Bruce E. Moon

DILEMMAS OF INTERNATIONAL TRADE

SECOND EDITION

DILEMMAS IN WORLD POLITICS

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Bruce E. Moon

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Bruce E. Moon

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Acronyms

APEC	Asia Pacific Economic Cooperation
CAP	Common Agricultural Policy
CGE	computable general equilibrium
CUSTA	Canada–United States Trade Agreement
DM	Deutsche mark
DSB	Dispute Settlement Body
EC	European Community
ECB	European Central Bank
ECSC	European Coal and Steel Community
ECU	European currency unit
EEC	European Economic Community
EMS	European Monetary System
ERM	Exchange Rate Mechanism
ESC	Economic and Social Committee
EU	European Union
EURATOM	European Atomic Energy Community
FDI	foreign direct investment
FTAA	Free Trade Area of the Americas
FTC	Federal Trade Commission
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
H-O	Heckscher-Ohlin (theory)
IBRD	International Bank for Reconstruction and Development (World Bank)
IMF	International Monetary Fund
ISI	import-substituting industrialization
ITO	International Trade Organization
LAN	Local Area Network
LDCs	less developed countries
MFA	Multi-Fiber Agreement
MFN	most favored nation

MITI	Ministry of International Trade and Industry (Japan)
MNCs	multinational corporations
MOF	Ministry of Finance (Japan)
MPs	members of Parliament
NAFTA	North American Free Trade Agreement
NICs	newly industrializing countries
NTBs	nontariff barriers
OECD	Organization for Economic Cooperation and Development
PRC	People's Republic of China
PRI	Mexican Partido Revolucionario Institucional
SII	structural impediment initiative
SPS	Sanitary and Phytosanitary Measures Agreement
TAA	Trade Adjustment Assistance program
TRIM	trade-related investment measures
TRIP	trade-related aspects of intellectual property
TPRM	Trade Policy Review Mechanism
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USTR	United States Trade Representative
VAT	value-added tax
VIE	voluntary import expansion
VERs	voluntary export restraints
VRAs	voluntary restraint agreements
WTO	World Trade Organization

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Trade and Trade Issues

This book has two missions. The first is to explain the fundamental dilemmas that surround international trade and trade policy issues. How we respond to these trade dilemmas will not only shape our economy but also determine the kind of society in which we will live. Too often, trade is treated purely as an economic phenomenon that is—or ought to be—divorced from politics. In fact, because the political and the economic components of international trade are intertwined, neither can be understood without the other. I examine the dilemmas of trade in the context of several contemporary controversies, especially the Japanese-U.S. trade relationship, the Asian financial crisis, the **European Union** (EU), the **North American Free Trade Agreement** (NAFTA), and the **World Trade Organization** (WTO).

The second mission is to introduce the basic principles of international political economy by examining how politics and economics interact to shape trade policies. To provide historical and theoretical perspective, I discuss nineteenth-century British trade policy and the evolution of the international economic system from the **Bretton Woods** institutions of the post–World War II era to the "Battle of Seattle" over the contemporary WTO. To demonstrate the enduring relevance of these basic principles and fundamental dilemmas, I also discuss their role in shaping recent proposals to revise the architecture of global economic institutions and to rethink the trade policy advice given to developing nations.

THE THEMES OF THE BOOK

Whenever people purchase products made abroad, they unknowingly act in accord with one set of interests, values, and theories concerning international trade but in discord with another set. The decision by a firm to market its goods abroad also carries implications beyond its immediate intentions. This book demonstrates that the consequences of these individual choices pose fundamental policy dilemmas for governments as well as for the people directly involved. States seek many outcomes from trade—full employment and improved living standards for its citizens, long-term growth and stability for its economy, and power, security, and friendly external relations for the state itself—yet discover that these desirable outcomes are frequently incompatible. The resulting dilemmas can be seen with clarity only when the standard economic theories of international trade are understood to be partial and incomplete. They must be augmented with treatments rooted in the perspective of international **political economy**.

