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A Global History of Trade and Conflict Since 1500

Lucia Coppolaro
and
Francine McKenzie

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Also by Lucia Coppolaro

THE MAKING OF A WORLD TRADING POWER: The European Economic Community (EEC) in the GATT Kennedy Round Negotiations (1963–67)

Also by Francine McKenzie

REDEFINING THE BONDS OF COMMONWEALTH 1939–1948: The Politics of Preference

PARTIES LONG ESTRANGED: Canada and Australia in the Twentieth Century (co-edited with Margaret Macmillan)

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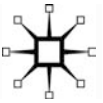

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This was an unusual gathering of historians. We are more likely to attend differently specialized academic meetings with scholars who fall into our respective subfields, be it Chinese history, meetings of medievalists or diplomatic historians. This was a golden opportunity to situate our studies in a global historical and comparative framework and in a 500-year period: the exchanges amongst us were enlightening and deeply educational. Economists and economic historians also participated in the workshop. Economists and historians rarely find the opportunity to speak directly. The questions, observations and suggestions of economists challenged and enriched the case studies as they moved forward for inclusion in this volume. Renato Galvão Flôres, Jr., one of the economists present, subsequently joined the group of contributors and brought his sharp insights and wide-ranging experience as a practitioner and scholar to bear.

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Abbreviations and Acronyms

CAP	Common Agricultural Policy
CCP	Common Commercial Policy
CET	Common External Tariffs
DCs	Developing countries
DG	Directorate General
EEC	European Economic Community
EFTA	European Free Trade Association
EIC	East India Company
EU	European Union
GATT	General Agreement on Tariffs and Trade
GDL	GATT Digital Library, Stanford University, CA
GDP	Gross Domestic Product
GSP	General System of Preferences
ITO	International Trade Organization
LDCs	Less-developed countries
LTA	Long Term Agreement on Cotton Textiles
MFN	Most-favoured nation
NATO	North Atlantic Treaty Organization
NLA	National Library of Australia
NSC	National Security Council
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
OMB	Office of Management and the Budget
OPEC	Organization of the Petroleum Exporting Countries
QRs	Quantitative restrictions
RTAA	Regional Trade Agreement Act
TEA	Trade Expansion Act
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VOC	Vereenigde Oost-Indische Compagnie or Dutch East India Company
WTO	World Trade Organization

Introduction: The Intersection of Trade and Conflict Since 1500

Francine McKenzie

In the early seventeenth century, Jan Pieterszoon Coen, the Dutch East India Company's Governor General in the Indies, explained that trade and war were inseparably linked: 'we cannot make war without trade nor trade without war'.[1] The utility of war and other violent methods to secure an advantageous commercial position was an extreme view even by the mercantilist standards of the day, but trade and conflict were commonly connected. About a hundred years later, Montesquieu, the Enlightenment political philosopher, reached the radically different conclusion that trade was an instrument of peace; thus in 1748, he wrote, 'Peace is the natural effect of trade.' Propelled by Adam Smith's *Wealth of Nations* (published in 1776), belief in the connection between trade and peace spread. Trade promoted interdependence and prosperity, which enhanced the economic benefits of peace and the economic costs of war. At the same time that the liberal conception of trade gained currency, there were counter-examples of the non-peaceful pursuit and consequences of trade. The transatlantic slave trade of the eighteenth and nineteenth centuries captured and brutalized approximately 10 million people who were subsequently enmeshed in a violent system of labour in the New World, while at the same time causing tribal wars along Africa's Gold Coast. The Opium Wars (1839–42 and 1856–60) were caused by the British desire to gain access to the vast Chinese market. Rather than stimulate cooperative and peaceful interdependence, coercion and warfare were routinely used to develop commercial opportunities. Despite such evidence, the association of international trade with a more peaceful and prosperous world became a mainstream view. By the end of the Second World War, British and American governments largely based their conceptions of a peaceful postwar trade order on the liberal tenets of non-discrimination, openness and reciprocity.[2] But trade disputes and trade-related conflicts persisted nonetheless. The recurrence over the last 500 years of trade-related violence, coercion, brutality, destruction and, in its most extreme form, warfare, cannot simply be dismissed as deviations from the norm or as exogenous forces that interfered with the natural development of trade.

This edited volume is a transnational and comparative study that explains the causes and consequences of the intersection of two transformative global forces: trade and conflict. The authors engage existing scholarship along three main lines. The first contribution flows from our definition of conflict. While there are studies of the relationship between trade and war – most notably the magisterial study by Ronald Findlay and Kevin H. O'Rourke of trade and war over a thousand years – our working definition of conflict is broader. Our spectrum ranges from individually sponsored acts of violence or theft to full-scale interstate war and includes multiple manifestations of conflict: economic, political, physical, military, rhetorical and diplomatic. A more inclusive definition incorporates a greater variety of actors who have ranged in size and structure. Pirates and highwaymen waylaid passing traders: robbery was a crime but it was also a means of exchange. Their tactics and ethics were replicated in organized and larger-scale commercial operations, such as those carried out by privateers or the Dutch East India Company. Governments and states were also implicated in the use of trade, or its cessation, as a way to further territorial gains, secure diplomatic advantage and finance wars. An inclusive definition permits a more complete explanation of the association between trade and conflict and the consequences of their intersection.

Second, we explain the consequences of the intersection of trade and conflict beyond the measurement of the volume of trade. One way that economists have measured the costs of wars is by tracking the rise and fall of trade. Most studies conclude that wars decrease trade.[3] The corollary, not surprisingly, is also upheld: conditions of stability and peace increase the volume of trade.[4] It might be that these claims have been accepted too uncritically. As Patrick K. O'Brien pointed out, 'Classical political economy is marked by a laudable bias against armed conflict, and liberal economists are prone to exaggerate the malign effects of war on manpower and capital formation.'[5] These chapters do something other than measure how conflict affects the volume of trade: they explore the far-reaching, and often unintended, consequences that result when trade and conflict converge. In contrast to the view that conflict is an exogenous factor that distorts or impedes trade, we demonstrate the ways in which the intersection has shaped trade policies (both to liberalize trade and to close off access to markets), reoriented but not necessarily destroyed trade patterns, provoked adaptation to preserve commercial advantages, instrumentalized trade as a means to achieve diplomatic or political goals, influenced political discourse, affected state formation and shaped economic relations amongst commercial actors. The intersection of trade and conflict has had disruptive, transformative and enduring consequences that are not captured by calculating the volume of trade.

Finally, this study complicates the robust academic debate about whether or not trade makes peace more likely, although we do so from a distinctive

vantage point related to our inclusive definition of conflict. Political scientists dominate the core debate about whether trade reduces the likelihood of interstate conflicts and their studies analyse the trade–peace dynamic dating to the late nineteenth century, although the years since 1945 receive considerable attention.[6] Advocates of the liberal peace theory make a basic claim that trade forges connections and creates conditions of mutual gain that would be put at risk by conflict.[7] Norman Angell was a scholar who drew out the logic that trade dependence dampened the likelihood of war in 1911 only to be utterly repudiated when the First World War broke out a few years later.[8] Still, the association has persisted. Over time, the trade–peace link has been refined by scholars. For example, Han Dorussen and Hugh Ward have found that general engagement in global trade networks reduces the likelihood of war.[9] John R. Oneal and Bruce Russett have affirmed that economically significant trade and democracy have 'substantively significant pacific benefits'.[10] When challenged, they have revised their calculations, for example by taking distance and size into account, and continue to find 'clear evidence for the liberal peace'.[11]

Not all political scientists believe that the association between trade and peace is direct and significant. Katherine Barbieri and Jack Levy have found that trade can increase or diminish in advance of interstate conflict and that trade and war can coexist.[12] In fact, trade between belligerents was observed much earlier by the German economist Carl Brinkmann when he pointed out that economic ties could persist not only in times of war but in ways that undermined political aims.[13] Erik Gartzke emphasizes the importance of affinity in determining the likelihood of peace or war, which in turn leads him to conclude that 'interdependence is insignificant'.[14] Even with this research in mind, the study of the relationship between trade and conflict remains less well developed than that between trade and peace.[15]

This volume belongs to the group that problematizes the relationship between trade and conflict, exploring important and telling moments in the historical intersection of trade and conflict between 1500 – when international trade links spread like a spider's web over the whole world – and the late twentieth century – by which time the value of international trade had become almost incalculable. In some cases it is the opportunity or desire to trade that has engendered conflict; in others conflict is the result of limitations placed on trade. Conflict can be in the background, what we might think of as an indirect cause or general condition, or the connection can be direct and proximate. Keeping in mind that conflict is a way to resolve disputes and pursue a competitive rivalry, conflict can also be thought of as a process, rather than a moment or event. Such conflict might have the same impact as the creative destruction that Schumpeter identified as integral to the dynamic that sustains economic growth and transformation. In other words, it causes adaptation and continued growth.[16] A conflict may arise unexpectedly,

even accidentally, or it may be used deliberately as a way to achieve particular goals. The conflict can be rooted in external stimuli or pressures, the internal dynamics of trade, or even human nature. Other scholars have identified the political utility of trade, revealing ways in which trade is enmeshed in political and geopolitical conflicts. For example, Diane Kunz has suggested that trade is not just an instrument of geopolitical tensions, but has become a substitute for wars that are otherwise unthinkable because of the destructive potential of modern weapons. She argues that trade war is 'a viable substitute for military force'.[17] Scholars who affirm a close association between trade and peace will have to take into account the persistent connection between trade and conflict as well as a more complex dynamic between them than the reductionist argument proposes.

At bottom, economists and political scientists have concentrated on two vital and enduring questions: How do wars affect the volume of trade and how does trade affect the likelihood of wars? Their increasingly sophisticated analyses try to demonstrate causation through measurement of volume and probability. To what extent do wars make the volume of trade rise or fall? How much trade, and of what kind, is needed to prevent wars? Schematic representations are central to their methodology and formulas convey their findings. As historians weigh in on the subject of trade and conflict, the scope and purpose of the enquiry move in different, but complementary, directions. We seek to understand the reciprocal dynamic between trade and conflict in all of its manifestations. We try to address why trade has sparked conflicts and how conflicts have affected trade patterns and policies as well as the institutions and societies that give rise to them. We are as interested in consequences as causes. Our approach is qualitative, empirical, experiential and specific, as opposed to quantitative, paradigmatic and predictive.

The nine richly detailed historical case studies in this book collectively demonstrate that conflict triggers the adaptation of trade, creating opportunities as well as undermining existing trade links, and that the pursuit of trade engenders bitter confrontations without destroying trade. Three themes emerge that help to explain the reciprocal dynamic between trade and conflict. First, the domestic contexts in which policies and production occur affect both the volume and direction of international trade as well as the uses to which trade can be put. Second, the state has been a persistent actor in trade. Even as liberal economic orthodoxy became widespread, states consistently used trade strategically and instrumentally – economic calculations were not always paramount in trade policy. This was the case in sixteenth-century China and Portugal, during the Napoleonic Wars, and in twentieth-century Europe and the United States. The third theme stems logically from the first two: that non-economic factors, particular political and geopolitical motivations and interests, are intertwined with trade. These chapters chronicle the evolution of ideas about

trade from mercantilism to free trade to protectionism and autarky and finally to managed trade, and examine the disconnect between economic theory and practice as well as clashing conceptions of trade.

Even though the contributors resolutely avoid the murky depths of prediction, their findings might well be useful to scholars who are primarily interested in predictions and public policy, a subject that Renato Galvão Flôres, Jr. explores in his Conclusion. The timeliness of this study, and current concerns about global economic recession and trade wars, reinforces its relevance to policymakers. Trade has been a key mechanism leading to integration and globalization. A reversal to policies of protection, even autarky, has raised concerns about the possibilities of trade war, or at least other forms of economic conflict that would destabilize international efforts at cooperation. It is important to use the past to reflect anew on international trade and the link between trade and conflict.

A short account of the long history of trade and conflict

Merchants have walked, ridden and sailed on international trade routes for thousands of years. The incense route that linked India, Arabia and East Asia flourished between the third century BCE and the second century CE. The Grand Trunk Road that connected Calcutta to Peshawar was a highly developed trade route for over two thousand years. Perhaps the most famous international trade route was the Silk Road, a vibrant artery of commerce dating to the first century BCE, stretching over 4000 miles and connecting China to the Middle East, North Africa and the Mediterranean. Not all trade routes were long-lasting. Potosi (then in the viceroyalty of Peru, now in Bolivia) became the hinge of a far-flung trade network in the late sixteenth century in which silver flowed from the mines across the Atlantic and Pacific, and luxury commodities flowed back – hats and mirrors, pepper and porcelain. But when the silver mines were exhausted in the late eighteenth century, the network collapsed.[18] Because overland travel was slow, goods traded internationally were either non-perishable or luxury items, or both, that had a high value-to-bulk ratio: they yielded significant returns. Silk, satin, musk, amber, myrrh, porcelain, spices, slaves and saltpeter were typical commodities in early international trade.

Although the total volume of global trade is not easily gauged for the last 500 years, trade has risen more or less steadily (see Tables I.1 and I.2), at a faster rate than world population, and its impact on daily living conditions steadily intensified.[19] The movement of goods was always accompanied by threats of violence and conflicts, ranging from robbery to interstate wars. As Sebastian Prange has observed, 'To the human propensity to truck, barter, and exchange identified by Adam Smith might well be added the complementary proclivity

Table I.1 Annual rate of growth of world trade (%)

	%
16th century	1.3
17th century	0.7
18th century	1.3
1870–1913	3.4
1913–50	0.9
1950–73	7.9
1973–98	5.1

Source: Compiled from O'Rourke and Williamson (2002), p. 412; and Maddison (2001), table 3–2a, p. 127.

Table I.2 World exports as a percentage of total world production

1820	1870	1913	1929	1950	1973	1992
1%	5%	8%	9%	7%	11.2%	13.5%

Source: Maddison (1995), p. 233.

to rob, pilfer, and extort.'[20] In medieval Europe, the approach to large cities was fraught with peril as robbers waylaid poorly defended merchants travelling in wooded areas surrounding cities. Although Robin Hood is celebrated in children's stories today, he and his band of merry men were in fact thieves lying in wait in forests to pounce on unprotected merchants.[21] Trade and insecurity went hand in hand. Indeed, insecurity could raise profit rates for the cargo that arrived successfully at market; risk in turn could enhance the appeal of commercial exchange. What has long existed then is the quest for security alongside the development of trade and trade routes. Early trade routes were fortified, for where there were merchants moving goods there were opportunities for a quick profit through highway robbery. Merchants could hire some form of protection, although this was a cost that ate into profits. Merchants could also travel in convoys – some allegedly 1000-camels long – in the hope of finding safety in numbers.

In the shift from the medieval period to the early modern, developments in shipbuilding and navigation enabled commercial vessels to sail far from coastlines; the new maritime trade moved a wider variety of goods, and it moved them farther and faster. The closing land route from Europe to Asia after the collapse of Constantinople in 1453 added to the urgency of finding new routes to procure spices that were in great demand. Maritime trade also established more direct connections between previously remote producers and consumers. Because this was a hazardous form of transportation – ships frequently sank and cargoes were lost – ship cargoes included goods that yielded the greatest possible

return by carrying luxury items, including gold, silver and spices. These floating vaults became a target for pirates. The seventeenth and eighteenth centuries were the heyday of piracy. Some pirates were state-sponsored and went by the more respectable label of privateers. However, the distinction between pirates and privateers was a matter of perspective, with the latter covered in a patina of legitimacy because royal backers got a cut of the booty. Although they lacked royal support, the profit margins of piracy attracted investors: with a rate of return as high as 60 per cent – compared to the East India Company's top yield of 20 per cent – it was an enticing investment opportunity. Hence, Kenneth Pomeranz and Steven Topik have observed, piracy was 'an extension of trade and warfare'.[22] Prange also discusses the porousness of the division between pirates and merchants: a pirate one day might engage in licit trade the next. Taking goods by force did not stop trade; it was another form of exchange, albeit highly unequal.[23]

The quest for commercial riches also forged new connections amongst peoples and cultures, often with devastating consequences. Contact with previously unknown peoples prompted mixed reactions, blending curiosity, amazement and disdain. When Admiral Zheng He returned to China from his seafaring journeys in the early fifteenth century, he brought back a giraffe and rhinoceros; one can only imagine the wonderment that such sights sparked. In the case of European expansion, cross-cultural encounters also engendered fear and anxiety, alongside confidence of purpose, belief in the right to dominate others, and cultural norms that linked violence and commerce.[24] The journal of Vasco da Gama makes for chilling reading and shows how he placed people in stark categories of friend or foe. With such an outlook, it should come as no surprise that violence was used often to stave off threats real and imagined, imminent and hypothetical. One entry from da Gama's journal in 1498 reveals the unquestioning acceptance, and presumably regular use, of violence:

> At night the captain-major 'questioned' two Moors … whom we had on board, by dropping boiling oil upon their skin, so that they might confess any treachery against us. They said that orders had been given to capture us as soon as we entered the port, and thus to avenge what we had done at Moçambique. And when this torture was being applied a second time, one of the Moors, although his hands were tied, threw himself into the sea, whilst the other did so during the morning watch. [25]

The search for the mysterious spice islands, which motivated da Gama's voyages, was a bloodthirsty quest with competitors killing one another and dispossessing and suppressing local peoples. It is an illustration of the way in which the 'economics of violence' upheld the effectiveness of coercion to further commercial ends.[26] The brutal pursuit of commerce continued into the

seventeenth century when a Dutch campaign against the inhabitants of the Banda Islands resulted in genocide.[27] Violent, and often inhumane, practices were deeply enmeshed in trade, fuelled by the desire for profit, sustained by imperial rivalries and grounded in human nature.

Violence was not just a risk to be protected against; armed confrontation was also a widely accepted business strategy in the early modern period. Just as da Gama used violence to break the monopoly on the spice trade held by Venice, Genoa and Egypt, subsequent participants used force to gain a competitive advantage. The Dutch East India Company (VOC), which was organized to pursue the lucrative spice trade, instructed the crew of its first voyage in the early seventeenth century: 'Attack the Spanish and Portuguese wherever you find them.' [28] The competition between the Dutch, Spanish and Portuguese was carried out in a bloodthirsty manner, at such devastating costs and over such a vast distance, that Charles R. Boxer has suggested that it should be considered the first global world war.[29] Dutch brutality was employed to establish and uphold their commercial supremacy, which was in turn linked to the security and standing of the state. Economic dominance and political stature could not be disentangled as motives and goals.[30]

Demographic shifts and technological innovation increased demand for trade and facilitated delivery of goods and as a result the volume and nature of international trade was transformed. The spread of industrialization in the late eighteenth and nineteenth centuries led to the growth of cities. In urban centres, household production declined, eclipsed by increasingly specialized economic activity that reinforced the need for trade. Other technological developments expanded the scope and scale of trade. For example, steamships and railroads lowered transportation costs. Chemical innovations – such as fertilizer – increased crop yield, permitting a level of production necessary for trade. Later, the development of electrical refrigeration overcame many of the limitations of perishability. The first trip of *The Dunedin* in 1882 carrying mutton and butter from New Zealand to Britain, a voyage of over 11,000 miles, has become legendary in New Zealand history.[31] It also entrenched New Zealand's economic specialization as a producer of agricultural commodities. The extent of specialization and integration had reached the point that by the nineteenth century, 'The world had become one huge food market.'[32] But the effect was not limited to food: these changes transformed the kind of goods involved in global trade – from luxury to quotidian items, from non-perishable to perishable, from a high to low value-to-bulk ratio.

As the nature of trade evolved and the routes of commerce multiplied, trade continued to be enmeshed in conflicts and wars. In the eighteenth century the main European trade competitor-combatants shifted to France and Britain who fought not only for control of resources and trade routes across the Atlantic but also vied for paramountcy in Europe itself. The connection between conflict

and commercial strategies remained close. As Findlay and O'Rourke have explained, there was a circular logic in which 'Plenty was needed to sustain Power, which was in turn necessary to secure the provision of Plenty.'[33] British–French competition was transplanted to the New World and revolved around control of the fur trade. They had local allies – the Algonquin supported the French, whereas the Iroquois were allies of the English. Because Europeans traded weapons for fur pelts, the wars to control the fur trade involved much loss of life. At the same time that the British were displacing the French in the New World, the English East India Company assumed a paramilitary role and extended the struggle against the French East India Company. The English East India Company had moved into India in the seventeenth century after failing to displace the Dutch in the spice trade; Bengal offered other commercial attractions, including textiles and saltpeter, a crucial ingredient in gunpowder, much in need at a time of almost incessant warfare in Europe. The shipment of saltpeter is also a useful reminder of the long-standing importance of the arms trade to international trade, another way in which trade and conflict were mutually reinforcing. Alongside the defeat of the French in India, the English East India Company challenged the authority of the Nawab of Bengal and gradually assumed governance responsibilities alongside its paramilitary and commercial functions. When the position of the English East India Company was challenged during the Indian Mutiny of 1857–58, the British state took over its administrative responsibilities, thereby extending its imperial reach for another century. Britain's experience demonstrated how over 100 years, its quest to attain a position of 'worldwide commercial supremacy' went hand in hand with violence, conflict and conquest.[34]

Although the nineteenth century is often seen as a time when free trade was ascendant, the utility of conflict to trade and of trade to conflict was evident in the Opium Wars (1839–42 and 1856–60) and Revolutionary and Napoleonic Wars (1792–1815). Such conflicts undermined the view that free trade brought peace between nations. Richard Cobden, a Manchester merchant and member of the British Parliament in the mid nineteenth century (who spearheaded the campaign to repeal the Corn Laws), nonetheless insisted that free trade, prosperity and peace were mutually constitutive. As he had earlier explained it: 'the success of the one [free trade] is a prelude to the triumph of the others'.[35] But this reasoning did not hold for others for whom free trade was the end goal and violent conflict an expeditious means to achieve it. The British, later assisted by the French, waged war against China in order to break down the Canton system so that they could have unfettered access to a vast market as well as continue to trade in opium, one of the few commodities that the British could sell to Chinese consumers to offset soaring demand in Britain for Chinese tea. By 1750, tea had become a national beverage in Britain and roughly 5 per cent of household income went to purchasing tea; this led to a silver drain from Britain

to China, an outflow that the British were determined to plug. Although there were critics of British policy at the time, these measures were justified by the lofty aim of freeing trade. Whereas warfare was used to integrate China into global trade networks, the cessation of trade was a way to wage war against the British in the Napoleonic Wars. Napoleon Bonaparte had achieved far-flung military successes, but he had not been able to defeat Britain. One of the pillars that sustained Britain and also made it such a threat to France was its economic power – it could, and did, finance the war efforts of its sporadic continental allies, such as Austria and Prussia. Napoleon decided to attack Britain's economic power by blocking its access to continental markets. This tactic failed because trade continued surreptitiously (in part because of the strength and skill of the merchant marine), Britain had alternative sources of supply based on its global economic empire, and Napoleon focused on blocking Britain's exports rather than stopping essential food imports.[36]

Wars also affected trade in unanticipated ways. For example, the Napoleonic Wars discredited mercantilism, the main goal of which was to increase the wealth of the state through trade. Because mercantilists supposed that wealth was finite, they strove to maximize exports (except for bullion and raw materials) and limit imports.[37] This view faded after the Napoleonic Wars, ushering in a century of increasing liberal trade ideas and practices in Europe. The First World War similarly changed the terms of trade, bringing 'the liberal economic order of the late 19th century to an abrupt halt'.[38] But the war did not just bring an end to liberal trade policies. It also created opportunities that gave rise to new industrial producers and opened up some countries more fully to the global economy.[39] The war was not only destructive; it transformed international trade.

The growth of trade in the twentieth century was slowed, even reversed, by two world wars and the Great Depression, such that the volume of world trade in 1950 was equal to the 1913 level. But international trade proved to be resilient; within ten years of both world wars the volume of trade had returned to prewar levels. After the Second World War there was an extraordinary trade boom lasting just over twenty years. Oil shocks, recession, inflation and protectionism subsequently slowed but did not stop global trade growth from the mid 1970s. The increase in volume was absolute and relative; exports have become an ever larger proportion of world production (see Table I.2). Moreover, production has been internationalized, with component parts dispersed globally. There has been a concomitant broadening of the range of items included in trade. In the medieval and early modern period, a commodity was something that you could drop on your foot. Today, services such as insurance, tourism, real estate and transportation constitute approximately 20 per cent of total world trade. This volume, however, focuses on the more tangible trade in commodities, also the type of trade that was dominant for most of the period of the 500 years under consideration here.

As international trade expanded in the twentieth century, warfare has become less common as a tool of trade promotion. But that has not meant that trade has become more peaceful. Traders of the twentieth century were still motivated by mercenary instincts and employed cut-throat tactics to increase their market share. Competition amongst producers – in particular those who wanted greater access to foreign markets – resulted in conflict. The concern that such conflicts could spiral into war led to the establishment of the General Agreement on Tariffs and Trade (GATT) in 1948; the GATT and its successor, the World Trade Organization (WTO), attempted to resolve the many and chronic disagreements that trade – and the pursuit of freer trade – provokes. Although trade-related physical violence has become harder to justify and more likely to be punished, there are exceptions. Violent conflicts are still fought to gain access to precious commodities, as the ongoing conflict in the Democratic Republic of the Congo confirms all too painfully; competition over coltan (a substance used for cell phones) is deeply implicated in this prolonged and vicious conflict, not to mention the struggles over some of the most lucrative global trades – cocaine, marijuana and opium – in Columbia, Mexico and Afghanistan.

Trade also continued to be used instrumentally in twentieth-century conflicts, by using punitive commercial measures to achieve political or geopolitical ends. For example, during the Cold War, the goal of the superpowers was to defeat their ideological enemies. East–West trade was curtailed in the 1950s to achieve this end. But when Western trade embargoes proved to be ineffective, East–West trade was promoted. Even though the tactic was reversed, the goal remained the same – to defeat communist foes – and patterns of trade responded accordingly.[40] Although trade has long been subject to political pressures and government intervention, the politicization of trade has intensified and has sustained conflictual approaches and outcomes. Hence, trade and conflict remain connected in the twentieth and twenty-first centuries, and while war can less readily be used as a way to pursue trade, trade is still used as a way to wage war.

Chapter summaries

A Global History of Trade and Conflict has nine main chapters, each a self-standing case study that explores the link between trade and conflict as well as the consequences of their convergence. The contributors to this volume come from diverse historical subfields and specializations; they have gathered because of a shared interest in a historical phenomenon that transcends period and region. Each chapter reflects the authors' respective areas of expertise – medievalists and modernists, social, economic and diplomatic historians – as well as area experts on Canada, China, Europe, Latin America and the United States.

Each chapter engages a discrete historical subfield, challenging existing views and offering fresh interpretations. Together they establish a global, long-term and comparative framework in which to understand the link between trade and conflict. They highlight the persistence of this connection even as the bloody pursuits of trade during a mercantilist era gave way to a less violent quest for commercial opportunities. While mainstream economic views evolved, governments consistently used trade instrumentally to achieve political and geopolitical goals. Governments were always actively involved in the regulation and management of trade, whether the example is from sixteenth-century China or twentieth-century America, whether in an imperial political structure or a democratic and accountable political culture. The porousness of the domestic and international spheres is highlighted time and time again, making the point that the development of world trade cannot be detached from domestic contexts or political imperatives. The effect of conflict on the establishment and reorientation of trade links is followed over a period of 500 years, with a few commodities of global significance examined closely, including pepper, wheat, sugar and coffee. The cumulative conclusion is that the intersection of trade and conflict has reoriented trade, provoked strategies of adaptation, closed off some markets and opened others; their conjuncture has been a powerful, if sometimes destructive and wrenching, process that has shaped and advanced the growth and patterns of world trade.

Timothy Brook's chapter opens the collection by examining how Portuguese traders arriving off the coast of China in the early sixteenth century used violence to gain access to the Chinese market. Contrary to the widespread view that the Chinese state was hostile to foreign trade, Brook argues that the merits of the tribute system – a 'consensual fiction' that was used to regulate trade for strategic reasons associated with the position of the emperor – were subject to intense debate just as the Portuguese arrived. The Portuguese use of violence, threats and obstruction was implicated in a complex policy debate that resulted in the decision to close China to maritime trade: the diplomatic function of trade prevailed over the revenue-earning role that many Chinese officials had begun to encourage. Brook's chapter introduces three recurring themes: (1) the instrumentality of violence as a way to gain access to markets and supplies, an approach that was being followed throughout South East Asia and the New World at the time, although in the case of China this method was not particularly effective; (2) the involvement of the state in trade – largely motivated by non-commercial considerations – and the impact of government decisions and policies on the development of trade networks; and (3) the necessity of incorporating internal political and economic factors to explain the external projection of trade.

Next, Leonor Freire Costa examines the Carreira da Índia, focusing on the effect of exogenous pressures – such as increasing competitors for the spice

trade, the activities of privateers, as well as increased defence expenditures – and endogenous factors, such as the cost of shipbuilding – on the profitability of the route. The pepper trade was an instrument used to undermine the war effort of their Dutch rival. But the main point of her chapter is to illuminate a process of institutional and financial adaptation, demonstrating that the intersection of trade and conflict did not stop trade but rather provoked responses and adjustment. Moreover, the profitability of the route alone did not determine the Crown's commitment to the pepper trade. Her paper confirms the need to look to domestic conditions, in this case political customs as well as financial practices, to understand the impact of trade as well as the forces that influenced the development of trade. The close engagement of the Crown highlights the importance of the state as an actor in determining trade flows. Like Brook, Freire Costa shows the close interconnectedness of economic and political considerations in shaping conceptions and uses of trade. The politicization of trade is another theme that weaves through these chapters.

The next two chapters, by Steven Topik and José Luís Cardoso, respectively, deal directly with the impact of wars and revolutions on global trade patterns. Rather than uphold the premise that conflicts of this kind undercut trade, they demonstrate how trade flows responded to the interruption of established trade patterns. In both cases, the reordering was long-lasting rather than a temporary adjustment. Moreover, Topik and Cardoso link these processes of transformation to immediate and long-term developments affecting states – Haiti's impoverishment and marginalization and Brazilian national independence – as well as geopolitical shifts, in particular the demise of Napoleon's imperial ambitions. These chapters develop themes introduced by Brook and Freire Costa about the overlap between economic and political spheres and the adaptability of trade.

Steven Topik's chapter on the Haitian Revolution – an uprising sparked in part by the Napoleonic Wars – highlights the reciprocal dynamic between trade and conflict. He traces the rippling effects of an exogenous shock on global trade patterns. Haiti was the world's largest producer of sugar, coffee and indigo in the late eighteenth century. As slave owners left Haiti to escape the revolution, they set up sugar plantations elsewhere in the Caribbean. Higher prices for sugar and coffee contributed to the economic rationale of using slave labour to produce these goods elsewhere. One of the ironic consequences of the Haitian Revolution was to entrench slavery more deeply in the United States, Brazil and Cuba. In addition, global patterns of trade were radically altered. Coffee and sugar began to be grown in Cuba, Puerto Rico, Brazil and the United States. The consequences for Haiti were disastrous economically. Once described as 'the paradise of the New World', after the revolution it was marginalized and impoverished. But trade did not end; it relocated. Thus Topik concludes that conflict was both 'a very unpredictable and costly engine of trade'.

