RIGHTS AND DUTIES OF NATIONS IN GLOBAL TRADING

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True patriotism never seeks to advance the well-being of one's own nation at the expense of others.
John Paul II 1995, §11.

Years before the establishment of the World Trade Organization, Pope Paul VI observed approvingly that free trade between countries which were fairly equal in economic terms "stimulates growth and rewards effort." At the same time he noted that many nations are not equal and for that reason free trade "is no longer adequate for regulating international agreements." Prices under conditions of free trade can be "most unfair." He asserted that free trade can be fair trade only when it conforms to the demands of social justice and only when the nations involved are equal. (Paul VI 1967, §§58, 59).

In 1983 Pope John Paul II called upon the nations of the world to engage in an open and honest dialogue, devoid of lies and propaganda, to "make the world a place for everybody to live in and worthy of everybody." This dialogue must address the rules governing economic life in order to reduce dependency on bilateralism and foster greater multilateralism through international organizations. (John Paul II 1983, §§6, 7, 10). One year later he identified the large differences in resources and wealth between rich and poor countries as a contributing factor to a "a world shattered to its very foundations." (John Paul II 1984, §2).

Three years later he was highly critical of the protectionism and bilateralism that characterized the international trade system and the inadequacy of the global monetary and financial system. He raised the issue of the proper use of technological exchanges and called for a review of the current structure of international organizations. (John Paul II 1987, §43). In his address to the United Nations General Assembly in 1995, John Paul II lamented the fact that there was at that time no written international agreement that adequately addresses the rights of nations. (John Paul II 1995, §6).

In the following we gobble together the rights and duties of nations in global trading based principally on social justice, equality, and the operating principles of the World Trade Organization. Later we address free trade, fair trade, and limits to trade.

SOCIAL JUSTICE AND THE WORLD TRADE ORGANIZATION

Social justice requires the *individual* to do all that is necessary for the common good.[1] Practicing social justice means practicing all three types of justice relevant to economic affairs and by extension to trade between countries: contributive justice, distributive justice, and commutative justice. All three are necessary for the common good because all three foster the trust required for human beings and countries to carry out their everyday economic affairs. All three are embedded in the WTO's trading-system principles.

Years before the establishment of the WTO, John Paul warned that any dialogue between countries in which one party concedes nothing, refuses to listen, and claims for itself the one and only true measure of justice hides the *selfishness* of its people "or more often the *will to power* of its leaders" (John Paul 1983, §7, emphasis in the original). Justice in international trade, which obligates the parties involved to render to one another that which is owed, demands that all parties be heard and be treated as equals.

CONTRIBUTIVE JUSTICE

Contributive justice asserts that insofar as a person receives benefits from a group, that person has a duty to maintain and support the group. Paying dues is the usual requirement for the persons joining and remaining active in a membership organization.

The World Trade Organization in effect gives concrete expression to contributive justice in trade between countries. Established in Geneva in 1995, the WTO has 164 members that account for 98 percent of world trade. It administers a system of trade rules, negotiates trade agreements, settles trade disputes, and supports developing countries. WTO agreements deal with "agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more." In order to join the organization, a country must align its economic and trade policies with the WTO rules and negotiate its

[1]"Atqui socialis justitiae est id omne *ab* singulis exigere, quod ad commune bonum necessarium sit." (Pius XI 1937, IV, emphasis added). For more on social justice, cf. O'Boyle 2011.

terms of entry – its *dues* -- with the WTO. The organization's annual budget, which supports a staff of approximately 650, depends primarily on the *contributions* of its members. (WTO no dates a and b, online).

The Holy See has maintained representation as an observer on the WTO since 1997 (GCatholic 2018, online). We were able to find three papers and one intervention by the Holy See prepared for the WTO (cf. Holy See 1999; Holy See 2002; Holy See 2003; Holy See 2005) and one from the Pontifical Council for Justice and Peace (cf. Pontifical Council 1999). There probably are others.

DISTRIBUTIVE JUSTICE

Distributive justice requires the superior to distribute the benefits and burdens of the group under supervision among its members in some generally equal fashion. Distributive justice demands that the superior differentiate among subordinates only when the differences among them are real and substantial and require different arrangements.

Distributive justice is affirmed in the World Trade Organization's two-part "trade-without- discrimination" principle.