Since the nineteenth century, **economic liberalism** has been the dominant theoretical perspective on international trade. **Liberal** economic theorists maintain that free markets establish prices that result in the most **efficient allocation of factors of production,** such as land, labor, and **capital**. Thus, from the time of Adam Smith (1723–1790), they have concluded that **free trade** is the surest path to economic prosperity and growth. Both the global economy as a whole and each nation within it are said to be better off when unencumbered trade permits each consumer to buy the most desirable products and each **entrepreneur** to invest resources in the most productive way. Consequently, they have urged that governments refrain from interfering with private entrepreneurs and free markets in international trade. Yet in the intervening two centuries, virtually no national government has followed this advice.

This book probes the reason for this curious disparity between accepted economic theory and established political practice, rejecting the interpretation proffered by some economists that the discrepancy results from irrational or corrupt policy. Instead, the book's political economy perspective acknowledges that governments seek to influence trade because markets generate multiple consequences, many of which exceed the boundaries of economic theory yet touch the fundamental responsibilities of government. For example, just as trade affects the prices of individual products, global markets influence which individuals and nations

The Meaning of Economic Liberalism

The term "economic liberalism" is not to be confused with the ambiguous way that the term "liberal" is applied in U.S. politics. Economic liberalism is wary of government interference with the market, whereas those called liberals often advocate it.

accumulate wealth and political power. They determine who will be employed and at what wage. They determine what natural resources will be used and at what environmental cost. They shape opportunities and constraints in foreign policy. They even affect the viability of domestic policies, the sustainability of economic growth, and the integrity of a nation's culture and institutions. Because trade affects such a broad range of social outcomes, conflict among alternative goals and values is inevitable. Because these social outcomes affect various individuals and groups differently, these conflicts are inevitably politicized. As a result, governments, which seek to balance all the interests and values of society, confront dilemmas that require painful choices.

In this book I describe the dilemmas resulting from the distributional consequences of trade, the competing values affected by trade, and the impact of trade on the concerns of the state. I also explain how various governments (and individuals) respond to these dilemmas and why.

THE IMPORTANCE OF TRADE

Most economists and policymakers believe that trade provides substantial benefits for individual nations and the global economy as a whole. Exports enable corporations to earn higher profits, employ more workers, and generate greater tax receipts for governments than if they were restricted to selling in a single national market. Exports also bring in revenue in the form of foreign currencies that can be used to purchase imports. The very fact that individuals choose imported products implies either that similar goods cannot be produced domestically or that imports are of higher quality or lower price than domestic alternatives. In either case, import expansion implies an increase in welfare for consumers.

Considerable evidence supports the view that trade improves productivity, consumption, and therefore welfare. The growth of the global economy has been most rapid during periods of trade expansion, especially during the quarter century after World War II, and has slowed when trade levels have fallen, especially during the **Great Depression** of the 1920s and 1930s. Periods of national growth have also coincided with trade expansion, most notably in Germany, Japan, and Korea. There is some uncertainty about whether trade leads to growth or growth leads to trade, but there is little doubt that most governments believe that trade expansion improves living standards.

Table 1.1, which shows the importance of exports in selected nations in 1960, 1980, and 1997, demonstrates that trade has grown substantially, becoming an important element in the economies of all nations. Because global trade has grown nearly twice as rapidly as total global production

