

Suite 104**THE ORIGIN OF TRADE**

The origin of trade
Marco Polo
The Oresund Strait
Medieval Commerce
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The History of Money
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104.01 THE ORIGIN OF TRADE

In prehistoric times, to trade or barter for goods and services was the lifeblood at the origin of communication. This is considered to be around circa 150,000 years ago.

Throughout much of recorded history trading is believed to have taken place. This is evidenced by the exchange of obsidian and flint during the Stone Age. These materials were necessary in the creation of jewellery, which was then used to barter with Egypt, recorded back to some 3000 BCE. The Greeks established trade colonies called emporia and the Phoenicians were noted sea traders travelling as far north as Britain for sources of tin to manufacture bronze.

From as early as the Greek civilization through the Roman Empire trade was at the foundation of growth. The Greek philosophers and early Christians were disdainful of merchants in general and since early trade meant dealing with merchants this was not a positive thing.

With the fall of the Roman Empire the trade network nearly collapsed. However, some trade did occur. Trade dealings between the Christians in Europe and the Muslims of the near east were bartered by the clever Aphanites, a medieval guild of Jewish merchants.

The Vikings and Varangians from Scandinavia were well known traders. The Vikings sailing to Western Europe and the Varangians in the direction of Russia from the 8th century to the 11th century. There was an alliance of trading cities that maintained a trade monopoly over most of Northern Europe and the Baltic between the 13th and 17th centuries, this was called The Hanseatic League.

Before Marco Polo, trade as we know it did not exist. Travel took place mostly by armies trying to conquer each other to secure their resources. This resulted in a Manor House or Castle Keep becoming somewhat a city unto itself in its attempts to become self sufficient.

The importation of spice to Europe from China aided their empire to flourish and endure. It was the widespread need to trade which produced the stable and secure transportation network. This encouraged the establishment of trade routes for the shipment of goods without the fear of piracy.

104.02 MARCO POLO

Then Marco Polo discovered a route to China in AD 1100 and Europe started trade as we now know it. He took goods to barter and came back with silk and spices.

In the late 13th century the spice trade helped bring on the Age of Exploration. This was due to Vasco da Gama when in 1498 he started the Spice trade. This caused explorers to spend hundreds of years searching for the best water route to China, and thereby discovered the new world. Spices brought to Europe were considered to be the most valuable commodities for their weight, sometimes rivalling gold.

104.03 THE ORESUND STRAIT

Starting in 1429 the King of Denmark ruled the doorway to the Baltic Sea trade through the Oresund (Sound) Strait. This was the link from Western Europe to the Baltic Sea. Denmark placed a sound toll on ships passing through the strait which endured through the Middle Ages. Because of this sound toll, many records were kept concerning the passage of ships and their cargo and this continued until the mid 19th century when the sound toll ceased to be collected. This "Sound Toll Ledger" and the statistics produced became a valuable source of data for the study of European Economic History. However, it was found that the data contained inaccuracies due to information differing from port departure records.

Many years were spent trying to establish colonies from which they could monopolize and become captive suppliers of raw materials and suppliers of gold. This was not trade as it is known today. It was much easier to steal rather than trade for goods, especially if you are stronger than your neighbour.

In the 16th century the Dutch gained in prosperity due to the opening of the trade routes which linked the Baltic Sea with Western Europe. This played an important role in international trade. The Oresund (sound) Strait, the doorway to the Baltic Sea Trade charged a sound toll on ships passing through the strait. This had been imposed under the rule of the King of Denmark starting in 1429. Records kept in Denmark concerning the passage of ships and their cargo, particularly from the late 16th century until the mid 19th century provided a large number of historical documents. This helped initiate customs and tax records as well as the fact that the cargo of many of the ships was never actually inspected.

Holland was the center of free trade in the 16th century, imposing no exchange controls and advocating the free movement of goods. However, Portugal was the dominant trader in the East Indies. During the 17th century the Netherlands was dominant and the British in the 18th century.

104.04 MEDIEVAL COMMERCE

Medieval Commerce contributed:

- Banking imported from the East
- Cities, that are great today, were founded. Many of them started out specializing in a few major products.
- Guilds promoted standards of workmanship.
- Summa Theological by St. Thomas Aquinas....the concept of balancing ethical principles of Christianity with principles of making a profit.

The Ottoman archival materials on international trade from the 16th to the early 19th century were created, issued or received by the central government or local governments and are still kept there. They are a valued source of information.

104.05 THE INDUSTRIAL REVOLUTION

This brought about The Industrial Revolution with England and France dominant with their manufacturing capacity. However, they needed the raw materials to supply their machines and keep their people employed. From this came the manufactured goods that then became the exports to the colonies.

Adam Smith in 1776 argued that economic specialization could benefit nations just as much as firms. Smith said that he considered all rationalizations of import and export controls “dupery”, which hurt the trading nation at the expense of specific industries. Since the division of labour was restricted by the size of the market, he said that countries having access to larger markets would be able to divide labour more efficiently and thereby become more productive.