José Luís Cardoso's chapter examines the economic and geopolitical impact of Napoleon's 1806 decision to blockade continental markets in an attempt to defeat Britain; Napoleon consciously conceived of trade as an instrument of war. But to be effective there had to be consistent compliance. As Cardoso explains, this was never achieved because Napoleon's dominance did not include the seas. Napoleon's decision to invade Portugal in 1807 further undermined his economic-military strategy. Not only did the Portuguese court flee to Brazil, but the move encouraged trade links with Britain. Cardoso credits British merchants with the ability to respond to adverse circumstances created by the blockade by seeking out new opportunities; he emphasizes the importance of their 'spirit of enterprise, capacity for innovation' as well as their 'subtlety and agility'. There was a backlash amongst Portuguese traders who felt unable to compete. This backlash prompted José da Silva Lisboa, whose son was the translator of *Wealth of Nations* into Portuguese, to explain how such competitive conditions benefitted all. The effects of the blockade had unintended and numerous consequences, reshaping global trade patterns, galvanizing Brazil's emergence as an independent state, contributing to the downfall of Napoleon, as well as changing fundamental ideas about international trade.

The next three chapters, by Tim Rooth, Richard Toye and Gregory P. Marchildon, respectively, are situated in the 1920s and 1930s, the so-called interwar period in terms of geopolitical wars but a time marked by global depression and trade wars. Tim Rooth analyses trade patterns and policies, set in the context of Britain's economic decline and displacement as the centre of a global financial and trade network. Rooth revises the standard characterization of the interwar years as a time of retreat from global commercial activity. However, by the end of the 1920s, retrenchment had begun and Britain sought economic security through limited, but protected, imperial trade networks. The scheme prompted imperialistic boosterism but the economic reality was gloomy as imperial economic insufficiency was made starkly apparent. Although Rooth concludes that Britain's turn to protectionism was not a significant cause of the Depression, such policies impeded national and global economic recovery. Intra-Commonwealth tensions and disappointment notwithstanding, the Dominions aligned with Britain in wartime, but positioned themselves more independently after the war when a liberal trade regime was put in place.

Richard Toye dissects the political speeches of one of Britain's greatest orators and most influential political figures, drawing out the rhetorical strategies, purpose and meaning of Winston Churchill's statements on trade over a political career that spanned the first half of the twentieth century. Churchill's personal position on trade shifted, from being an advocate of free trade to a pragmatic protectionist. Despite this shift, Churchill consistently denied that trade was 'innately conflictual'; he believed that all won from free trade. But for reasons of party politics – principally winning votes and promoting

particular policies – he situated trade in an embattled and partisan political context. Hence, he claimed that the trade policies of his political opponents would lead to 'conflict and catastrophe'. Churchill's speeches tell us little about the substance of the free trade protection debate – at least as economists understand it – but they do explain how political discussion of trade defined the meaning and shaped the contours of a debate about the merits of free trade and protection, a debate that continues to rage.

While Rooth's and Toye's chapters describe parallel contexts in which trade existed and was understood, Marchildon's chapter on the global wheat war directly links economic and geopolitical spheres. Although it is more common to write about wars as exogenous shocks to the international trade system, Marchildon demonstrates that the Great Depression undermined cooperation in global geopolitics. The world wheat trade had been central to the emergence of a globalized trade system in the late nineteenth century but overproduction fuelled a wheat war in the 1930s. The main producers of wheat (the USA, Canada, Australia and Argentina) did not reduce the acreage under cultivation. Consumer nations also pursued policies that undermined the recovery of trade. The wheat war that ensued was a microcosm of the global community, revealing how national interests created self-defeating policies and initiatives, such as autarkic food policies. According to Marchildon, failed commercial diplomacy was both cause and symptom of a decade marked by profound mistrust that culminated in the Second World War. But as is the way with the complex relationship of trade and conflict, it was the war that brought most countries out of the Depression and solved wheat's twin problems of oversupply and depressed prices. After the war, people opted for managed trade and orderly markets in agriculture instead of unfettered competition and open markets. But exempting agriculture from the liberal global trade order set the stage for a new round of trade conflict, pitting the advocates of free trade against protectionists.

The final two chapters explore the alleged heyday of the Kantian peace, when a liberal trade ideology prevailed after 1945, supported and promoted by the United States.[41] The recognition of the powerful and destabilizing impact of trade on global geopolitics resulted in the creation of the GATT as a pillar of the reconstructed postwar order. The role of the GATT was to promote liberal trade practices as well as to manage the commercial component of international relations so that disputes and conflicts could be resolved through negotiations and compromise rather than beggar-thy-neighbour policies and warfare. But as Lucia Coppolaro and Francine McKenzie reveal, the pursuit of free trade within GATT has provoked considerable conflict, primarily because free trade, while endorsed as an ideal, was problematic to implement. Protectionism ran deep amongst GATT members, including its most prominent members, the USA and the six members of the EEC, which clashed sharply during GATT rounds of

negotiations. Conflict was entrenched in trade negotiations but rather than provoke deadlock or breakdown, the confrontation could result in far-reaching reductions in barriers to trade. The utility of conflict as part of the GATT process was also evident in the cleavage that divided developed and developing members. Although the North–South divide made little sense in terms of trade flows, it was a real frame of reference that polarized the GATT along several intersecting axes: exploitation and justice; weak and strong; winners and losers of trade. North–South polarization and politicization of trade slowly changed the GATT, never fully transforming it into an agent of economic development, but making it more responsive and relevant to poorer countries than had been the case when it was first launched in 1948.

The elevation of trade to the level of high policy was uncontestable by 1971 when American President Richard Nixon shocked the international economic system by suspending the convertibility of US dollars into gold and applying a 10 per cent surcharge on all imports. Thomas W. Zeiler describes the president's approach as a 'frontal assault' on key American allies, notably the EEC, Canada and Japan. It was a decidedly provocative act that sparked immediate opposition and awakened the prospect of a trade war. The response of affected countries confirmed that close geopolitical allies could also be bitter trade rivals. But the Nixon Shock should not be understood primarily as a near-run trade war. Zeiler suggests that Nixon's economic belligerence must be understood in terms of his intention: to shock the capitalist regime into a new era of more equal responsibility. The existing order was no longer working for the United States that faced a serious dollar shortage and ever growing imbalance of payments. Because reform required other states, such as Germany, taking on more financial responsibility, it was not achieved without compelling leverage. Hence, conflict was used tactically to establish the conditions that would lead to 'a new era of competition'. Moreover, Nixon's actions pre-empted a Congressional initiative that would likely have been far more protectionist. This political shock brought about trade reform (as well as monetary reform) that preserved a liberal trade order in circumstances that were profoundly different from those upon which the postwar free trade system had originally been based. Thus, Nixon's goal was largely stabilizing even if this was to be achieved through acrimonious negotiations.

The final word is left to Renato Galvão Flôres, Jr. He takes issue with scholars and practitioners who have affirmed the idea of a Kantian peace, a claim that he challenges in two ways. First, in his survey of Kant's philosophical oeuvre, he points out that scholars and practitioners have latched onto an idea – about the interdependence of trade and peace – that was really a passing, and undeveloped, point in a text and in a corpus primarily dedicated to the study of aesthetics, ethics, relations between states, reason and law. Second, he debunks the article of faith that trade and peace have been mutually constitutive. He

constructs a long and multilayered narrative of trade and conflict – situating the nine case studies along the way – to expose the long-standing, varied and enduring link between trade and conflict. He explains the link in terms of the dynamic nature of trade. His experience as a trade negotiator is the basis for correcting a persistent misunderstanding that afflicts current trade negotiations. Dispensing with misrepresentations of Kant and his alleged ideas of trade and peace, Flôres believes, will allow trade officials to confront more effectively 'the myriad problems posed by trade relations'.

Conclusions

Although there have been and still are critics of international trade who denounce it because it damages the environment, causes domestic unemployment, undermines local communities and cultures and exacerbates conditions of inequality – in other words, because of the many ways in which it is destructive – the association between international trade and conditions of stability, if not peace, has endured at the levels of government policy, in the work of international organizations and in academic analysis. While the sum of this volume does not refute this association, it does show it to be one-sided. We see trade as an inherently competitive endeavour in which participants vie to establish their dominance that is achieved by defeating or besting others. Our case studies also show that historically conflict has not stopped trade. It sparks dramatic change that creates new opportunities even as it shuts down existing ones. Trade adapts, moves and recovers, creating new competitive conditions. The intersection of trade and conflict has therefore been transformative or, as Topik has explained, sparked 'constructive destruction'. The dynamic is reinforcing even when conflict takes its most violent form – warfare. Trade might or might not be the object of the war but trade can become essential to sustain a war effort.[42] Rather than seeing a zero-sum dynamic defining the relationship between trade and conflict, we have found that there is a reciprocal transformative relationship.

It might be tempting to suggest that the violence that characterized international trade from the sixteenth to the twentieth centuries belonged to a more brutal age. But as this volume has suggested, even if the expression of conflict has mostly shifted from physical violence to rhetorical disputes, the encounters remained highly conflictual. Commercial competition remains a cut-throat contest in which not all will thrive or survive. Neither has the shift from mercantilism to liberalism that demarcated commercial eras eradicated the connection between trade and war. Wars have been pursued in the name of free trade. There was also the specific commercial variant – trade war – that provoked anxiety throughout the twentieth century. The casualties would no doubt be counted differently from battlefield deaths, but the suffering was expected to

be far-reaching and acute. Although it would be understandable to expect that a volume examining the historical intersection of trade and conflict would be a tale of destruction, such a conclusion would misrepresent the powerfully transformative, if painful, impact of trade and conflict that was experienced 500 years ago and today.

Notes

I would like to thank Lucia Coppolaro, Tom Zeiler, Tim Rooth, Steve Topik, Greg Marchildon, Rob McKenzie, Michael Szonyi and the anonymous reviewer for their helpful comments and suggestions.

1. Quoted in Findlay and O'Rourke (2007), p. 178.
2. Zeiler (1999); McKenzie (2002); and Barbieri and Schneider (1999), p. 389, note that the belief that trade decreased the likelihood of war had become 'so deeply entrenched in mainstream economics that only heretics from the radical fringes of the discipline dared to question it'.
3. Including Findlay and O'Rourke.
4. Aerts (2003), p. 358, asserted this with respect to the medieval period in Europe: 'Trade could prosper only in periods of political security.' O'Brien (1989), pp. 335–95, made the same point with respect to the Napoleonic Wars, although he also noted that conflicts created new opportunities.
5. O'Brien (1996), pp. 449–50.
6. For example, Oneal and Russett (1997); and Oneal and Russett (1999). Pevehouse (2003), p. 240, puts it succinctly: 'As the commercial liberal view makes clear, trade should do more than prevent violent conflict: commerce should engender cooperation among trading states.'
7. The literature on political science is nicely summarized in Barbieri and Levy (1999), pp. 463–4.
8. Angell (1910).
9. Dorussen and Ward (2010), p. 41.
10. Oneal and Russett (2001), p. 471. They conclude that democracy reduces the likelihood of conflict by 44 per cent, whereas trade reduces it by 22 per cent (ibid., p. 474).
11. Hegre et al. (2010), p. 771.
12. Barbieri and Levy (1999), pp. 471–7.
13. See the discussion of Brinkmann in Viner (1948), p. 22.
14. Gartzke (1998), p. 22.
15. Hegre et al. (2010) note the lopsided nature of academic study, although even when they take this into account they continue to find that trade has a pacifying effect.
16. Schumpeter (1943), pp. 81–6.
17. Kunz (1994), p. 459.
18. Pomeranz and Topik (1999), pp. 156–8.
19. Findlay and O'Rourke (2003), p. 25.
20. Prange (2011), p. 1269.
21. Abu-Lughod (1989), p. 54.
22. Pomeranz and Topik (1999), p. 167.
23. Prange (2011).

24. Curtin (1984), p. 139, discusses the Portuguese case in some detail, explaining how cultural and social conventions blended so that 'The combination of trade and plunder came naturally.'
25. Gama (1898), p. 37.
26. Pomeranz and Topik (1999), p. 151.
27. Keay (2006), pp. 241–2.
28. Quoted in Micklethwait and Woolridge (2003), p. 20.
29. Boxer (1969), p. 106.
30. Clarke (2006), p. 804.
31. Belich (2001).
32. Kiple and Ornelas (2008), pp. 1223–4.
33. Findlay and O'Rourke (2007), p. 247.
34. Maddison (2001), p. 95.
35. Speech at Wakefield, 11 April 1847, in Cobden (1970, repr. of 1849), p. 76.
36. Findlay and O'Rourke (2003), pp. 32–5.
37. Lahaye (2008), p. 568, defines mercantilism as: 'economic nationalism that seeks to limit the competition faced by domestic producers … Import restraints and encouragement to exportation were the mercantile policies that would enrich and empower the newly emerging nation-states.' Also, Irwin (1996), ch. 2.
38. Findlay and O'Rourke (2007), p. 429.
39. Ibid., pp. 377 and 471.
40. McKenzie (2008).
41. As Dorussen and Ward (2010), p. 41, put it, 'the period since World War II can be seen as the progressive realization of the classical-liberal idea of a security community of trading states'. Such views can have a triumphalist air, as Kagan (2012), p. 41, does when he claims that 4 billion people have been lifted out of poverty since 1945 because of conditions of 'relative peace in which trade was increasingly free and secure and in which the dominant power had a selfish interest in the economic growth of other nations'.
42. This is the case with civil wars today in which primary resources are implicated in their onset and can prolong such conflicts. The causal weight of primary resources in starting civil conflicts is a subject of lively academic debate. Collier and Hoeffler (1999) concluded that greed, which manifested itself in predation over primary resources, was a more significant factor in initiating civil conflicts than grievances. The greed–grievance dichotomy has been further examined by scholars whose findings confirm the importance of natural resources but not necessarily to the onset of civil war. See, for example, Thies (2010), pp. 321–32. Primary resources also become important in financing rebels, see Ross (2003).

1

Trade and Conflict in the South China Sea: Portugal and China, 1514–23

Timothy Brook

It used to be a truth universally acknowledged that the Chinese state was historically hostile to foreign trade, and that if the Chinese were in want of anything, it was the freedom to trade. This truth has been so resilient that it has for five centuries anchored the perception that China needed to be knocked out of its complacency, and for two centuries supported the argument that capitalism arose in Europe because the European state, precisely unlike the Chinese state, was the proponent, patron and benefactor of foreign trade that it organized, or at the very least chartered, through monopoly corporations. This chapter argues the fallacy of these assumptions and proposes that the history of the early modern world be written not as a polarity of East and West, each counterexemplifying the other, but as a joint process of engagement and alternation in which both sides struggled over the relationship between foreign trade and the state, which violence alternately destabilized and maintained.[1]

The prejudices against this view have deep historiographical roots running down through diverse soil strata: Western hostility to the command economy of the Communist period; before that, the Western belief that China needed to be 'opened up' (a phrase that the reform faction in the Communist Party curiously chose to resuscitate in the 1980s to describe China's re-entry into global capitalism); before that, the imperialist conviction that only force of arms could bring down the Great Wall; and before that, the mercantilist notion that China was a benevolent autocracy that protected domestic assets by demeaning merchants and placing all decisions in the hands of 'mandarins' (curiously, a Portuguese loan-word from Sanskrit). It is true that at no point during this half-millennium did China unconditionally open its borders to foreign trade, but then neither, with few exceptions, did any European state. The relationship between foreign trade and the state has never been as cleanly bisected as it is in neoliberal ideology, which gives the state the role of an arm's-length regulator whose purpose is to clear the deck for the circulation of commodities and the accumulation of capital. In practice, the trade–state relationship is quite the

opposite, as the contemporary Chinese state fully, though not exceptionally, demonstrates. Trade could not happen without the infrastructure, legal regulation and security that the state alone can supply.

This chapter goes back to the first encounters between Portuguese merchants and Chinese officials in the 1510s, encounters that were closely followed by observers at the time and have been carefully scrutinized by historians subsequently, on the hunch that we may have read past what actually happened at that time in our rush to confirm what happened later. One way of opening up these encounters is to see them from the perspective of Ming China. Narratives of this history tend to represent the Portuguese as acting, aggressively but more or less effectively, and the Chinese as reacting, invariably ineptly. In fact, by attending more carefully to what Chinese officials were doing at the time, a logic of trade–state relations that does not conform to later characterizations comes into view. Indicative in the context of China, it is also striking for being much closer to the norms prevailing in Europe at this time. The relationship between China and Europe would subsequently change, for a host of reasons. At the time, though, it was not so clear that they were each other's counterexample. Grasp this possibility and the conventional images of both China and Europe have to change. Rather than reading back from later developments, this chapter presents the context in which the Portuguese found themselves as dynamic and changing on both sides, not as passively continuing age-old proclivities. The context is important, because at the moment that the Portuguese arrived, officials of the Ming dynasty (1368–1644) were revising institutional arrangements governing maritime trade. This revision was partially derailed in the following decade, allowing Europeans to tell a very different story about China's hostility to trade, which has obscured not only the actual history of the period but the general 'premodernity' of trade that prevailed across the sixteenth-century globe.

The principal source on which this chapter relies is the internal summary of daily court deliberations known as the *Veritable Record*. Every reign had its own, compiled after the death of the emperor on the basis of the court diary. The *Veritable Record* was vulnerable to retrospective political interpretation, as we shall see, but it is the closest we come to watching the administration of the realm unfold on a daily basis. Not a source on which earlier historians of the Portugal–China relationship have drawn, the *Veritable Record of the Zhengde Emperor* reveals policy debates on the Chinese side missing from the standard source, the dynastic history of the Ming, produced long after the dynasty had gone. This record chronicles the debates and decisions people at the centre of the political system made in the face of conflicts arising from the demand for trade by both Chinese and Portuguese. The state appears here not as a monolithic abstraction but as a field of action in which personnel worked within the institutions and policy-making processes available to them to address problems, able to look back to earlier precedents but never forward

to the new situations that their own precedents would create. Most had their eyes on securing the wealth and stability of the Ming regime, although this did not mean that they were unified in how to achieve that goal. Some had their eyes on benefits that might accrue to local interests favouring trade, although not if doing so would produce a local benefit that entailed a loss for the government. It was through their debates over what was the best course to follow that the Chinese 'state' emerges as an actor in this history of trade and conflict.

Trade and tribute

Portuguese mariners reached the south coast of China in 1514. The sea journey from Lisbon may have been long, but the time between the first Portuguese forays out into the Atlantic and their arrival in China was remarkably short: not much more than three decades to navigate the Indian Ocean, establish a base at Goa, annex the port of Malacca, sail into the Spice Islands and move north to Canton. They did so by piggybacking onto existing trade networks that laced together the South China Sea world economy, partly through trade, occasionally by exploiting a modest advantage in weapons technology.[2]

On their way eastwards around the Indian Ocean and into the South China Sea, the Portuguese encountered mostly small littoral sultanates. They were entirely unprepared for a state as institutionally complex as Ming China. Chinese had long been major players in maritime trade. The Song (960–1279) had suffered little anxiety over this trade beyond requiring that foreign traders report their cargoes to the Supervisorate of Maritime Affairs. When Khubilai Khan invaded China in the 1270s as the new founder of the Yuan dynasty (1271–1368), he interdicted maritime trade to prevent Song loyalists from receiving foreign aid to fund their resistance against the Mongols. In 1284, he imposed a monopoly on foreign trade, although this time from a desire to capture revenue. He relaxed the monopoly a year later, although the option to monopolize was always a temptation. The Yuan imposed a complete state monopoly on overseas trade in 1303, and for the next two decades alternately lifted and reimposed it until 1322, when it lifted it altogether.[3]

It was the founder of the Ming dynasty, Zhu Yuanzhang (r. 1368–98), who brought the inconsistent policies and relaxed enforcements of earlier dynasties to an end. Zhu prohibited private foreign trade in the first years of his reign. This applied to both foreign merchants coming to China and Chinese merchants sailing abroad. Thenceforth, all foreign trade would have to pass through diplomatic channels. The only foreigners allowed to enter the Ming realm to trade were those who came as members of tribute missions. These missions, carefully regulated as to size and schedule, were permitted to engage in trade through designated Chinese brokers, but their formal purpose was to present tribute to the emperor and receive his gifts to take home to their rulers.

The tribute system was an institutional reality; it was also a consensual fiction. On the Chinese side, the fiction was that the emperor ruled the world on Heaven's behalf, and that all other rulers, of lesser status, should acknowledge his suzerainty by sending tribute as a token of submission to his authority. Rulers outside China went along with this fiction, as the posture of submission gave them diplomatic access to China and opened space for trade. Although the system predated the Ming, it was the Ming state that insisted on channelling all foreign trade through this mechanism. Zhu Yuanzhang's purpose in funnelling trade through the tribute system was, as prohibition had been for the Yuan state, strategic. Like Khubilai, he believed that it was essential to control the comings and goings of people along the coast in order to consolidate his grip on power. He regarded absolute prohibitions on not just overseas trade, but overseas contact, as fundamental conditions that made this degree of control possible.[4]

Since the nineteenth century, comparative history has counterposed the tribute system, in which a regional hegemon imposes subordination on lesser states, to the Westphalian system of interstate relations based on the formal equality of all nations. The contrast is sensible so long as we resist the modernist temptation to treat the Westphalian system as inherently superior in terms of the norms that it imposes, and the tribute system as a premodern atavism that could only survive in backwards Asia. Consider them, rather, as possible outcomes of two very different state contexts: the Westphalian system (itself as rich in fictions as the tribute system) emerging in the densely and hostile multistate context of Europe, and the tribute system organizing interstate diplomacy within a regional system consisting of one superstate and many much smaller states.

Such is theory; practice took matters in a different direction. Everyone understood that maritime trade, while it could be risky and expensive, could also be hugely profitable. Commercial families were keen to pool their assets and invest in overseas ventures, both as sole owners or as share investors. Sailors were keen to sign on, and the marginal and unskilled willingly took passage in the hope of finding wage labour in Chinese enclaves abroad. The state also understood the enormous wealth that maritime trade could generate. It was not in Zhu Yuanzhang's intellectual repertoire to imagine growth; he sought to monopolize foreign trade not to make money from it, but to prevent individuals from amassing wealth that could serve as a base for resisting his state. His descendants came to think differently. During the reign of the madcap Zhengde emperor (r. 1506–21), some officials began suggesting that the monopoly could generate fiscal income. Informal coastal trade had been increasing since the 1470s, such that by the time Zhengde was on the throne, the idea that it was legitimate to permit and tax foreign trade was growing at the expense of the ideal of maintaining the old tribute system.

The contradiction between trade and diplomacy

The idea of encouraging maritime trade posed institutional contradictions over which the Zhengde court would struggle for years. It was not a fundamental adage of Ming statecraft that the state should exploit every possibility to extract revenue; the state's role was rather to ensure the physical and moral well-being of the people. Revenue from land taxes was the foundation of the state's fiscal income, and this was generally considered adequate to meet the needs of the people and the state. Commerce was also taxed, but at a level so modest (between 3 and 10 per cent) that it constituted only a minor line item in the state budget. The tribute system was even less a generator of state income. Its reason to exist was entirely diplomatic; indeed, what the Ming government paid to cover the expenses of diplomatic missions far exceeded what it received in gifts and payments. However, the lavish profits that maritime trade yielded gradually encouraged officials in regions where foreign trade was conspicuous, especially the southernmost province of Guangdong, to consider the possibility of looking to increase revenue through trade. Doing so meant detaching foreign trade from the tribute system. As the Ming founder had explicitly forbade his descendants from altering the basic institutions of the dynasty, this was a tall order. But many were willing to try.

The institutional fabric within which trade and diplomacy were conducted was somewhat complex and needs to be sketched. Foreign envoys arriving at China's shores were handled by an agency called the Office of Commercial Shipping (Shibosi), conventionally translated as the Supervisorate of Maritime Affairs. Early in the fifteenth century, this agency passed to the control of eunuchs, who constituted a parallel state administration responsible not to the government but to the imperial household. Their mandate was to protect the interests of the emperor, particularly his financial interests. Diplomacy more generally was handled by the Ministry of Rites, which oversaw the protocol governing Ming relations with foreigners. Border security was under the jurisdiction of the Ministry of War. As tribute missions arrived by ship on the south coast of Guangdong province, the day-to-day business of trade and diplomacy was the responsibility of officials posted there. Guangdong and neighbouring Guangxi were under the supervision of a grand coordinator (a civil bureaucrat) and a grand defender (a eunuch). Beneath them, the Guangdong provincial leadership in Canton was split three ways among an administration commissioner, a surveillance commissioner or censor and a military commissioner. Problems arising from relations with seaborne foreigners tended to land on the desk of the administration commissioner. Neither the Ministry of Rites nor the Ministry of War had direct appointees at the provincial level. The only way they could be involved was by reviewing regional decisions at the request of the throne or by petitioning the throne directly for action on a particular issue.

The first moves in the direction of treating maritime trade as a revenue generator may have come from the eunuch administration, which had a reasonably free hand to run palace affairs and sidestep troublesome precedents, for the benefit of the privy purse (as well as themselves) while the Zhengde emperor was off fishing or playing soldiers.[5] The earliest case in the *Veritable Record* suggesting eunuch activism in this matter is in the spring of 1509, when several Siamese ships were discovered moored along the Guangdong coast. The sailors claimed that the wind had blown them off course. That was probably a convenient excuse to cover their appearance on the coast without tribute authorization. The grand defender and grand coordinator conferred and advised the throne to permit the ships to unload their cargo but charge an import duty on these goods. The funds collected would be put into the southern regional military budget, which had to bear the cost of controlling smuggling.

This could have constituted a precedent to allow foreign trade to expand under state supervision, had no one objected. But someone did. According to the unsympathetic account in the *Veritable Record*, the eunuch director of the Maritime Supervisorate, Xiong Xuan, 'figured that he could intervene in the matter and obtain great benefits, and so memorialized a request to the Emperor'. He sent in a memorial (a communication addressed by an official to the emperor) requesting that his office be given complete authority for collecting duties on irregular cargoes. The Ministry of Rites strenuously objected, arguing that the supervisorate's job was to oversee the management of tribute embassies, not get involved in revenue collection. Emperor Zhengde sided with the ministry. He chastised Xiong for overstepping his authority, had him recalled to Nanjing and replaced him with another eunuch, Bi Zhen.[6]

Bi's mandate was to limit the supervisorate to tribute affairs, yet in August 1510, seventeen months later, he asked the emperor to allow the supervisorate to take over the levying of duties on non-tribute-bearing vessels: exactly what Xiong had asked for. Bi noted that not just the grand defender and the grand coordinator, but the provincial commissioners as well, were involved in managing the profitable revenue from these ships. He wanted the revenue diverted into the imperial household stream. Bi's memorial to the throne was passed to the Ministry of Rites for an opinion, and again it objected. 'The function of the Maritime Trade Supervisorate is to manage local products brought as tribute. Merchant ships and other foreign ships forced by the winds to find an anchorage are not included within the original purview of the imperial orders. The regulations should not be meddled with.' Was the ministry anxious to prevent the revenue from being diverted to the eunuch agency, which seems likely; or was it concerned lest diplomacy be submerged by revenue concerns? It is difficult to say. The emperor sided with precedent, confirming that the system should return to the status quo ante before Xiong had tried to take over import duties in March 1509.[7]

The entry on the imperial decision in the *Veritable Record* ends with the note that 'Liu Jin had sought private gain from Bi Zhen and had thus falsely stated that this practice had a precedent.' Liu Jin (*c*.1452–1510) was Zhengde's chief eunuch. Just two weeks after turning Bi Zhen's request down, Zhengde ordered the arrest and execution of Liu Jin on the charge of plotting to overthrow him. Whether that charge was true is open to question. What is undeniable is that Liu operated a massive scheme of kickbacks and intimidation that had corrupted and demoralized the entire state bureaucracy while the Zhengde emperor looked the other way. His arrest was the most popular decision Zhengde ever made. It is probable that Bi Zhen was indeed being pressured by Liu Jin for bigger payoffs, although that may not have come out until after Liu's downfall. But it would be a mistake to reduce the issue of taxing foreign trade to eunuch corruption or the perennial battle between the eunuch administration and the civil administration. The point is that a notable transformation was underway on the south coast. More ships were ferrying an ever greater volume of commercial goods in and out of China, and officials in south China were struggling to figure out how to alter the monopoly on maritime imports to benefit the state.

Debates over trade policy

The next glimpse of developments in the taxing of maritime trade in the *Veritable Record* comes four years later, in 1514, when Assistant Administration Commissioner Chen Boxian, otherwise an unremembered figure, sent in a memorial to the Zhengde emperor accusing his superior by two grades, Administration Commissioner Wu Tingju, of letting maritime trade get out of hand:

> The commodities circulating in south China come from foreigners from Malacca, Siam and Java. These products are nothing but pepper, sappanwood [used as a dye and a pharmaceutical], elephant tusks, tortoise-shell and such like, not daily necessities such as cloth, silks, vegetables and grain. Recently, the administration has been permitted to levy taxes *ad valorum* and there has been open trade. This has resulted in thousands of evil persons building huge ships, privately purchasing arms, sailing unhindered on the ocean, illicitly linking up with foreigners and inflicting great harm to the region. This must be stopped at once.[8]

The regional official behind this dreadful state of affairs, Chen declared, was Wu Tingju. The throne asked the Ministry of Rites for its opinion. It responded on 27 June by supporting Chen, insisting that foreign ships arriving outside the tribute regulations should not be taxed – for the reason that they should

not be allowed to land in the first place. The Ministry added that 'all evil persons who continue to collude with the foreigners should be punished'.

What was Wu Tingju doing to draw Chen Boxian's fire? Wu has left relatively few traces in the documentary record. He is best known for Chen's attack, for it became a touchstone for opponents of a more liberal approach to foreign trade. The way to stigmatize an official who favoured expanding trade and increasing customs revenue was to call him another Wu Tingju. Three years after Chen's memorial, for example, another official in south China refers back to the debate in 1514 and notes that Wu 'had plausibly argued for the benefits to be gained and requested that all ships be received. The grand coordinator, regional inspector, and Ministry of Revenue were all deluded and this proposal was approved.'[9] In the same vein four years later, another hostile censorial official sought to lay subsequent difficulties with the foreigners in Guangdong province at the feet of Wu Tingju:

> On the strength of Wu Tingju's claim that there was a lack of aromatics to send to the court and a shortage of provisions for the armed forces, frequency restrictions were ignored and the goods of any ship that arrived were even taxed. As a result, foreign ships continually come into our coastal bays, foreigners live among us in our cities, the laws and coastal defence are neglected and our domestic routes are becoming increasingly familiar to them.[10]

These repeated references show that Wu Tingju was seen in the late 1510s as the official leading the charge for arguing for the benefits of foreign trade to China, in particular the fiscal benefits of that trade; or in other words, the champion of the idea of separating trade and diplomacy. What Wu himself actually advocated is difficult to reconstruct, as no document in his name has survived. The appreciative biography in the local gazetteer of Shunde county south of Canton, which is where Wu got his first official posting as a county magistrate after passing the metropolitan exams in 1487, remembers him with great fondness as a tall, unkempt man whose word could be trusted and whose acts produced results. During his tenure as magistrate he revitalized the county, swept away objectionable popular practices and resisted the corrupt blandishments of his superiors, which may be why he languished in his first post for nine years before being promoted. Wu was back in Guangdong as an assistant commissioner in 1505. He was rotated out to Jiangxi, the province to the north, but returned to Guangdong as Right (Junior) Administration Commissioner.[11] So he spent most of the first 25 years of his career in Guangdong, and must have been reappointed there in post after post because he was seen as having a good understanding of the challenges of administering the region.