TABLE 1.1 Exports as a Percentage of Gross National Product

Nation	*1960*	*1980*	*1997*
United States	5.2	10.2	11.6
Canada	17.0	28.2	39.6
Mexico	8.6	10.7	30.2
United Kingdom	20.9	27.3	29.5
France	14.5	21.5	24.0
Sweden	22.7	29.5	40.0
Belgium	38.2	57.0	68.5
Ireland	30.6	47.6	76.4
Japan	10.7	13.7	9.9
China	4.6	6.3	23.0
Hong Kong	84.4	89.9	131.6
Korea	3.3	33.9	38.1
Thailand	15.7	24.1	47.0
Malaysia	51.4	57.5	94.3
Indonesia	15.6	34.2	28.0
Philippines	10.6	23.6	49.0
Argentina	7.6	5.1	9.0
Brazil	6.8	9.1	7.6
Jamaica	33.2	51.1	51.0
Republic of Congo	20.5	60.0	76.9
Nigeria	9.2	29.4	40.9

SOURCE: World Bank, *World Development Indicators 1999* CD-ROM.

since 1950, about a quarter of all goods and services produced globally are now traded among nations. Technological advances in transportation and communication can account for much of this growth, with freight costs having declined by two-thirds since the mid-1980s. However, driven by the liberal theory described in Chapter 2 and the political dynamics portrayed in Chapter 3, governments have adopted policies and created international institutions that have played an even greater role in facilitating trade expansion. Chapter 4 shows that the Bretton Woods system initiated after World War II has been especially significant in expanding trade and that the recent addition of the WTO promises even greater integration among national economies. The vast economic restructuring entailed by this **globalization** has had a far-reaching impact on many aspects of economic, social, and political life, making it evident why trade issues have become so politically explosive in recent years.

Table 1.1 also reveals considerable variation in the importance of trade across nations and suggests some patterns within that variation. Larger nations, which have sizable domestic markets of their own, tend to rely less on trade than smaller nations. For example, Japan, with exports constituting less than 10 percent of its **gross national product** (GNP), is much less dependent on trade than any European nation, despite its reputation as a great trading nation. The sheer size of Japan's economy, second only to that of the United States, enables it to meet most of its own needs and to consume most of its own production. Smaller nations, such as Belgium and Jamaica, must engage in greater levels of trade because they can neither supply goods to meet all their own needs nor provide a market sizable enough for many industries to produce in the large volumes required to be efficient. For the same reasons, trade constitutes a larger share of GNP in most poor countries than in more developed ones. In recent years the export volumes of nearly fifty nations have approached or exceeded half their total economic output, and they have relied upon imports for a comparable share of their total consumption. Because any major reduction in trade would require a vast economic restructuring that would entail huge welfare losses, such heavy dependence guarantees that trade-related issues will dominate the political agenda.

Even if we allow for differences in size and wealth, however, trade has been much more significant for some countries than others. East Asian nations, for example, maintain trade levels more than double those of comparable Latin American economies. The variations in government policy largely responsible are sketched below, and the explanation for these disparate choices is the focal point of much of the book. Chapter 5 illustrates these variations by contrasting the policies of Japan and the United States. Chapter 6 emphasizes regional organizations, beginning with the European Union, which facilitates trade within Europe, and concluding with the North American Free Trade Agreement (NAFTA), designed to allow a similar growth of trade among the United States, Canada, and Mexico. Together with the advent of an East Asian group centered around Japan, these developments may foreshadow a world of **trade blocs** in which free trade prevails within each bloc but trade between blocs is restricted.

