POLI 445
Politics of International Economic Relations

Session 6 – TRADE POLICY PREFERENCES OF THE SOCIETY-CENTRED APPROACH TO TRADE POLITICS

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Session Overview

In this session we will look at the Trade Policy preferences of the society-centered approach to trade politics.

There are two trade policy preferences which are the factor model and the sector model.

Students will understand how these two trade policy preferences shape the trade policies of countries in the global system.

Session Outline

- **Topic One** –The Factor Model
- **Topic Two** –The Sector Model

Reading List

- **Thomas Oatley (2013),** International Political Economy (fifth Edition): Interests and Institutions in the Global Economy, Pearson Longman**.**

Topic One
The Factor Model

- The factor model of trade policy preference primarily argues that trade politics in a country are driven by competition between factors of production (labor and capital or workers and capitalists). This is because both labor and capital have different preferences in the economy. Whenever a country increases or lowers tariffs, one factor (either labor or capital, not both) will experience rising incomes while the other will see their incomes fall. This situation leads to class conflict between labor and capital in the distribution of the resources of the country (Oatley 2008).
- Laborers constitute those who work in factories or organizations in exchange for wages or salaries. Capitalists constitute those who have invested their resources/money in equipment and technologies used in production. This distinction can also be clearer against the backdrop of labor-intensive production and capital-intensive production. Labor-intensive industries are the industries that use more laborers than technological equipment to produce their goods. In other words, labor-intensive industries may use technological equipment, but the laborers are more than the technological equipment. Capital-intensive industries also use more technological equipment than laborers to produce their goods. This suggests that, depending on the goods produced, some industries will need more laborers and less capital and vice-versa.

The Factor Model

- Using four assumptions, Oatley (2008:74-75) has illustrated how the factor model leads to class conflict in countries. The first assumption is that there are only two countries in the world: the United States and the Peoples' Republic of China (China). Secondly, both countries produce two commodities: shirts and computers. Third, each country uses two factors of production, labor and capital, to produce both commodities.
- Finally, the United States is endowed with a lot of capital and little labor, whereas China is endowed with a lot of labor, and little capital. Based on these assumptions, capital will be relatively cheap in the United States, while capital will be expensive in China. Since the US is endowed with a lot of capital, she will export the capital-intensive commodity (computers) to China and import the labor-intensive commodity (shirts) from China. In the same manner, because China is endowed with a lot of labor, she will export the labor-intensive commodity (shirts) to the US and import the capital-intensive commodity (computers) from the US.

The Factor Model (Cont’d)

- Now let us look at what will actually lead to class conflict in the two countries. Because China has more laborers than the United States, United States’ industries that produce shirts will see demand for shirts reduce drastically. This is because consumers will buy the cheap shirts imported from China, and this will mean some employees working in factories that produce shirts in the US will be laid off (dismissed from work). In this instance, labor in the United States will lose out (will not benefit) whereas labor in China will benefit. We have already said that trade liberalization has distributional consequences.

The Factor Model (Cont’d)

- However, a growing demand for US computers will indicate that US computer manufacturers will need more capital and labor to meet the demand in China. Here, the problem is that computer manufacturing is a capital-intensive commodity, so more capital (and less labor) will be required to meet the growing demand in China. Labor will still be the loser. The reverse also applies for labor and capital in China. This means that a growing demand for Chinese shirts in the US will benefit labor, while those who have invested their capital in the computer industry in China will be the losers. The reason is simple: the final assumption says the United States is endowed with a lot of capital and China is endowed with a lot labor, signifying that the United States will benefit from trade liberalization when the commodities involved are capital-intensive commodities, and China will also benefit when the commodities involved are labor-intensive ones. On the basis of the above, we can say that, with trade, abundant capital in the United States and abundant labor in China benefited, while scarce labor in the United States and scarce capital in China both lost.

Sample Questions

1. Using Ghana and the United Kingdom as well as two commodities, describe how the factor model can lead to class conflict in the two countries.--2. Why would you argue that Ghana and Nigeria are more endowed with labor than capital?---

TOPIC TWO
The Sector Model

- The sector model trade policy preference asserts that trade politics in a country are driven by competition between different industries. Unlike the factor model, where trade politics are driven by competition between labor and capital, the sector model is about competition between the industries in a country. To repeat, I have said that with trade liberalization, some will benefit and others will not benefit. And, with the sector model, the main issue is that countries' trade policies favor some industries and not others. As a result, this leads to industries being pitted against other industries (Oatley 2008). Primarily, what you have is industrial conflicts between different industries in the same country. Which industries are benefiting from trade liberalization and which are losing out in Ghana?

The Sector Model

- The conflict arises because once a country, let us say country A, embraces trade liberalization, there are some industries in country A that are going to do extremely well because they will be able to export their goods to other countries, say countries B, C, and D, for more money.
- With the same trade liberalization, industries in countries B, C, and D will also export goods to country A. What this means is that industries in country A that produce the same goods being exported to their country by the industries in countries B, C, and D will face competition for people to buy their goods. If the industries in countries B, C, and D are more efficient than (they can even produce on a large scale and reduce prices) the industries in country A, the industries in country A will be displaced in the market.
- The reverse is that industries in country A that export their goods to other countries may be satisfied with their country's trade liberalization policy. However, those industries that cannot compete with the foreign goods will make the effort to influence the trade policy of their country.

The Sector Model (Cont'd)

- The problem is compounded for industries in a country that cannot compete with foreign goods because the sector model makes the assumption that factors of production cannot be easily moved from one place to another. This means that if you find yourself in an industry where you cannot compete with goods coming from other countries, you cannot switch to another industry simply because factors of production cannot be easily moved from one industry to another.
- In Ghana, for instance, those in the textiles and poultry sectors have suffered mainly because of our government's trade policies. The players in these sectors are not able to compete with textiles and poultry products coming to Ghana from many advanced industrialized economies and China (textiles especially). However, industries in Ghana that are able to export their goods to other countries will tell you that trade liberalization is good for Ghana.

The Sector Model (Cont'd)

- From a broader perspective, with the sector model, the competition is clearly seen between industries in a country that export their goods (export-oriented sectors) to other countries and those that do not export their goods (import-competing sectors) to other countries. The latter group of industries also called the import-competing sectors or industries, find themselves competing with foreign established industries that can produce on a large scale and reduce prices and still be profitable.
- On the other hand, the former groups of industries, also called export-oriented industries, are satisfied because they will benefit from the exportation of their goods to other countries. Both groups will influence trade politics in a direction that will favor their specific industries.

Two models of interest groups' competition over trade policy

	The factor Model	The Sector Model
The principal actors	Factors of production of classes	Industries or sectors
How mobile of factors of production?	Perfectly mobile across sectors of the economy	Immobile across sectors of the economy
Who wins and who loses from the international trade	Winner: Abundant factor capital in the advanced industrialized countries Loser: Scare factors-labor in the advanced industrialized countries	Winner: labor and capital employed in export oriented industries Loser: labor and capital employed in import competing sectors
Central dimension of competition over trade policy	Protectionist labor versus liberalizing capital	Protectionist import-competing industries versus liberalizing export –oriented industries

Sample Questions

1. Using appropriate examples or illustrations, discuss how the sector model leads to industrial conflicts in countries.--
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2. Mention any five sectors/industries of the Ghanaian economy that are highly competitive in this era of globalization---------------------------------------
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Conclusion

- The session has laid emphasis on the trade policy preferences of the society-centered approach to trade politics. I argued that both preferences promote conflicts. While the factor model looks at the competition between labor and capital, the sector model is particularly concerned with the competition between different sectors of the economy.