Unfortunately, little else is known of Wu Tingju, of what was at stake in his stand-off with Chen Boxian or of how it played out politically. The result is puzzling: the emperor agreed with the Ministry of Rites and approved Chen's recommendations, yet Wu Tingju remained in post; not only that, but he was promoted to Left (Senior) Administration Commissioner of Guangdong within a year. So despite the opposition to his apparently outspoken advocacy for a more open policy on maritime trade, that policy enjoyed sufficient support at higher levels to protect him.

Wu Tingju was again the target in May 1515 when the Ministry of Rites forwarded a memorial complaining that the judgment of the previous year limiting foreign imports to tribute envoys was not being enforced. The ministry phrased the situation somewhat elliptically by complaining that 'those who were supposed to carry out the orders have let things continue as before'. It does not actually name Wu in the summary that survives in the *Veritable Record*, but his role is implied. However, the ministry this time enlarged its target beyond Wu and claimed that 'the grand defender profited from [illegal traders] and relaxed the prohibitions a little'.[12] The grand defender of Guangdong and Guangxi from 1506 to 1514, a long tenure in such a post, was the eunuch Pan Zhong.[13]

Was Wu Tingju in cahoots with a corrupt grand defender? His biography suggests that this is unlikely, for it reveals that he had a history of open conflict with the eunuch establishment going back to his time as magistrate of Shunde county. In one incident, he blocked a move by his superiors to build a family shrine for a powerful eunuch who was a native of the county. In another, he refused a bribe from a eunuch official in the Maritime Supervisorate, which led to his being thrown in prison on the pretext that he had overstepped his authority in another matter. When he returned to Guangdong as an assistant commissioner in 1506, he got into conflict with none other than Grand Defender Pan Zhong. Wu accused Pan of 20 crimes, and Pan counterattacked. Eventually Wu Tingju was arrested – by none other than chief eunuch Liu Jin who would later be executed for corruption – and exposed with a cangue around his neck in front of the Ministry of Personnel for over ten days, an ordeal that almost killed him.[14] Wu survived, physically and politically, but he could not be posted back to Guangdong so long as Pan remained grand defender. Not until the eunuch retired in 1514 could Wu be moved back to the region.

How then did the incorruptible Wu Tingju and his arch-enemy, the eminently corruptible Pan Zhong, end up on the same side of the maritime trade issue, at least in the ministry's view? The only way to resolve this puzzle is to suggest that Pan had been relaxing restrictions on foreign trade in order to benefit either himself or the Maritime Supervisorate; that this created a precedent for allowing a broader interpretation of the rules on foreign trade; and that Wu Tingju followed suit when he returned to Guangdong in 1514. His

purpose was not to benefit the eunuch administration, much less himself, but to ensure that the duties collected on imports be taken away from the eunuchs and more properly allocated to the provincial budget.

Reconstructing the accusation against Wu Tingju exposes to view what should by now be obvious, which is that the politics surrounding Ming foreign trade policy in the 1510s were complicated and anything but united against trade. Two views contended. One was that maritime trade should be restricted to authorized tribute missions. The other was that maritime trade should be recognized as a useful source of state revenue, and that overseas traders should be permitted to unload cargoes regardless of their tribute status so long as import duties were paid. This second view had also a third to contend with, which is that traders outside the tribute system be permitted to trade on payment of fees to agencies that were not legally designated to collect them.

To reach the sort of metaphysical conclusion that Paul Kennedy does in *The Rise and Fall of the Great Powers* that 'Ming China was a much less vigorous and enterprising land than it had been under the Song dynasty,' or to explain China's failure to act 'European' on 'the sheer conservatism of the Confucian bureaucracy', whatever that might be, is to polarize the past rather than historicize it.[15] Not only was Ming China not beset by lassitude and conservatism but it was also a political regime in which the institutional context of maritime trade and the policies governing its taxation were in flux. Even the Ministry of Rites, the site of foreign policy analysis within the Ming government, vacillated in its opinions. Although the flux did not ultimately lead to the sorts of policies that European states adopted *after* the sixteenth century, as we will see, focusing on flux reveals what people at the time actually did and thought. There is neither the need nor the justification to fall back on later stereotypes claiming that the Chinese state was hostile to trade, or that any official who sought to encourage trade must have been on the take. This was the context in which the Portuguese arrived, a context of which they were utterly unaware and on which they would have a regrettable impact.

Conflict

The first Portuguese voyages to Canton in 1514 and 1515 did not reach the notice of the Ming court, or at least did not earn a mention in the *Veritable Record*. The first reference to the 'Franks' (Folangji, a transcription of the old Persian word for Europeans) in that source comes on 15 June 1517 as an appendage to a larger directive on maritime trade. The directive states:

> It is ordered that ships from foreign countries sending tribute and carrying trade goods be taxed at 20 per cent, a portion to be forwarded to the capital and a portion to be locally retained to meet military expenses. This

> is entirely in keeping with the old regulations, and no one shall use recent regulations to obstruct it. [Not entirely true, as the 'old regulations' were imprecise about import duties.]

This order did not open the border to foreign trade by non-tribute-bearing missions, but it did recognize the revenue value of allowing missions to import full cargoes, which was halfway towards a serious revision of maritime trade policy.

The compiler of the *Veritable Record* then inserts some history:

> Previously, evil persons of Guangdong and Guangxi privately traded in foreign goods, linked up with the distant foreigners and tribute bearers in order to scheme for profits, beguiled people into absconding, kidnapping or purchasing boys and girls, coming and going as they pleased to the general harm of the people.

The compiler refers to Chen Boxian's attack on Wu Tingju, and then introduces the Portuguese:

> Within a few years, the troubles with the Franks started. Vice Commissioner [of Maritime Defence] Wang Hong put forth all his efforts to eliminate or capture them, and was just able to defeat them. For this reason, what has been spent yearly on building ships and casting guns for defence has been crushing. Also, because of the Franks, all the foreigners whom we are duty-bound to receive were blocked and their cargoes could not get through, causing inestimable harm.

The entry ends with the now standard complaint: 'it was all Wu Tingju's fault'.[16]

This brief history is fascinatingly retroactive. The naval stand-off between Vice Commissioner Wang Hong and Duarte Coehlo did not take place until 27 June 1521, four years after the date of this entry. It was a later development, which means that an editor must have inserted it to lend retroactive sense to an earlier situation. In the summer of 1517, it was not yet clear which way the Ming state would go on maritime trade, nor was it entirely clear how the Portuguese would conduct themselves or how that would play out in Beijing. The facts are that Wu Tingju had been persuasive in opening up trade around 1514, Chen Boxian and others were counselling limitation in 1514–15 (just as Portuguese vessels started to arrive), and the court between then and 1517 prevaricated over the course it wanted to take. The crisis had not yet come, but there were difficulties on the horizon.

Two months after this first reference to the Portuguese in the *Veritable Record*, Fernão Peres led a fleet of eight well-armed ships and arrived on the Guangdong coast and requested permission to land as a tribute mission. The Commissioner

of Maritime Defence was obliged to relay his request to officials in Canton, but Peres grew impatient and moved some of his ships into the mouth of the Pearl River to press his case, a move that the Chinese viewed, not unreasonably, as hostile. Eventually he was given permission to moor at the courier station on the riverbank outside Canton, but did so flying the Portuguese flag and firing a salute. Both gestures were also regarded as hostile, the one as an inappropriate assertion of foreign sovereignty (extraterritoriality was not yet a principle of international law in China *or* Europe) and the other as a threatening demonstration of military preparedness. Peres was dressed down for these actions by none other than Wu Tingju, who naturally feared that such highhanded conduct might poison the delicate policy situation he was trying to manoeuvre in favour of maritime trade. Peres, who understood none of this, explained his actions and apologized. He was then given the opportunity to put Portugal's case for recognition as a tributary of the Ming before Wu's superior, the grand coordinator of Guangdong and Guangxi, who agreed to forward the appeal to Beijing. Peres was permitted to leave behind an 'ambassador', Thomé Pires.[17]

The issue was not purely whether the Ming would recognize a new tributary state, however. The issue was Malacca. In 1511, the Portuguese had used force to unseat the sultan of Malacca, Mahamet. The problem was that Malacca was a legitimate and observing tributary of the Ming. Bound by its tribute obligations to support Mahamet against a military power that ousted him, the court was not particularly disposed to hear the Portuguese petition with sympathy. Peres may have been deaf to why Malacca should be a stumbling block to Ming–Portugal relations, but the grand coordinator was keenly aware that it was. The portion of his memorial to the throne excerpted in the *Veritable Record* on 11 February 1518 reveals that he was not the sympathetic conveyor of the Portuguese request that Peres assumed he would be:

> Of the foreign maritime countries to the south [listed in Chinese diplomatic records], there is none called the Franks; furthermore, the envoys do not have any documents from their country. They cannot be trusted. We have detained their envoys and now request orders.[18]

The cannon salute that so alarmed Wu Tingju may have echoed menacingly through the political system, but what did the greatest damage to the Portuguese case was their military annexation of Malacca. Once again the emperor's advisors referred the question to the Ministry of Rites for deliberation. The ministry came back advising against enfeoffing Portugal as a tributary state. An edict was issued ordering the Portuguese to return home and take with them the goods they had presented as gifts.

Their official request for tributary status still stood, nonetheless, and a passing comment in the *Veritable Record* in October 1520 about the Zhengde emperor's

failure to respond signals that the issue had not been completely settled.[19] The emperor had yet to make a final judgment. Meanwhile, however, Portuguese conduct on the Guangdong coast did not strengthen support for their appeal. Simão d'Andrade, brother of Fernão Peres and captain of the next mission in 1519, 'soon committed a series of outrages which completely destroyed the amicable relations between the Portuguese and the Chinese established by his brother, and even turned the Chinese into deadly enemies'.[20] What historian T'ien-tsê Chang here terms 'outrages' included carrying out an execution on Ming territory and blocking other ships from landing before the Portuguese had sold their cargo. By the time that the court was willing to hear arguments on the case for granting tributary status in January 1521, the mood was against a liberal interpretation of the laws. Censor Qiu Daolong argued that no recognition could be given until the still outstanding appeal for help from Malacca was sorted out. He suspected that the only solution would be military, and realized that the Ming state was unlikely to project its military presence so great a distance abroad. Qiu's view was not a categorical refusal, however, for his concluding advice was 'that their tribute be refused, that the difference between obedience and disobedience be made manifest, and that [the Portuguese] be advised that only after they have returned the territory of Malacca [to its ruler] will they be allowed to come to court to offer tribute'.[21] The door for accommodation was left open. Qiu Daolong earlier in his career had served as magistrate of the same county, Shunde, where Wu Tingju had first been posted, and was similarly praised in local records for his virtuous administration there.[22] That experience must have exposed him, as it did Wu, to the possibilities for maritime trade that were invisible to most of his contemporaries.

Qiu's was the moderate position. Another censor, He Ao, took a harsher view, complaining that 'the Franks are infamous for their cruelty and guile, and their weapons are better than those of all other foreigners'. Recalling Peres' cannon salute, he noted that:

> the sound of their guns shook the city and suburbs. The persons they left at the courier station violated the ban on communication, while those who came to the capital were fierce and reckless and vied for supremacy. Now, if their private ships are permitted to come and go in trade, it will certainly lead to fighting and injury and the calamities in the south will be endless.

He Ao wanted a final solution to the leaky southern border: expel all foreigners not connected to tribute missions and restore the original rules of the system. He, too, could not restrain from once again naming Wu Tingju as the original culprit in the whole business.

Surprisingly, in light of its earlier decisions, the Ministry of Rites sided with Qiu Daolong. It suggested that the Portuguese might be recognized once a

thorough investigation of the Malaccan situation had been made. It, too, singled out Wu Tingju and stressed the need to tighten border security, but it asked for no further measures.[23] At no point, then, earlier or later, was action taken against Wu Tingju, despite his recurrent demonization. The possibility of opening maritime trade had not yet been crushed, and the ministry was prevaricating over the issue.

Two incidents in the first half of 1521 crushed it. One was the sea battle between Wang Hong and Duarte Coelho that an editor interpolated back into the *Veritable Record* entry of 1517. Having proved themselves a direct military threat to the security of the border and Ming sovereignty, the Portuguese had to be excluded. The other incident, entirely fortuitous, was the death of the emperor on 20 April. The effect was not immediate, but the awkward imperial succession from Zhengde to his cousin Jiajing (r. 1522–67) suspended all court business for half a year. As the succession unravelled into a massive political problem, it produced such polarization at court that no move to liberalize policy on any issue could go forward.[24] It also put on the throne a 13-year-old from the interior who had no grasp of maritime issues, and no interest in them either.

That summer, the Portuguese commander Martim Affonso asked the authorities in Canton for permission to unload cargo to supply the diplomatic mission. They referred the request to Beijing, and the response was negative. The Ministry of Rites hardened its position, charging the Portuguese with espionage (which was true) and advising that the grand defender and grand coordinator in Canton 'be ordered by imperial edict to drive them away quickly so that they do not enter the borders'. The Ministry of War proved slightly more accommodating, if only because it had to come up with a practical solution. It advised that the throne rebuke the Portuguese over their annexation of Malacca, but stopped short of recommending the inconceivable: a naval expedition to return Malacca to the ousted sultan.[25] But that was a few weeks before the Portuguese went into battle against the Ming navy, and suffered considerable losses in two engagements.[26] The skirmishes sealed the fate of the Portuguese: they were banned.[27] The result in this fraught political environment was that the Ming effectively shut down all maritime trade, forcing traders to become smugglers. This need not have been the outcome, but the forms of conflict that the Portuguese chose to adopt were too profoundly incompatible with Chinese diplomatic norms. In effect, it was the Portuguese and not the Chinese who shut down Ming trade.

Wu Tingju may have hoped that trade could be reopened under the new emperor, who approved his promotion to Minister of Works, a significant reward for his work. But the political climate at court was so poisoned that policy reverted to the most conservative interpretation of tribute trade, and the new emperor was not interested in the issue. In 1525, the court responded to the smuggling and piracy that closing the coast had caused by banning

the embarkation of all ships of two masts or greater, with the exception of officially authorized tribute embassies. A new grand coordinator appointed in 1529 tried to revive the campaign for reopening trade, estimating that it could yield a monthly customs revenue of several tens of thousands of taels (ounces) of silver, but the relaxation of trade restrictions that he won applied only to tribute missions.[28] Not until 1567 would a newly enthroned emperor reopen the coast, this time in response to the rising demand for trade from the Spanish in Manila.

Consequences for trade with China

The immediate consequence of this history was to ban the Portuguese from trading in China. But there were two other, more serious consequences.

The first was the impact of Portuguese misconduct on Ming policy more generally. As this chapter has noted, some officials in Canton had been attempting during the 1510s to let maritime foreign relations shift away from tribute restrictions towards more open trade. Despite periodic objections, they had some success in deflecting the court's half-hearted attempts to keep the old tribute system intact. There was no notion that trade should be free. Ming officials understood that international trade should be conducted as a state monopoly, and that goods coming in be registered, inspected and, now, taxed. The monopoly was shifting from a diplomatic logic to a revenue logic, but it was still a monopoly. This should not have surprised any European of the time, least of all the Portuguese.[29] Not until the nineteenth century were European mariners operating free of government monopolies.

If the Portuguese badly misjudged the situation in Canton, it was perhaps because their eastwards progress had been a chain of encounters with small, weak states that generally lacked the political clout or military power to set the terms of trade. Their experience taught them the benefits of resorting to coercion and intimidation to solve trade conflicts. Only when they got to China did the Portuguese find themselves in the presence of a state that expected its monopoly to be observed, and that had the naval capacity to enforce observance. The Ming navy did discover that the Portuguese had some advantage in marine gunnery and moved quickly to acquire the technology, but the weapons gap in 1520 was not such as would later cripple China's capacity to defend itself.[30]

Portuguese misconduct was not uniquely responsible for altering the direction in which Ming maritime policy was moving, however. The decision to turn away from open trade came about in relation to pre-existing policy conflicts internal to Ming politics. But in politics, timing is often everything. The Portuguese resort to violence, both at Malacca and on the China coast, was spectacularly mistimed. It may have provided them with profit windfalls in

various locations around the South China Sea, but it did not win them entry into trade with the Ming. Indeed, the conflict that the Portuguese sowed had precisely the opposite effect. Although Portugal did manage to acquire the use of the peninsula at Macao as a trading base in 1557, it lost the opportunity to build a more effective commercial relationship that might have staved off the decline of its brief Asian empire.

The second consequence has to do with how this bit of history has come to be thought of and what larger impression of Chinese foreign relations it has created. Shutting out the Portuguese has been treated as the original sin of Chinese foreign relations, sufficient to prove the claim that the Ming was lost in a haze of 'consciously anachronistic grandeur' that prevented it from responding intelligently to the coming of Europeans. Ming Chinese were caught 'gazing abstractedly out from the Flowery Kingdom with a kind of measured dignity', lost in 'a fine, Chinese, obscurantist dream. The hostile world was more or less successfully excluded for the time being as China prolonged that intensely national reverie, a sleeper reluctant to wake to the morning of the world's reality.'[31] This is all hilariously silly nonsense, dressed up in anachronistic remnants of anti-opium rhetoric from the nineteenth century. It is easy to laugh at this sort of language – less easy when it comes to spotting the legacy of misunderstanding that still pervades most textbook accounts of China's foreign relations right up to today: that China operates an arrogant foreign policy; that the Chinese state is inherently hostile to foreign trade; that it favours monopoly over free trade; that it imposes unfair disadvantages on its trading partners; and that any sign of deviation from this posture must be attributed not to policy debate but to factional interests and, of course, corruption, eunuch or otherwise.

This chapter has argued that Chinese trade policy in the mid Ming was fluid, but more than that: that this policy was sensitive to shifts going on in the world out beyond China's borders. Trade was not in itself good or bad; its virtue or vice depended on whether its promotion generated conflict or minimized it. Some Ming officials, most famously Wu Tingju, saw the benefits for state revenue that could be used to strengthen his government's capacity to impose greater security along the south coast. Others saw only the violence and disorder that foreign sailors brought to China's shores, and reasoned that there were no gains in trade sufficient to offset these losses. The court's decisions may have been made on the basis of insufficient knowledge or in response to short-term anxieties, but this is a universal trait of state decision-making. The irony in this case is that short-term anxiety about Portuguese disruption of both foreign trade and diplomatic relations in the 1510s should have scuppered a change in policy direction that could have put trade between China and Europe on a very different footing from the one it took at this particularly unpropitious moment in time.

It could be argued more strongly that there was little difference between what the Ming state did to protect its borders and interests in the 1510s and what European states did in the same era. Had armed Chinese ships appeared at the edge of its coastal border, the Portuguese Crown would have acted no differently in defending its monopoly on maritime trade into its ports. So Ming China is not really the counterexample to Renaissance Europe that historians have supposed it to be. If there was significant difference between them in maritime policy, it emerged only after the mid seventeenth century, as the global structure of empires shifted and rapid advances in military technology gave European states the means to enforce unequal terms of trade.

Notes

1. The idea that the histories of Europe and China constitute an alternating Eurasian history has been popularized most recently by Goody (2010).
2. For an introduction to the South China Sea world economy during this period, see Brook (2010), ch. 9.
3. So (2000), pp. 117–19.
4. Chan (2009), p. 160.
5. Zheng (2004), pp. 113–14.
6. *Wuzong shilu*, 48.1b–2a (23 March 1509). This and subsequent translations from the *Veritable Record* have been taken, and freely modified, from *Veritable Record of the Zhengde Emperor*, from Wade (trans.), *Southeast Asia in the Ming Shi-lu*. In most cases, the Chinese text can be conveniently found in Chiu (Zhao) et al. (eds) (1976), pp. 475–94.
7. *Wuzong shilu*, 65.8b–9a (1 September 1510). Some of this history is recounted in Chang (1933), pp. 28–31.
8. *Wuzong shilu*, 113.2a (27 June 1514); Chiu (1976), p. 479.
9. *Wuzong shilu*, 149.9b (15 June 1517).
10. *Wuzong shilu*, 194.2b (13 January 1521). The dynastic history quotes from the memorial and so preserves the accusation against Wu; Zhang (1974), p. 8430. This incident is not mentioned in Wu's biography, pp. 5309–11.
11. *Shunde xianzhi* (Gazetteer of Shunde county, 1853), 21.3b–4b. *Guangdong tongzhi* (Gazetteer of Guangdong province, 1853), 7.23b, 25a, 36b; Wu also had the distinction of having his biography included in the dynastic history, although the struggle with Chen Boxian is omitted; Zhang (1974), pp. 5309–11 and 8221. The two sources contradict each other on dates, so it is difficult to be as precise as one would like in reconstructing his biography.
12. *Wuzong shilu*, 123.4b (2 May 1515).
13. *Guangdong tongzhi* (1853), 7.19b.
14. Zhang (1974), p. 5309. Subsequent to the events narrated in this chapter, Wu stood up to another powerful eunuch in an incident in the Nanjing region in 1622 (ibid., p. 5310).
15. Kennedy (1987), pp. 7–8.
16. *Wuzong shilu*, 149.9a–b (15 June 1517).
17. Chang (1933), pp. 40–4. On Pires' failed mission to the Ming court, see Cameron (1970), pp. 131–48. As I note below, the reader will want to filter out the discourse of *la Chine immobile* that laces this otherwise informative book.

18. *Wuzong shilu*, 158.2a–b (11 February 1518).
19. *Wuzong shilu*, 191.1b-2a (23 October 1520).
20. Chang (1933), p. 47.
21. *Wuzong shilu*, 194.2b (13 January 1521). This and the following passage are also translated, with some commentary, in Chang (1933), pp. 51–2.
22. *Shunde xianzhi* (1853), 21.5a.
23. *Wuzong shilu*, 194.3a (13 January 1521).
24. For a brief account of the politics of this succession, see Brook (2010), pp. 98–100.
25. *Shizong shilu*, 4.27b (31 August 1521). On Portuguese spying in Canton, see Chang (1933), p. 44; on Affonso's request, ibid., p. 58.
26. An account of this conflict appeared in the *Veritable Record* two years later, when the emperor confirmed death sentences arising from the conflict: 'Pedro Homen of the country of the Franks attacked Guangdong and was captured by the defence officials. Relying on big guns and crack troops, Pedro Homen previously had plundered Malacca and other countries, acting highhandedly on the high seas. He then led his subordinate Syseiro [actually the name of Homen's ship] and over 1000 men in five ships to capture the country of Pasai by force. Subsequently, they attacked Xicao Bay in Xinhui county. Ke Rong, a commander engaged in defence against Japanese pirates, and Company Commander Wang Ying'en led troops in mounting a sea blockade against them. The fighting then moved to Shaozhou. Pan Dinggou from Xinghua was the first to board their ships, and then all the troops pushed forward. Forty-two persons including Pedro Homen and Syseiro were captured alive. Thirty-five heads were taken, ten men and women who had been kidnapped were taken into custody, and two ships were captured. The remnant bandits Martim Affonso and Dom Manuel [the king of Portugal; another error] again brought their three ships into battle and burnt the ships that had previously been captured. During the engagement, Battalion Commander Wang Ying'en was killed. The defeated bandits then fled', *Shizong shilu*, 24.8a–b (6 April 1523).
27. Chang (1933), p. 61.
28. *Shizong shilu*, 106.5a (7 November 1529); Chang (1933), pp. 73–4.
29. On the Portuguese monopoly on their maritime trade, see Boxer (1969), pp. 48 and 60–2.
30. Thanks to an enterprising police officer named He Ru, who forced some Portuguese to surrender to him, the Ming acquired Portuguese cannon. In May 1524, the military commander of south China, based in Nanjing, asked the court for permission to learn the casting technology involved and suggested that they be manufactured in both Canton and Nanjing; *Shizong shilu*, 38.13–b (15 May 1524) and 154.7b–8a (7 October 1533). He Ru's subsequent extraordinary promotion to the position of Assistant County Magistrate in Nanjing was probably tied to this development, either as a reward for capturing the cannon in the first place or because it provided him with a post from which he could continue to be involved with the project. In 1533, He Ru earned another extraordinary promotion, this time from the unranked position of Assistant County Magistrate to the ranked post of Vice-Magistrate in Beijing.
31. Cameron (1970), pp. 129 and 131. It is a bit unfair to parade Cameron as the negative example, as he makes a sincere effort to get his reader to understand the Chinese side of Sino-Western relations. This verbiage was simply what passed for reasonable rhetoric in the popular press in 1970.

2

Portuguese Resilience in Global War: Military Motivation and Institutional Adaptation in the Sixteenth- and Seventeenth-Century Cape Route

Leonor Freire Costa

Between 1500 and 1600, intercontinental trade might have grown at an annual compound rate of 1.2 per cent.[1] While some enterprises pursued trade through peaceful intercourse, the expansion of global trade was also attained through conflict, violence and recourse to arms, particularly in Euro-Asian trade. Artillery on board merchant vessels was clear evidence that trade and plunder occurred together. Not only was commercial exchange compatible with violence and conflict, but trade ties also prompted far-reaching innovation and adaptation to ensure that commercial ventures remained lucrative. The economic implications of risk of attack or confrontations with opponents led Frederic C. Lane to examine the economic spin-offs of war in protection rents, while Douglass C. North surveyed the consequences of the state's supply of defence to merchant fleets in his pioneering article on factors for productivity growth in merchant shipping.[2] This chapter examines the dynamic between trade and war by explaining how the military competition between Portugal under Habsburg rule (1580–1640) and the Netherlands provoked institutional innovation affecting the financing of commercial voyages to Asia, such that the Portuguese Carreira da Índia continued to be profitable even when confronted with determined rivals and falling pepper prices in European markets.

The route around the Cape of Good Hope had been crucial to a global economy since Vasco da Gama's first voyage. Da Gama's exploratory voyage created a direct, maritime connection to Asian markets (the Carreira da Índia) and had a remarkable impact on the Portuguese Crown's budgets. More than other intercontinental routes, Euro-Asian trade was defined by fierce, sometimes bloody, competition between those who wanted a share in the profits and those who were being displaced. The Portuguese arrival in India endangered the middleman role played by Italian cities in the early sixteenth century, just as the Dutch- and English-chartered companies jeopardized Portugal's stake in the spice oligopoly in the early seventeenth century.[3]

The military and commercial competition that displaced the Portuguese in Asia is the subject of renowned scholarly work. Neils Steensgaard has compared the Portuguese Estado da Índia, a political organization, with the Dutch and English joint-stock companies. He makes the case that, whereas the Estado da Índia focused on tax collection and on reaping protection rents from local Asian trade routes, the Dutch- and English-chartered companies were profit-seeking enterprises that partook in intra-Asian trade and production regions. Revenues from this latter activity should have been higher than tax collection because it promoted the efficiency of the trade operations of joint-stock enterprises and greater efficiency made it easy to take over the Portuguese position.[4]

Steensgaard's comparison of European organizations operating in Asia tackles crucial issues but overlooks similarities between the Estado da Índia and chartered companies. The Portuguese, English and Dutch all 'exported' political, diplomatic and military apparatus to the Indian Ocean to ensure their supply of non-substitutable commodities to European markets through the Cape Route. Moreover, the argument about the relative inefficiency of the Estado da Índia conceals factors behind the resilience of the Portuguese in the shipment of spices and pepper to Europe, in spite of the military aggression of newcomers.

Some historians have explained Portuguese resilience by emphasizing the changing composition of cargoes after the mark-ups on pepper and spices decreased in the late sixteenth century. James Boyajian discovered merchant networks that integrated Asian enterprises with that of Carreira da Índia in favour of non-monopolized commodities and contributed to the rise of fiscal income at Lisbon's Casa da Índia customs house. Private capital was mainly invested in textiles, indigo, diamonds and pearls when competition between the Estado da Índia and North European chartered companies was already fierce.[5] Om Prakash's discussion of cargo values should not be neglected. But both Boyajian and Prakash looked at features of Portuguese Asian trade that highlighted the ability of the Portuguese system to exploit economic opportunities other than tributes on local communities confined to Asian port cities.[6]

The Cape Route and the Estado da Índia weathered the changes in cargo because they were adaptable institutional structures. Indeed, new tradable commodities might be significant in explaining Portuguese resilience if they were more profitable than spices and contributed to increasing tax collection in the kingdom. Still, this supposition leaves important questions unanswered. If richer cargo justified trade with Asia, then why and how did the Portuguese continue to import pepper? We might argue that in an oligopoly equilibrium the profitability of pepper and spices depended on being able to supply European markets with ever growing quantities.[7] If that was the case, then transporting a greater volume becomes the key: this is a main issue examined in this chapter. Regardless of the cargo, someone had to supply transportation. Thus shipbuilding

and shipping became crucial components to the overall profitability of Euro-Asian trade. Studying them will reveal private and state aims in keeping the route in motion. Who was responsible for these bulk sectors and how was it financed? If Portuguese enterprises adapted to changing and highly aggressive commercial and geopolitical scenarios, then how were the benefits of keeping the route in motion distributed between the state and private agents? If the state did not become better off, why did it keep investing in this route?

These questions can best be answered by adopting an institutional approach. At the heart of the explanation of Portuguese resilience is the shift from a patrimonial state towards a fiscal–military state in a global war environment. This institutional transformation underpinned contractual arrangements that established the financial instruments needed to back up this maritime Euro-Asian route. In the early stages, the organization of pepper imports stemmed from the king's patrimonial rights on this route. From the late sixteenth century onwards the international order was quite different. Trade with Asia was part of a strategy in a global economic war between the Habsburgs and the Dutch. The Crown's participation in the Cape Route should be taken as a cost of defence while the importation of pepper remained a necessity to fight the Dutch in Europe. The transportation of free trade cargoes and the importation of pepper monopolized by the Crown became two complementary goals. But the focus on military strategies created an imbalance between public and private yields and the distribution of spoils shows that the state incurred the highest costs.

A word on methodology: rates of return are at present a hole in the scholarship on Portuguese trade with Asia. Contracts between the Crown and private investors should reveal data from which we can determine rates of return and assess the distribution of profits. This chapter has collected such data, and includes shipping, trade and the farming out of fiscal duties as sources of revenue commonly interlocked in early modern entrepreneurship, whether exploited by private agents or by the Crown.

The first section of this chapter estimates the rates of return in the first decades of the sixteenth century and describes the evolution of contractual arrangements. The second section elaborates on the loss of shipping efficiency that prompted institutional innovations. The third section deals with the new contractual arrangements that enabled the system to cope with soaring costs in the early decades of the seventeenth century. Estimates of private and public rates of return will support the argument stated above. Like the chapter by José Luís Cardoso, this chapter shows how military strategies that made use of commerce as an instrument of war provoked unanticipated changes in state structure. It also highlights the pervasive role of the Crown in trade, demonstrating state involvement in commercial activities for reasons linked to state authority and legitimacy: Timothy Brook makes a similar case in his chapter.

A world of contracts

In the sixteenth century, shipbuilding, shipping and trade were branches of a business set up to promote Euro-Asian economic connections. In the Portuguese case, this involved both the royal treasury and private syndicates. The monopoly of the Crown over pepper and spices did not prevent the king from selling his property rights on pepper imports or outsourcing shipbuilding and shipping. A world of contracts no different from that envisioned in charter parties that granted monopoly rights to joint-stock companies – the English East India Company (EIC) and Dutch East India Company (Vereenigde Oost-Indische Compagnie or VOC)[8] – regulated the spread of risks and spoils between the Crown and private agents.[9] Arrangements differed from the joint-stock companies in the terms for contract benchmarks. Joint-stock companies were enforced by long-term contracts, whereas the Portuguese Crown contracted private investors to fit out ships with victuals and munitions or to import spices and pepper, typically for one voyage. This enabled contracts to change and adapt to political and economic setbacks. Contracts between the Crown and private entrepreneurs help to explain Portuguese resilience in Euro-Asian trade routes.