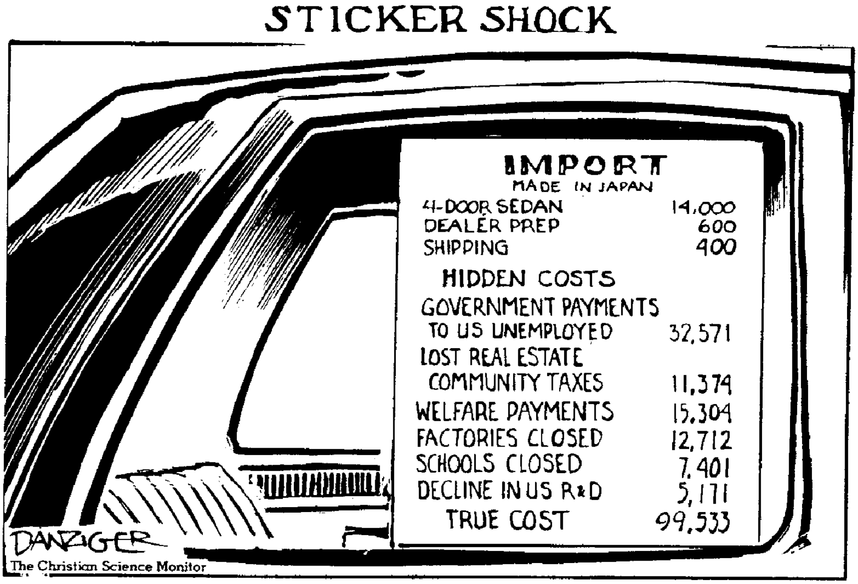
The growing importance of global trade and its accompanying dilemmas are exemplified by the experience of the newly industrializing countries (NICs) of East Asia, detailed in Chapter 7, especially Korea, Thailand, Malaysia, Indonesia, and Philippines. The United States and Japan, each in its own way, have been influential in driving the policy approach of these NICs, which have made international trade the centerpiece of their economic development strategy. As Table 1.1 reveals, there is considerable irony in this role, since the United States and Japan are less reliant on exports than all but a handful of other countries (at about 10 percent of GNP), whereas these NICs are massively dependent (between 28 percent and 94 percent). Though U.S. trade reliance has increased dramatically, it has still not reached the level that was common in Europe decades ago, which helps to explain why the trade issues that have occupied Europe for many years have entered the policy agenda in the United States only quite recently. Although the United States has long been the world's strongest advocate of the liberal theory that encourages trade, it has less experience than most with the dilemmas posed by relying upon it.

CONCERNS ABOUT THE TRADE BALANCE

Whereas nearly all nations have sought trade expansion for its economic benefits, they have generally tried to avoid an excess of imports over exports, which is known as a deficit in the **balance of trade**. Trade deficits are controversial and difficult to analyze, because they generate complex and unpredictable consequences, many of which become visible only in the long term. The immediate concern is that the consumption of imports permits foreigners to enjoy employment and profits from production that might otherwise benefit citizens of the home country. For example, as suggested by the cartoon, the high levels of unemployment and attendant social problems suffered in Detroit since the mid-1970s have been ascribed partially to annual sales of nearly 2 million Japanese cars in the United States. This would be of little concern if these imports were balanced by exports that produce comparable levels of employment and profits from U.S. products sold abroad, but during a **trade deficit** they are not.

Table 1.2 demonstrates that the United States has run a persistent balance-of-trade deficit since the 1970s, with the annual deficits assuming huge proportions since the middle of the 1980s. To put in perspective these vast sums, the record $347.1 billion deficit for 1999 approached $1 billion *per day*, which means that imports exceeded exports by more than $1,200 per American, over 4 percent of the U.S. GNP. At the estimated rate of 20,000 jobs lost for every $1 billion in trade deficit, this corresponds to nearly 7 million jobs lost to the deficit. With the U.S. unemployment rate at an historic low in 2000, it is easy to be complacent about this effect, but the longer-term repercussions, though uncertain, are unlikely to be so benign.

The long-term danger of trade deficits stem from the capital flows associated with them. Consider that since the last U.S. trade surplus in 1975, much more money has flowed *out* of the U.S. economy in the form of dollars to pay for imports than flowed back *into* the economy through payments for U.S. goods purchased by foreigners. In fact, these annual deficits cumulate to more than $2 trillion, more than a quarter of annual U.S. GNP. The obvious question is, What are foreigners *doing* with those dollars? The answers point to the dangers inherent in trade deficits.