> 1. Most-favoured-nation (MFN): treating other people equally[.] Under the WTO agreements countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO countries.
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> In general, MFN means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners – whether rich or poor, weak or strong.
>
> 2. National treatment: Treating foreigners and locals equally[.] Imported and locally-produced goods should be treated equally – at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents.
>
> National treatment only applies once a product, service, or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if locally-produced products are not charged an equivalent tax. (WTO no date b, online).

COMMUTATIVE JUSTICE

Commutative justice states that in the exchange process economic agents have two duties that are binding on both parties. First, they are to exchange things of equal value. Second, they are to impose equal burdens on one another.

At this point it is necessary to differentiate between exchange value and use value. Exchange value refers to the price of the item that the parties involved have agreed to. Use value is the value attached to that item by the person who possesses and uses it. Exchange value is a tangible piece of information that under competitive conditions is the same for everyone buying or selling that item. Use value is an intangible thing that depends uniquely on the value that a person attaches to owning and using a specific item. "One man's trash is another man's treasure."

As with individuals acting as economic agents, countries enter into trade agreements for the perceived economic gains to be gotten through trade. Simply put and in terms of use value, what is gotten must be greater than what is given up.

Aspects of commutative justice are expressed in the WTO's encouraging-development-and economic-reform principle where the organization encourages special privileges and trade that is more beneficial for developing countries. Thus, the WTO promotes trade agreements wherein developing countries realize even greater economic gains than expected, that is to say agreement which assures them that what is gotten is even greater than what is given up. Though it does not engage directly in setting prices (exchange value), under its promoting-fair-competition principle the WTO condemns dumping, the practice of setting prices that are below the cost of production. (WTO no date b, online).

FREE TRADE, FAIR TRADE, AND LIMITS TO EXCESSIVE SELF-INTEREST

Advocates of free trade between countries employ the very same argument used to support the unfettered exchange between one person and another. By each one single-mindedly serving his/her own self-interest, the typical economic agent serves the common good through the "invisible hand of the market." [1] The market holds excessive self-interest in check.

[1] In his first-edition *Economics* Samuelson, who years later was awarded the Nobel Prize in economics, asserts (p. 36) that the invisible hand argument that has been used to restrain government intervention "has done almost as much harm as good in the past century and a half." The nineteenth and last edition of Samuelson's principles text was published in 2009.

Advocates of fair trade see many abuses unchecked by markets including currency manipulation, dumping, counterfeiting, theft of intellectual property, technology transfers including dual-use (civilian, military) technologies, all of which can be compounded by a country that is the lowest-cost producer and accordingly has an absolute advantage in international trade. Unfettered free trade can and often does have the effect of displacing higher-wage workers in domestic firms that no longer are able to compete effectively against foreign establishments that have access to lower-wage workers. The market alone does not hold excessive self-interest in check. The WTO bears witness to the need to restrain excessive self-interest, lest powerful nations take advantage of weaker ones.

It is commonplace to characterize fair trade as free trade encumbered with barriers, thereby construing fair trade in a negative light. We insist that fair trade be taken to mean free trade in compliance with commutative justice, distributive justice, and contributive justice for the purpose of limiting excessive self-interest. Fair trade is free trade with guard rails.

There are two types of limits: tariffs and quotas. A quota is a limit on the amount of a given product which is imposed by a country that imports that product. A private importer is required to obtain a government-issued license that specifies how much of that item can be imported. By limiting the supply of an item flowing into a country, a quota has the effect of increasing the price of that item to the advantage of domestic producers and the disadvantage of consumers.

Properly constructed on the basis of commutative, distributive, or contributive justice and intended explicitly to restrain excessive self-interest as reflected in a specific product, such as one that was produced with prison labor, a quota represents a reasonable and nonarbitrary limit. It can and should be set to allow only as much of the imported product as the severity of the abuse justifies.

A tariff is a tax that country A applies to goods produced in country B that are being exported to country A. The tax is paid by the importers in country A who may absorb the tax in the form of thinner profit margins, squeeze the wages of their employees or the margins of their domestic suppliers, or pass the added costs to its customers. A trade war may ensue if country B decides in turn to impose tariffs on the goods produced in country A that are being exported to country B.