The new maritime link to Asian outlets led to the establishment of a shipyard (Ribeira das Naus) and a warehouse (Armazéns de Guiné e Índia) in Lisbon, managed by royal officers.[10] However, the royal shipyard was not the sole supplier of Indiamen, the large vessels used on the Cape Route. The Crown regularly outsourced shipbuilding. As early as 1510, the king ordered ships and repairs from private entrepreneurs. In this respect the Portuguese case resembles the East India Company's mixed system, which relied on the EIC's shipyards as well as shipyards not monitored by the company's officers. The VOC's system of relying solely on ships launched from its dockyards seems to have been an exception.[11]

Private partnerships imported raw materials from European ports, such as Gdansk, Riga, Antwerp or Seville, in collaboration with royal warehouses. One of the advantages of building ships for the Crown was that entrepreneurs had readier access to such imported raw materials.[12] However, as early as 1520 there were critics of this system who charged that it compromised the seaworthiness of vessels.[13] The *provedor dos armazéns* (the general manger of shipyards and royal warehouse) defended the system because there were financial benefits to outsourcing. He advised the king, Don Manuel, to use this set-up when there were no time pressures because it minimized monitoring costs and there was a savings on wages.[14] The Venetian State followed a similar policy.[15] Shipbuilding for the Portuguese Cape Route was therefore not substantially different from any other enterprise, whether managed by the state, such as in Venice, or by private chartered companies.

Notwithstanding such similarities, the Crown's property rights over spices and pepper did distinguish the Portuguese case and prompted an institutionally evolving framework to rule private capital inputs. The original contracts from the early sixteenth century show the vertical integration of shipping and trade. Each vessel sent to India represented a pool of capital invested in shipbuilding, shipping and cargo to purchase commodities in Indian markets, which could be divided into any number of shares submitted to a complicated tax system.

Contracts called *partido do meio* (half share) were the norm in the first decades of the sixteenth century and tell us how costs and benefits were distributed. The king sold monopoly rights to private investors on the condition that half of the commodity (or of the value of the commodity) purchased with private capital belonged to him. As for the other half, a 5 per cent fiscal charge was levied. Taxes in this case were in kind, not *ad valorem*, and *partido do meio* actually represented a fiscal burden of about 52.5 per cent on each private share. The *partido do meio* institution was not new. According to sources from the fifteenth century, Prince Henry's discovery of the West African coast had been financed by contractual arrangements such as this.[16] Hence, the early stages of the Portuguese Carreira da Índia did not trigger any institutional innovation in this field.

Another feature affecting the division of spoils stemmed from the enforcement of monopoly rights and how it was connected with labour compensation. The crew had rights over spaces on board that allowed officers and sailors to trade small amounts of pepper. Although this system was conceived to reinforce the crew's compliance with the trip it was not a tax-free right. The king charged a 25 per cent duty on one half, plus 5 per cent on the remainder, which came out to a 15 per cent duty on the crew's imported pepper, still a lower rate than that levied on private shares because in the crew's case, importation of pepper was a form of labour compensation, not the outcome of a capital-profit investment.

To understand how the contract yielded profits, the example of the *Botecabelo* is instructive.[17] The *Botecabelo* left for Asia in 1504 on her second trip and returned a year later. In this case, shipping was financed by the king. The carrying capacity of the vessel did not exceed 200 tons, which left room for a maximum 121,000 kg of spices.[18] The average lifetime of vessels on the Cape Route was six years or three voyages.[19] Since there is no certain information about whether or not the *Botecabelo* made a third voyage, it is reasonable to estimate a 50 per cent depreciation of capital in the ship. Official budgets, although from a later period, estimated the costs to fit out a ship, including victuals, the payment of crew and artillery. Assuming that in the early sixteenth century these items added 126 per cent to production costs, which were 6 million reais per ton in the early decades, the capital invested in the ship and in fitting it out amounted to 1,056,000 reais (Table 2.1).

Table 2.1 Capital invested in the *Botecabelo* (in reais): contracts at *partido do meio*

Investors	Allocation	Reais
The king	Ship (second voyage = 0.50 x 600,000)	300,000
	Cost to fit out the ship (victuals, wages, artillery)	756,000
	Capital for pepper	72,566
Total private investment		1,127,992
Pedro Afonso de Aguiar	Shares	585,500
D. Martinho de Castelo Branco	Shares	78,000
Other	Shares	71,992

Source: Lisbon Instituto dos Arquivos Nacionais, Torre do Tombo (IANTT), *Corpo Cronológico*, see Costa (1997), pp. 196–9.

Transportation costs exceeded the king's investment in cargo, since only a small share of the capital in cargo belonged to him. Hence, the Crown financed shipping (300,000 reais for the ship, plus 756,000 reais to fit it out) and invested a small amount in the cargo (72,566 reais). The king's total share was 1.1 million reais.

Most of the capital to purchase pepper in India was private, and final accounting also had to consider the crew's rights over spaces on board as part of their compensation. The largest share belonged to Pedro Afonso de Aguiar, the ship's captain, who invested 585,000 reais. Another nobleman, D. Martinho de Castelo Branco, also invested more than the king did in cargo (78,000 reais). Unfortunately, there is no information on other shareholders but we do know that the total capital in cargo amounted to 1.1 million reais, a significant value. To gain some sense from it, the daily wage of a carpenter, a skilled labourer, was then 55 reais. The capital invested in cargo on this single vessel equalled 20,508 days' wages.

The *Botecabelo* returned from India with approximately 58,800 kg of pepper (980 quintals). As explained above, the king was entitled to keep half the pepper bought with private capital and to levy a 5 per cent duty on the other half. As for the crew, the king's charges equalled 15 per cent of the total amount. The final accounting (Table 2.2) shows that the cargo was evenly divided between the king (487 quintals) and private stakeholders (493 quintals).

The last step to estimate rates of return needs to consider the price differential of pepper in the Asian market and in Lisbon. Mark-ups were high, particularly in the first half of the century. The price of a quintal of pepper on board in Cochin was 1151 reais; its value increased to 8580 reais by the time it reached the Casa da Índia.

The king and private investors clearly enjoyed healthy returns on their investments. Take the example of Pedro Afonso de Aguiar. His initial investment

Table 2.2 Distribution of returned cargo: pepper

Investors	Distribution of cargo	Quantity (16th-century unit)	(Kg)
The king	Capital in cargo	63 quintal, 11.5 arratel	3,785.0
	Half of the shares '*partido do meio*'	344 quintal, 11.5 arratel	20,645.0
	5% duty	25 quintal, 3 arroba, 25 arratel, 10 onça, 1 oitava	1,556.7
	Duty on crew's rights over pepper	54 quintal, 3 arroba, 1 arratel, 6 onça	3,285.5
	Subtotal:	487 quintal, 3 arroba, 1 arratel, 3 onça	29,272.2
Private Investors	Shares invested in '*partido do meio*'	326 quintal, 19.5 arratel	19,569.0
	Crew's rights over pepper	167 quintal, 21.5 arratel	10,030.0
	Subtotal for private cargo	493 quintal, 1 arroba, 5 arratel	29,599.0

Note: 1 quintal = 4 arroba = 128 arratel = 2048 onças; 1 onça = 8 oitava; 1 quintal = 60 kg.

Source: IANTT, *Corpo Cronológico*, see Costa (1997), pp. 196–9

of 585,500 reais purchased approximately 241 quintal (14,460 kg). After the deduction of fiscal duties and handing over half of the commodity to the king, he could sell the remaining pepper at Casa da Índia for 8580 reais per quintal. He would earn 2.1 million reais, a 253 per cent rate of return. All private investors in this ship would receive the same rate of return. The king received slightly more because of his investment in shipping, his share in the cargo, his patrimonial rights entitling him to half of the pepper bought with private capital, and taxes on the remaining half. The Crown's rate of return reached 270 per cent.

Partnerships between the king and investors in the Cape Route were consistently profitable. There is considerable evidence that during the first two decades of the Carreira da Índia shares regularly returned 150 per cent profit on average.[20] Unlike stocks in more ancient institutions, these could be traded. Pero Ximenes sold his share in the Indiaman *Flamenga*, anticipating a 150 per cent profit that he explained was 'usually the case although it may yield more'.[21] The captain of the ship *São Cristóvão* invested 195,000 reais towards the total cost of shipping and cargo, and he received 453,526 reais at Casa da Índia in 1512. This translated into a 132 per cent profit. Manuel de Sousa invested 160,000 reais in a vessel that the viceroy subsequently ordered to remain in India for military purposes. Given this unforeseen setback, the king

Don Manuel ordered Casa da Índia's officers to pay a 150 per cent return for each share in this ship and in all other ships of the fleet from 1514 that had to stay in India, which suggests that the Crown insured private investors, at least when political decisions affected the economic outcomes. These examples confirm the average expectations of returns in the Cape Route at a time when all the sources of income (shipping, trade and taxes) were interlocked by *partido do meio* contracts. The king's investment in shipping underwrote the profits earned by all investors.

The evolution of trade and routinized nautical practices encouraged a breakdown of trade and shipping from the 1530s. Charter parties between the king and shipbuilders fixed a freight charge per quintal, which stabilized around 1200–1600 reais. The period of Portuguese Habsburg rule (1580–1640) reinforced the breakdown of each branch of business engaged on the route: trade, shipbuilding, shipping, on the one hand, and farming out of fiscal duties, on the other hand. From the point of view of a Spanish king, who had ruled the Portuguese kingdom since 1580, it made the most sense to privatize them all and generate fiscal revenues based on lump sums. The supply of fleets made up of five or six ships was assigned to syndicates for five-year periods; their returns would be based on freight charges. Distinct syndicates contracted rights over the pepper trade, expecting returns from sales in European markets.[22]

But the Habsburg attempt to alter the organization and financing of the Cape Route faced several challenges. For example, the shipping syndicates breached their contract, which ensured that transportation would not generate rewarding profits.[23] The fact that these syndicates created informally interlocked networks that dealt with international markets (which could compensate decreasing yields from shipping), was not enough to keep the syndicate involved in transportation.[24] Moreover, mark-ups on monopolized cargo were declining. Prices of drugs and pepper rose in local outlets but fell in Europe.[25] The syndicate contracting the distribution of these commodities also dropped the business in 1600. Last but not least, the aim of the state to have pepper imports adapted to a 'global' war environment was undermined by the higher probability of shipwrecks due to more attacks by Dutch and English vessels and to the use of huge carracks. Such set-backs exacerbated the burden of the Portuguese Crown in maintaining the Euro-Asian trade in pepper and spices.[26]

But the common impression that Portuguese Asian trade declined is contradicted by the upward trend of fiscal duties. Revenues from Casa da Índia soared during the Habsburg administration until the 1630s. Shifting to free trade commodities (meaning commodities not subject to royal monopoly) explained these increasing customs revenues. The Casa da Índia levied *ad valorem* taxes on riches like silk and cotton clothes, indigo, diamonds and pearls. Increasing fiscal revenues convinced the Crown that the Cape Route afforded private investors good profits and taxes on new and more expensive commodities

could raise funds to finance state expenditures. However, geopolitical considerations might have been the ultimate cause of the king's interest in keeping the Carreira da Índia in motion. The Habsburg monarchy was embroiled in battle, mostly in Europe, not in Asia. In the political circles of Philip II and Philip III, importing pepper might push prices downwards and disturb business circles intertwined with the Amsterdam oligarchy. If Portugal could flood the pepper market, their Dutch opponents would suffer. Hence, pepper became an instrument of war.

Because fiscal revenues based on *ad valorem* taxes on richer, private commodities did not fall, the Crown forecast a double advantage in keeping the route working. On the one hand, it would flood the market with pepper; on the other hand, the strategy could be financed by fiscal revenues on non-monopolized cargo. The resilience of the Portuguese Cape Route was contingent on how transportation was financed. Shipping was an unavoidable investment supporting this strategy, but private capital showed no interest in supplying it.

The focus on tax revenues to finance shipping attests to an institutional breakthrough. It features a fiscal–military state electing sources of income to back up a military goal. In this case, however, it meant that the Habsburg administration was constrained to bear the risk of transportation. The Crown's investment in the Carreira da Índia was no longer an exploitation of a patrimonial right of the king, which could be sold to private investors. By provisioning ships, the state incurred a cost of a military strategy, but also a cost of defence of private capital invested in richer cargo, which was indispensable to financing the whole strategy.

Before discussing how this institutional evolution affected the state's rates of return, we need to look more closely at the spin-offs of an ever growing portion of private cargo on board that challenged shipping efficiency, an unanticipated drawback of the state's strategy to carry on the economic war against Dutch competitors.

Endogenous challenges

Because of the variety of commodities on board, ships often sailed overloaded. This was thought to be the main cause of shipwrecks and made Portuguese vessels easy targets for Dutch and English privateers. Whether or not Indiamen were outfitted with artillery, overloaded vessels could hardly fight at sea. These critical issues caught the attention of political decision-makers and involved shipwrights in debates about the best architectural solutions to increase cargo capacity.

It might be tempting to conclude that the Portuguese shipbuilding industry was less innovative than others. Indeed, in some cases, mainly in the intra-European Atlantic routes, the Dutch enjoyed a competitive advantage because of a new framework in the hull of the ship called *fluit*. In the Asian trade,

architectural differences between the Portuguese and other European Indiamen were not so visible, besides the huge tonnage of the Portuguese carracks. It should be noted that English documentary sources estimated Portuguese vessels at 1500 tons. In Portuguese documentary sources there are no references to ships of such a tonnage. This is easily explained: the way in which a ship was gauged in Portugal differed from that abroad, including Spain;[27] in shipyards outside Portugal, assessments were double because they measured all the decks, whereas in Portugal measurements only included the hull and first deck. The aim of the Portuguese procedure was to assess a freight tonnage, not a registered tonnage. While English sources refer to 1600-ton Portuguese carracks, they would have been reckoned as 800-ton ships in Portugal.[28]

Notwithstanding differences that hinder accurate comparisons, there is no doubt that Portuguese Indiamen reached an impressive loading capacity, which stemmed from the state's choice to send small fleets of large vessels, instead of larger fleets of smaller vessels. The linkage between the higher probability of shipwrecks, increased tonnage and overloaded carracks deserves further analysis regarding the costs of shipbuilding.

The cost of carracks soared from the early sixteenth-century *carreira* to the early seventeenth century. While the hull of an Indiaman gauging 500 tons cost 6000 reais per ton to build in the first two decades of the sixteenth century,[29] the cost had risen to 15,000 reais per ton by the end of the century.[30] Figure 2.1 lays out shipbuilding costs and shows that ships of up to 200 tons were mostly affected by inflation.

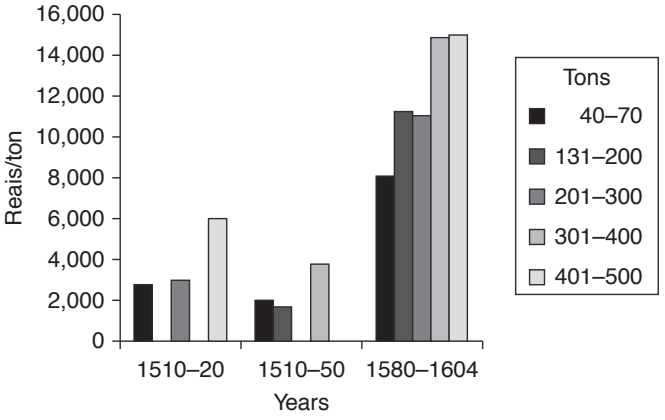

Figure 2.1 Production costs (reais/ton)

Source: IANTT, *Corpo Cronológico* and *Feitoria Portuguesa da Antuérpia*, Livro de Avarias (see Costa, 1997, p. 176, for detailed archive references); National Library of Lisbon: cod. 2257 – *Livro Náutico*, fol. 74 onwards and cod. 637 – *Memorial de Várias Cousas Importantes*; Lisbon Ajuda Library, 51–VI–54, fol. 3; and Falcão (1859), p. 205.

Timber was the main raw material used in all carracks, no matter the size, but it was in short supply. The failed attempt through the legislation of both kings John III and Don Sebastian to give the royal shipyard priority in the provisioning of timber led the Crown to search for potential forests distant from the Lisbon shipyard. In the reign of Philip II (III of Spain) an expedition of ship carpenters tested the woods in the littoral of Alentejo (Odemira) and in the hills of Monchique (Algarve).[31]

Although an important item in the total costs of launching a new ship, timber did not increase proportionally with tonnage thresholds. The costs of sails and ropes, however, did increase significantly in vessels of over 500 tons. Because information about the prices of raw materials is incomplete, we cannot draw firm conclusions about the rate of inflation. Nonetheless, we know that prices of ships increased at a higher rate than wheat and charcoal. This means that ships were becoming more expensive in the late sixteenth century. We can also surmise that labour costs did not account for inflation because the wages of carpenters grew slightly less than twofold.[32]

With the rising prices of raw materials and all the other economic factors affecting shipbuilding, a ship might cost approximately 24 million to 25 million reais to build. Notwithstanding this high level of financing, the king still found private consortiums interested in this capital-intensive industry. However, their interest was often constrained by the Crown's cash-flow problems.[33] Contractors had to deal with persistent delays in payment while workers under their management had to be paid in a timely fashion. Labour expenses could reach 100,000 reais per day, and in some cases people were paid even though they had no materials to work with. Agents frequently referred to in official sources, like Cosmo Dias, Manuel Moreno Chaves or Henrique Gomes da Costa, complained about the state's treasury issues that destabilized the credit of bills they had issued to import materials and affected their international credit.[34] Royal officers solved the cash-flow problem by paying the contractors with cinnamon. This system was not sustainable because workers would not accept cinnamon as a currency. However, Habsburg contractors could have overcome these shortcomings by exploiting their international connections to export spices and use that as a source of liquidity to pay workers. In the seventeenth century, whoever invested in the Cape Route, even in shipbuilding, also participated in other highly capitalized business. People in this trade were probably merchants, too. Long-distance transactions was their main source of liquidity. No wonder names referred to above as contractors for the building of carracks also appeared in different contracts that were crucial to financing shipping, as will be further discussed. But for technical issues, these consortiums had to rely on the expertise of shipwrights.

The upward trend in shipbuilding costs went together with improvements in nautical architecture, to increase capacity, lower costs and assure manoeuvrability at sea. The search, through trial and error, for architectural solutions to the problems of large ships went ahead even though there was much criticism of the seaworthiness of Indiamen of over 400 tons. Many people believed that the large Indiamen were less effective at sea because they sailed at a much slower pace. For example, the cosmographer of King Filipe II, João Baptista Lavanha, attributed the poor performance of Carreira da Índia to large Indiamen sailing overloaded.[35] Despite the fact that huge carracks were sailing successfully in the first half of the sixteenth century, Don Sebastian introduced a law limiting them to 450 tons in 1570.[36] Yet the resumption of works on larger carracks after Don Sebastian's law indicates that they somehow suited this route's purposes. The system continued to rely on Indiamen that reached 600 tons on average in the first decades of the seventeenth century.

The increased tonnage was arrived at by adding new decks while leaving the framework of the hull unchanged. This design challenged sail manoeuvrability. More decks meant additional weight of ropes.[37] Manuel Gomes Galego, a contractor long involved in shipbuilding works, explained this to Philip III's officers to justify his criticism of the four-deck ships.[38] He added that the crew's skills were inadequate to sail the four-deck vessels. He had successfully built three-deck vessels with a keel with a maximum length of 27 to 30 metres, which had pushed up the freight tonnage to 800 tons, granting room for cargo that was either monopolized by the Crown or for private paying freights and duty.[39] He claimed that his three-deck vessels achieved better results than any of the four-deck vessels previously launched. The design that he promoted did not increase the weight of sails and ropes, which was one of the causes of shipwrecks in his opinion.[40] The controversy continued and both the three- and four-deck vessels were used in the Carreira da Índia to cope with the higher probability of losses at sea.

Scholars associated these shipping issues with the twilight of the pepper trade.[41] However, overloaded ships and the search for the best architectural solution in a time of inflation must be examined anew. Economies of scale might explain the Crown's preference for larger hulls instead of increasing the number of ships sent to India.

Table 2.3 shows the advantages of a tonnage threshold of over 500 tons. Ton–men ratios suggest economies of scale and higher capital productivity.

Comparing costs with potential revenues (strictly based on freight charges for each quintal of pepper: 1 ton = 13.5 quintals), provides additional evidence that there was an economic rationale to support the continued use of large ships. If the equilibrium between marginal costs and marginal revenues determines the maximum return per unit invested, the optimal tonnages were

Table 2.3 Shipping costs (reais)

Clusters	Category	Tonnage 131–200	Tonnage 301–400	Tonnage 500	Tonnage >600
Costs (unit: million reais)	Shipbuilding	2.8	8.2	11.5	13.4
	Outfitting	3.5	6.6	9.7	11.2
Ton/men	Crew	4.3	4.7	6.2	6.2
	Officers	11–13	11–13	11–13	11–13
	Artillery	70	46	54	54
Costs to fit out: % over shipbuilding costs	Victuals	31	20	17	17
	Crew's wages	22	12	10	10
	Bombardiers' wages	3	3	3	3
Freight tonnages		70–140	210–280	350	441

Source: As for Figure 2.1.

above 500 tons (Figure 2.2). The turning point of this optimal relation cannot be determined precisely, but it would not have surpassed 800 tons. Realizing a maximum return per unit of capital invested explains the Habsburg administration's preference for small fleets of large vessels instead of large fleets of smaller vessels.

Notwithstanding the economic rational of ordering large vessels, the maritime link to Asia suffered critical setbacks. Comparing the number of departures and arrivals is a possible measure of the level of losses that accompanied the upward trend in tonnages. Recent research has attempted to reconstruct the length of voyages, the number of ships departed, lost and arrived, causes of losses and the average tonnage per fleet, providing several series of data on Portuguese shipping to Asia.[42] These studies and series shed light on the nature of casualties but they also raise many questions because the benchmarks for departures and arrivals fall in the same year. The best way to assess the performance of a single fleet or of a decade of shipping in Carreira da Índia is to organize data on the basis of a one-year gap between departures from and arrivals in Lisbon, since ships leaving in 1500 could only have come back one year later. Hence, Vitorino Magalhães Godinho's numbers are still the best for this exercise (Table 2.4).[43]

Godinho's data concludes that there was a 59 per cent probability of losses in the first decades of the sixteenth century, but this is misleading. Not all ships were expected to return. Some vessels were sent to India to reinforce the

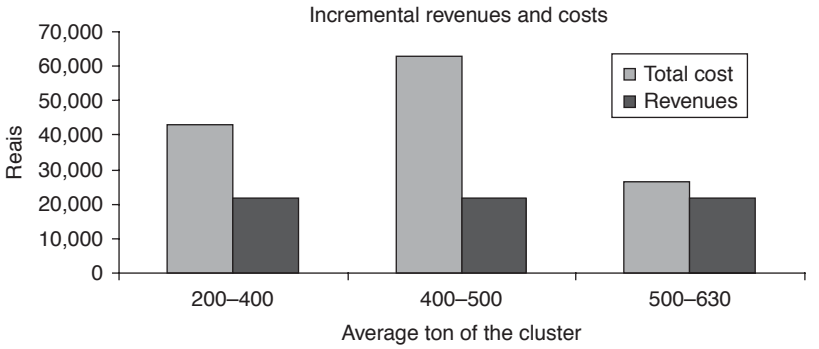

Figure 2.2 Economies of scale

Source: As for Table 2.3.

Table 2.4 Portuguese Cape Route shipping

	Ships departing	Ships arriving	Losses
1500–09 1501–10	138	56	82
1510–19 1511–20	96	55	41
1520–29 1521–30	76	36	40
1530–39 1531–40	80	41	39
1540–49 1541–50	61	41	20
1550–59 1551–60	51	32	19
1560–69 1561–70	49	32	17
1570–79 1571–80	54	43	11
1580–89 1581–90	56	41	15
1590–99 1591–1600	44	23	21
1600–09 1601–10	68	25	43
1610–19 1611–20	56	24	32
1620–29 1621–30	67	16	51

Source: Godinho, vol. 3 (1981–83), p. 49.

military apparatus of the Estado da Índia. And by the middle of the sixteenth century, Asian shipyards supplied ships for military service, alleviating a burden on the kingdom's resources. Hence, Figure 2.3 shows five decades of good performance, when losses declined to 20 per cent. The critical phase started in the Habsburg period (1580–1640), especially after 1590–1600. From 1600 onwards, the number of casualties surpassed 50 per cent and could have reached 76 per cent in the late 1630s, the decade that truly marked the twilight of the Portuguese Asian Empire.

The setbacks of the first decades of the seventeenth century did not affect the revenues of the customs house Casa da Índia, which shows that the state and private business were coping with losses. The type of commodities on board reveals one of the ways in which they offset higher risk. Pepper, which remained a Crown monopoly, represented an ever decreasing share of the total value of cargo, while richer commodities made up more than 60 per cent of the value of each fleet that arrived safely in Lisbon. Mark-ups on Indian cotton cloth, china silk, indigo, pearls and diamonds earned a 500 per cent premium, which compensated for a probability of losses of between 50 and 70 per cent. Unless all the vessels of an annual fleet failed to arrive, private profits were granted as well as tax revenues and freight charges. The change in cargo was certainly one fundamental element of the Carreira da Índia's resilience. A new equilibrium between private and public interests made the *carreira* work.

The question is how this equilibrium was sustained and how much the state earned or lost by provisioning ships fitted out with heavy artillery. In this context, the state's expenses with transportation were a cost of defence of private capital.

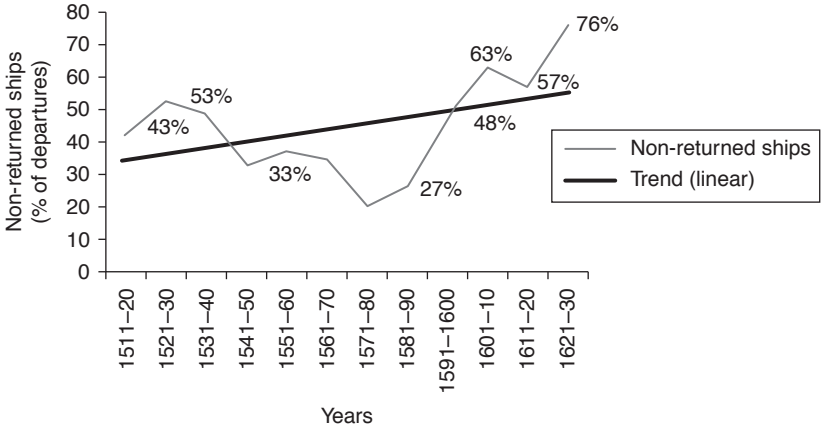

Figure 2.3 Rate of risk in the Portuguese Cape Route
Source: As for Table 2.4.

Distribution of spoils

If the Crown supplied shipping, then the freights and customs duties generated by each safely arrived ship should have ensured that the state had enough liquidity to finance the next departure. Hence, as far as the Habsburg administration was concerned, the financial system of the Cape Route depended on taxes and freights as much as on profits from pepper.

The state chose to sell its rights over freight charges and tax revenues but it did not hand over the pepper trade. Given that shipping per se did not yield significant returns, the likelihood of finding financiers to put up the amounts at stake in freights was slim. Thus, the Crown sought private capital by integrating the sale of fiscal rights with freight charges in order to grant safe lump sums to underwrite shipping.

As in any other case when fiscal revenues were farmed out, the contractor's profit was the difference between the amount enforced by the contract and the actual amount of duties and freights collected. Farming out taxes or rents was a common practice in the early modern period in Europe; it was also an important contractual arrangement that helped to integrate agricultural output in the market. It was based on a logic of risk management similar to a futures contract. The buyer of duties or rents (the contractor) hoped or expected that actual revenues would be higher than the price established by the contract. The seller of duties or rents (the state) hoped for or expected the decrease of price in the near future. In this case, the state received lump-sum payments enforced by contracts, regardless of the actual revenue collected by contractors. From the state's standpoint, contracts that farmed out fiscal duties did not involve speculation with financial assets. Rather, it was a matter of smoothing out the volatility of the inflow of revenues and thereby overcoming cash-flow problems. Royal officers were in charge of the collection of duties and freights and contractors could appoint an agent to monitor the procedures at customs houses.

The market for rights over freights and duties at Casa da Índia was arranged through blind auctions. A blind auction meant that bidders did not know whom they were competing with and how much other bidders were likely to offer for freights and duties on cargo about to arrive. There was no accurate information about the conditions of the cargo or the volume actually loaded in Asia. Private and public correspondence, together with previous experience, could give both the state and bidders some notional idea of the amounts at stake, but uncertainty marked each round of the blind auction. The system was thought to push up these rents to hedge the risks that the state had incurred in shipping. Several rounds where possible until the Treasury officers made a decision. A contract was then signed that determined the lump sums to be transferred to the state's coffers.

Table 2.5 summarizes the auction of two carracks arriving in 1617; the data is revealing.[44] Competition was fierce, which confirms that there were expectations for rewarding profits, in spite of shipwrecks, water damage of cargo and all the problems commonly affecting the pepper trade.

Seven rounds were needed and the name of bidders discloses important features of the market. The first three rounds involved a partnership in which Manuel Gomes Galego was a member. (This name also showed up in contracts for the building of carracks.) Together with Manuel Moreno Chaves he was able to push his first bid of 85 million reais up to 90 million reais. The Treasury did not accept the bid and the auction continued. Manuel Gomes Galego then dropped out. There were other bidders. Nuno Dias Carlos alone offered 92 million and raised the bid to 96 million. Together with Manuel Moreno Chaves, the same man who had been in a partnership with Manuel Gomes Galego, they raised their bid to 97 million reais. Finally, Gonçalo Ferreira bid the highest amount: 100 million reais.

Treasury councillors rejected the Gonçalo Ferreira bid because he proposed to honour it by using funds owed him by the Royal Treasury from a contract concluded the year before. Councillors claimed that he was also a borrower from the Royal Treasury, since the lump sums of the contract for the carracks of 1616 had not been paid in full. Notwithstanding the fact that Gonçalo Ferreira's bid met with disapproval among the Treasury councillors, his interest in the auction suggests the likelihood of rewards. Councillors had more confidence in

Table 2.5 Auction for the contract of duties and freights of the carracks arrived in 1617

Bids	Bidders	Value (millions of reais)	Conditions
1	Manuel Gomes Galego & Manuel Moreno Chaves	85	
2	Manuel Gomes Galego	90	To discount 2 million reais the Treasury owed to the bidder
3	Manuel Gomes Galego & Manuel Moreno Chaves	90	
4	Nuno Dias Carlos	92	To discount consignments of another contract the Treasury owed to the bidder
5	Nuno Dias Carlos	96	
6	Nuno Dias Carlos & Manuel Moreno Chaves	97	
7	Gonçalo Ferreira	100	The contractors of duties and freight of carracks and galleon arriving in 1616

Source: Arquivo Histórico Ultramarino, Lisbon (AHU), Conselho Ultramarino, cod. 31, fol. 107.

other bidders even though they offered a slightly lower lump sum (97 million reais), which tells us that these lower amounts were still deemed rewarding from the royal officers' standpoint. Indeed, the sums involved in auctioning were significant compared to other revenue sources. For example, they surpassed the income of the *consulado*, a 3 per cent tax levied on any imported and exported commodity and collected in customs houses throughout the kingdom. This tax reached 70 million reais at the time.