Hidden Costs. Danziger © *The Christian Science Monitor*

Some are investing these dollars in the United States to generate future income. For example, the U.S. federal government **budget deficit**—in the magnitude of $200 billion annually from the early 1980s to the mid-1990s—was financed partially by the selling of **Treasury bonds** to foreigners, especially Japanese investors. When the government sells Treasury bonds, it borrows money and agrees to pay interest on the debt. Thus, some of the money sent abroad by U.S. consumers to pay for imports has been borrowed back by the U.S. government at interest rates that will keep the United States paying for this balance-of-trade deficit for years to come.

Some of the dollars piling up abroad have also returned to the United States in the form of investments in new plant and equipment—funded by the profits of Japanese auto firms—such as the Honda plant in Marysville, Ohio. New auto plants produce U.S. jobs, of course, but the profits are earned by Japanese corporations, which will presumably return them to Japan one day. Such **repatriation** of profits again implies that paying for trade deficits can be postponed, but the burdens of such a deficit must eventually be faced.

Finally, some foreigners have been content to accumulate dollars, using them much as they do their own currency—as a convenient storehouse of

TABLE 1.2 U.S. Balance of Trade, 1975–1999 ($ billion)

	Exports	*Imports*	*Trade Balance*	
	($ billion)	*($ billion)*	*($ billion)*	*(% of GNP)*
1975	107.09	98.18	8.91	0.56%
1976	114.74	124.23	–9.49	–0.54%
1977	120.81	151.91	–31.10	–1.58%
1978	142.05	176.00	–33.95	–1.52%
1979	184.47	212.01	–27.54	–1.11%
1980	224.25	249.76	–25.51	–0.94%
1981	237.05	265.07	–28.02	–0.92%
1982	211.17	247.65	–36.48	–1.15%
1983	201.80	268.89	–67.09	–1.97%
1984	219.93	332.41	–112.48	–2.97%
1985	215.91	338.09	–122.18	–3.02%
1986	224.11	368.75	–144.64	–3.39%
1987	250.94	410.18	–159.24	–3.52%
1988	321.09	447.70	–126.61	–2.60%
1989	363.47	478.00	–114.53	–2.18%
1990	390.71	498.95	–108.25	–1.95%
1991	418.58	491.40	–72.82	–1.28%
1992	442.13	536.45	–94.32	–1.56%
1993	458.72	589.44	–130.72	–2.06%
1994	504.45	668.59	–164.14	–2.44%
1995	577.69	749.57	–171.88	–2.44%
1996	613.89	803.32	–189.43	–2.56%
1997	681.27	877.28	–196.01	–2.50%
1998	672.90	921.00	–248.10	–3.04%
1999	683.00	1030.20	–347.10	–4.07%

SOURCE: Based on data for merchandise trade in billions of current U.S. dollars from World Bank, *World Development Indicators 1999* CD-ROM.

value and as a medium of exchange with others willing to accept them. Meanwhile, the United States benefits from their willingness to hold dollars, just as an individual would if he or she could write checks that others would neglect to cash. In the short term, this balance-of-trade deficit means that U.S. citizens are *consuming* more than they are currently *producing*. Thus, they enjoy a higher standard of living than would otherwise be possible.

Economists disagree about whether these developments ought to raise alarm over the longer term.[1] Some emphasize that the above processes are all temporary and that eventually foreigners will demand U.S. goods and assets in exchange for their excess dollars. That demand would require the United States to generate a trade surplus (more exports than imports) to compensate for past trade deficits. Of course, to export more than they import would imply that U.S. residents as a whole would consume less than they produce—and experience the lower standard of living implied by that gap. However, other economists emphasize that the continuing willingness of foreigners to invest in the United States and to accumulate dollars is an indication of their confidence that the U.S. economy will grow fast enough to tolerate these effects without serious damage.

