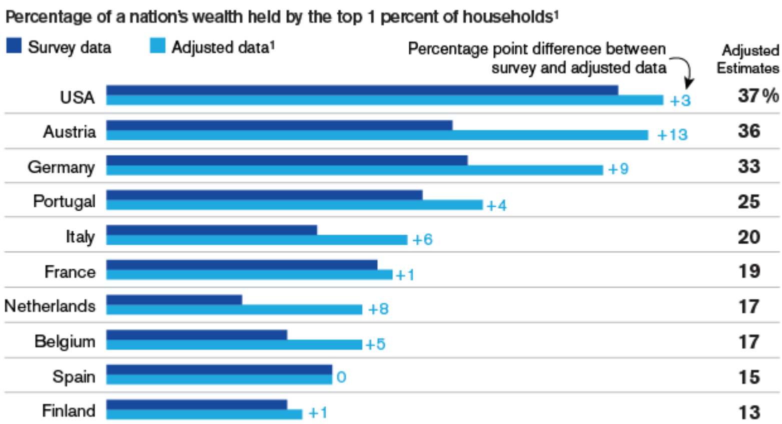
Neoliberal philosophy and liberalism lean on the liberal philosophical tradition and neoclassical economic theory. Its followers focus on the radical individualism, economic liberalization, deregulation, "free markets", the reduction of state and its institutions' role in economy and the public sector companies privatization, the annulment of the social state institutions and its social security network, etc. Neoliberal economic views are shared by neoliberal philosophers and neoconservatives, who obtain the support for their economic program by most academic economists (educated mainly in neoclassical tradition) (Bukvić and Pavlović, 2014). Key political and economic neoliberal narratives are: economic and market activities deregulation, privatization, commodification and human activities commercialization.

In practice, it means the annulment of the state regulations and control over the private business enterprises so as to make them more profitable, and also the state power seizure to intervene if social damage and adverse externalities occur, which can happen as a result of the profit logic application. Neoliberalism offers intellectual support and legitimation for the protection and promotion of private interests of large companies and a small number of the rich individuals striving to put into their hands the increasing quantity of social, political and economic life – under the excuse that the most productive individuals should be awarded due to their entrepreneurial spirit, which contributes to the general wellfare. Neoliberalism effectively puts personal interests of the owners of capital above the community interests to which they belong, and the profit motif becomes more important than the community welfare itself (Perić, 2015, p. 68). Neoliberalism is an attempt of returning the proportion of income distribution to the capitalist class on the level before the World War II (Kristal, 2010).

Authors G. Dumenil and D. Levy (2004) underline that, since its beginning, neoliberalism has been the restauration project of the society class stratification, economically and socially empowering the privileged individuals. After the neoliberal policy implementation at the end of 1970s in the USA, up until today, the affluence of the most wealthy 1% population has grown by 37% of the realised income (see Graph 1) – which has surpassed the level before the World War 2.[4]

The gap between the worker's wages and the compensations for management sharply increased, tax reforms contribued to the income tax decrease for the welthiest population, taxes on incomes from investments and capital yields have continually been decreasing, while taxes levied on workers have been incresing. All these represent the measures of the neoliberal policy that contributed to the current picture of today's world, and inequality and unfairness have been streching in the sphere of the international economic relations, where the countries have been given the status of developed and undeveloped in accordance with their geopolitical position.

Graph 1. The affluence of the most wealthy 1% population



Source: Smialek, J. (2014) "The 1% May Be Richer Than You Think, Research Shows", *Bloomberg*, August 7th, http://www.bloomberg.com/news/2014-08-06/the-1-may-be-richer-than-you-think-research-shows.html (last access 23. 03. 2015).

