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Introduction to International Economic 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 at the Studentenladen**
- **Download the texts of the WTO agreements and bring them to class**
- **Course syllabus and all slides are regularly posted on www.rwi.uzh.ch/kaufmann**
- **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. 5)
 - 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. 6)
- The Principle in detail: Text No. 7 (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 und 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

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