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Institute for International Law

International Economic Law

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Aims of the course

- Gaining insights into various issues of International Economic Law
- Understand the interactions between different fields of law
- Analyse current developments
- NOT: Gaining detailed knowledge about the whole body of international economic law

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Organisational issues

- 1 or 2 lessons on each topic
- Documentation available online on: http://www.ivr.uzh.ch/institutsmitglieder/kaufmann/vorlesungen/iel.html
- Download the texts of the WTO agreements and bring them to class
- Course syllabus and all slides are regularly posted on: http://www.ivr.uzh.ch/institutsmitglieder/kaufmann/vorlesungen/iel.html
- Exam at the end of the term, form (oral or written) will be announced by mid March

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What is international economic law about?

- Multidisciplinary legal field
  - Trade and economic law
  - Public international law
  - Constitutional law
  - Contract law
- Interdisciplinary
  - Economics
  - Political Sciences

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Free Trade: Precursors

- Principle question: Why is free trade a desirable goal?
- Early forms of free trade theories
  - Different approaches in the Ancient World
  - Basis in ius gentium: Grotius
- Mercantilism in the 17th and 18th century
  - Reasons for state regulation of the economy
    - Maintenance of a positive trade balance
    - Promotion of the manufacturing industry in own country

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Theory of Comparative Advantage (1/3)

- Origin: Critics of mercantilism
  - David Hume
    - Free trade leads to even balance of payments
    - Disapproval of mercantilistic/imperialistic theories
  - Adam Smith (Text No. 2)
    - Theory of absolute advantage
    - Advantages resulting from specialisation in a household are also applicable in international trade.
    - What is problematic about this conception?

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Theory of Comparative Advantage (2/3)

- David Ricardo: Theory of comparative advantage
  - A country profits from foreign trade even if its own productivity is in all sectors lower than the productivity of its trade partners (Text No. 3)
  - The Principle in detail: Text No. 4 (very important!)
  - Problem
    - Trade partners are not only states but also private actors
    - Labour as the only factor of production
    - Specialisation between countries is difficult in the 21st century
    - Why does the unilateral removal of trade barriers not work in practice?

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Theory of Comparative Advantage (3/3)

- Further developments
  - Heckscher-Ohlin Model (Factor-proportions model)
    - Consideration of different allocation of resources among states
    - Correlation between the resources (relative factor endowment) and the state of technological development (relative factor intensity)
    - Countries export goods which can be produced using factors that are relatively cheap and abundant
    - Factor price balance

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Pro and contra free trade

- Regulatory competition and race to the bottom
- Limited room for independent policies
- Securing jobs in high wage countries
  - Higher productivity
  - Attractiveness for investors depends on wage level and productivity
  - Relationship foreign trade – technological progress?
- Impact of globalisation on solidarity
- Political/legal reasoning: right to free trade

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Monetary Basics (1/4)

- Currency systems
  - Free convertibility: unlimited exchange of currencies
    - Fixed exchange rate: e.g. gold standard
    - Floating
  - Foreign exchange control: Possession of foreign currency and exchange of currencies
    - Barriers for international trade
  - Bretton Woods Agreements
    - Establishment of an international currency order on the basis of free convertibility
    - Foster international trade by facilitating payments and capital transactions

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Monetary Basics (2/4)

- Exchange rates
  - IMF Articles of Agreement 1944
    - Free convertibility
    - Fixed exchange rates (gold standard)
  - 1976 Liberalisation of exchange rates
    - Floating
    - Margin for member states (Art. IV para. 2 lit. b IMF Treaty)
    - Duty to align economic and financial policies with the objectives of economic growth and price stability

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Monetary Basics (3/4)

- Balance of Payments
  - Summary of all transactions with foreign countries
  - Current Account
    - Exchange of goods and services, capital and earned income from and to foreign countries
    - Current transfers
  - Financial Account
    - Origin and settlement of cross-border financial claims and liabilities
    - Direct investment
    - Portfolio investment
    - Other investments
  - Possibility to compensate deficits in current account with surplus of financial account

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Monetary Basics (4/4)

- Relevance for trade
  - Currency as more than "just" a means of payment: Investment
    - Own trade (e.g. derivatives)
    - Every international transaction entails an exchange rate risk
  - Altered tasks of IMF and World Bank
    - Impacts on the legal framework
    - Differences to GATT/WTO