Neoliberalism *economistically* treats public interest, while liberal philosophers often use metaphors about the balance, equilibrium and self-sustainance of the social system drawn from biology and physics, comparing the social system to the living organism structure or the matter structure, magnetic field, etc; in order to keep *status quo* of the existing social and economic relation framework, and in order to emphasize the state intervention needlessness in the social and economic sphere. As the cells in living organisms conduct their task without direct aware intentions, which finally contributes to the maintenance of the whole organism, the same also happens to the unregulated market that has “invisible hand” leading the complete society to prosperity. Also, by way of neoliberal intelectual and ideological engineering are the activities such as services in trade and financial intermediation rehabilitated and put at the forefront – they have also become the most lucrative – while they used to be stigmatized as something exclusively done by the greedy and morally inferior people.

By glorifying the individual values and justifying greediness, neoliberal philosophers and economists fall into the trap to justify something that can be called *anti-social radical individualism* (that can also be called *vulgar individualism*), characterisic for the end of the XX century and the beginning of the XXI century, when profit actually became more important than the people[5]. Yet, the consequences of the neoliberal economic policy are not visible in modern economy at first sight. That is because of the so-called virtual economy, i.e. “parallel dimension” of finance that exists today and functions well independent of traditional industrial (“real”) economy. Actually, with the help of *financial alchemy,* the creators of economic policy are able to raise the household standard, without traditional growth models and investment in industry. The example is the USA that significantly deindustrialized (moved the industrial production mainly to Asia due to the cheaper workers and raw materials), and their strategic export products are now financial innovations and the dollar as the world reserve currency; and, alhough there are negative influences on the gross domestic product due to the loss of jobs, one part of that is ammortized by the large incomes and profits of the international corporations and financial sector. On the other hand, living standard decline of the widest population is counterbalanced by the increase of household debts and *the wealth effect* (Perić and Jošanov-Vrgović, 2014). In the first case, it is erosion of credit bank standards to qualify more debtors for loans, while in the other the capital gains due to the increasing prices of financial assets that belong to households. Furthermore, in some countries (mainly undeveloped) the artificially high exchange rate for domestic currency has been used, so that population could spend more imported goods, which of course contributes positively to the living standard, but also emphasises the question of financing deficit in balance of payments, so the countries become indebted (or sell their resources and state-owned companies). The advantage of the neoliberal model is reflected in the temporary preserving or even increase in living standard, but it also gives rise to the negative consequences of inflation booms and blowing up of speculative financial bubbles.

All of the above have repercussions on the trade policy of the developed and undeveloped countries, which will be discussed further.

Trade policy of the developed and undeveloped countries

International trade organized in the existing institutional frames causes trade and financial disbalances that can be designated as the economic disbalances as well. In accordance with the topic of this paper, we will focus on the trade aspect of the economic inequality and thus explain that within the undeveloped countries there is no necessary space to conduct the independent trade policy in the current international trade relations.

Trade disbalances occur when deficits or sufficits in the trade exchange in some countries or wider geographical regions reach high levels, while not corresponding to the relevant changes in the countries or the regions exchange rate. Hence, if there is the prolonged deficit in the international trade exchange, sooner or later, exchange rate of domestic currency will be lowered. If the corrections do not immediately occur – as is often the case – the international economic disbalance occurs, reflected as sufficits or deficits on the international trade current accounts.

Neoclassical economic school of thought and neoliberal orthodoxy argue that the recipe for the economic growth and state prosperity lies in the adoption of measures of the so-called *Washington consensus,* the adoption of the economic measures like: customs abolishing, “opening of the economy“,“free markets“, „integration into the global economy“,“free trade“, etc. However, those measures did not bring the expected growth, but caused the additional wide population empowerishment in the developing countries (undeveloped countries), which further strenghtened the difference in wealth and economic power distribution between developed and undeveloped countries. In that context, the economists of the 18th century were more advanced that the current neoclassicals, when they claimed that the country in a starting industrialization phase should use the advantages of the autharic development so as to protect its young industries from the global competition, because competition – besides the evident stimulating effect on the efficiency – has destructive characteristics regarding the market subjects tendencies to „suffocate“ their own rivals in order to accomplish monopoly profit and monopoly position.