A small clique of bidders became the visible hand of an underground integration of shipbuilding, trade and tax collecting. Take the example of the second bid of Manuel Gomes Galego. He offered 90 million on condition that the 2 million reais owed to him by the Treasury because of his activity in shipbuilding would be taken into account. In fact, he was only really offering 88 million reais. The size and cohesion of this group constrained the 'public' party to accept a limited number of bids, but it also enabled each party to claim debts and credits that might play in its favour, which actually minimized the advantages of auctioning. Moreover, the group of financiers interested in backing up Carreira da Índia, such as Manuel Gomes Galego, counted on partnerships with new Christian merchants who imported textiles (cotton and silk), indigo and pearls that had surpassed the value of pepper unloaded at Casa da Índia since the last decade of the sixteenth century. Their interest in the Carreira da Índia stemmed from the *ad valorem* duties that were charged on the richest cargoes that they also imported.

In spite of the association of the Habsburg period with the colonization of Brazil, which gave sugar an overwhelming role in Portuguese foreign trade, the financial and commercial business of the Cape Route crowded out capital from sugar ventures during the reign of Philip III of Spain. A middleman trade of cottons in Africa to supply slaves to Spanish colonies justified the interest of private investors in Asian cotton textiles.[45]

The first decades of the seventeenth century highlight a new equilibrium of interests. The Crown was focused on pepper and on hedging losses of shipping through auctions. Private capital was cooperating because it was focused on *ad valorem* duties levied on new and non-monopolized commodities. Estimating rates of return reveals which party was better off under this institutional arrangement.

The fleet that left for India in 1615 and returned in 1616 is a telling case study. A wide range of sources is available for the economic history of these carracks: the vessels that departed and arrived are known, as are those that completed more than one voyage (to be taken into account in capital depreciation). Records of capital sent to purchase the monopolized cargo are also available. The amounts fixed by the contract, the quantity and value of cargo that arrived and records of actual duties collected through the first contract of Gonçalo Ferreira are also known.[46] We may assume that the system was

fairly successful if the state's rate of return equalled or surpassed interest rates charged on public bonds. Table 2.6a lists the Crown's shipping costs (105.6 million reais) and capital invested to purchase pepper in India (74.4 million reais), adding up to 180 million reais.

Three vessels in six returned safely. They shipped 4839 quintals (290 tons) of non-monopolized cargo, valued at 178.9 million reais, and 8093 quintals (484 tons) of the Crown's pepper, valued at 145.5 million reais.[47] According to the auction, Gonçalo Ferreira paid 110 million reais for the duties and freights.[48] This means that the Crown was expecting to recover 60 per cent of the costs incurred in a single lump sum. The remaining 40 per cent or more had to come from the pepper trade, which would yield 145.5 million reais. In spite of 50 per cent losses at sea, the state could expect a 42 per cent rate of return.

As for the contractor, duties on non-monopolized cargo and freight charges on all sorts of cargo generated a revenue of 153.4 million reais (see Table 2.6b). If the estimate takes into account the value paid (110 million reais), one finds a 39 per cent rate of return for the contractor. This was close to the Royal Treasury's expected rate (42 per cent). It almost resembled the old system of even distribution of spoils dating from the first decades of the sixteenth century, when contracts of *partido do meio* ruled the Carreira da Índia.

However, the enforcement of the contract altered this even distribution of spoils (see Table 2.6b) because the state was still constrained by a social order

Table 2.6a The Armada of 1615: costs incurred by the Crown

Vessels	New	2nd or 3rd voyage	Capital for pepper (millions of reais)	Tonnage	Outfitting cost (millions of reais)	Returned	Lost
N. Senhora de Guadalupe		X	12	>600	15.7		X
N. Senhora Capitaina	X		12	>600	24.6		X
Galleon Sto António		X	6.4	300–400	9.4	X	
N. Senhora dos Remédios	X		12	>600	24.6		X
N. Senhora da Nazaré		X	16	>600	15.7	X	
N. Senhora de Jesus		X	16	>600	15.7	X	
Total	2	4	74.4	>30,300	105.6	3	3

Source: Table 2.3; and Blanco (1974), pp. 131–5.

Table 2.6b Rates of return under new institutional arrangements

	Items	Values contracted (millions of reais)	Actual values (millions of reais)
State	**Capital**		
	Shipping	105.6	105.6
	Pepper	74.4	74.4
	Total (A)	180.0	180.0
	Revenues		
	Fiscal duties and freights	110.0	44.6
	Pepper	145.5	145.5
	Total (B)	255.5	190.1
	Rate of return*	**42%**	**6%**
Contractor	**Capital**		
	Fiscal duties and freights	110.0	153.4
	Discounts on behalf of the Crown		65.4
	Discounts on behalf of the contractor		6.9
	Total amount delivered (A)		44.6
	Revenues	153.4	
	Net receipt in duties		81.1
	Freight charges		12.9
	Total revenues (B)		94.0
	Rate of return*	**39%**	**111%**

Note: * rate = B - A/A*100

Source: AHU, Índia, caixa 4, no. 146, no. 188.

that forced the Treasury to observe an 'economy of gifts and graces' that gave freight and tax-free cargo to certain noble houses. A considerable quantity of cinnamon and indigo or aniline was released from all taxes and freight charges. The privileged ones in this fleet were the Count of Vidigueira, the heir of Vasco da Gama, and the most prominent Portuguese duke, the lord of the ducat of Braganza, which ruled Portugal after resuming political independence from the Habsburgs in 1640, as well as other unidentified agents. These graces and favours would not injure the contractor's interests.

The Crown bore additional costs owing to the economy of gifts mentioned above. The contractor could discount the amounts that these charges and taxes would have added up to and therefore paid 44.6 million reais only, which significantly raised his earnings. According to the value of cargo on board, Gonçalo Ferreira would have collected 153.4 million reais on duties and freight

charges. This was the sum registered at Casa da Índia. From this amount, 72.3 million reais were deducted: 65.4 million reais on behalf of the Crown's graces and gifts and 6.9 million reais on behalf of the contractor's responsibility, stemming also from freight and tax-free cargo. So, he actually collected 81.1 million reais on duties plus 12.9 million reais on freight charges. After delivering 44.6 million reais to the Treasury, he kept the remaining 49.4 million reais. He earned a profit of 111 per cent.

This radically changed the previous balance of returns. The 'public' rate of return was 6 per cent. Despite half of the ships having been lost, the Crown's rate of net receipt equalled that of public debt bonds. Capital in shipping granted the same level of returns expected in investments on public credit.

The pepper trade compensated the Crown for losses. However, the perception of higher yields within the mercantile circles prompted the government of Madrid to identify problems in the administration of this branch of the empire. The viceroy Count of Linhares reported the destination of capital sent to Asia on the fifteen fleets prior to his arrival in Goa (1611–26).[49] In the kingdom, the Treasury Council was asked for information about the value of the carracks. In 1618, the councillors confirmed that four vessels could yield 94.1 million reais in duties and 115.8 million reais from pepper. These values were similar to the ones assigned by auction at the Treasury Council.[50]

All in all, the contractual arrangements that assisted the state's financing the Cape Route shipping were dependent on private investments on non-monopolized commodities. Part of the amounts that the contractor owed the Royal Treasury stemmed from *ad valorem* duties on commodities returning a 500 per cent premium. Comparing the structure of the value of cargo on board the Portuguese carracks to that on the EIC's or VOC's Indiamen, the overwhelming value of cloth and indigo sailing on Portuguese carracks reveals a disparity.[51]

The high probability of losses reduced the 500 per cent premium to a more moderate one, around 200–250 per cent. This premium is little different from the one yielded by pioneering investors in pepper during the first half of the sixteenth century. One crucial difference stands out: fiscal duties on non-monopolized cargo were the root cause of Portuguese resilience. Had these rich commodities not been introduced to the route, the Crown would not find investors to inject capital into the system, which backed up the provisioning of ships exposed to higher risks. Without free trade cargo, it would be difficult for the Crown to adhere to a strategy based on the importation of pepper. This was at the heart of the imbalance between public and private yields in this route.

The participation of the Crown was no longer a feature of a patrimonial state. The Cape Route was a source of fiscal revenues and pepper was a weapon in

a global war in Europe. Hence, private syndicates reaped the greatest benefits from this change in the institutional arrangements of the state's interest in the Cape Route. The times when the king Don Manuel earned a 270 per cent profit by supplying shipping and selling out monopoly rights over the pepper trade under contracts of *partido do meio* had come to an end. However, data from the 1616 fleet confirms that gifts to noble households constituted the actual burden on the Royal Treasury. The problem with the Treasury's accounting arose because it overlooked this burden. Had it been otherwise, the state would have earned a 42 per cent net receipt, quite close to the probability of casualties.

Conclusions

In the long run, the Cape Route remained a rewarding business for private capital. Over 130 years, rates of return remained around 100 per cent, and contracts created business opportunities in shipbuilding, trade and tax-farming. Rewarding profits became less dependent on the monopoly *de jure* that ruled the pepper trade, turning instead to commodities that were still safe from European competition. While mark-ups remained high, the Cape Route kept wealthy merchants in its orbit.

The endurance of the Portuguese link to Asia in a riskier environment was the outcome of a shift in private investments, from pepper to more 'modern' commodities, which had never reached European markets in significant quantities through Mediterranean routes. But its endurance was also the outcome of new institutional arrangements, in which war justified the state's investments in shipping.

The state's rates of return decreased, in spite of large carracks having proved to be the best economic choice. In the seventeenth century, new contractual arrangements integrated the farming out of duties with the charge of freight. They afforded a rate of return that almost equalled the probability of losses. This reveals the Crown's strategy of adaptation in adverse circumstances. The fact is that the state's receipts could be diverted to support an 'economy of gifts', which, in turn, was inherent to a political structure tied to earlier patrimonial features. This issue dragged 'public' revenues down to rates of around 6 per cent.

It may now be asked what the Habsburg king aimed at when he imposed on wealthy merchants the foundation of a chartered company to deal with pepper in 1628. Was he expecting that private capital would flow into the company? Had merchant syndicates been badly served by the scheme of the previous two decades? If the India Company was expected to relieve the state's budgets of the costs of an economic war, the forecast of a 4 per cent dividend for each share was one of the most precise clauses in the company's charter party.[52] The company's failure is evidence of the twilight of the pepper trade, not of any Portuguese inability to deal with corporate business.

The resilience of the Portuguese Cape Route before the competition of joint-stock companies exhibits an important institutional consequence of the making of fiscal–military states. It recalls that the history of trade organizations in a violent environment was not only driven by profit-seeking goals but also by geopolitical strategies. But in all matters, public causes must meet private interests to ensure the requisite financial back-up.

Notes

1. O'Rourke and Williamson (2002).
2. Lane (1979); and North (1968).
3. The literature on the Asian world economy before and after the Portuguese arrival is now greatly expanded. For a bibliographic survey, see Pearson (2007).
4. Steensgaard (1973).
5. Boyajian (1993).
6. Prakash (1998a) and (1998b).
7. O'Rourke and Williamson (2009).
8. Blussé and Gaastra (1981).
9. Godinho (1981–83).
10. Costa (1997).
11. Bruijn (1990).
12. Costa (1997), pp. 325, 335–8, 342, 361 and 373–3.
13. Instituto dos Arquivos Nacionais, Torre do Tombo, Lisbon (IANTT), *Gaveta* XV, M. 9, D. 11 em *As Gavetas da Torre do Tombo*, vol. 4, p. 213; and Sainceau (1973), p. 74.
14. IANTT, *Corpo Cronológico*, Parte I, M. 19, D. 83.
15. Lane (1964).
16. Cortesão (1979), p. 303.
17. IANTT, *Nucleo Antigo*, no. 193: 'Livro da receita de pimenta e despesa de soldos que passou o tesoureiro Gonçalo Queimado'.
18. For a discussion on weighing procedures in Portuguese shipyards and the volume of cargo in quintals, see Costa (1997), pp. 63–82.
19. Estimates based primarily on the work of Fonseca (1989).
20. Information from IANTT, *Corpo Cronológico*, Parte II, M. 60, D. 69, and M. 70, D. 21, D. 88; see Costa (1997), pp. 236–7.
21. This is the author's translation of the original Portuguese expression: 'como comumente se faz conta caso mays rendam'.
22. Mathew (1998) and (1999); Kellenbenz (1956); and Silva (1949).
23. Godinho, vol. 3 (1981–83), pp. 57–62.
24. Expenses on shipping on this contract in Falcão (1859).
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31. Arquivo Histórico Ultramarino, Lisbon (Overseas Historical Archive; hereafter, AHU), Reino, caixa 38, pasta 10. For more information on royal attempts to supply wood to shipyards, see Costa (1997), pp. 307–33.

32. Costa (1997), pp. 178 and 184.
33. AHU, Índia, caixa 14, no. 99 and Conselho Ultramarino, cod. 31, fol. 33.
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37. Silva (1959).
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39. Barata (1989), p. 163.
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41. Guinote et al. (1998), pp. 116–20.
42. Ibid.; Duncan (1986); Landeiro (2005); and Gomes Solis (1933).
43. Godinho, vol. 3 (1981–83), p. 49.
44. AHU, Conselho Ultramarino, cod. 31, fol. 107.
45. Vila Villar (1977); and Costa (2002).
46. AHU, Índia, caixa 4, no. 146 and no. 188.
47. Boyajian (1993), appendix A.
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3

An Explosion of Violence: How the Haitian Revolution Rearranged the Trade Patterns of the Western Hemisphere

Steven Topik

Historians in recent years have finally begun to give the Haitian Revolution of 1791–1804 the attention that it deserved as one of the first wars of national liberation and as a momentous blow against Atlantic slavery.[1] That struggle demonstrated that the ideals that so marked the French Revolution, 'liberté, égalité, fraternité', had very different meanings – and consequences – in an overseas French colony overwhelmingly inhabited by slaves, many of whom were born in Africa. This chapter will consider that world historic event from an unusual perspective by addressing its consequences for international trade in the early nineteenth century. Was the destruction of the Haitian 'Pearl of the Antilles' constructive and, if so, who enjoyed the benefits? It will be argued that the colonial bloodbath that severely impacted the most precious European colony in the Caribbean had the ironic effect of diffusing and expanding tropical exports in the Americas – but not in Haiti – and amplifying mass consumption in the United States and Western Europe – but not in the Caribbean. This violent transnational war and social upheaval served as a vehicle for commercial globalization.

The historiography of the Haitian Revolution

The 13-year-long revolution that broke out in the rich French colony known as Saint Domingue, until recently had been largely ignored or treated as an aberration.[2] It is not even included in R. R. Palmer's *Age of the Democratic Revolution*, perhaps because of its ominous social implications and because the rebels were as much inspired by African traditions as by European ones. Latin America's first independent country and first republic arose from a successful slave revolution – the first in the Americas – that broke out in 1791 in Saint Domingue, later known as Haiti. Perhaps because of its uniqueness, Samuel Huntington in his widely cited *Clash of Civilizations?* dismisses events in Haiti as marginal to the history of Western civilization because it was a 'lone country' that lacked

'cultural commonality with other societies'.[3] We shall see how in fact Haiti's troubles affected the whole circum-Caribbean.

The former French colony's people of colour defeated the armies of France, Spain and England to bring about the most rapid and wide-spread social revolution and land reform in the Americas. Historian Franklin W. Knight observes that: 'The Haitian Revolution represents the most thorough case study of revolutionary change anywhere in the history of the modern world.'[4] More recently, Susan Buck-Morss has argued that the revolution changed European thought. She points out that the Haitian Revolution, together with Adam Smith's *Wealth of Nations*, radically changed Hegel's idea of the state of nature and the social context of history. Haitians showed that slaves could become masters. However, Hegel was cryptic about Haiti's influence since the tropical uprising so shocked European sensibilities.[5]

Indeed, it is particularly striking that Saint Domingue's movement has not received much attention from historians of Latin America until recently. Surveys and works on independence usually give it little consideration. In part this avoidance occurred because, as Haitian-born anthropologist Michel-Rolph Trouillot poetically observes, the Haitian Revolution 'entered history with the peculiar characteristic of being unthinkable even as it happened'.[6]

Fourteen years of fierce warfare left the most profitable of European colonies covered with corpses and economically supine. Arriving at Cap François in 1791, a shocked visitor reported that: 'The noble plain adjoining the Cape was covered with ashes, and the surrounding hills, as far as the eye could reach, everywhere presented to us ruins still smoking and houses and plantations at that moment in flames.'[7] And that was only the beginning; 13 years of warfare were still to come.

For the colonial and national leaders of the Atlantic world as well as its plantation owners and traders the revolution was more than a cautionary tale, it was a nightmare. Even for Americans such as Thomas Jefferson, who celebrated the French version of revolution, blacks in Haiti constituted a completely different case: 'Unless something is done, and done soon, we shall be the murderers of our own children … the revolutionary storm now sweeping the globe will be on us.'[8]

As president, Jefferson embargoed their trade and refused USA recognition of the new nation, not even deigning to recognize its change of name from Saint Domingue to Haiti. United States southerners, who still exercised enormous national power, abhorred the Haitian slaughter. It was never to reoccur. Contemporaries shunned Haiti and the implications of its violent birth. It was, in the words of Trouillot, 'silenced'.[9]

Recent studies focusing on the fallout of the revolution agree that there was widespread knowledge of Haiti's slave uprising and the abolition of slavery that followed three years later in the Caribbean rim among slave as well as free that resulted in occasional attempts at rebellion.[10] In the short run, however,

the Haitian experience did not end slavery elsewhere in the Americas. In fact, it reinforced slavery in the tropics. Slave imports after the years of combat reached all-time highs in the Spanish and British Caribbean and slave regimes became harsher.[11] The dramatic reduction in Haitian sugar and coffee exports encouraged growers elsewhere in the Americas to expand production. Even other French colonies in the Americas resumed and intensified slavery and in England the anti-slavery movement suffered a temporary setback.[12]

Most research has concentrated on the social consequences of slave relations in the aftermath of 1791, particularly in the circum-Caribbean and North America. The *economic consequences* of the grave Haitian conflict have received less attention. This chapter will argue that the conflict provoked profound changes not only in the minds of colonial planters, slaves and European officials but also in the trade patterns in the Western hemisphere. Similar to the transatlantic transformations that José Luís Cardoso shows in the next chapter of this volume were brought about by the Napoleonic Continental Blockade, the Haitian Revolution restructured and reconstituted trade as the *ancien* colonial systems fell.

Haiti had been the world's largest producer of some of its most profitable crops: sugar, coffee and indigo as well as a substantial provider of tobacco. In good part because of Haitian production, Americans and Western Europeans developed a taste and need for tropical luxuries that were beginning to become mass goods.[13] The 1789 revolution in France set the stage for a slave uprising in Haiti that left her fields in ashes. (Ironically, a good case has been made that the outrage over the high price of coffee and sugar had led Paris's *sans culottes* into the streets to overthrow the regime in the first place.[14])

The prices of Saint Domingue's goods shot to record high levels as its conflict also produced a diaspora of displaced planters and merchants who brought their knowledge, capital and slaves to neighbouring areas in the Caribbean from Louisiana in the north, to Mexico in the west, to Brazil in the south. The consequences of this eruption in the centre of the European Atlantic economy were the florescence of sugar and coffee cultivation in Spanish Cuba and Puerto Rico and the newly American Louisiana, the shift of coffee cultivation to newly independent Brazil, the rise of coffee and sugar consumption in the United States and Europe and the fall of Cuba and Puerto Rico into the USA sphere of influence. Of course Haitian slaves had none of this in mind when they turned their machetes and pitchforks against their colonial overlords. The law of unintended consequences seems to have been more at work than capitalism's purported teleological 'constructive destruction'.

It should be pointed out that economic historians, unlike students of independence and state building, have given Saint Domingue and sugar central historical roles. Eric Williams argued that slavery and sugar were the foundations for capital accumulation necessary to finance the Industrial Revolution.[15]

Fernand Braudel agreed that sugar and other luxury goods underpinned the eighteenth century's dramatic industrial surge.[16]

Although critics rose to challenge the importance of the luxury and slave trades and the non-European accumulation of capital, more recently other scholars have noted that when one takes into account the global contribution of the slave and sugar commerce and the triangular trade between Europe, Africa and the Americas, exotics and particularly sugar did in fact have an important impact.[17] If they were not *necessary* for the Industrial Revolution, at the least they substantially affected its timing and speed. This position has been embraced both by normally Eurocentric historian David S. Landes and world historian Kenneth Pomeranz.[18] It seems pretty clear that Saint Domingue, at the heart of the Atlantic slave trade and the global sugar economy, was of considerable import in the eighteenth-century world.

Trade and conflict

Before turning to the historical events that animate our discussion, let us make a brief foray into the theoretical terrain of commerce and conflict. Haiti's experience demonstrates that trade can serve as a double-edged sword. On the one hand, it required *cooperation* since trade was based on exchange and presumably to some degree voluntary exchange or the transactions would be denounced as theft. Trade required *trust* that the trading partner 'played fair', kept promises and paid debts. Exporting sugar also demanded some minimal agreement on standards of quality, weight or count. Therefore, it demanded some level of transatlantic information and communication.[19] Since Saint Domingue served as France's most profitable colony, the mechanics of 'unequal exchange' operated. The French had a superior bargaining position over the colonials and thus were able to impose their conditions in the exchange, thereby gaining more than was given.[20] Nonetheless, market institutions and conventions required some mutual understanding and required each party to feel that s(he) (or at least some influential faction in the colony or country) gained sufficiently to make the exchange at least minimally worthwhile. This was particularly true because the French foresaw a market relationship that would be ongoing rather than a one-time quick killing. The participants had to feel that they should continue these exchanges into the future, thereby institutionalizing them. Rather than accidental, they became predictable and reliable.

On the other hand, the engine of commercial capitalism was competition in which trading parties tried to gain the advantage over competitors in order to increase profit. This can be seen as arbitrage in which traders took advantage of different prices or value regimes in France and in Saint Domingue. Although capitalist apologists since the time of Adam Smith have argued that this encouraged efficiency, that it minimized waste by creating the most product for the

least amount of investment of time, effort, money or goods, there was also the problem of the race to the bottom. That could bring about an adulteration of product, underpayment of labour or under-fulfilment of debts. And there were forces pushing for monopoly or oligopoly to garner excessive profits.

Competition sometimes led to conflict that harmed trade by undercutting trust and cooperation. Wartime expanded the urge to coerce and steal because 'normal' rules of conduct were suspended or stretched. Much greater 'transaction costs' were created to protect property and other assets. In troubled times, exchanges were not exclusively governed by 'the market' or protected by the system or by one's reputation for honesty, but rather by private police or the military.

The cooperation/competition dichotomy can be posed also in Adam Smith's terms as self-interest featured in *Wealth of Nations* versus sympathy in the creation of moral sentiments and justice in *Theory of Moral Sentiment*. Does individual greed lead to collective benefits; does harnessed conflict lead to cooperation?[21] Is there a dialectic between cooperation and conflict that leads to a healthy synthesis? The Haitian Revolution demonstrates the high cost in lives, structures and lost opportunities of addressing these contradictions.

The new modern world of the late eighteenth century or: sweet industry

In the colliding, colluding, clashing and cooperating colonial world of the post-Haitian Revolution Atlantic, new agreements had to be negotiated. As we shall see, these agreements had to be struck on new terrain since the competitions spread geographically. This renegotiation was coming at a momentous time. The world of commercial capitalism based on primitive accumulation that exchanged precocities, geographically rare goods, was becoming entwined with industrial capitalism that emphasized production processes over natural diversity. Luxuries were becoming popular goods or intermediate inputs in industrial processes. Hegel deftly described this: 'need and labour [create] a monstrous system of mutual dependency [that] moves about blindly, like the elements, and like a wild beast, requires steady and harsh taming and control'. He went on to describe the 'insatiable desire' of consumers combined with the 'inexhaustible and illimitable production [of] what the English call comfort [produces] the movement of things'.[22] Slaves, sugar and coffee were transforming the mercantilist world of early modern silver, silks and spices by creating ever wider spread networks of consumers. At the same time, sugar and coffee were also creating what Woodruff D. Smith terms 'respectability' as these tropical luxuries diffused and became markers of status and acceptability.[23] Sidney Mintz makes the equally compelling observation that sugar consumption 'could serve as an index of a kind for the transformation to modernity'.[24]

This was because it, as well as other 'new foods' such as coffee, tea and tobacco were conjoined to the emergence of an industrial, time-conscious society, both in the West Indian colonies and in the metropolis; and how this went along with the appearance of a new sort of consumer, who came to use what he bought with the earnings of his labour as a way to redefine himself in relation to others.[25]

Saint Domingue's colonial economy helped foment this world trade; Haiti's revolution sparked its spread. To understand this two-step process let us start with the rise of Haiti to its central place in world commerce, discuss the revolution that followed and the trade consequences and reordering of the Atlantic economy that occurred in its aftermath. The changes were surprisingly rapid and widespread.

Saint Domingue

The first European settlement in the New World was on the western third of the island of Hispanola, which would later be named 'Saint Domingue'. There Colombus left behind 39 crew members at a site that he christened 'Navidad'.[26] When he returned to the fort the next year it was levelled; many of the men he left to plant a new colony were dead. That inauspicious start consigned the western part of the island to two centuries of relative anonymity. Columbus moved his colonizing efforts to the eastern side of the island, today known as the Dominican Republic, where the Spanish concentrated their rather feeble efforts. Later, Spanish attention was distracted from the island by the mainland after Cortés and Pizzaro dazzled them with the civilizations and silver of Mexico and Peru. The Caribbean was relegated to the margins. It served to provision and organize the fleets that carried the wealthy trade between the American mainland and Spain.

Beginning in 1639, Frenchmen occupied the small island of Tortuga off Hispanola's northern coast. From there they spread to the mainland, living off the cattle and the land. A combination of French *filibustiers* and Dutch freebooters, who came to be known as *boucaniers* (buccaneers) from the barbeques ('boucan') on which they cooked their meat, were the unpromising foundation of the French colony. Although officially still Spanish, the French authorized the Compagnie des Indes Occidentales to oversee settlements and the start of export agriculture in western Hispanola. At first they shipped out native American crops like tobacco, indigo and cacao. The French presence was ratified by the Spanish in return for concessions in Europe only in 1697, after the Treaty of Ryswick put an end to the Nine Years' War between France and an alliance of England, Spain, the Holy Roman Empire and the United Provinces.

It would be in the eighteenth century that this marginal pirate lair became the 'Pearl of the Antilles' as indigo expanded into a major slave-grown export

to serve as a dye for the booming European textile industries. Exotics such as sugar and coffee were transferred to Saint Domingue from the flourishing French colonies of Martinique and Guadalupe. Saint Domingue went from a land of mixed-race freedom fighters battling the Spanish to the primary slave colony in the world and foundation of French *outre-mer*. Struggle and repression were deeply emblazoned on the colony's founding history.

Indigo exports grew to the point that by the middle of the eighteenth century, Saint Domingue was a world leader.[27] (Most of the traditional users of indigo such as in India and the Middle East resorted to homegrown plants to create their blue dyes.[28]) Indigo production continued to mount. By the end of the colonial period indigo plantations sometimes had 500 to 600 slaves with the median being around 80.[29]

But it was sugar that transformed the economy and society. Sugar first came to the French Caribbean through cultural geopolitics rather than because of market forces. Portuguese planters had forced slaves to raise cane in the Atlantic, first in the early sixteenth century on the African island of São Tomé and then in Brazil later in the century. Dutchmen next seized Brazil's most prosperous sugar lands in 1624 where for 30 years they learned the craft. Expelled by the Portuguese in 1654 they arrived on the Caribbean island of Martinique; shortly thereafter they crossed to the nearby island of Guadeloupe.[30] Sugar flourished on both islands until the 1750s when warfare and the competition from Saint Domingue reduced their international position.

But it was on Saint Domingue that sugar reached its apogee in the eighteenth century, overshadowing Brazil, São Tomé and all other sugar producers. A Jamaican planter visiting the French colony during its heyday called it 'the paradise of the New World'.[31] Clearly he was viewing the island from the perspective of free planters. Taking advantage of the pioneering work in sugar refining and government legislation crafted in the Lesser Antilles, French Saint Dominigue rapidly expanded and its free population prospered. That population doubled between 1754 and 1789. But it was overshadowed by the *gens de couleur*, freedmen whose numbers grew four-fold and, more important, the slave population that quadrupled from 117,411 in 1739, to 164,849 at mid century, to 480,000 in 1791.[32] It was receiving 78 per cent of French slave sales and therefore had more slaves than Martinique and Guadalupe combined, and almost three times as many slaves as the colonies in the future United States.[33] Saint Domingue was populated by the most intense importation of slaves that the history of that infamous trade had recorded. By 1790, Haiti had become an African colony with the majority of the population actually born in Africa.[34]

In good part this reflected the success of the sugar industry. The 35 sugar mills on the colony in 1701 grew to 539 at mid century and reached 792 mills in 1791. Sugar production grew from some 10,000 tons of raw and white sugar

at the beginning of the century to 78,696 tons in 1791. That constituted one-third of the sugar circulating in the world economy![35] To emphasize the impact of that statistic, sugar was not a marginal crop. Rather, it was the most valuable agricultural export in the world. Werner Sombart considered sugar, together with the stimulants that it made palatable such as tea, coffee and cacao 'outstanding factors in the development of capitalism'.[36]

It was not simply an agricultural export. The sugar mill has been convincingly posited as the first industrial factory because it combined large capital, sophisticated technology, disciplined labour, regimented time demands and integrated division of labour.[37] However, it was a *colonial* industry. There was an international division of labour because the French allowed the colony to produce only raw or semi-refined sugar. The final refining was reserved to European producers who reaped the lion's share of the profits. Those profits were mostly reinvested or dissipated in Europe, not in the colony.