In 1799, we find that the Dutch East India Company became bankrupt partly due to the rise of competitive free trade. The Dutch East India Company had formerly been the world’s largest company.

In 1817, the famous theory of comparative advantage was put forth by David Ricardo, James Mill and Robert Torrens. It explained that free trade might benefit the industrially weak as well as the strong. Ricardo advanced the doctrine still considered the most counterintuitive in economics through the Principles of Political Economy.

‘When an inefficient producer sends the merchandise it produces best to a country able to produce it more efficiently, both countries benefit.’

It was The Industrial Revolution which allowed countries to produce more than they could use and required more raw materials than they could supply. This created the real basis for international trade and exploration. The larger and more powerful countries sought out colonies which they could plunder of its wealth for either nothing or just token goods like liquor or basic tools. Eventually this brought about many colonies to flex their economic muscles and demand to be treated like trading equals. This was a major factor in the rise of movements such as the American Revolution.

104.06 THE ASCENDANCY OF FREE TRADE

By the early 19th century there was a flourishing trade between Europe and North America. At this time most of this was made up of ships going out laden with goods and returning with products bartered for. No currency was exchanged.

It was during this period that the ascendancy of free trade was primarily based on national advantage. In that the calculation made was whether it was in any particular country's self-interest to open its borders to imports.

It was John Stuart Mill that argued that a country with monopoly pricing power on the international market could manipulate the terms of trade through maintaining tariffs, and that the response to this might be reciprocity in trade policy. This was taken as evidence against the universal doctrine of free trade, as it was believed that more of the economic surplus of trade would accrue to a country following reciprocal, rather than completely free, trade policies just as Ricardo and others had suggested earlier.

A few years later this was followed by the 'infant industry scenario' developed by Mill anticipating the 'New Trade Theory' by promoting the theory that government had the "duty" to protect young industry, even if only for the time necessary for them to develop to full capacity. This became the policy in many countries attempting to industrialize and out-compete English exporters.

104.07 BIRTH OF INTERNATIONAL BANKING

This brought about the birth of the International Banking system and a large part of the insurance industry because traders needed to finance and protect their ships inventory and to insure the cargo against loss. Currency was not needed and was not accepted unless it was a readily accepted coin. Later countries started to trade other than bartering goods. To this end they had need for a new medium of exchange as previously it was gold. However, gold was difficult to move and easily stolen.

This gave birth to Merchant Banking as they were able to create a system allowing their credit to be accepted by trading partners around the world.

104.08 THE HISTORY OF MONEY

In the beginning people used just objects with intrinsic value such as: teeth, sea shells, and various types of animals and slaves. This is referred to as commodity money.

Currency (first metal then paper) was introduced to both standardize trading and to make merchants safer from pirates and thieves. Symbols were used to represent commodities and metals to represent stored value, and this lasted for over 1,500 years. There are examples of coins from earliest large-scale societies which appear as large lumps of precious metals. The ancient Greeks used coins made from iron to discourage foreign trade.

104.09 AMERICAN CIVIL WAR

The American war of 1812 was a war of economics. After which England nearly came into the American Civil War on the side of the South in order to protect their cotton supply.

104.10 THE GREAT DEPRESSION

From 1929 to 1941 there was a major economic recession referred to as "The Great Depression". This resulted in a considerable drop in trade affecting all other economic indicators.

Due to World War II and the lack of free trade it was felt by many that this was the principal cause bringing about the depression. In 1944, during the war, 44 countries signed the Bretton Woods Agreement, intended to prevent national trade barriers in order to avoid depressions. It established rules and institutions to regulate the international political economy. This was the origin of: the International Monetary Fund and the International Bank for Reconstruction and Development (later divided into the World Bank and Bank for International Settlements). In 1946, after enough countries ratified the agreement the organizations became operational. Then again in 1947, 23 countries agreed to the General Agreement on Tariffs and Trade to promote free trade.

104.11 ADVANCEMENT OF FREE TRADE

Free trade advanced further in the late 20th century and early 2000s:

The United States was always an unusual trading partner because of its self sufficiency. The United States was never a colonizer and until well after the end of World War II stayed out of international conflict as much as possible.

At the end of WWII the United States was by far the strongest and richest country and was leading the world in quality production. Between the years of 1950 and 1975 the United States imported very little. After 1975 things really opened up and the United States truly became an international trader.

- USA Lend Lease
- Commerce Raiding
- Marshall Plan

1992 – European Union lifted barriers to internal trade in goods and labour.

1994 – NAFTA took effect

1994 – The GATT Marrakech Agreement specified formation of the WTO.

1995 – The World Trade Organization was created by mandating most favoured nation trading status between all signatories.

2005 – A proposal for a Central American Free Trade Agreement, which would include the United States and the Dominican Republic.

