PSCI 214
East Asia’s Political Economy

Lecture 12: Comparative Advantage and China;
What is “Fair” about Trade?
Recall comparative advantage argument

- What determines comparative advantage?
  - Relative costs of production in a country vs. rest of the world
  - This is linked to factor endowments, productivity levels, etc.
China (and India) may be special cases

- Developing nations typically specialize in production of labor-intensive goods.
- Rich nations typically produce high-productivity goods that other rich nations buy.
- China and India are producing high-productivity goods at rates beyond what we would expect: PRODUCTIVITY JUMPS.
Why China?

• Not because of clean government!
• Or good market-based policies
• Or even human capital (though that is improving rapidly)
Why?

- Diffusion of “discoveries” (Rodrik)
- State policies have helped
  - Investment policies (joint ventures favored)
  - Domestic content rules
  - State investment
  - Poor enforcement of intellectual property conventions
Politics inextricably linked to markets

- Jobs and income = politics
- US: rust belt states
- Clinton: squeezed by Republicans on deficit; had to sell the American people on the virtues of fiscal responsibility
- Japan: the LDP Iron triangle that favored agriculture, small businesses, construction
Trade models

- Liberalism
- Mercantilism
- Marxism
- Dependency theory (offshoot of Marxist model)
Liberalism

- “Free” trade
- Free markets
- Regimes guide trade relations
- Comparative advantages determine trade relations (Smith, Ricardo)
Marxism

• Suspicious of international trade and finance
• Marxist-Leninists might admit trade necessary in limited circumstances (specialized economies)
• Production modes determine human relations
Dependency theory

- Core-periphery model
  - Structural dependencies on core
  - Difficult to emerge from dependent relationships in a market economy

- Prebisch and Wallerstein
  - Prescribed import substitution and trade protectionism
Mercantilism

- Conquest by trade
- Beggar-thy-neighbor policies
- Mercantilist politics dominated US-Japan relations in 1980s
  - Results: no resolution ultimately of trade imbalances
  - Japan-”bashing” in popular politics
  - Origin of Japanese bubble economy and ensuing instability
Mercantilism

• Who was mercantilist? Japan or the US?
• Major trade issues:
  – Agriculture
  – Manufacturing
  – Japanese domestic consumption (low)
  – American spending (high; deficits)
  – Tangentially, security
Trade tensions

- Originate in domestic politics
- Exacerbated by perception(reality) of unfair practices
- What constitutes “unfair”?
  - Dumping
  - Trade barriers
  - Government subsidies (e.g., Airbus)
  - Environmental
  - Worker conditions
  - Exchange rate manipulation
Trade barriers

• What constitutes a trade barrier?
  – Some are clear-cut: quotas or tariffs
  – Others less so: “structural” barriers
    • Inspections
    • Health regulations
    • Security regulations
    • Religious regulations (?)
    • Cultural?
Revisionism

- Japan, Inc.
- “The Japanese are different from us”
- Economic animals – Kiichi Miyazawa
- Japan bashing
Security and Economics

• Acceptance of USSR’s geopolitical interests; withdrawal from Vietnam; rethinking American role in Asia; drawing China into the fold.

• Trade imbalance; US experiences repeated deficits, ends gold system.
Trade in 1980s

• Pressure from Detroit
• VERs (“Voluntary” Export Restraints)
• Japanese protectionism
  – Move to lower tariffs