Greater production had additional consequences in Europe; it drove down sugar prices.[38] According to Noel Deerr, the price of a pound of sugar in the United Kingdom fell from 12 shillings sterling in 1701–25 to 7 shillings 11 pence in 1776–1800. Amsterdam saw the price of a hundredweight drop from an average of around 40 shillings in 1701 to between 19 and 25 in 1788. In the largest sugar-consuming market, the UK, per capita intake more than tripled in the eighteenth century even as the population was itself rapidly expanding.[39] Richard B. Sheridan, studying the centre of the Industrial Revolution, Great Britain, found that 'groceries', tea, coffee, rice, pepper and particularly sugar constituted the most dynamic sector of international trade. They rose to over a third of all imports.[40] Sugar was particularly important, as Mintz and others have pointed out, because of the high caloric content that complemented caffeinated drinks like tea and coffee. The declining price of sugar allowed manufacturers to pay their workers ever lower wages and extract more intensive labour from them and hence greater surplus value. The sugar industry in the Caribbean, and particularly in its largest producer, Saint Domingue, not only helped *finance* the factories of Western Europe but also fed the European workers hollow calories and amplified their labour power, at least for their short lives.[41]

As a consequence, sugar came to dominate life in Saint Domingue. As Trouillot poetically observes:

> Sugar was not simply the major source of revenue. It had acquired a social character: the socially drawn monopoly to subject to its refraction all other commodities and human beings themselves. Socially selected, socially identified, it became the principle around which human life was organised. Towns were built because of its proximity. Time was marked by its harvest. States were linked to its possession.[42]

Despite the fact that Saint Domingue was famous as the world's greatest producer of sugar, in the decades before the revolution it had also become the world's largest producer of coffee that was beginning to emerge as a major international commodity. A world monopoly of Yemen for over two hundred years, coffee arrived in Saint Domingue again through Martinique in 1729. French colonists brought it to the future Haiti. Coffee's lower capital demands because of its cheaper processing techniques, encouraged free people of colour and less affluent French immigrants to carve out coffee holdings from the forested mountains surrounding the sugar plains. They averaged one-quarter to one-fifth the numbers of slaves of the dominant sugar plantations and one-sixth to one-ninth the initial capital outlay.[43] Unlike sugar, which was dominated by absentee landlords and brutal overseers, coffee was usually supervised by the owners who had more personal relationships with their smaller cadre of enslaved workers. Many of the owners were themselves *gens de couleur*, often offspring of plantation owners and slaves. They played a large role in the colony's coffee industry, owning one-third of the plantation property and one-quarter of the slaves in Saint Domingue in 1789.[44] Poorer French immigrants and Acadians expelled from Canada in 1765 as a result of the Seven Years' War also opened coffee orchards.[45] Soon the flourishing coffee market and booming profits encouraged a wide-spread slave-plantation coffee system that became known internationally as the 'West Indian System' even though it would reach its most developed form in Brazil. Before Saint Domingue, only in the small Indian Ocean island of Réunion had coffee been cultivated on a relatively large scale by slaves.[46]

But Saint Domingue blazed the trail for the productive, profitable and exploitative slave coffee complexes. In fact, most of the slaves imported into the French colony after 1767 were for coffee, not sugar.[47] By 1750 the West Indian System stimulated the planting of 22 million coffee trees on the island and allowed the export of some 7 million pounds of coffee. A quarter of a century later that number had jumped to 40 million pounds. On the eve of the revolution the French colony produced most of the world's coffee and exported 88 million pounds per annum.[48] As in the case of sugar, coffee's cheaper production costs because of the fertility of the soil, the low price of Africans and improved transportation networks reduced its price to less than half that of its competitors in Yemen, broadening Saint Domingue's market in Western Europe and in the newly independent United States.[49]

Coffee production in Saint Domingue grew faster than sugar so that by 1790 exports of the two commodities were almost comparable. Haiti had become the world's largest coffee and sugar exporter as well as its major indigo producer. Its main market was France and indirectly other parts of Western Europe such as the Netherlands and German kingdoms. But the newly independent United States became a major trading partner that would play an important part in turning

USA consumers into coffee- rather than tea-drinkers as well as expanding North American sugar and rum consumption. That was a momentous change because the United States would become by the 1840s one of the world's great sugar importers and the largest coffee-importing market in the world, although by then neither the sugar nor the coffee were coming from Haiti.

The United States and Haiti

Haiti's role in turning North Americans to coffee is ironic because conventional wisdom holds that it was the Yankee love of freedom and hatred of colonialism, specifically British colonialism, that led them to coffee.[50] The true story is not so pretty or inspiring. Coffee's initial success in the United States derived more from sugar and slavery in the Caribbean and in Brazil than it did from patriotic fervour and new nationhood in the United States. Coffee's popularity, the symbol of democratic culture, bourgeois sociability and capitalist energy in the USA, occurred because of far-away events in Haiti and Brazil.

Before United States independence, little coffee entered the British colony. William Penn complained in 1683 that British taxing and transport policies raised the price of coffee to a stunning 18 shillings and 9 pence per pound, well beyond the means of most colonial families. Although the price of coffee dropped over the next century, largely because of expanding Caribbean production, coffee consumption remained low in North America. As late as 1783, only one-eighteenth of a pound per capita arrived, or enough to brew a few cups of coffee per person annually.[51] Pre-revolutionary coffee imports peaked at just over $1 million dollars in 1774. By 1802/04, coffee imports had jumped to $9.5 million.[52]

It turns out that those imports were not just to slake North American thirst. Over half of America's coffee imports left shortly after they arrived. Commerce had moved between Britain's mainland American colonies during the colonial period, but America's re-export trade by 1800 was international. Initially, much of these re-exports went to Amsterdam, Paris and London, but after 1790 USA traders made new inroads into Germany, Italy and Russia, perhaps beginning the association of America and coffee in the minds of some European consumers. Because tropical goods generally, and coffee especially, were important to American interests, USA access to the West Indies was a serious concern. Some merchants turned to smuggling to meet demand; many more relied on international competition, legal loopholes and especially government intervention to expand their businesses.

American diplomats hoped that Amsterdam might be receptive to American interests. Colonial officials in the Dutch colony of Saint Eustatius had been the first government body to recognize North American claims to independence, followed by France and then Holland.[53] But although Holland's liberal

commercial policies allowed American vessels into its West Indian colonies, it limited what Americans could bring to the colonies and what they could take from them – especially coffee and sugar.[54]

Other options were scarce. Denmark imposed fewer demands, but the Danish West Indies were ultimately insufficient for America's burgeoning coffee industry.[55] The USA also approached the Portuguese ambassador about establishing trade with Brazilian coffee plantations, but was told that Portugal 'admitted no nation to the Brazils'.[56] North Americans would only taste Brazilian coffee after Napoleon's troops forced the Portuguese Prince Regent to flee to Brazil in 1808, another indirect outcome of the French Revolution just as was Brazil's burgeoning trade with England discussed by Cardoso in Chapter 4.

Frustrated as 1785 drew to a close, America's European commissioners found themselves haggling with places like Austria that offered no prospects of profits from tropical goods, prompting Jefferson and his colleagues to promote a preferential treaty with France early in 1786.[57] This move aligned the United States with the only military force able to challenge Britain. 'It will be a strong link of connection', Jefferson wrote, 'the more [so] with the only nation on earth on whom we can solidly rely for assistance till we stand on our own legs.'[58] Moreover, it gave USA importers access to the French Caribbean colonies, especially Saint Domingue.

American merchants rallied behind Jefferson's plan. In October 1786 the French agreed to a series of trade concessions, including use of American ships and lowered tariffs in both France and the French Antilles.[59] The shift to French coffee suppliers is obvious as their West Indian colonies provided 77 per cent of USA imports in 1790–91 (see Table 3.1).[60]

Table 3.1 USA coffee imports from the West Indies, 1790–91

Region	Coffee (pounds)	% of total USA coffee imports
French West Indies	3,432,385	77
Dutch West Indies	559,613	13
British West Indies	346,875	7
Spanish West Indies	51,689	1
Danish West Indies	28,715	0.7
East Indies	25,138	0.6
Swedish West Indies	8,895	0.1
Portuguese West Indies	1,108	>0.01
West Indies (general)	8,472	0.1
Other	15,783	0.4
Total	4,478,673	100

Source: *American State Papers: Documents, Legislative and Executive, of the Congress of the United States*, 'Foreign Relations', vol. 1, 1831–62, p. 195, from McDonald (2006).

The shift in trade partners was reinforced because Britain continued to attempt to exclude American ships from its Caribbean colonies. Alas, they discovered that intentions alone are not sufficient: war in Europe undermined the Royal Navy's ability to patrol the region.[61] USA ships thereby gained much greater freedom of movement. Clearly, American neutrality was more than a diplomatic objective; it had been essential to the nation's future commercial prosperity ever since the first overtures of the European Commission.[62] The newfound freedom of the seas was used to trade in specific commodities: 'The consumption of coffee, sugar, and other West India productions increases fast in the north of Europe,' farsighted Silas Deane correctly told Congress in August 1776.[63] But without trade agreements Americans could not continue and even expand their budding business with the lucrative Caribbean colonies; and without neutral shipping they would be unable to bring tropical produce to their consumers, at a time when war between Britain and France provided prime opportunities to enter European markets for goods whose import prices were skyrocketing.[64] With neutrality and the trade agreements, however, the future of the former 13 colonies was much rosier. As one savvy trader noted in a precocious definition of what came to be known as *neocolonialism*, America would accrue 'all of the benefits of colonization without the administration and expense'.[65] So while the nascent nation expanded its continental territory westwards, more importantly – at least in the short run – it also extended its commercial influence *southwards*. Yankee clippers became major actors in the Atlantic triangular trade that included African slaves, Caribbean sugar, molasses and coffee, and North American grains, tobacco and naval stores.

The re-export trade – with coffee as its flagship product – became essential to the national economy. Political advocates portrayed re-export merchants as 'patriots' whose trade was 'a necessary link in the chain of our society and of our place in the world', ignoring that many captains in the British Navy thought them smugglers and even pirates.[66] (In fact, some of the Yankee merchantmen did occasionally double as privateers. They often recruited their crews in New York, Boston and Philadelphia coffee houses. As has long been the case, one man's patriot is another man's pirate.) Re-exportation of foreign-grown coffee, like coffee-drinking for those few years in the 1770s, became a patriotic act that inspired national and international attention.

Britain still excluded the USA from its Caribbean colonies, but war in Europe undermined the Royal Navy's ability to patrol the region and American ships had much greater freedom of movement.[67] The best that the British Navy could do was to stop American vessels suspected of privateering or smuggling and confiscate their cargoes in British ports.[68] This they did often enough that President Washington sent a special commission headed by John Jay to Britain in 1794 to negotiate a truce. Instead, the Jay Treaty, intended to encourage

American commerce with the British Caribbean, backfired and rigidified what had already become the common practice of USA merchants to look elsewhere.

In reality, French, rather than British, Caribbean colonies had supplied most of America's coffee needs in the last decades of the eighteenth century. French Saint Domingue was the principal exporter of coffee to the USA until 1803. Its dominant place in the American market dramatically declined, however, after Toussaint l'Ouveture, himself a former slave and a small-time coffee-grove owner, led revolutionary forces against French colonial troops.[69]

Saint Domingue, renamed Haiti in 1804 (to signify the rebels' break with French colonialism; Haiti was an original Taino-Arawak name for part of the island), became the second European colony in the Americas to gain independence and the first to abolish slavery. Rather than applaud this double freedom, the United States government refused to recognize Haiti's independence or to send an ambassador to the new nation. Indeed, the first independent American country embargoed the trade of the second as Haiti was considered a carrier of emancipationist contagion rather than a sister free nation. America's domestic north–south sectional conflict shaped its international commercial and diplomatic policy towards the former French colony. Far from embracing the anti-colonial wave that was shaking up the Americas (in which Haiti was a centre of republican subversion), USA government officials encouraged the sugar trade to turn from Haiti to the Spanish colony of Cuba and coffee commerce to join with the slave-rich Portuguese colony (until 1822) of Brazil rather than from emancipated and free Haiti. Only after the South seceded to create the Confederacy in 1862 was Haiti's nationhood recognized.[70] But that could not resurrect Haiti's sugar and coffee trade with the USA that had become insignificant because of the damage of the revolution and the formal and informal embargoes that followed. Haitians had whetted American appetites for sugar and coffee but were not allowed to satisfy them after Haitian independence.

Cuban coffee

It is worth mentioning that Brazil did not win its preferred position in the North American coffee market without a fight. The most obvious substitute for Haiti was, in fact, another slave-worked colony, Cuba. Hundreds of French planters fled Haiti for Cuba, bringing with them their slaves and their know-how. Although it was the second colony founded by the Spanish in the New World and Havana was central to the fleet system that connected the silver mines of Peru and Mexico with Spain, Cuba itself was almost as marginal as Hispanola. Its inhabitants numbered only 171,620 in 1774, serving mostly to provision the fleet rather than produce export crops.[71]

This began to change after the Haitian Revolution and the Napoleonic Wars. The Spanish colonial masters loosened their control of foreign trade and slave imports as coffee prices shot up in response to Haiti's conflagration. Indeed, in the first decades of the nineteenth century Cuban coffee was a more attractive investment than sugar.[72] Cuba's coffee exports were much more directed to the United States than to the distant Spanish motherland. (After all, Spaniards preferred cacao to coffee.) Americans, who coveted the rich, fertile Cuban soil, even began investing in coffee farms on the island. However, after several decades coffee faded. Nature, in the form of violent hurricanes in 1842, 1844 and 1846; rigid Spanish colonialism; destructive civil wars in 1868, 1878 and 1880; and the astounding demand for sugar in the burgeoning USA market, reduced Cuban coffee to such a minor role that by the end of the century the island was *importing* coffee from neighbouring Puerto Rico.[73]

The swelling United States market for coffee and sugar had contrary consequences for Brazil and Cuba. In Cuba, land and slaves formerly used for coffee cultivation were turned to sugar.[74] In Brazil, the opposite occurred as sugar lands, capital and slaves were channelled into coffee production. Both areas turned away from the markets of their colonizers towards principally the United States as well as some Western European countries.

Cuban sugar

Sugar came to overshadow coffee and tobacco, the other two major Cuban exports. Although sugar had arrived in Cuba by 1511, it only became significant once the British seized the island during the Seven Years' War and, in good bourgeois fashion, vastly stepped up the number of slaves that entered. They introduced an estimated 10,700 slaves.[75]

The sugar industry grew rapidly after the Spanish regained control of their colony and permitted freedom of production in 1772. More important was a different sort of 'freedom'. In 1779 unrestricted duty-free importations of slaves were permitted. It is estimated that between 1512 and 1763 some sixty thousand slaves were imported into Cuba. In the following thirty-five years almost one hundred thousand more enslaved Africans were introduced.[76] Exports of sugar were a mere 12,000 tons in 1780 and reached only 14,163 tons in 1790, less than a fifth of Saint Domingue's total. But the destruction of Haitian sugar fields, exponentially rising sugar prices on the world market and the flight of some French planters and their slaves from nearby Saint Domingue would turn Cuba into the world's premier sugar producer in the nineteenth century, producing 25 to 30 per cent of the world's sugar between the 1840s and the 1870s.[77] Its production increased from 28,419 tons in 1800 to 47,119 tons twenty years later. The

Spanish officially ended the slave trade in 1820 under pressure from the British. In reality, smuggled slaves, especially in North American bottoms (slave ships), grew by leaps and bounds. In the five years between 1830 and 1835 alone, some 165,000 slaves were imported – almost the equivalent of the entire population of Cuba just fifty years earlier.[78] Cuba, like Saint Domingue decades before, was becoming Africanized. From a modestly populated island with communal land and self-sufficient agriculture with only a few slaves, Cuba became by 1841, thanks to European and North American modernization and progress (*sic*), an export plantation with almost half its population enslaved.[79] Production would grow almost five-fold by 1850 to 223,145 tons.[80]

Cuba's formula for success was not only massive slave imports. As a latecomer in an era of declining slave imports and rising prices, Cuban planters adopted the latest technologies so that machines could replace human labour power. They truly built factories in the fields with *centrales* (large centralized sugar mills) starting already in 1831. These large mills gained economies of scale by applying advanced chemistry, steam power and vacuum pans. They were also some of the first agricultural units to embrace the railroad. Employing European, especially Spanish capital at first, and later investments from the United States, the Cuban sugar industry created a hybrid slave/capitalist complex.[81] It increasingly came into the USA sphere of influence as Americans, particularly Southern slavocrats, coveted its fertile fields, its proximity 'in our backyard' and its slave culture.[82]

Its trade gravitated northwards. While USA sugar imports from Haiti fell by two-thirds between 1790 and 1799 (9.3 million pounds to 3.2 million), sugar bought from the 'Spanish West Indies' (mainly Cuba) made up the difference as it grew twelve-fold from 530,000 pounds to 6.6 million pounds.[83] By 1859, Cuba had 41.9 per cent of its trade with the United States, with sugar by far the outstanding trade good. [84]

Before the Civil War of the 1860s, Cuba was not only the USA's main trade partner in the Western hemisphere, but contributed around 10 per cent of all American foreign trade. It was significantly more commercially important to the USA than all of the much coveted Asia market combined.[85]

At the end of the nineteenth century Cuba also became a staging ground for USA overseas enterprise and a recipient of American cultural products. Together with Mexico and Canada, Cuba was the main site of USA foreign investment before World War I.[86]

Although Cuba was becoming more closely tied to the USA, we must remember that until 1898 it was still a colony of Spain. With the loss of her continental American colonies in 1824, Spain was more reliant on Cuba than ever. Of little economic value during the Golden Age of Spain and even until the last decades of the eighteenth century, Cuba became one of Spain's main trade 'partners'

by the middle of the nineteenth century. Although the colonial relationship meant that this was a clear case of unequal exchange, it was a lucrative and growing enterprise. At mid nineteenth century Spain's trade with Cuba far exceeded her trade with major powers like Germany, Austro-Hungary or the United States and was close to half the trade with neighbouring France.[87] It was sugar brought by the Haitian Revolution that led to Cuba's realignment in the Spanish Empire. Eventually sugar would provoke in Cuba the same social tensions that erupted in Saint Domingue, leading to revolts in 1812 and 1843–44 followed by a long, bloody revolution between 1868 and 1878 and another that began in 1895 that finally ended in 1898 with independence from Spain.

The USA starts producing sugar in Louisiana

The Haitian Revolution not only affected USA and Western European consumption habits and Atlantic trade flows but it also changed the direction of United States continental development. Napoleon purchased Louisiana (which had been settled earlier by the French between 1682 and 1763) from the Spanish in 1800 as part of his American colonial plan. It was to serve to provision Saint Domingue that was to concentrate on its fabulously successful exports. However, the success of the Haitian independence movement convinced Bonaparte to sell Louisiana to the USA in 1804. Sugar had been introduced into Louisiana when it was a French colony in 1751, although it had not been successful until 1796 by which time the colony had passed to the Spanish. It was 'the last of the sugar colonies'.[88] Jefferson's Louisiana Purchase not only vastly expanded the continental girth of the nascent United States and incited a westwards movement but it also delayed the end of slavery in the USA. The slave trade in other parts of the USA was abolished in 1808 – in good part out of fear that a repetition of the Haitian Revolution would be sparked by the introduction of new, unbroken Africans (or radical Caribbeans). Yet that same revolution caused slavery to remain strong in Louisiana until 1864 because of the sudden world sugar hunger provoked by the lack of Haitian production. As a result, the slave population of Louisiana grew from 36,000 people in 1830 to 244,895 by 1850, only half the size of Saint Domingue's slave force at its height.[89] But the new sugar technology that combined capital-intensive advances of the Industrial Revolution with archaic slavery allowed Louisiana to produce 264,161 tons by 1862, more than three times Saint Domingue's highest export level.[90] By 1895 it would reach over a million tons. Louisiana became a social, cultural and political Caribbean enclave on the American continent.

The last part of the Atlantic world affected by the Haitian Revolution to be considered is Brazil, usually ignored in discussions of the turmoil in the Caribbean. Neither New Orleans nor small West Indian islands could

realistically hope to meet Western Europe's and America's swelling demand for coffee. Brazil, however, had both ample land and slave labour. Coffee arrived in Rio de Janeiro in the 1760s via French Guyana and Pará. At first glance, it is surprising that the Portuguese had not brought coffee a century earlier. The Portuguese Crown, after all, was the first European power to dominate the Red Sea, including coffee-growing Ethiopia and Yemen. As mariners, shippers and merchants, they had a tradition of transporting cultivars from one colony to another and exporting the product. They initiated the first great slave-worked sugar plantations in São Tomé and then Brazil. And it was the Portuguese who first introduced Europe, especially England, to tea as well as doting on that other hot drink, cacao.[91]

Yet, perhaps Brazil's arrested coffee development is understandable. The Portuguese were not particularly fond of coffee and even coffee-drinking colonial powers such as the Dutch and the French waited until 1719 and 1723, respectively, to introduce *Coffea arabica* into the New World. When the *arabica* came to Brazil, it was not through export merchants but rather through Portuguese officials and religious orders, especially the Capuchins and the Bishop of Rio de Janeiro. French and Dutch immigrants, some of them fleeing Haiti, also played a significant role early on. But coffee was far from a sure thing; it was originally planted beside other experimental crops like ginger and pepper in small orchards.[92]

Coffee was not an important colonial crop in Brazil even while succeeding in colonial Saint Domingue. Bountiful natural resources and appropriate climate were not sufficient to turn Brazil into the world's greatest coffee producer. The Haitian Revolution-inspired jump in world coffee consumption and another fall-out of the French Revolution – the flight of the Portuguese royal court from Lisbon to Brazil in 1808 to avoid Napoleon's troops – combined with Napoleon's Continental Blockade (as discussed by Cardoso) provoked the dramatic transformation of Brazil's place in the world economy. An estimated 80 per cent of all coffee exported in Brazil's 322-years-long colonial period was shipped between 1810 and independence in 1822. In the 15 years before 1810 coffee had constituted under 2 per cent of Brazil's exports because the Portuguese had little interest in expanding the crop. Their eyes were set on sugar, Brazil's colonial bonanza.[93] So the Haitian Revolution, which destroyed coffee orchards and freed the slaves, did not immediately bring Brazilians to coffee production. Initially, in fact, as Bahian Luís dos Santos Vilhena wrote just after Haiti's upheaval: 'there is no one who does not wish to be a sugar planter' because of the collapse of Haiti's sugar production.[94]

Even with the marginalization of Brazil's main coffee competitor, planters were slow to open new *cafezais* (coffee plantations). Whereas Haiti after 75 years of cultivation reached a yearly export total of 80 million pounds, Brazil in 1830, some 90 years after coffee's first introduction, only exported 14 million pounds. In

that same year of 1820, Cuba, benefitting from the migration of Haitian planters with their slaves, was exporting some 25 million pounds.[95] Brazil's coffee success was not divinely foreordained despite the popular belief that 'Deus é Brasileiro' ('God is Brazilian'). Rather, it was the combination of the independence of ex-colonies Brazil and the United States (and Haiti's disastrous independence) combined with mounting Brazilian coffee production *and* United States swelling consumption that allowed North Americans to drink more coffee than anyone else in the world.

Brazil changes the world coffee economy

Coffee was treated differently than sugar and rubber in the nineteenth-century Age of Empire because its low technological demands meant that an independent former colony, Brazil, could begin producing on an unprecedented scale. Cheap fertile virgin land and abundant and relatively inexpensive slave labour due to the proximity of Africa allowed Brazil to cause world coffee prices to plummet after 1820 and remain low until the last quarter of the century, creating supply-induced demand. Brazil's success was not just because of European colonial know-how or simply because of natural resource endowment. Brazil emerged as the world's major coffee exporter also because of its independence in 1822 (see Table 3.2). Particularly important to Brazil's rise to caffeinated dominance were exogenous changes in the world market: the collapse of Haitian production because of its revolution; swelling USA urban markets (for coffee) in good part because of the flood of European immigration; and capital and transportation revolutions brought on by industrialization (Table 3.3).

Brazilian production not only largely satisfied growing world demand but Brazilians stimulated and transformed the place of coffee on overseas tables.

Table 3.2 Brazil's share of world coffee exports, 1850–1900 (5-year averages, in %)

Year	Brazil's share of all exports (%)
1800	0.0
1851–55	–
1856–60	53.0
1861–65	49.4
1866–70	47.8
1871–75	50.1
1876–80	47.6
1881–85	51.8
1886–90	56.8
1891–95	57.1
1896–1900	62.4

Source: Bacha and Greenhill (1992), *passim* and p. 3; and Ukers (1935), p. 529.

Table 3.3 USA and European share of world coffee imports, 1850–1900 (5-year averages, in %)

Year	USA share (%)	Europe share (%)	USA consumption per capita (lbs)
1800	1.0	93.0	–
1851–55	28.2	65.0	–
1856–60	32.2	61.0	–
1861–65	17.5	75.0	–
1866–70	24.9	69.0	5.01
1871–75	50.1	31.2	6.86
1876–80	47.6	34.7	6.93
1881–85	51.8	37.6	8.63
1886–90	56.8	38.1	8.62
1891–95	57.1	46.8	8.31
1896–1900	62.4	31.9	9.93

Source: Bacha and Greenhill (1992), *passim*; and Ukers (1935), p. 529.

The dependency view of agricultural producers as servants or providers of brute labour power, willingly serving up their produce to thirsty metropolitan buyers who were the masters of the trade, misrepresents the nature of the relationship. Brazilians, either native born, African or Portuguese immigrants, developed new production techniques, discovered productive cultivars, constructed an elaborate domestic transportation network in a geographically unpromising setting and developed market standards and financial instruments as well. They were able to out-produce all the European colonial growers in this Age of Empire.

To give the *dependentistas* their due, Brazilians were also successful in the nineteenth century because of British dominance in the form of inexpensive and reliable shipping and insurance, loans, infrastructure investments and protection of sea routes.[96] Where the British joined the French and the United States in their informal embargo of Haiti, they gladly helped out newly independent Brazil – even though Britain and Portugal had long been close allies.[97] So while the British turned towards tea and did not export or import much coffee from their own colonies, they exported and re-exported a lot of coffee from Brazil. Much of it went to their former North American colonies, renamed the United States of America.

Brazil, which produced over half of the world's coffee by 1850, was responsible for about 80 per cent of the unprecedented expansion of world coffee production in the nineteenth century.[98] By 1906 Brazilians produced almost five times as much as the rest of the world combined. And this was no marginal market.

At the dawn of the twentieth century the value of internationally traded coffee trailed only grains and sugar among global commodities.

The explosion of coffee in the nineteenth century was not brought about by new production methods.[99] Until the last quarter of the century, cultivating, harvesting and processing continued to be done manually by the same sort of slave labour whom Brazilian planters had previously used for sugar and French coffee planters had worked on the African island of Réunion and on a greater scale in Haiti in the 'West Indian' cultivation system. But the vastness of some Brazilian plantations and industrial-scale picking, which lowered both the cost and the quality of coffee, were new.

Technological improvements – meaning a growing demand for knowledge, technique and industrial capital – was more evident in transportation than in cultivation. Even though railroads when they arrived first in the 1850s did not dramatically reduce cargo costs, they did help improve the quality of coffee at port. More importantly, cheaper, more fertile lands were now accessible in the interior and ever larger amounts of the harvest could be brought to market faster, reducing interest charges on working capital. In other words, the railroads, some of which pioneered engineering feats to climb the steep escarpments, allowed Brazilians to take advantage of their country's vastness and *continue* their boom. They thereby escaped the geographic trap that had prevented much smaller Yemen, Java, Martinique, Dutch Guyana and Haiti from qualitatively transforming the world market and from taking advantage of economies of scale. The great amount of low-priced Brazilian coffee making its way to international ports on iron tracks expanded and reconfigured the world market since Brazil produced more than the rest of the world combined in the second half of the nineteenth century. This was particularly noticeable in the new United States.

Relations between the USA and Brazil grew stronger once American merchants and shippers attempted to supplant the British in the Atlantic slave trade after His Majesty's Government outlawed the British slave trade in 1807. (The British Anti-Slavery Movement, while initially hindered by the Saint Domingue Revolution, did eventually use that explosion of violence to convince Parliament to outlaw one of the empire's most profitable activities.[100]) Brazilian traders, however, were more important in continuing the transatlantic slave traffic after the British departure.[101] United States shippers integrated Brazil and Africa into a USA-based triangular trade after Brazilian independence in 1822. A spurt in commercial relations between newly 'free' Brazil and recently 'freed' United States was based mostly on the flourishing slave trade. Kenneth Maxwell has addressed this apparent paradox: 'Those who were the strongest supporters of laissez-faire when it meant the removal of the regulatory functions of the state [particularly free trade] were also most committed to the slave trade and slavery.'[102] This is really not so strange. Southern planters

in the USA held the same ideological position until the bloody Civil War forced them to relinquish it – and their slaves. Brazil had long been the world's leading importer of African slaves, first via the Portuguese, then Dutch, Angolan, Brazilian and British slavers. American slavers, forbidden from importing into the United States after 1808, benefitted from anti-slavery campaigns in the UK that hindered British competition in the chattel trade. We see the shadow of the Haitian Revolution cast over the Atlantic slave trade.

The slave trade was an exception to the otherwise warm commercial relations between Brazil and the UK. Brazilian customs laws awarded British shippers of non-human goods preferential treatment to the extent that Brazil has been considered a central part of the UK 'informal empire' or 'a virtual British protectorate'.[103] But in the early decades of the nineteenth century ships under the North American flag and with some USA capital and crews (but owned mostly by Brazilians and Portuguese), participated in some of the greatest annual slave importations that Brazil had known – until the Atlantic slave trade was terminated by the British Navy in the early 1850s.[104] Yankee and Luso-Brazilian ships brought trade goods to Africa where they were filled with slaves bound for Brazil. In Rio they filled their holds with coffee for the USA market. Slaves were transmuted into coffee in this transatlantic sleight of hand.

The role of the USA merchant marine in the Brazil trade, and in the Atlantic in general, declined with the prohibition of the Atlantic slave trade. American investors turned to the home market and developed it west as railroads reached ever further towards the Pacific. But the Americans' reorientation from the Atlantic to the western frontier did not thwart their budding romance with coffee. Brazil's coffee exports jumped 75-fold by volume between independence in 1822 and 1899 as Brazilians responded to – and stimulated – new opportunities and British ships took the place of Yankee traders. British moralists who subdued the lucrative trans-oceanic commerce in humans in the first part of the 1800s were not able to convince their countrymen to forego profiting from a slave-grown crop, an industry much larger after 1850 than before. (They likewise failed with slave-grown USA cotton and Cuban sugar.) Coffee exports, three-quarters of which went to the United States, constituted over 40 per cent of Brazil's exports after 1830, eclipsing sugar.[105] The growing capitalist economy of the United States gave rise to scores of 'coffee barons' and slave baronies in Brazil.

Conclusions

As noted in the Introduction chapter, conflict is inherent in trade in the sense that there is competition as much as cooperation. But at the turn of the eighteenth century there was another sort of conflict as well. There is always a contest over who gets the largest share of the surplus value created in making

a product, as well as in control of property and privileges. In the era of the Haitian Revolution, labour was property as well as a productive force since slavery was one of the motors of international trade and of the production of the most lucrative products like sugar and coffee.

Conflict over surplus value and property extends beyond national borders to the international economy. In the case of the era of the Haitian Revolution there were contests between the French, British, Spanish, Portuguese and eventually American empires. They, as well as international trade, were reconfigured by the stream of events that issued from colonial wars of the eighteenth century leading to the French Revolution and from there to independence in the United States, Haiti, Spanish America (excepting Cuba and Puerto Rico) and Brazil. The Haitian Revolution caused maybe a hundred thousand or more people to lose their lives, including slaves and freedmen, French, British and Spanish troops. France's imperial position was reduced as it lost its Caribbean pearl and then sold Louisiana. Portugal lost Brazil. It received reparations and kept hold of Angola and Mozambique but its international standing was reduced. The British gained relatively, but their Caribbean colonies would also go into decline as Parliament began paying more attention to the East Indies, Oceania and North America.[106] They had lost their 13 North American colonies and were unable to reclaim them in the war of 1812. However, the USA and Canada became principal destinations for British capital and trade in the nineteenth century. In fact it was colonies and former colonies that gained the most from Haiti's disaster. Yankee traders and shippers gained a leading position in the Caribbean and encroached on the South Atlantic for a while. They helped Cuba's sugar economy and Brazil's coffee economy flourish although the exporting areas' slavery and neocolonial relationships to the world economy hindered economic development.

The Atlantic economy was very different thirty or forty years after the outbreak of Saint Domingue's revolution. The plantation owners and the *gens de couleur* set into motion forces not only unintended, but unimagined. Conflict proved to be a very unpredictable and costly engine of trade.

Notes

1. I would like to thank Michelle Craig McDonald for her insights and collaboration on an article we co-authored that was the initial foundation for this piece, McDonald and Topik (2008), and Alex Borucki for his expert comments on the slave trade.
2. The French name 'Saint Domingue' was replaced with 'Haiti' as the independent state was declared in 1804.
3. Huntington (1993), p. 136. Genovese (1981), p. 83, in contrast, argues that Haiti's Revolution made a vital contribution 'to the democratization of the modern world'.
4. Knight (2000), p. 103.
5. Buck-Morss (2009), pp.14–20.
6. Trouillot (1995), p. 73.