Nevertheless, there are signs from international **currency markets** that the persistent balance-of-trade deficit is eroding that confidence. The demand for dollars by foreigners—to purchase products or investments from the United States—is smaller than the supply of dollars created by Americans purchasing foreign products and investments. As with any other item, when supply exceeds demand, the price falls. As a result, the value of the dollar, equivalent to about 300 Japanese yen when the string of U.S. balance-of-trade deficits began in 1976, declined in 1995 to under 100 yen. The declining purchasing power of the dollar means, for example, that the 1 million-yen cost of a Japanese automobile would translate into a dollar price of about $3,000 at the old exchange rate (300 yen per dollar) but more than $9,000 at the rate prevailing in mid-2000 (about 110 yen per dollar). The higher price that Americans face for foreign products signifies that the process of paying for the trade deficit of the past two decades has already begun.

Of course, the effects of trade deficits are hazardous to forecast because their connection to currency declines are neither automatic nor immediate. Witness that between 1995 and 1999, the United States ran a cumulative trade deficit of more than $800 billion, while Japan accumulated a trade *surplus* of $400 billion—yet during this same period the dollar *increased* in value from about 80 yen to 110 yen. Nonetheless, balance-of-trade deficits tend to lead to such currency declines eventually—sometimes very suddenly and with catastrophic consequences. As Chapter 7 describes in detail, several nations in southeast Asia ran trade deficits greater than 3 percent of their GNP for several years in the mid-1990s with no apparent ill effects. Indeed, they were among the fastest growing nations in the world despite trade deficits that often exceeded 5 percent of GNP and sometimes much more. But when investors eventually lost confidence in the summer of 1997, the fall was dramatic and painful. For example, Indonesia, the fourth most populous country in the world, suffered more than a 70 percent decline in the purchasing power of its currency and a 50 percent decline in its stock market within a few months. The resulting economic chaos included massive bankruptcies, soaring unemployment, plummeting living standards, and social unrest that culminated in a change of government.

Thus we see that trade deficits may permit greater levels of consumption in the short term, but—whether through repayment of loans, repatriation of profits, or the price increases that come from currency declines—they also imply that future consumption will be reduced and standards of living will fall. In short, a trade deficit engineers a shift in welfare from the future to the present.

POLICY ALTERNATIVES

Thus, national governments have traditionally sought to avoid balance-of-trade deficits while expanding the volume of trade. Some nations have given emphasis to one or the other of these twin targets, though most have sought both. Different nations have attempted to achieve these goals in many different ways, but their policy actions fall within four basic approaches. Each is discussed briefly in the following sections, followed by a preliminary exploration of the dilemmas posed by these options and the reasons different governments have chosen among them differently.

The first approach consists of efforts to increase exports by improving the overall international **competitiveness** of a nation's economy. The second uses various subsidies for **export promotion** within a nation's **industrial policy**. The third approach is to reduce imports through **protectionist** trade barriers such as tariffs and quotas. The fourth seeks to enlarge exports by securing international cooperation to remove the trade barriers of other nations and to build regional or global institutions that facilitate trade. The first and fourth are essentially **liberal** approaches that place greater reliance upon the free reign of markets; the other two, which are usually referred to as **mercantilist**, involve government actions to influence or displace the market.

FREE TRADE AND THE SEARCH FOR COMPETITIVENESS

One trade policy approach seeks to increase the international competitiveness of all the nation's firms by solving social problems and eliminating government policies that drive up their costs. (If the factors that burden import-competing or export firms are unique to those sectors, the government may target them directly with a so-called industrial policy, which is discussed in the next section.) Implicit in this strategy is the acceptance of free trade, because protectionism adds to firms' costs at home and encourages protectionism abroad. Furthermore, if competitiveness is achieved, neither protection nor export subsidies are required. The strategy of enhancing international competitiveness is usually motivated by the desire to increase exports, but if successful it will also tend to minimize trade deficits. Domestic firms able to cut costs become more competitive in global markets—thus expanding exports—while they also compete more successfully against foreign producers in their own market, thereby reducing imports.