Tariffs are imposed to protect domestic producers from cheap imports or to force another country to change its behavior, including behavior that is not directly tied to global

trading. A tariff may be justified in the case of a cheap import when it has been produced with sweated or slave labor. It may be justified as well when firms in one country have been infringing on the intellectual property rights of companies operating in another country. Or when the government in one country has direct control of the exchange rate of its currency so that it does not fluctuate according to conditions in the international currency market. Manipulating its currency is one way to make its exports cheaper, thereby enhancing its competitive edge in international trade.

Tariffs can generate considerable tax revenues. For example, U.S. tax revenues from tariffs imposed on steel and aluminum products in March 2018 amounted to $1.4 billion by mid-July (Fefer and others 2018, p. 11).

THE CHINA PROBLEM

In today's world of global trade and economic development, the issue of trade limits most fundamentally is a matter linked to the economic, military, and political expansionism of China. It is a matter of great concern not just for the United States but for the rest of the world as well. Remove China, and limits on trade become a far less pressing international issue.

China intends to become and is becoming the dominant power in the world. Its foremost weapon is state capitalism. A system wherein trade is conducted through a network of international markets but its currency, its sources of finance, its enterprises, its intelligence gathering are under direct control of the Communist government. The Chinese domestic market is so large that U.S. companies are eager to gain a foothold there but are discovering that they are not able to operate freely. They are under the control of the Communist government. To illustrate, in order to operate in China a U.S. company must partner with a Chinese company giving its Chinese partner access to its intellectual property and trade secrets.[1]

China engages in trade not for the mutual gains involved in trading with its counterparties but to generate currency reserves, notably the U.S. dollar, in order to take command of the future. Their reserves originate with the trade surpluses it generates with its trading partners including notably the United States. In 2017 the U.S. trade deficit (goods) with China amounted to $375.6 billion; twenty years earlier it was $49.7 billion (U.S. Census Bureau 2018, online). To cover that *trade* deficit, U.S. importers must borrow the necessary

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[1] For more on China, cf. Huang 2015-16 , USCC 2017, and White House 2018.

funds from foreign creditors or sell assets to foreign investors.

Over the years, China has used dollars earned through trade with the United States to purchase approximately $1.2 trillion of the $21.5 trillion U.S. public debt (U.S. Treasury 2018a, online; U.S. Treasury 2018b, online). The federal budget deficit for FY2018 –not to be confused with the trade deficit -- projected as of May 24, 2018 is $793 billion (Congressional Budget Office 2018, online).

The schematic on the following page shows the relationship between the U.S. trade deficit, public debt, and budget deficit.

Cheap goods exported to the United States and eagerly purchased by U.S. producers and consumers originate in China's absolute advantage. Over time, China's absolute advantage has been turned into a powerful weapon to dominate global affairs. Limits in the form of tariffs and quotas imposed on Chinese imports are justified whenever China uses its absolute advantage to steal ideas and trade secrets, destroy its competitors, or impose its will on foreign firms operating in China. We are reminded of John Paul's Kantian admonition to the nations of the world.

> **True patriotism never seeks to advance the well-being of one's own nation at the expense of others. John Paul II 1995, §11.**

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U.S. BUDGET DEFICIT, PUBLIC DEBT, AND TRADE DEFICIT

current federal government expenditures > tax revenues resulting in …

BUDGET DEFICIT [1]

that forces the U.S. Treasury to (a) borrow funds, leading to an increase in the …

PUBLIC DEBT [2]

and to (b) make interest payments to the holders of the debt, adding to future government expenditures to service the debt

U.S. producers and consumers export less than they import resulting in …

TRADE DEFICIT [3]

that forces U.S. producers and consumers to (a) borrow the difference from foreign creditors or to (b) sell assets to foreign investors

The Treasury borrows some of the funds from foreign creditors; ***some of those monies represent the gains achieved by exporting goods and services to U.S. producers and consumers***

some of the funds are borrowed from …
SOCIAL SECURITY TRUST FUND [4]
resulting in interest payments flowing into the Trust Fund and enhancing its ability to pay benefits to current and future retirees

[1] U.S. budget deficit (FY2018 projected) = $793 billion.
[2] Public debt as of September 23, 2018 = $21.5 trillion; $1.2 trillion held in China.
[3] U.S. trade deficit , goods & services (CY2017) = $552.3 billion.
[4] Current generation of workers and their employers contribute to trust fund / current generation of retirees receive monthly benefit payments from the trust fund / lending funds to the U.S. Treasury is possible when there are surplus monies in the trust fund (contributions > benefits paid).

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