Introduction:
A Brief History of International Trade

ANCIENT PERIOD

International trade based on the free exchange of goods started as early as 2500 BC. Archaeological discoveries indicate that the Sumerians of Northern Mesopotamia enjoyed great prosperity based on trade by sea in textiles and metals. The Greeks profited by the exchange of olive oil and wine for grain and metal somewhere before 2000 BC.

By around 340 BC, many devices of modern commerce had made their appearance in Greece and its distant settlements: banking and credit, insurance, trade treaties, and special diplomatic and other privileges.

With the decline of Greece, Rome became powerful and began to expand to the East. In the first century AD, the Romans traded with the Chinese along the Silk Road and developed many trade routes and complex trading patterns by sea. However, the absence of peace made traveling unsafe and discouraged the movement of goods, resulting in the loss of distant markets.

By the time of the breakup of the Roman Empire in the fifth century, the papacy (papal supremacy) had emerged as a strong institution in a new and unstable world. The church's support (sponsorship) for the crusades in the eleventh century revived international trade in the West through the latter's discovery and introduction of new ideas, customs, and products from the East. New products such as carpets, furniture, sugar, and spices brought from Egypt, Syria, India, and China stimulated the markets and the growing commercial life of the West. This helped Italian cities such as Venice and Genoa to prosper and to replace Constantinople as the leading center of international commerce. Letters of credit, bills of exchange, and insurance of goods in transit were extensively used to accommodate the growing commercial and financial needs of merchants and travelers.

By the end of the fifteenth century, the center of international commerce had moved from the Mediterranean to Western Europe. Spain, Portugal, and later Holland became the focal points of international commercial activity.

The more developed areas of Europe were changing from a subsistence economy to one relying heavily on imports paid by money or letters of credit.

COLONIAL PERIOD (1500-1900)

With the discovery of America in 1492, and sea routes to India in 1498, trade flourished and luxury goods and food products such as sugar, tobacco, and coffee became readily available in the markets of Europe.

The principal motivations behind global expansion (colonization) in the fifteenth century had been to enhance national economic power (mercantilist policy) by exploiting the colonies for the exclusive benefit of the mother country. Colonies were regarded as outposts of the home economy that would reduce trade dependence on rival nations and augment national treasure through exports as well as discoveries of precious metals. This first phase of colonization, which lasted until the advent of the Industrial Revolution in England in 1750, was characterized by the following general elements with respect to commerce:

1. All commerce between the colonies and the mother country was a national monopoly, meaning all merchandise exports/imports had to be carried by ships of the mother country and pass through specified ports.
2. Little encouragement was provided toward the development or diversification of indigenous exports. For example, in 1600, precious metals constituted 90 percent of colonial exports to Spain. In the mid-1650s, British imports from its colonies were mainly concentrated in three primary products: sugar, tobacco, and furs. To protect domestic producers, competing colonial exports were restricted or subject to special duties. The patterns of economic relations were fashioned on the basis of dissimilarity, that is, noncompetitiveness of colonial and metropolitan production.
3. Certain enumerated products could be exported only to the mother country or another colony. The policy ensured a supply of strategic foodstuffs and raw materials.
4. Private companies in the metropolis received a charter from the government that granted them (i.e., the companies) a monopoly of trade in the colonies. In most cases, the charter also granted complete local administrative authority, ranging from the making of laws and administration of justice to imposition of taxes. Examples of this include the British East India Company (1600), the Dutch West India Company (1621), and Hudson’s Bay Company (1670).

The second historical phase of overseas expansion (1765-1900) was dictated more by commercial considerations than by mere territorial gains. Britain emerged as the dominant colonial power, and by 1815 it had transformed its empire into a worldwide business concern. By the 1860s, the Industrial Revolution had transformed the social and economic structure of England, and mass production dictated an expansion of the market for goods on an international scale. The political economy of mercantilism that had proliferated over the preceding century was gradually replaced by that of free trade. By 1860, Britain had unilaterally repealed the Corn Laws, abolished the Navigation Act restrictions (foreign ships were permitted to take colonial goods anywhere) and the commercial monopolies given to particular companies. Preferential duties on empire goods were gradually abolished. In trade, as in foreign policy, Britain led the free trade ideology based on nondiscrimination. At the time, Britain was most likely to benefit from free trade because of its industrial and commercial lead over other nations.

1900 TO THE PRESENT

The major characteristics of economic relations from 1900 until the outbreak of World War I were the further development of trade and the emergence of a world economy. These were also the result of the international migration of people and capital from Europe, particularly Britain, since the 1850s, to other countries such as the United States, Australia, Argentina, Brazil, and Canada. This pattern of world economy provided the industrial economies with new sources of food and raw materials and new markets for exports of manufactures. For example, by 1913, Brazil was the source of two-thirds of German coffee imports, whereas North Africa supplied over half of French imports of wine. However, much of the import trade in Europe was subject to trade restrictions, such as tariffs, to secure home markets for local producers. Even within Britain there were mounting pressures for the abolition of free trade.

The post–World War I recovery was further delayed by the disruption of trading links, as new nations were created and borders were redrawn. State intervention and restrictive economic policies had been consolidated in Europe and other countries by the end of the war. The U.S. government introduced the Fordney-McCumber Tariff in 1922, which imposed high tariffs on agricultural imports, and later the Smoot-Hawley Tariff in 1930, which provoked widespread retaliation. Britain imposed high duties on various industrial products, such as precision instruments and synthetic organic chemicals, to encourage domestic production under the Safeguarding of Industries Act, 1921. The volume of world trade in manufactures fell by 35 percent between 1929 and 1932, and prices also fell by a similar amount. The volume of trade in primary products fell by 15 percent, but prices fell by about 50 percent. To alleviate the worst effects of the Depression, countries resorted to more protectionism. This wave of protectionism produced a massive contraction of international trade and further aggravated the Depression. Many of the barriers placed on trade included tariffs and quotas, a variety of price maintenance schemes, as well as arbitrary currency manipulation and foreign exchange controls and management.

To avoid a repetition of the economic situation of the previous two decades, Allied countries met even before the war to discuss the international financial arrangements that should govern trade and capital movements in the postwar world. In 1944, they established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). The IMF was to be concerned with facilitating the growth and expansion of global trade through the system of fixed exchange rates, while IBRD was established to promote long-term investment. This was followed by an agreement (the General Agreement on Tariffs and Trade, or the GATT) in 1948 to permit the free flow of goods among nations.