7. Edwards (1801), p. v.
8. Quoted in Bender (2006), p. 109.
9. Trouillot (1995), p. 73.
10. Geggus (1997).
11. Ibid. (2001).
12. Hochschild (2007), pp. 246–7.
13. The British often do not think of themselves as European and did not do so in the nineteenth century. The Americas were referred to as 'North' and 'South' at the time of the Haitian Revolution, as is done today.
14. Jones and Spang (1999).
15. Williams (1944). In opposition to Williams, see Eltis (1987).
16. Braudel (1982).
17. For example, O'Brien (1982).
18. Landes (1999), p. 121; and Pomeranz (2000), pp. 186–93.
19. On the Spanish Atlantic commerce, trust and communication, see Quiroz (2011), and the Special Issue of *Colonial Latin American Review* in which this article is published.
20. For a theoretical discussion of unequal exchange, see Amin (1974); and Emmanuel, (1972). This was a central tenet of what became known as the 'dependency school', which through the work of Andre G. Frank and Immanuel M. Wallerstein led to world systems analysis.
21. For a discussion of the 'Adam Smith Problem' and the apparent contradictions in his thought, see Ratnapala (2010).
22. Quoted in Buck-Morss (2009), pp. 6 and 7.
23. Smith (2002).
24. Mintz (1993), p. 263.
25. Ibid., pp. 271–2.
26. This is with the exception of the Viking's failed Vineland effort. Hispanola was the beginning of sustained European colonization in the Americas.
27. Geggus (2002), p. 26.
28. Balfour-Paul (1997), *passim*.
29. Geggus (2002), pp. 27 and 28.
30. Deerr (1949), p. 231.
31. Edwards (1801), p. 123.
32. Deerr (1949), p. 239.
33. Dupuy (1989), p. 21; Trans-Atlantic Slave Trade Database; de Vries (2008), pp. 149–80, demonstrates the central role of sugar as well as the stimulants it sweetened like tea, coffee and chocolate in what he terms 'the industrious revolution' that brought about intensified work and a consumer society.
34. Fick (1990), p. 29.
35. Mintz (1985), p. 73; Deerr (1950), p. 239.
36. Sombart (1967), p. 99.
37. Mintz (1985); and Moreno Fraginals (1978).
38. Deerr (1950), p. 529.
39. Ibid., p. 529.
40. Sheridan (1974), pp. 19–21.
41. Mintz (1985); and Fenner (2010), he demonstrated the central role of coffee and sugar in German industrialization as well.
42. Trouillot (1982), p. 372.

43. Hilliard-d'Auberteuil (1776), pp. 62–3 and 169; Edwards (1801), p. 133.
44. Trouillot (1982), pp. 349–54; Fick (1990), p. 19.
45. Trouillot (1982), p. 356.
46. Laërne (1885); and Trouillot (1982), pp. 345 and 354.
47. Hilliard-d'Auberteuil (1776), p. 62; Opatrny (1993), pp. 33–4.
48. Although there is no statistic for world production, the four major producers in 1782–86, Java, Surinam, Jamaica and Brazil, exported under 20 million pounds, making it likely that Saint Domingue supplied three-quarters of the world's coffee. Posthumus (1946), p. 75; Ukers (1935), p. 509; and Trouillot (1982), p. 337.
49. Hilliard-d'Auberteuil (1776), pp. 53, 64 and 156; Posthumus (1946), p. 75.
50. Ukers (1935).
51. Thurber (1881), p. 212. By contrast, tea imports at the time were only one-twelfth a pound per capita. Ukers (1935), p. 400.
52. *American State Papers of the Congress of the United States, Commerce and Navigation*, vol. 5, pp. 640–2.
53. O'Shaughnessy (2000), p. 214. See also McDonald and Topik (2008).
54. John Adams to R. Livingston, 23 July 1783 and 31 July 1783, *Adams–Jefferson Letters*, vol. 2, p. 623, taken from McDonald and Topik (2008).
55. See St. Croix between 1781 and 1783, in the Records of the Philadelphia Custom House, Records Group 36, Inward and Outward Entry Volumes; 1781–87 taken from McDonald and Topik (2008).
56. Peterson (1965), p. 593. See also, Thomas Jefferson Papers, Series 1, General Correspondence, 1651–1827, 'United States Treaties, 1786, Amity and Commerce Treaty between Portugal and the United States', in the collections of Library of Congress (hereafter, TJP).
57. Thomas Jefferson to J. Jay, 27 January 1786, in Boyd, *Papers of Thomas Jefferson*, vol. 9, p. 235, taken from McDonald and Topik (2008).
58. Thomas Jefferson to R. Izard, 18 November 1796, in Boyd, *Papers of Thomas Jefferson*, vol. 10, pp. 541–2, taken from McDonald and Topik (2008).
59. Charles Alexadre de Calonne to Thomas Jefferson, 22 October 1796, TJP, Series 1, General Correspondence, 1651–1827; Thomas Jefferson, Observations on Charles Alexadre de Calonne's Letter of October 22, 1786, on Trade between the United States and France (22 October 1796), TJP, Series 1, General Correspondence, 1651–1827. See also Peterson (1965), p. 599; and Stover (1958). See also McDonald and Topik (2008).
60. *ASPFR*, vol. 1, p. 195, taken from McDonald and Topik (2008).
61. Mayo (1941), p. 35. See also McDonald and Topik (2008).
62. Silas Deane to the Committee of Secret Correspondence, undated, *RDC*, vol. 2, p. 118, taken from McDonald and Topik (2008).
63. Deane to the Committee of Secret Correspondence, undated, *RDC*, vol. 2, p. 118, taken from McDonald and Topik (2008).
64. Clauder (1972); and Coatsworth (1967). See also McDonald and Topik (2008).
65. *Pennsylvania Gazette*, 26 June 1789, taken from McDonald and Topik (2008).
66. Schoen (2003), p. 184, in McDonald and Topik (2008).
67. Mayo (ed.) (1941) in McDonald and Topik (2008).
68. The result was a 27 per cent decline in exports to the French islands in 1794, although trade levels were re-established the following year.
69. Dubois (2004b), p. 171.
70. See, for example, ibid.; and ibid. (2004a).
71. Knight (1970), p. 22.

72. Thurber (1881), p. 138; Pérez (1990), pp. 7–19; Opatrny (1993), pp. 39–40; Guerra y Sánchez (1964), pp. 47–53.
73. Reimer (1893).
74. Pérez (2001), pp. 93 and 94.
75. Deerr (1949), p. 129.
76. Pérez (1990), p. 8.
77. Dye (1998), p. 2.
78. Knight (1970), p. 53.
79. Pérez (1990), p. 12.
80. Deerr (1949), pp. 130–1.
81. Moreno Fraginals (1978).
82. For a keen study of the American love affair with Cuba (which was not equally reciprocated), see Pérez (2009).
83. Pérez (1990), p. 11.
84. Knight (1970), p. 44.
85. US Department of Commerce (1960), p. 551.
86. Wilkins (1970), pp. 110 and 149–72.
87. Mitchell (2003), p. 649.
88. Deerr (1949), p. 248.
89. Ibid.
90. Ibid., p. 250.
91. Russell-Wood (1992) and Schwartz (1985) discuss the worldwide Portuguese experience with export commodities. Portuguese lack of interest in coffee is reflected in Father Jerome Lobo's 1622 account of his visit to Ethiopia, Johnson (trans.) (1789).
92. Taunay (1939); and Magalhães (1939).
93. Arruda (1980), p. 354.
94. Quoted in Maxwell (2003), p. 124.
95. Thurber (1881), p. 125.
96. Cain and Hopkins (1993), pp. 298–306; Graham (1968); Platt (1977); and Miller (1993).
97. Manchester (1933).
98. Calculated from Greenhill (1993), p. 307; Ocampo (1984), p. 303; and Instituto Brasileiro de Geografia e Estatística, Brazil (IBGE) (1986), p. 84.
99. Wickizer (1951), p. 36.
100. For a wonderful account of this complicated and heroic quest, see Hochschild (2007).
101. Florentino (1995). Also see Marques (2010).
102. Maxwell (2003), p. 130.
103. Miller (1993), pp. 53–4; Cain and Hopkins (1993), p. 298; Almeida (1998), pp. 69–70, 368 and 369.
104. Marques (2010), pp. 105–11; Rippy (1928); Manchester (1933), p. 266; Bethel (1976), pp. 272 and 273.
105. Bacha and Greenhill (1992), p. 355.
106. For the transition from the old to the new British Empire, see Bayly (1989).

4

Lifting the Continental Blockade: Britain, Portugal and Brazilian Trade in the Global Context of the Napoleonic Wars

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In 1806, at the height of his military dominance of Europe, Napoleon introduced the Continental Blockade. The blockade of British imports applied to all countries under French control, or subject to direct French influence. His goal was to defeat Great Britain, a resilient opponent. The utility of trade as an instrument of war was clearly revealed. In the interpretations that have gradually come to be formed about the consequences and implications of the Continental Blockade, there is fairly general agreement that Napoleon failed to achieve his objectives. A wide range of causes and factors explain his failure, most notably that the British Navy managed to keep the Atlantic sea corridor open and free of blockades, and thereby guaranteed an almost uninterrupted flow of raw materials and manufactured products onto international markets. Britain's strategic alliance with Portugal, successfully maintained over several centuries, included access to the port of Lisbon and through this channel to the vast territories of the Portuguese overseas empire, and especially to Brazil.

This chapter closely examines Brazil's role as a market for British goods and a way to circumvent the blockade. Stressing how trade developed under conditions of conflict shows that commerce is not always peaceful and that economic interaction, as conceived throughout the Enlightenment, is not only a matter of sociability, reciprocity and *doux commerce*. Jealousy is also a hallmark of the economic relations between countries, and rivalry is a natural outcome of the relationship between agents and nations looking forward to increasing material welfare. Evaluating the effectiveness of the blockade as a deterrent to British trade is not the only way to examine usefully the significance of the Continental Blockade or the link between trade and war. There were other consequences of the blockade, far-reaching, far-flung and largely unintended, and one can detect them by situating the Continental Blockade in a global context. This chapter therefore also examines the unintended consequences that flowed from the Continental Blockade: the rise of Britain to an even more dominant presence in global trade, the dissemination of liberal ideas – even

though the idea behind the blockade was mercantilism – and the creation of Brazil as an independent state.

The chapter begins with a brief critical overview of the historiography of the continental system resulting from the blockade, by highlighting the way in which the Decree of Berlin of 1806 fitted in with Napoleon's large-scale plans. A separate section is devoted to the discussion of why and how the economic losses caused by the blockade were felt less by Great Britain than by France and its other European allies and satellites by carefully explaining the resources that British trade could exploit, namely the development of new international routes of commerce. This is the context that explains the strategic relevance of the diplomatic and military relations between Britain and Portugal, largely dependent on the commercial weight of the Portuguese overseas territories, especially Brazil. The chapter then proceeds to discuss the significance of the opening of the Brazilian ports to British trading interests, bringing a new attention to the arguments put forward by contemporary authors representative of different attitudes regarding the end of Portuguese privileges on the exploitation of Brazilian territory and its colonial trade resources. Finally, it delves into connections between the economic opening up of Brazil and debates in political economy among Brazilian intellectuals. Such debates were particularly important to show the role of the public understanding of ideas that could provide a rationale for the liberalization of international trade. They also demonstrated the fragile foundations of the Continental Blockade, as acknowledged by those who were experiencing its immediate consequences.

The Continental Blockade and Napoleon's imperial project

The Continental Blockade as decreed by Napoleon Bonaparte in Berlin on 21 November 1806 was basically designed to disrupt economic relations between Great Britain and its trading partners on the mainland of Europe. By declaring that all commerce and correspondence with the British Islands should be prohibited and that all British subjects found in countries under French control should be considered as prisoners of war, Napoleon was extending the hegemonic reach of France resulting from its military power over Europe. Before that crucial moment for the consolidation of the Napoleonic Empire, the political and military conditions that were essential for implementing the decree and its economic implications had already been established. After victory at Austerlitz in December 1805, the first six months of 1806 brought Napoleon a string of successive victories that helped him to impose dominion over almost all of Italy, the German states of the Rhine Confederation, Holland and Belgium and finally Prussia. All the ports of Northern Europe were under his direct control at that time, with only Denmark, Sweden and Russia remaining out of his reach. Thus the decree of the Continental Blockade can be represented

as the conclusion of a process of political and military annexation, as well as a gradual process of restriction on sales of British products to Europe, which began with the Convention of 1793 and which became consolidated during the period of the Directory. Through his expansionist activities in Europe, Napoleon was successfully demonstrating that the organization of the continental economic system required a prior process of military domination and political unification.

Despite Napoleon's military successes, Britain could not be defeated through conventional warfare. The Berlin decree thus appeared at a key moment in the extension of an imperial system that was looking for new and more ambitious conditions for its development. It was a clear and unequivocal demonstration of force by France in relation to its main rival; it was also a manifesto of political and economic doctrine that sought to show that, under France's leadership, Europe could isolate and defeat Great Britain in the commercial and economic field, or, in other words, take a fresh and decisive step towards achieving a vast domination and political and military hegemony on a European scale. In this sense, the Continental Blockade represented the culmination of an old and longstanding process of geopolitical, economic and commercial rivalry between France and Britain, clearly underpinned by the mercantilist ideas and policies cultivated and followed by the two countries since the seventeenth century.[1] It could even be said that this high point in the rivalry between commercial powers is particularly revealing of the way in which the Napoleonic Wars (1803–15) were to prolong the military conflicts that had continuously beset Europe throughout the seventeenth and eighteenth centuries, even though, at the start of the nineteenth century, it was obvious that the hostility existing between nations was based on much more than mere dynastic or religious disputes.[2]

The Berlin decree was not negotiated diplomatically beforehand, nor was its application open to contestation. It was simply imposed by the power that was in a position to dictate its mastery and hegemony over its European conquests, partners and allies. Thus in 1807, Denmark, Russia, Spain and Austria found themselves forced to adhere to or accept Napoleon's dictates, which were newly reinforced by the Milan Decree in 17 December 1807. Only Portugal, England's last ally, remained outside the system.

At the end of 1807, the worsening political tensions between Portugal and France culminated in the invasion of the Portuguese territory by Napoleon's troops. Portugal had not accepted the rules of the French prohibition to keeping any kind of trading relations with Great Britain and therefore the Portuguese king and his court were forced to cross the Atlantic under the safe protection of the British Navy and move to Brazil. Rio de Janeiro then became the capital of the Portuguese imperial monarchy and the economic pillar of an empire whose sovereignty would only be re-established in 1810, thanks to the military aid provided at that time by British naval and military forces.

The first legislative measure decreed by the king when he arrived in Brazil with his court in January 1808, was the opening of Brazilian ports to trade with friendly nations, particularly Great Britain. But this measure did not only serve to supply Brazil with the provisions needed to cope with a new economic environment by meeting the substantial increase in demand for manufactured products caused by the presence of the court in Rio de Janeiro, which had suddenly risen to the status of a 'tropical Versailles'.[3] In fact, the opening of the Brazilian ports also helped Great Britain to counteract negative effects from the Continental Blockade as decreed by Napoleon in Berlin in November 1806.

Through the Continental Blockade, France sought to establish and consolidate a system of economic relations whereby the different European states – both those that had been annexed by France and those that performed the role of satellites or allies – undertook to bar England from enjoying any economic access, thus enabling the greatly desired development of French industrial capacities. In this way, the blockade had purposes that were simultaneously both destructive (in relation to the installed capacity and potential of the British economy) and constructive (with the aim of establishing French hegemony on the European continent).[4]

The formation of an extensive and closed system was facilitated by the creation of other instruments that would unify the market, namely in the form of the legal standardization that would be guaranteed through the application of the *Code Napoleon*. The administrative centralization, simplification and standardization of the circulation of money and the system of weights and measures, the rationalization of the systems of tax collection and fiscal administrations, the dissolution of the old feudal economic system, bold plans for the creation of transport and shipping infrastructures, in short, the paths leading to the construction of an internal common European market as broad as possible – all these were signs that the process already underway resulted from an integrated and strategic vision of an imperial economic and political space under French hegemony. Napoleonic Europe was naturally a Europe that was designed to operate under the auspices of France and for the benefit of France.

But the scope or impact of this geopolitical-cum-economic strategy was conditioned from the outset by the diversity of situations to be found within the overall European framework. At the local and regional levels there were different paces and speeds in the adherence to or acceptance of the modernization processes usually associated with Napoleonic expansion.[5] Success was, above all, possible to achieve in those regions where the necessary prior conditions for change had already been created, and, in many situations, had even come about unexpectedly, with the case of Germany being one good example.[6] In the specific cases of the Netherlands and Italy, the prior process of fiscal unification had been particularly important, together with the consolidation of the system

of public finances that had greatly contributed to the consolidation of the economic power of the French Empire.[7]

Whenever we talk about modernization, our thoughts tend to turn above all to the contagious nature of the processes of reform and institutional innovation that spread under the umbrella of principles emanating from the French Revolution. Or, in other words, the defence of equality for all in the eyes of the law and the guarantee of property rights through a strong centralized state whose successful functioning depended on a team of professional bureaucrats recognized for their merit and technical expertise, rather than because of any rights or social privileges that had been transmitted to them.[8]

However, the facts directly associated with the application of the Continental Blockade showed the ineffectiveness of this widely publicized strategic vision, based on long-term objectives, a kind of master plan supposedly designed and constructed by Napoleon. There was certainly a wide gap between the plans that were nurtured and the institutions that were put in place for their realization. In reality, the idea of the empire whose foundations were built on the vitality of a continental economic system – a kind of union of the whole of Europe against the British enemy – boiled down to nothing more than Napoleon's stubborn determination to subjugate Great Britain, and, even more restrictive than this, to the desire for the aggrandizement of the emperor's own personal power and glory.[9]

Napoleon lacked the capacity to press on with a mission that went far beyond immediate horizons of simply exercising his power and authority. The fact that the emperor's actions, writings and gestures failed to show any strategic consistency, coupled with the many processes designed to ensure the promotion and management of his public image, the calculation of the satisfaction of the self-interest associated with his more pulsating actions, are all arguments that can be used to explain the ideological and political fragility on which the empire that Napoleon sought to build was founded.[10] The modernity that Napoleon purportedly claimed to establish in the territories under France's direct control could only take root or be internalized with great difficulty. The assimilation of French as the official language, the incorporation of new models of administration and legislation, the sharing of common commercial and industrial interests, all of these were changes that could not take place in such a relatively short space of time. Napoleon became a prisoner of the Europe that fell under his dominion. The glory and grandeur of the personality did not survive, in terms of real influence, beyond the legend and the myth. After 1815 some structures and institutions of the French-inspired civil state (the centralized administration, the *Code Napoleon*, the system of secondary education, the fiscal and financial institutions) did remain. However, in its idealized construction of a universal empire under French hegemony, the Napoleonic world had only a brief life, 1806–14, followed by a sudden death after the Congress of Vienna in 1814–15.

The economic scope and limits of the Continental Blockade

The military might of the Napoleonic army is an accepted fact that does not require any additional demonstration. But Napoleon's empire would not be viable without achieving mastery of the seas that in turn would require the annihilation of the power of both the British merchant and Royal Navy. Furthermore, it could not be viable without the support of allied powers at the furthest extremes of Europe, namely in Russia and the Iberian Peninsula.

Paradoxically, it was the excesses of military zeal in making sure that the integrity of the empire held firm at these extremes that wrecked the construction of the much coveted European continental system. In seeking to make Russia a vassal state and not an allied empire, Napoleon brought a premature and fatal end to the campaign of the darkest winter that the *Grande Armée* suffered in 1812. The failure of the blockade points to Napoleon's inability to bring to his empire the mastery of the seas through the isolation of the British Navy and trade.[11] As far as the Iberian Peninsula is concerned, the failure to annex Portugal was also clearly symptomatic of Napoleon's difficulties in consolidating an empire that was founded upon a weak continental platform. As Geoffrey Ellis noted: '[after the defeat of Junot in August 1808] Portugal remained a constant thorn in the side of Napoleon's western front south of the Pyrenees, and a major breach in the cordon of his Continental Blockade against Britain in southern Europe'.[12]

The Continental Blockade never effectively cut off British exports to European markets. In fact, while it is important in the case of Portugal to recognize that, 'the French themselves never had time to integrate Portugal into the Napoleonic Empire in the same manner as the rest of their conquests',[13] it also remains true that other breaches and problems were opened up in the annexed territories, allies or satellites. The privileges afforded to French traders and manufacturers – through a preferential system of customs tariffs and measures taken to protect the manufactures in France – were hotly contested and became a source of discontent in other areas of the empire, particularly after 1810, when the system of special licences was introduced, allowing French ships the possibility of breaking through the blockade by introducing British products onto the continent. Discontent caused by a regime full of exceptions was naturally exacerbated by the mandatory impositions of recruitment and taxation for maintaining the *Grande Armée*, adding new factors of resistance and rebellion against Napoleonic domination.

The system of licences represented a recognition by France that the blockade was harmful to French economic interests and for European consumers in general. Smuggling activities and acts of corruption never ceased to operate. These substantially restricted the effects of the blockade, which

confirmed that the *autos-da-fé* in which British products were burned were certainly a warning that the licensing system was to work as Napoleon desired, but were also a matter of propaganda designed to show that the blockade was in force and was to be complied with. In actions of this type, the prevailing effect was always that of creating a climate of fear and respect that would keep public opinion in a constant state of alert and submission to imperial designs and purposes. As far as the more general question of the development of parallel circuits of clandestine trade is concerned, it is known that these were accompanied by situations of corruption and blackmail clearly documented for the various parts of the empire, and in which the highest-ranking political, administrative and military officers were involved.[14]

Despite smuggling, camouflage and corruption, the volume of trade experienced sharp falls that affected not only British traders and producers. Indeed, in a recent study, Kevin H. O'Rourke shows that Great Britain was the country least affected by the Continental Blockade.[15] In attempting a quantitative analysis of the economic impact of the conflict that affected Europe and other regions of the world between 1793 and 1815, he shows that the fall in British exports was relatively small and that the country's imports even increased slightly, contrary to what proved to be the case in the other countries that he compares it with – France, Sweden and the United States – all of which suffered sharper falls in both their imports and exports.

The most convincing proof presented by O'Rourke is the analysis of the evolution of the relative prices of goods imported by a more diversified range of countries that, in addition to those already mentioned, includes Holland and Germany. Prices of products imported from Europe, Asia and America are compared with the prices of goods produced under more advantageous conditions in each of the countries considered (for example, textiles from England and wheat from France or the United States). And the analysis of the ratios expressing relative prices shows that there was a sharp rise in prices in all countries throughout the period of the blockade, or, in other words, a general deterioration in the terms of trade that had been in force before 1806. It also shows that terms of trade effects were felt less in England than in most other countries, because it succeeded in compensating for its European losses with gains in the Asian and American markets. The might of the British Royal Navy enabled its huge merchant fleet to continue to operate in conditions that ran counter to the aims of the Continental Blockade decreed by Napoleon. The importance that the South American market acquired in this context is evident.

It seems that the Napoleonic Wars had economic consequences that were, above all, significant because of their impact on the traditional organization of international trade, whose change was due to two main factors: the naval

blockade imposed by the British due to the superiority of their navy and the pressure of the demand for their manufactured products; and the Continental Blockade imposed by Napoleon, or, more accurately, the 'self-blockade' imposed on Europe by the dominant power on the continent.[16] However, there were other far-reaching and unanticipated outcomes resulting from trade operations in a context of war.

Operationally, the British naval blockade was directly related to the importance of economic activity centred on the coastal hinterlands and the ports that served them. The European economy in the eighteenth century was clearly sea-oriented, being founded on a series of production and trading activities concentrated in cities or geographical areas served by ports. Conflicts and animosities waged against the power exercising supremacy within this Atlantic economic system represented a major hindrance to the progress of economic development on the continent.[17]

Despite its limited success, the immediate effects of the self-blockade that France imposed on Europe were to promote the development of industries that provided substitutes for the products imported from England, putting in place a series of protectionist instruments that allowed for a strong industrial development at the national level. This growth in industry largely based on protectionism created powerful interests that continued to demand protection after the end of the conflicts, 'while in fact the industry could likely have developed more efficiently, with only a moderate amount of protection'.[18] Thus, the restrictions and constraints imposed by the Continental Blockade ended up proving to be instrumental for the development of the national economies and for the processes of economic unification and territorial reorganization that occurred in Europe after the Congress of Vienna, of which the most paradigmatic examples were the cases of the unification of Germany and Italy.[19]

In the monumental work that he dedicated to the study of the Continental Blockade and its impact on the British economy, François Crouzet placed great emphasis on the idea that Napoleon's decree inevitably represented a factor of disturbance that exposed the vulnerability of a highly outward-looking economy dependent on external demand for the placement of its manufactured products. Together with the American embargo decreed in 1807,[20] the closure of the European ports could represent a terrible threat to the British economy, and in no way could it be considered as having little or no effect. Nonetheless, England was able to counteract such a threat thanks to two fundamental factors: the technical superiority of its industrial structure, which made it possible to place products on the market at highly competitive prices that were, so to speak, an invitation to smuggling and the breaching of the blockade; and the spirit of enterprise, capacity for innovation, subtlety and agility of British merchants, who managed to invent new markets and new trading routes for the placement of their industrial products.[21] These factors were crucial in ensuring

that such losses as England may have had were, in the end, smaller than those experienced by the other European powers, as O'Rourke was also to explain by a different route.[22]

Given this capacity for survival and the instinct that the British economic agents showed for circumventing barriers to trade, it was difficult for the Continental Blockade to attain its objective of destabilizing the British economy, all the more so because it was an instrument that, in order to be effective, needed to be enforced for a long period of time.[23]

The impact and collateral damage caused by the Continental Blockade were particularly serious between mid 1807 and mid 1808, immediately after the publication of the Decree of Berlin. It was precisely in this period that South America, and particularly Brazil, appeared as an important factor of recovery and a stimulus for the British traders who saw in this continent a safe market for their exports, and who installed themselves there in large numbers and with significant diplomatic and consular backing. Crouzet summarized the situation quite clearly:

> It cannot be denied that, in the first few months of 1808, these exports to Brazil were extremely valuable to the British economy, for which most normal outlets were closed, and that the 'Brazilian mirage' was of great use in combating the pessimism into which businessmen were drawn by the general depression.[24]

This escape from the crisis of diminishing trade opportunities, together with the military losses and popular uprisings that French troops were faced with in the Iberian Peninsula, represented a serious setback for the realization of Napoleon's plans for isolating and destabilizing the British economy. Thus, without questioning the long-term effects that the Napoleonic Wars had on the geography of international trade relations, one must also stress the importance of their short-term impact on the strategic role that the South American market played in the structure of Great Britain's overseas trade. Here a central irony becomes apparent. It was, as Patrick K. O'Brien has suggested, the continental European economies that suffered most as a result of the blockades. The attempt to put a stranglehold on British trade ended up benefitting Britain: 'that conflict provided Great Britain with an opportunity to seize a greater share of world trade in manufactured goods and commercial services than her undoubted comparative advantages really warranted'.[25]

These changes in the structure of British overseas trade resulting from the conditions imposed by the Continental Blockade highlight the crucial role played by Brazil and the opening of its sea ports, with the aim of safeguarding British interests. Brazilian trade redirected the course of events in the European conflict to the benefit of Great Britain.

The opening of Brazilian ports and British trade interests

The reasons behind the opening of Brazil's ports and the consequences associated with this policy have been widely analysed and debated in Portuguese and Brazilian historiography. The significance of this event in light of the implications engendered by the Continental Blockade has also been the subject of specific analysis.[26] Regardless of the broader inferences that can be made about the significance of this and other interrelated events – Continental Blockade, French invasions, opening of the Brazilian ports, the 1810 friendship and trade treaties – there seems to be general unanimity on the relevance of this critical juncture, to explain short-term pressure that this series of events caused and the wider implications in Portuguese economic growth and development.

Approaching the subject from the point of view of British interests makes it possible to extend the issue of commercial dominance to other research horizons that continues to be of major importance for understanding the geography of global economic relations in the early nineteenth century. As Alan K. Manchester documented in a pioneering fashion,[27] Great Britain was the only power effectively favoured by the opening of the ports decreed in January 1808, since the remaining 'friendly nations' could gain little or no benefit from this as long as the war continued on the European continent. And Britain's presence in Brazil intensified from the second half of 1808 onwards. Information about foreign ships entering the port of Rio de Janeiro confirms a growing British presence: in 1808, the number of foreign ships entering the port of Rio de Janeiro was 90; by 1810, the number had increased to 422, the vast majority of which were British. The British trading establishments based in Rio were also constantly increasing in number, amounting to roughly 30 per cent of the total number of Portuguese and foreign shops and stores in the city.[28]

Equally indicative of their growing influence was the setting up of an 'Association of English Merchants Trading to Brazil', which took place after the meeting of 113 merchants held on 25 June 1808, following an advertisement placed in British newspapers on 1 June 1808, under the direct initiative of the Portuguese ambassador in London Dom Domingos de Sousa Coutinho.[29] The assembly elected a standing committee of 16 members, who were given the mission of promoting the development of Anglo-Brazilian trading relations. The matter did not go unnoticed by Hipólito José da Costa, a learned and cultured Brazilian emigrant who edited the magazine *Correio Braziliense* in London and, who, in the issue published in July of that same year, underlined the relevance and importance of the initiative.

The formation of this association demonstrates the efforts made by the British trading community to defend their interests, now clearly extended by the opening of the Brazilian ports and the consequent reduction in the import

duties charged on British manufactures, as well as the greater ease of access to Brazilian raw materials. However, the presence of British merchants in Brazilian trade circles went back some time, to the period when the monopoly over colonial trade was in force, thanks to the system of licences, which guaranteed the supply of the most sought after manufactured products, as well as the trade resulting from smuggling activities (roughly 17 per cent of total imports). This significant market share enjoyed by the smuggling of British products in Brazil has constantly been used as an illustration of the situation of effective dependence that was formally and permanently consolidated in 1808.[30]

The signing of the Treaties of Friendship and Trade in 1810 continued and consolidated England's privileged position in the years immediately after the opening of the ports. The treaties established a preferential protected regime for British traders and producers. It is not therefore surprising that Brazil became an important destination for British manufactured products and a secondary source for its imports of raw materials, providing a balance of trade that was clearly favourable to the British. Thus, in 1812, resulting from a stabilization of the preferential relations with England, the Portuguese territory in South America imported British goods valued at 25 per cent more than British products imported into Asia, 50 per cent more than the imports into the United States and the British West Indies, and 80 per cent more than the value of the British goods imported through all other remaining ports in South America.

This central position occupied by Brazil in the development of British colonial trade changed after 1815, with the establishment of peace in Europe and the recovery of the important Asian trade. Nonetheless, even in that new period, Brazil continued to account for roughly two-thirds of British exports to the American continent.[31] Furthermore, as Manchester explained, from 1808 to 1821, British commercial penetration was a forerunner to financial penetration: 'English penetration into Brazil assumed formidable proportions, for, encouraged by the special privileges, immunities, and guarantees specified to them by treaty, British capital and enterprise were enticed into the huge colony, ripe for exploitation.'[32]

The British presence was so important that they managed to maintain the clauses of the 1810 treaty even after Brazil gained independence in 1822. But the progressive and inevitable affirmation of the strength and vitality of British businessmen soon provoked an adverse reaction on the part of the Portuguese merchant class. This animosity was expressed in a curious pamphlet published in London by the Portuguese trader Manuel Luís da Veiga.[33]

In this pamphlet, the author describes an episode of public humiliation, which he vehemently condemns, in order to recount how British officers and merchants seized and embargoed Portuguese ships and their cargoes, supposedly under the scope of a special war clause that did not apply to the peace and alliance between Portugal and England. It was most probably the result of

a misunderstanding about a supposed Portuguese submission to Napoleonic France.