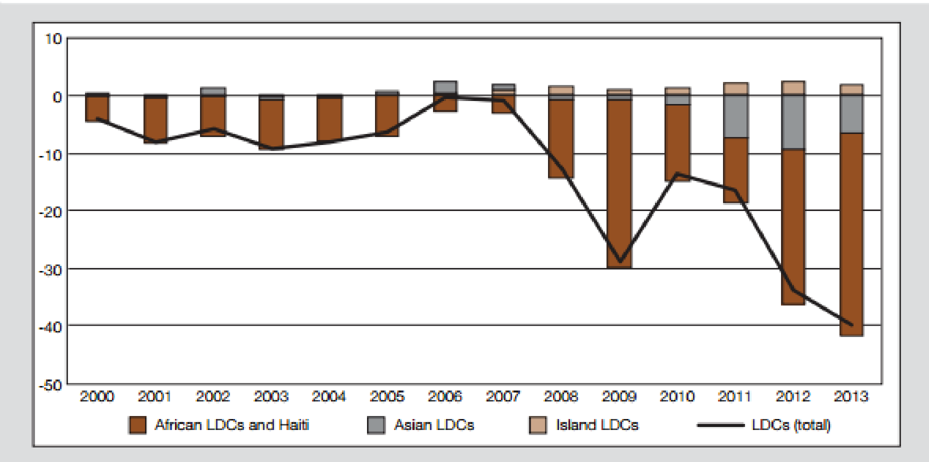
The analysis of the international economic relations (trade and financial) is grounded in the analysis of the international capital flows, balance of payments, exchange rate and currency parity. The so-called *clean trade policy* leans on the automatic macroeconomic and financial mechanisms of the international economy balance, while the balanced trade and full employment represent logical consequences of the „market law“. According to that conception, all the countries have benefits from the international trade, while being guided by the ricardian laws of comparative advantage[6] and productivity.

Post-Keynesians reject a ricardian approach to the international trade. They hold that the automatic balance mechanisms of the international trade and financial relations do not exist. With this in mind, they start studying trade and financial disbalances and income and employment adjustments necessary for alleviating their consequences. Post-Keynesian tradition theory framework that links the international trade and finances was founded by Joan Robinson and it is called *New mercantilism.* It deals with the explanation of the international conflicts about world resources and market limitations. The starting position is the state of inadequate demand and unwilling unemployment. In those circumstances, countries want sufficits in the trade exchange and the inducement of international capital in order to increase employment and production (BDP). Regarding the fact that all the countries cannot have sufficits at the same time – some must have deficit, because we are dealing with the structure well described by the game theory with the zero result – the countries with deficit enter the crisis and their unemployment and production fall below the level they would have if they did not have a developed international exchange at all. Thus, we reach the conclusion that export-oriented countries condemn the import-oriented countries to the bad economic performance, and the consequence can be the crisis in those countries (Robinson, 1978).

This theory contradicts with the neoclassic orthodoxy that views the international trade as harmonious relations between the countries in the international economy with the inherent stabilisators in the event of short-term shocks and disbalances. In that sense, Robinson further analyzed the postulates of "clean" trade theory creating several steps to better understand how the international economic relations function.

The above-mentioned attitudes can be statistically confirmed and viewed in the following graphs (2 and 3). The group of the undeveloped countries recorded a further deficit increase on the current accounts, reaching the historical record of 40 billion US$ in 2013. This represents the 17% increase comparing to the 2012. Moreover, we can notice that the conditions in trade exchange additionally deteriorated after the Great Recession[7] (2008) and the undeveloped countries are deepening the structural gap, imposed by the neoliberal era laws.