However, the following brief discussion of factors that affect competitiveness demonstrates the dilemmas that this trade policy approach presents, particularly with respect to the distributional effects of trade and the tension between alternative values. Trade issues cannot be separated from the remainder of the public agenda, because competitiveness problems cannot be solved without sacrificing other values.

First, most U.S. corporations carry the burden of health care coverage for their workers. For example, the U.S. auto industry now spends more for health care than it does for steel. Because U.S. health care costs are the highest in the world—overall, Americans spend about 14 percent of GNP on health care—this burden undermines the competitiveness of all U.S. firms. Those who address this issue cannot avoid contact with some of the toughest issues in U.S. politics: trust in government bureaucracies versus private insurance bureaucracies, breadth of coverage for all citizens versus quality care for some, and the possibility of explicitly rationing health care.

Second, since World War II U.S. expenditures for defense have been many times higher than those of nations with which the United States competes. Ironically, much of that money has been spent directly protecting the very nations against which U.S. competitiveness has slipped, especially Germany, Japan, and Korea. These expenditures erode the competitiveness of U.S. business by requiring higher tax levels, they constrain the funds available to spend on other items that could enhance competitiveness, and they divert a substantial share of U.S. scientific and technological expertise into military innovation and away from commercial areas. The trade-off between competitiveness and defense may be judged differently by different individuals, but it can be ignored by none. Giving up global leadership or national security may be a wise choice, but it is not without costs of its own.

Third, the quality of American education, once the best in the world, has eroded. Although the global division of labor now places a premium on skilled labor, many other countries now have a better-educated citizenry and a better-trained workforce—which may explain why the growth in American economic productivity since the 1960s is among the lowest in the industrial world. Because both the American school day and school year are now among the shortest in the world, fixing education may require a substantial increase in cost, compromises with cherished traditions, and flexibility on the part of parents, teachers, and children. Like defense and health care, this problem acquires more urgency in the context of a competitiveness issue, but there are very good reasons for wanting to improve education that do not involve the balance of trade.

Fourth, the decline of America's infrastructure—decaying roads and bridges and overburdened water, sewer, and mass-transit systems—costs U.S. business daily. Because the provision of infrastructure is largely a function of government, this competitiveness issue is intertwined with questions of taxation, government effectiveness, and citizen trust. Infrastructure problems are unexciting—and thus unpopular as a locus of innovation or spending among politicians—but it is evident that trade competitiveness cannot be sustained without government no matter how vibrant the private sector may be.

Fifth, very high debt levels, including personal credit card debt, corporate debt, and years of federal budget deficits, require that savings be used to fund past consumption rather than to invest in the future. Furthermore, because the American personal savings rate is the lowest in the industrial world, U.S. interest rates must be kept higher in order to induce foreigners to supply the investment funds from their savings that Americans do not provide. But these higher interest rates—what economists would call the higher cost of capital—become an additional expense for American businesses that must borrow money for expansion. This problem illustrates exactly how close to home competitiveness issues can come: The family budget is a matter of national security!

Sixth, other social problems, including crime and drugs, contribute in indirect ways to increased costs for U.S. business. Richard Lamm estimates that "American business spent $51 billion in 1986 for private anticrime measures such as alarms, iron bars, video cameras, and security guards."[2] U.S. tax dollars support nearly two million inmates, with the U.S. incarceration rate six to ten times higher than in most of Europe and seventeen times greater than in Japan. Even ecological problems affect business, because the deteriorating environment diminishes the health and productivity of workers, forces higher costs for health care, and complicates the choice of business location.

Finally, some have blamed corporations themselves for fixating on the short term and ignoring long-term competitiveness. Expenditures on research and development occupy a much smaller portion of corporate spending in the United States than in Japan or Germany, for example, and the pay of top corporate executives is much higher in America than in its chief competitors.

Some proposed solutions to the competitiveness problem violate the definition of competitiveness laid out in a report from the President's Commission, "the degree to which a nation, under free and fair market