Strategic Trade

Strategic trade is giving a specific industry in your country the comparative advantage to grow and become the world leader. A good example of strategic trade with heavy government involvement is the use of robotics in Japan. An example of strategic trade through market forces is the software (mainly Microsoft) in the US. The major advantages of such a strategy are:

1. Economies of scale.
2. Learning by doing – both in making and in using.
3. Externalities – this can take many forms including the idea that helping an industry will help other industries dependent on it (robotics with automaking and consumer electronics) and also networking (we’re all more efficient if we use the same system because we don’t have to keep learning new systems). In addition, get more applications for that standard. These are the things that made Microsoft a monopoly.

In oil production, Saudi Arabia is a quasi-monopolist. To extract the maximum revenue as a monopolist, you would discriminate price according to customer’s willingness to pay (like tuition), but in a commodity like oil, you can’t do this. So the profit maximizing point becomes where marginal revenue equals marginal cost (from micro). So the Saudis form a cartel to keep the world oil price to the monopoly level. Putting high taxes on gas is a way to prevent the cartel from exercising its monopoly power. It takes the rent away from the monopolists and gives it to the government. Another argument for a gas tax is that if the price is high enough, demand becomes elastic and monopoly power evaporates. Power only arises with inelastic demand curves. Consequently, Americans should probably levy some sort of gas tax like Europe does.

Globalization

In a sense, the world was much more globalized 100 years ago than it is today. The (19)00s was the peak of colonial empires in the world. Because all the empires were run like countries, the world was incredibly globalized. The empires effectively died in 1965 and today, the world is less globalized in every dimension. The difference in globalization then and now is that then it was decided by political might. Now, it is business-led.

So firms have started locating themselves where the rules and regulations are most suitable to them. The has completely reduced the regulatory power of individual governments so they have to start providing favorable environments for companies to locate there. This has resulted in a tax shift as government have started paying companies. This reversal of tax flow has also caused a power shift from government to corporations. It’s becoming so that governments can no longer collect taxes on companies (because the companies could otherwise relocate), and consequently, taxes on citizens are starting to rise (who cannot move as readily).
In the 50s, 60s, and 70s, there was a convergence among incomes of countries. The poor were catching the middle class, the middle class were catching the rich, and even the not-so-rich rich were catching the really-rich rich. In the 80s and 90s, we saw a divergence. The gaps were again getting larger but it wasn’t always a rich-poor thing anymore. Some poor were winning (like China), while some rich were losing (like Canada). The big danger is that the third-world countries are getting ignored and left out (like Africa) and these countries will not be part of the global economy. Developed countries do have an ethical obligation to help these countries out but there needs to be a minimum level of social organization from within for the help to work.

Another danger is that if governments lose control and can no longer help its citizens and companies, then people will start to not care about the government and ignore it.

We are also going back to a time when countries are in flux with changing borders. During the cold war, the world was incredibly stable as borders were not argued over. However, since the end of the cold war, there has been a tremendous redrawing of boundaries – mainly because boundaries were arbitrary to begin with.

Many people also complain about the invasion of “American culture” in the rest of the world. But none of this is being forced. It’s often just the older people who are railing against the likes and tastes of the younger people. The old people are the ones who hate the “new” culture. But the convergence of culture is due to universal human tastes. Diversity only goes down if people like it. They are always free to choose whatever culture they wish.

In terms of labor, do Americans have the right to impose regulations on other countries (child labor laws, for instance)? Americans know that child labor is not only ethically wrong but stupid for the country’s long-term interests as well. However, third-world countries don’t want to hear preachiness from the first world and there are often gray areas with no clear right or wrong (if the choice is labor or brothel, you would probably choose labor).

Environmental concerns are most often self-correcting and self-regulating (from country to country). As you get richer, you start to care more and more about the environment. The key is that you have to ensure that each country enforces their own environmental laws – lax enforcement cannot be tolerated. This idea was the only environmental agreement in NAFTA.

Finally, as you start to admit more and more members to world organizations, what do you do about voting power. Do you let all countries, including third-world, have equal power? Currently, the number of votes a country has is proportional to the amount of funds contributed by that country. So the problem is that deciding that everyone gets equal power is basically deciding that you get no funds because the developed countries then have no incentive to contribute.

So the main concerns are not if you should globalize but how do you do it?