Graph 2. Current account balance of LDCs (less developed countries) 2000-2013 (billions $)



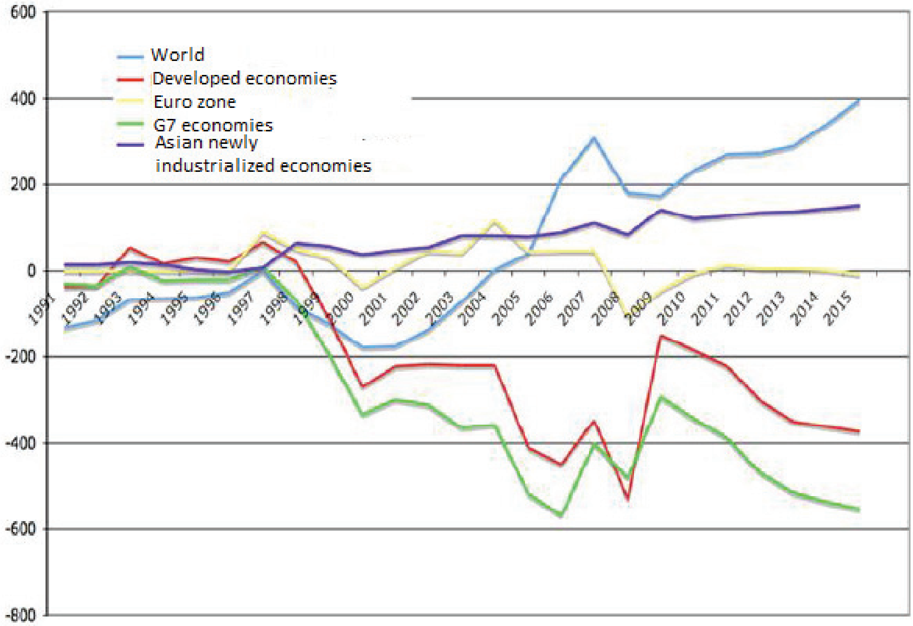
Source: The Least Developed Countries Report (2014), *Growth with structural transformation: A post-2015 development agenda*, United Nations Conference on Trade and Development (UNCTAD), http://unctad.org/en/PublicationsLibrary/ldc2014_en.pdf (last access 31.03.2015)

The Graph number 3 demonstrates the real (corrected for increase or decrease of the exchange rate) trade disbalances (sufficits and deficits) of the biggest economies, including the countries from the group G7. We can notice two interesting trends.

- After the period of the balance from 1992 to 2000, deindustrialization of the western countries and a significant increase in prices of real estate in the USA (mortgage speculative bubble) caused changes in trend in the current account deficit (and the trade deficit as well) of the undeveloped countries and thus they started to record sufficit,

- In the developed countries the trend had a reverse movement: from sufficit to deficit.

Graphic 3. Total and selected regions current account balances in billions US$



Source: Gurdgiev, C. (2015) *Real Stats and Real Issues*, True Economics, Economics 1-2.

Concerning all the above mentioned, we are asking the question of the role played by international institutions for promoting international trade and their influence in creating and maintaining trade and economic inequality. In that sense, we will further analyze the role of the World Trade Organization (WTO) as the institution with task to reducing at least, if not completely eliminating those inequalities and the role of International Monetary Fund (MMF) and World bank as the institutions whose task is to promote that goal from the international finance perspective as well.

The established goals of WTO are to prevent the obstacles in the international trade and to create the equal rights for all the country members, while promoting their growth and development at the same time. Besides that, WTO offers the institutional environment to apply the fair international trade rules. Since the beginning (in 1995), WTO has formed the prosperous international trade system, whose promotion contributed to an unprecedented global economic growth (World Trade Organization, 2015). Some of the proclaimed WTO goals have been met, but we cannot disregard the negative consequnces felt by developing countries population by applying WTO trade policies.

According to the WTO governments must abolish all the regulations that are not in the interest of the international investors and corporations. Although WTO has detailed regulation for international and trade relations, there aren’t any legal norms that protect worker rights in the investment countries, and the rules concerning prohibition of child labour are also lacking in its legal framework. Also, it lacks the environmental host protection articles. Because of that, WTO should be understood as the institution that enables the rule of international capital (corporations) and that by the proclaimed goal of the “free trade”, it subordinates the developing countries to the interests of the international investors (Smith & Max-Neef, 2011).

The international monetary fund (MMF) and the World Bank also compose the institutional support for the economic inequality in the international trade relations. The World Bank grants the loans to undeveloped countries for the developing of the big projects – often imposed – whose main goal is to use the agricultural and resource potentials of the same countries. In return – as if the developing countries actually received something – IMF and the World Bank ask the country to „open” the borders to industrial products of the developed countries (Smith, Max-Neef, 2011). On one hand, it contributes to the increase of corporations profitability from developed countries, while on the other, undeveloped countries are being indebted in order to finance the import. Those measures are euphemistically called *structural adjustment,* which basically means granting conditional loans. Meeting the required conditions is leading developing countries into economic subordination and dependence.

In that way, IMF and World Bank promote *status quo* of the existing, we can say *neocolonial order*, by which the undeveloped countries poverty is maintained, and those countries are prevented from developing their own industrial sector. The only sectors that are being developed are export sectors, where workers are inadequately paid, rarely being allowed to produce final products (which bring the highest earnings), the best quality soil is being sold (commonly at low prices) to international corporations, while the realized profit is not allocated to the domestic population, but „pumped out” to the developed countries corporation centres. Finally, crisis-struck countries address the IMF for financial help when the trade and payment deficits reach the unsustainable dynamics, while IMF is conditioning the help with new rounds of neoliberal reforms and “structural adjustments” (Perić, Marić, 2014). Thus we gain the negative self-perpetuating cycle that condemns the undeveloped countries to the unfavourable position in the international political and economic framework, and trade relations preventing them from creating and leading the independent trade policy that would be in their interest.

Conclusion

The position of developed and undeveloped countries in the context of the global trade relations has been the consequence of the institutional inequality on the international market, which should be regarded in that way. In this paper, we have attempted to bring to attention power relations, inequality and unfairness in the world trade relations, as well as to debunk neoclassical (and neoliberal) myths about the „free trade“ and equal treatment of international economic subjects. On this basis, we have shown that neoliberalism does not give equal chances to developed and developing countries. More specifically, it places undeveloped countries at a disadvantage and makes them dependent on the “help” of the big centers of financial power. This leads to undeveloped countries being “stuck” in subordination which guarantees them poor economic performance and all the social problems arising from it.

These findings are contrary to the neoclassical and Ricardian orthodoxy which posits that the “free trade” and “open and free markets” have a positive impact on economic and social development of all countries. In this way we have debunked the myths of neoliberalism and corresponding economic theory which gives legitimacy to that project.

The international economic relations produce trade and financial disbalances that – if not accompanied appropriately by international coordinated actions aimed at preventing the consequences – lead to periodic economic and financial, but also to the legitimation crises of modern international economic and social order as well (represented by the neoliberal capitalism phase) (Perić, Marić, 2014). In these circumstances we should think about trade policy of developed and undeveloped countries as well as possibilities for the independent trade policy management.

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Endnotes

3 Undeveloped countries are often euphemistically called "developing countries", in order to conceal the fact that in the global distribution of the political and economic power they are allocated the role of the *periphery*, the source of the cheap work and resources.

4 "Golden age of capitalism" – from the end of the World War 2 to the beginning of the 1970s—was the most significant period of the more fair income distribution, when the income of the more wealthy population was progressively taxed (Piketty, 2014).

5 See more: Chomsky (1999).

6 This is the theory founded by David Ricardo, the classical treadition economist. According to it, countries should produce products where they have a comparative advantage.

7 In Post-Keynesian circles, the Great Recession is called the Second Great Depression, so as to emphaisize its numerous negative consequences that are similar in nature to the Great Depression (1929-1933). See: Keen (2011).