Regardless of the importance or truth of the episode, Veiga used it as a pretext to lament the arrogance of the British, the practice of fraud and other irregularities in the collection of duties, interest and insurance premiums, in foreign exchange operations, in the weighing of the goods that were bought and sold (especially in the case of the cotton imported from Brazil), in the exorbitant salaries charged by the British proxies and agents directly involved in all of these trading operations. It is a testimony of significant historical interest, insofar as it makes it possible to reconstruct the perception of Portuguese traders of the restrictions imposed on them in the exercise of their profession under conditions of dignified competition.

Despite the care that they took over their choice of words, the Portuguese ambassador Dom Domingos de Sousa Coutinho and the Portuguese consul in London were also heavily criticized in the pamphlet for tolerating irregularities and for not taking such steps as were within their power to defend Portuguese interests. Accusations were levelled against British self-interest, despite British assistance to Portugal during the Napoleonic Wars:

> It is true that … it is the British who have opposed the present-day *Attila*, and endeavoured to save Europe from his bondage; it was they who saved our beloved Prince, and his August Family; and who strive to deliver Portugal, etc., but they do so with what spirit – because they wish to do good, to be useful to their sovereign allies and their people? Far from it: they are motivated by nothing more than their own self-interest … They saved His Royal Highness, it is true, and they have rendered services to Portugal; however, it is because they still have provinces to which they can send the goods produced in their factories; they have ports to which they can take their ships; they have allies to help them against their greatest and most powerful enemy, they have land from which they can extract the articles needed by their country.[34]

Veiga was particularly dissatisfied with the behaviour of Dom Domingos de Sousa Coutinho in the diplomatic management of this conflict that prompted his rhetorical invective against the British. That he wrote this in January 1808, before the opening of the Brazilian ports was decreed, shows that he anticipated negative consequences that would result from the establishment of British traders on Brazilian territory. As far as he was concerned, Brazilian and Portuguese traders would not be able to compete on an equal footing with the British businessmen. He favoured protective measures by establishing a time scale after which imports of essential goods and cotton manufactures would be banned or at least severely restricted.

From this testimony it can be concluded that the opening of the ports would result in unequal opportunities, not only arising from the greater technical know-how and financial clout enjoyed by British businessmen but also, in the final analysis, depending on the political welcome that they obtained from important and influential figures in the Portuguese government.

Receptivity to the British and their welcome in Brazil

Despite the reluctance of most Portuguese traders to accept the free circulation and implantation of British businessmen and commercial enterprises in Brazil, their establishment in that country benefitted from significant ideological and political support, as is made clear by reading pamphlets published by José da Silva Lisboa immediately after the opening of the ports in 1808.

Silva Lisboa was a royal official involved in the economic and fiscal administration of Brazilian territory (first in Bahia and later in Rio de Janeiro), who enjoyed a solid intellectual reputation because of the book that he had published in 1804, one of the most important texts disseminating the work of Adam Smith in Portugal. It was certainly through his influence that his son Bento da Silva Lisboa translated the *Wealth of Nations* into Portuguese, published in 1811 and 1812, and, throughout his career, he demonstrated a thorough understanding of political economy in the Smithian tradition, which he sought to apply to Brazil's economic reality.[35] The pamphlets of José da Silva Lisboa allow us to hear better one of the most representative voices of the interests and ideological positions of those who, in this crucial period of transition of the Portuguese Empire, welcomed and applauded the British presence as a factor that promoted the development of economic life in Brazil. The South American colony had ceased to be just the jewel in the Portuguese Crown and had taken on the status of the headquarters of the 'United Kingdom of Portugal, Brazil and the Algarves', according to the official designation established in 1815.

In the first text that he wrote about the opening of the Brazilian ports,[36] he praised the measure because it conformed to the principles of a liberal political economy, in particular the importance of the freedom of action of economic agents, both internally and externally, with advantages and mutual benefits for those participating in commercial acts. And he also calmly explained that there should be no anxiety whatsoever in recognizing the benefits resulting from the fact that England was Europe's most industrious and richest nation, so that such an advantage should be clearly recorded and, much better, celebrated 'for reasons of necessity, interest, politics and national gratitude'.[37]

Silva Lisboa recognized and praised the excellence and quality of British manufactured products and, generally speaking, highlighted the merits and attributes of traders in that country because of the availability of capital and

their spirit of enterprise, their perspicacity in taking advantage of opportunities, the regular administration of justice and the fight against monopolies, the development of the science and instruments of commerce. He therefore considered that, the greater the trade with the British, the greater the possibility Brazil would have of participating and sharing in the benefits of a profitable activity.

In response to the backlash against Britain's commercial activities, in 1810 he published a new pamphlet expressly dedicated to 'refuting the protests against English trade'.[38] On this occasion, his intransigent defence of the advantages of establishing open relations in international trade was founded on the idea of reciprocal advantages, based on the calculation of the hours that would be needed to produce certain goods. His preliminary conclusion was that each country can and must take advantage of specializing in the goods that it produces under better conditions. Without wishing to claim that this was a case of a Ricardian view *avant la lettre*,[39] it is fair to recognize the modernity of Silva Lisboa's way of thinking, showing that he was party to the better sustained principles of defending free trade as a factor contributing to the greater wealth of each nation and of the group of nations as a whole:

> How many false ideas! How many conflicts! How many wars would have been avoided before now, and would be avoided henceforth, were it possible for European states to set apart from their foreign trade balances the exchanges that are made in money, formalising a profit account calculated in *days of work*! With this *new denominator*, foreign trade would appear to them just as it is, mutually profitable for all the nations that share in it, and that do in fact think that they gain nothing from it. Those same people who complain that they have lost in such trade, would immediately see that, through this same trade, they acquire the articles that they need with less expense, and that they receive much more than the exact equivalent of the respective merchandise.[40]

The creation of greater wealth depends on the capacity to introduce new work methods (increases in productivity), enabling each country to increase the value of those products in which they obtain a greater advantage. In this way, it is explained how it was possible for Britain to continue to place its products in foreign markets at competitive prices, despite the transport difficulties on the European continent, or, in other words:

> The opening of new markets has corresponded so exactly to the banning of the old ones, and the British factories, instead of becoming disappointed and depopulated, have succeeded in putting their capital to fresh use, as well as providing a new direction for their work, and their shipments.[41]

Applying this type of reasoning to the economic situation in Europe, through the effects of the Continental Blockade decreed by Napoleon and that Silva Lisboa called a 'Ban on Trade', the author of the refutation explains how the tables have turned:

> England's geographical situation, and the superiority of its navy, guarantee it the good fortune of replacing a market that is closed with another one that has opened up … giving it the opportunity to find, for those products in surplus from its national consumption, new markets in the parts of the New World that has been civilised and enriched; meanwhile the old Europe has become impoverished, because of the seventeen years of war and disorder. Will the European continent be certain of finding a market for the excess of its productions, when it has forced and accustomed the English to forego its loans?[42]

From all of this, Silva Lisboa concluded that:

> the fulminating Decree of Berlin, which was meant to change the fate of the British Isles, stemming the flow of its rents, and destroying the only basis of its power, did not produce anything more than these two great effects: a doubling of the revenue of the Irish customs; and a decrease by one quarter at the French customs'![43]

And he ended as follows:

> What England loses through the doors of Europe being closed upon it, as far as the exports of its own products are concerned, is indeed little, when one considers the increased extraction of its goods in the West Indies, and in North and South America.[44]

José da Silva Lisboa had an astute understanding of the global picture of international economic relations in which Great Britain assumed a position of strategic leadership. And he knew that other countries or areas of trade could also benefit from this situation. Silva Lisboa's writings played an unmistakable role in justifying and legitimizing the changes brought about in the economic organization of the Portuguese Empire, originating in the context of the Napoleonic Wars and the British counter-offensive to the siege that France sought to place it under. Furthermore, Silva Lisboa's texts are also a remarkable testimony to the perception that was current at that time regarding the eventual failure of the economic policy decreed by Napoleon. Thus, the modern historiography of the Continental Blockade now makes a rigorous assessment of the situation that at that time was merely understood intuitively.

Conclusions

Two fundamental conclusions need to be drawn from this exercise in global history: first of all, that Brazil fulfilled a mission of supporting the diversification of markets that befitted the interests of British merchants; in this way, Brazil demonstrated the large-scale effects caused by the Continental Blockade and directly participated in the process of the economic reconfiguration of the main European powers. It is particularly worth emphasizing that this historical example clearly shows the role of trade in a period when declared conflicts between European nations were reaching a peak. As pointed out in the Introduction to this book, the conflicts – in this particular case associated with the Napoleonic Wars – were a condition for the development of new routes of international trade, while at the same time new commercial relations – in this case between Brazil and Britain – were a motive to reinforce and nurture conflict at an international level. The help provided by Brazilian trade, which was at the mercy of British interests due to the faithful political alliance between Great Britain and Portugal, contributed to shift the balance of European powers against Napoleonic France. This geopolitical outlook is crucial to a better understanding of how the case discussed in this chapter is an element of a wider history of the inseparable liaison between trade and conflict. While acknowledging the socialization role of trade as implicitly revealed in the enlightened notion of *doux commerce*, the intellectuals and merchants who praised extended international trade clearly understood that trade was also crucial to winning the war. Brazilian trade gave Britain a renewed economic power to defeat Napoleon and to overcome the French ambition to rule Europe.

Second, through the greater economic openness decreed in 1808, Brazil took a decisive step towards constructing its economic sovereignty as an independent nation.[45] Although formal political independence was only declared in September 1822, Brazil saw an opportunity developing in 1808 to make its way along the same path that had already been followed in other American colonial spaces. The loss of the monopoly over colonial trade took away from Portugal its effective control over the vigorous and promising Brazilian economy. By invading Portugal in 1807 and forcing the Portuguese Crown to move to the safety of its territory on the other side of the Atlantic, with the argument that no country could dare to breach the Continental Blockade that he had himself decreed, Napoleon inadvertently precipitated the end of his imperial dream and accelerated the process leading to the emergence of Brazil as an independent nation.

Notes

Acknowledgement: I am grateful to Charles Esdaile, Patrick K. O'Brien, an anonymous referee and the editors of this book for helpful comments on earlier versions of this chapter. The usual disclaimer applies.

1. For a general economic interpretation of the Continental Blockade, see Heckscher (2006), pp. 51–8; Crouzet (1987); and Davis and Engerman (2006b), pp. 25–52; see also O'Brien (1989). On the acceleration of economic tensions between Britain and France throughout the eighteenth century, see Crouzet (2008).
2. See Esdaile (2007), pp. 39–40.
3. See Schultz (2001).
4. See Ellis (2003), pp. 107–19.
5. See Grab (2003), pp. 24–5.
6. See Rowe (2007).
7. See Grab (2001).
8. See Bergeron (1970).
9. Dwyer (ed.) (2001). This interpretation of Napoleon's vision is not exclusive to English historiography. For a critical assessment and survey of French historiography on Napoleon's figure and myth, see Petiteau (2004).
10. See Ellis (2001); and, in particular, Esdaile (2007).
11. See Tulard (2006), pp. 302–9.
12. Ellis (2001), p. 107.
13. Esdaile (2001), p. 150.
14. See de Jouvenel (1942), pp. 347–71; and Aaslestad (2007).
15. O'Rourke (2006).
16. See Crouzet (1964).
17. On this very topic concerning both the difficulties encountered by the Napoleonic system to blockade the ports and trading cities in Europe and the alternative solutions put forward by European merchants, see the thorough and detailed study by Marzagalli (1999).
18. Ibid., p. 580.
19. See Dwyer and Forrest (2007), p. 7.
20. On this question see Heckscher (2006), pp. 129–35.
21. See Crouzet (1987), pp. 203–6.
22. O'Rourke (2006).
23. A common view on the failure of Napoleonic policies designed to limit the expansion of the British economy is shared in the essays by Crouzet (2006); Davis and Engerman (2006a); and O'Brien (2006).
24. Crouzet (1987), p. 316.
25. O'Brien (1989), p. 372.
26. Despite the abundance of studies on this subject, the results of the research carried out so far have not, unfortunately, been afforded appropriate dissemination, and have not had the consequent repercussions in those intellectual and academic circles that are unable to understand the Portuguese language. Outstanding exceptions are Schultz (2001); and Adelman (2006), pp. 220–57. It is therefore worth mentioning here some essential references in Portuguese and Brazilian historiography. The classical interpretations about the effects on trade between Portugal and Brazil, are: Novais (1979); Arruda (1980); Alexandre (1993); and Pedreira (1994). For a brief overview of historiographical debates associated with the publication of those works, see Pedreira (2000). For a synthetic and introductory analysis to the general theme of the opening of the Brazilian ports, see Cardoso (2008).
27. Manchester (1933), pp. 69–108.
28. Ibid., p. 76.
29. Ibid., p. 75.
30. See Arruda (2008).

31. Manchester (1933), pp. 96–8.
32. Ibid., p. 338.
33. Veiga (1808).
34. Ibid., pp. 11–12.
35. Smith (1811–12). On the diffusion and influence of Smith's work in Portugal and Brazil, see Reeder and Cardoso (2002).
36. Lisboa (1808–09).
37. Ibid., vol. 1, p. 200.
38. Lisboa (1810).
39. The famous theory of international trade based on the principle that each country should specialize in the production and export of the good in which it has a comparative advantage, measured by the costs of labour incurred in different countries to bring that good to the market, was for the first time stated and discussed by Ricardo (1817). The notion that trade brings economic and social advantage was also borrowed by José da Silva Lisboa from the enlightened tradition of *doux commerce*.
40. Lisboa (1810), p. 6.
41. Ibid., p. 34.
42. Ibid., p. 42.
43. Ibid., p. 57.
44. Ibid., pp. 78–9.
45. On the struggle for sovereignty and the path to modernity in Brazil, see Adelman (2006), especially pp. 220–58.

5

Retreat from Globalization: Britain and the Renewal of Imperial Trade between the Two World Wars

Tim Rooth

The great economic and human disaster of the slump of the 1930s was associated with a sharp retreat from the internationalism of the prewar years. As the dominant economic power of the nineteenth century, Great Britain had played a central role in the liberalization of international trade. An open world system suited Britain's interests, enabling its industrialists to capitalize on their technical and industrial leadership and facilitating access to cheap food and raw materials. Demolishing the protectionist walls that had shielded its own early industrialization, from the 1840s the Corn Laws were scrapped, the Navigation Laws governing shipping were abolished and Britain embarked on a mission of tearing down barriers to global trade. Many duties were scrapped unilaterally, but trade treaties incorporating the most-favoured-nation clause (MFN) were a powerful tool and, when necessary and possible, coercion could be used as a last resort. As an inevitable corollary preferences for empire trade disappeared. The movement reached its zenith during the third quarter of the century before, in a time of intensified competition and rising international tensions, its progress was halted by a globalization backlash.

The view of Ronald Findlay and Kevin H. O'Rourke that '[t]his first "golden age of globalization" was of course brought to a tragic and abrupt end by the outbreak of World War I' is commonly accepted.[1] The complex system of multilateral payments that had evolved from the late nineteenth century, and charted in studies by the League of Nations and later by Berrick S. Saul, were disrupted by the war and proved difficult to reconstruct after 1918.[2] Unquestionably the war caused huge dislocation to production, trade and international finance. Yet very considerable efforts were subsequently made to rebuild the international economy, and recently Robert Boyce has argued convincingly that the 1920s should be seen as a continuation of the process of globalization: the United States, Great Britain and France pushed hard to recreate a globalized world, although, fatally, they failed to build the conditions to manage the global system.[3]

Evidence of continued globalization can be found in the re-linking of currencies to each other through a gold-exchange standard system that was essentially in place by 1926. By the second half of the 1920s financial flows were comparable to those before the war and international trade was outpacing national growth. By 1929 world trade was well above prewar levels and merchandise exports represented 9 per cent of gross domestic product (GDP) as against 7.9 per cent in 1913.[4]

Yet by the late 1920s some of the impetus of expansion was being lost and distinct signs of weakness were beginning to appear: agricultural prices were weakening as world stocks accumulated, and long-term international investment began to decline from 1927. Significantly, much of the momentum of international trade liberalization also began to fade after 1927, which Boyce attributes in good part to a lack of engagement by Britain. Currency stabilization should have encouraged tariff liberalization. Instead, international conferences met, unanimously agreed to lower tariffs and governments then did nothing.[5] Meanwhile the pressure of falling agricultural prices stimulated tariff increases in Germany in 1928 (by 1927 German food tariffs were already higher than before 1914 and they broadly quadrupled between 1927 and 1931), and in France in 1928 and 1929. By 1929 the threat of steep increases in the already high American tariff began to cast a shadow over the global economy and to discourage further attempts to implement tariff truces.

The British case

Before the war Britain had been heavily and increasingly engaged in the international economy. Policy and institutions had played a central role in sustaining this internationalism, notably through continued adherence to the gold standard and to free trade. The emergence of major rivals and intensified international competition had stimulated a challenge to the international orthodoxy, most notably through Joseph Chamberlain's Tariff Reform Campaign, but this had been repulsed. The war, however, gave a further boost to a 'modernization' movement that aimed to reorganize industry and the mechanism of government, to extend protection and to achieve closer economic integration with the empire. One legacy of the movement had been the introduction of some limited forms of protection, and in 1923 the Conservative Party had gone as far as to fight an election on a protectionist platform. It was defeated, and when, late the following year, the Conservatives returned to power they eschewed protection: as discussed in Richard Toye's chapter, the appointment of the free trader Winston Churchill in the key role of Chancellor of the Exchequer gave substance to the reversal of policy. In effect, they took the international option. In 1925 Churchill's fateful decision to return to the gold standard at the prewar parity is the most dramatic indication of this.

The return to gold was the high point of the UK's commitment to economic internationalism in the interwar period.

If the international option had been intended to restore British prosperity and global position, it manifestly failed. By the end of the twenties the UK had clearly lost the international leadership it had exercised before 1914. Not only was Britain's place in the international economy diminished but its prewar cosmopolitanism had been replaced by a narrower imperial pattern of trade and investment. Although Britain had faced severe challenges at the end of the nineteenth century and before the First World War, it had remained a global power. British international investments dwarfed those of other lenders and Britain remained the major world trader. Significantly its trade and finance transcended the bounds of formal empire. By the 1920s this was no longer the case. New York had overtaken London as the principal source of international investment funds and America had overhauled Britain as an exporter of goods. By 1930, in contrast to 1913 when less than half of British investment was in the empire countries, the proportion had risen to 59 per cent. The empire's share of British exports had reached 43 per cent by 1927 and was particularly marked for some of the newer and more expansive products in world trade. The imperial share of British imports was also higher than before the war. However, while Britain relied increasingly on the crutch of imperial markets, empire countries not only drew a diminishing part of their supplies from the UK but increasingly found new markets for their exports beyond British shores. So by the late 1920s Britain was more than ever reliant on the empire while the rest of the empire was increasingly looking beyond the UK for sales and supplies.

British exports did badly notwithstanding the expansiveness of the international economy. By 1929 British exports were well below the values of 1924. The contrast with before the war is even more dismal. Between 1913 and 1929 the volume of international trade in manufactures grew by 37.5 per cent, yet British exports did so badly that by 1929 they had failed to regain their prewar level. This represented a dramatic retreat in world markets: the British share of manufactured goods fell from 30.2 per cent in 1913 to 20.4 per cent by 1929.

This dreadful export record had profound consequences for other aspects of British economic performance and policy. Failure to compete internationally helped to keep more than a million out of work, put pressure on the government's budgetary policy and ensured an unprecedentedly stringent monetary policy: real interest rates were exceptionally high in the early 1920s, and they remained at historically high levels throughout the period 1920–31. These rates have been blamed for suppressing investment, especially in the interest-sensitive sectors such as housing, and may indeed have led to a dip in output in 1928.[6]

Lack of competiveness was manifested in the weakness of Britain's overseas accounts, and these formed an integral part of the unstable international financial system of the late twenties. The merchandise deficit widened dramatically

and, to compound difficulties, the invisible surplus shrank. Although the current account was in modest surplus it was far too small to allow London to restore its prewar international predominance. Despite the intermittent imposition of controls on *foreign* (as opposed to empire) issues, long-term lending was well above that warranted by the current account surplus and the difference therefore had to be financed by short-term borrowing. By 1929 London's short-term international liabilities were well in excess of its equivalent assets.

Quite evidently the economic system was failing to generate prosperity or to reduce unemployment. Many businessmen came to regard the competitive economic system as synonymous with waste and inefficiency; by the eve of the slump deepening disillusion with the efficacy of the market mechanism was apparent, not least through the growing clamour for protection. Support for laissez-faire in the major industries crumbled. Much of the war and postwar protectionist measures stayed in place and, notwithstanding Churchill's presence as Chancellor, there were some modest extensions of safeguarding duties in the late 1920s.[7] Yet no major erosion of Britain's commitment to free trade took place and by the end of the decade British tariffs were still low and narrow in scope by international standards.

With the onset of the Depression intense import competition and rising unemployment spurred the campaign for tariffs, and protectionists were also able to point to the failure of tariff liberalization elsewhere in the world. Worse still, tariffs were now rising and, most notoriously of all, the Smoot-Hawley Tariff, signed into law by Herbert Hoover in June 1930, raised tariffs on over 20,000 USA imports. Yet Britain was slow to move to full-scale protectionism. An important factor in the resistance of Ramsay MacDonald's Labour government was the presence of Phillip Snowden, Churchill's successor as Chancellor, who was also a free trader and implacably hostile to any protectionist moves. It took the financial crisis of the summer of 1931 to bring about the fall of the Labour government before Britain became fully protectionist. Crucially, while in opposition the Conservatives had adopted a fully developed programme of protectionism.[8]

Following the collapse of the Labour government, a short-lived coalition government was in office long enough to preside over Britain's abandonment of the gold standard in September. But in late October a Conservative-dominated National Government was elected and within days raised tariffs. In November the Abnormal Importations Act was passed, ostensibly as a temporary measure, imposing duties of up to 100 per cent. More considered legislation, the Import Duties Act, followed in March 1932. Although the new duties on most manufactured goods were initially set at only 10 per cent, these were almost immediately doubled on the recommendation of the Import Duties Advisory Committee, and further duty increases followed. Imperial preferences were incorporated, although mostly on a provisional basis.

Treaty-making and imperial preferences

This potentially transformed Britain's relations with the empire/Commonwealth: a protectionist Britain now had something to offer, especially since it had provisionally incorporated imperial preference into the tariff structure. Moreover one effect of the slump had been to magnify the importance of the British market to the Dominions. During the 1920s they had come to rely less on the UK for their export sales. The Depression changed all that (see Figure 5.1): Britain's share of world imports rose after 1929, a consequence of the relatively less severe impact of the World Depression on the British market, and the maintenance of fairly open markets until late 1931. Increasing restrictions on livestock imports by France and Germany, for example, served to intensify Britain's dominance of world livestock product imports, and, as discussed in Gregory P. Marchildon's chapter, this was also so for grain.

The obvious corollary to this was that many primary producers came to depend much more heavily on sales to Britain. Rivalry for the British market, including some strong contenders from outside the empire, intensified as the slump deepened. Now tariffs, and the prospect of privileged entry to the British market, gave the Dominions plenty to bargain over.

It is therefore surprising that not all Dominions were especially enthusiastic or carried high expectations when they came to prepare for the imperial economic and monetary conference that was to meet in Ottawa in the summer of 1932. The South Africans, principally interested in gold, received preferences on products covering only a small area of the country and generally ones

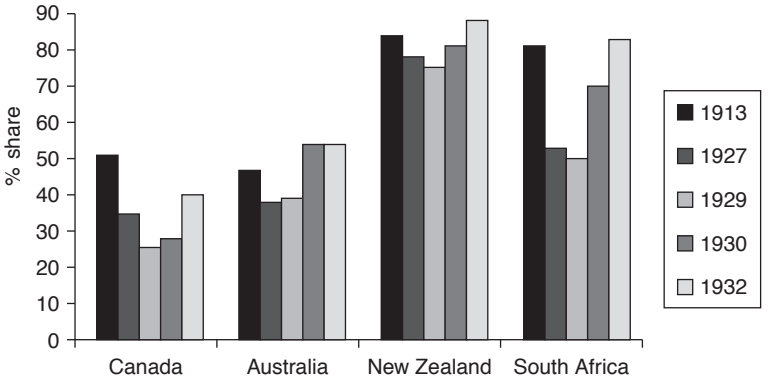

Figure 5.1 Percentage share of the Dominions' exports to the UK
Source: League of Nations, *International Trade Statistics* (various years).

where the government was politically weak. The New Zealanders appeared complacent and the government spent little effort in preparations, leaving these mostly to the primary producers themselves.[9]

There was much greater interest in Australia and Canada. The Canadians were losing heavily in the USA as a result of the Smoot-Hawley tariffs, and the 1930 election had brought a determined protectionist, R. B. Bennett, to the premiership.[10] Curiously the Canadians did not prepare for the conference very thoroughly, leaving many decisions to the last minute, although this probably had much to do with Bennett's style of governance.[11] The Australians were also keen to extract what they could from the conference and prepared well, including the holding of preliminary discussions with Britain, and they sent a strong delegation to Ottawa. British preparatory papers were extensive but the delegation arrived in Ottawa without a settled policy and with many issues unresolved.

The conference was protracted, lasting from 21 July to 20 August 1932. Yet, as Sir Keith Hancock pointed out long ago, while the imperial enthusiasts 'had envisaged a gathering of flourishing nations triumphantly intent upon a task of imperial integration … instead it was a gathering of anxious and suffering nations, desperately intent upon a task of economic salvage'.[12] It was as well that the Ottawa summer was cooler than usual, but tempers frayed anyway. Proceedings were dominated by Chamberlain and Lord Hailsham for the British delegation (nominally headed by Stanley Baldwin), by Bennett for Canada and, for Australia, Stanley Bruce, ex-premier and by 1932 Resident Minister in London. Eventually, in an atmosphere of rising animosity and after several near breakdowns, the conference resulted in a series of bilateral treaties, most importantly by agreements between each Dominion and Britain for free entry to the British market for specific foodstuffs and raw materials in exchange for larger margins of preference in Dominion markets for British manufactures.[13]

The British returned from Ottawa with a good deal less than the optimists might have expected. Part of the conflict had arisen from a reluctance on the part of the British delegation to grant more in the way of concessions. They had arrived in Ottawa without a settled policy. The fundamental cause of indecision was the rifts in the delegation and in the Cabinet. It was, after all, a coalition government. The more ardent imperialists such as Chamberlain would happily have conceded more, and certainly would not have contemplated failure of the conference because of unwillingness to meet the more reasonable Dominion requests. But ranged against them were President of the Board of Trade Walter Runciman and J. H. Thomas, Secretary of State for the Dominions, representing a rump of free traders. They also wished to keep something in reserve for later negotiations with non-imperial suppliers (a particular concern of Runciman), so this inhibited them in meeting Dominion requests more fulsomely.

Thus a lingering attachment to liberal principles was still in evidence in the British delegation of 1932 and was certainly evident among officials. But by the time the delegation had arrived in Canada there was an acute awareness that Britain was not going to get very much in the way of major concessions for its trade.[14] Dominion governments were in no position to roll back protection: in the midst of the slump manufacturing jobs were too precious, and the configuration of interest groups in sophisticated economic and political structures such as those in Australia and Canada would not have permitted such a sacrifice of secondary industry for some uncertain benefits for primary industries. Ottawa was alive with industrial pressure groups during the conference and the Canadian Manufacturers' Association held its 1932 annual meeting in the capital.[15] Moreover, precarious trade balances would have been further jeopardized and, as discussed more fully below, hazarded the servicing of debt. British exporters were struggling because of the collapse in purchasing power in primary producing countries as well from higher tariffs and import substitution. The most that they were likely to get was perhaps some very modest scaling back of protection and a helping hand in trade diversion through wider margins of preference. But above and beyond this Britain was inhibited by the need to conclude agreements. Thomas had argued that he 'felt bound to bear in mind that, ultimately, the over-riding consideration must be the maintenance of imperial unity'; accordingly MacDonald worried that 'our danger will be that we will become so afraid of a breakdown that we will allow the Dominions to play with us'.[16] Failure of the conference would have badly damaged Britain's international standing at a time when the deteriorating international situation placed an even higher premium on imperial solidarity, and this almost certainly inhibited a more forceful deployment of UK bargaining power at Ottawa.

Did the Dominions gain much from Ottawa? The potential advantages from the agreements lay in two directions: first, through tariff and other advantages gained at the expense of non-imperial competitors, and, second, against incipient British agricultural protectionism. The first was real enough, but it was inhibited by London's desire to make a series of trade treaties with other countries, notably with Argentina and the Scandinavians. The first series of foreign agreements were negotiated in the year or so following the Ottawa meetings, and turned out to be more beneficial for British exports than the imperial treaties. But they also caused intense ill-feeling not only in the Dominions, notably Australia and New Zealand, but also among imperialists at home. Lord Beaverbrook's *Daily Express* castigated the treaties as the 'Black Pacts'.[17] Generally these treaties fixed tariff levels on British imports for a three-year term although they sometimes incorporated quotas determining the quantity, for instance, of beef or bacon that the UK would take.

The second major gain for the Dominions was the guarantees against British agricultural protection, guarantees that, paradoxically, were often strengthened

by the 'Black Pacts'. The web of obligations set at Ottawa and in the later treaties seriously hampered the freedom of British policymakers when, later, they came to consider the worsening plight of British agriculture. At Ottawa the needs of the UK farmer had barely featured. If anything, the presence of free traders in the delegation inhibited the British team from offering bigger preferences because they did not wish to raise domestic food prices. Nor had the needs of British farmers featured much in the treaty-making of 1933, but, subsequently, over the course of 1933–34, the plight of British farmers continued to worsen and pressures to protect them accumulated. Restricted by treaty guarantees given at Ottawa and in the 'Black Pacts', London was eventually driven to using Exchequer-financed subsidy payments to help British agriculture. Sufficient discriminatory restrictions and taxes were introduced between 1932 and 1933 to alter substantially the structure and source of imports into Britain. Protection worked to the extent that in 1932 there was a distinct break in the link between the volume of manufactured imports and of British industrial production, the result also of devaluation. Measured by volume, food imports in the late 1930s were above the level of 1929, and imports of manufactures about a quarter below. The differential movement in prices disguises much of this volume change. In broad terms primary producers might have expected to make some small relative gains because of the changing structure of imports, although most of these would have accrued to oil suppliers.

In fact the empire made major advances in the British market during the 1930s and appears to have done so entirely through increasing its share in the imports of individual commodities rather than through any shifts in the commodity composition of trade. The position is summarized in Table 5.1. In 1929 the UK's retained imports from the empire amounted to £299 million, 26.9 per cent of the total; by 1937 the corresponding figures are £365 million and 38.3 per cent. The potential benefits to the various signatories from Ottawa varied considerably. India and South Africa got few preferences of real value to them, while Canada (wheat, timber and bacon), Australia (wheat, meat and butter) and New Zealand (meat and butter) stood to gain much more. Australia, Canada and New Zealand were particularly prominent, raising their collective share from 11.7 per cent to 20.2 per cent of imports. The Australian and Canadian gains were huge. Between 1928 and 1930 UK-retained imports from Australia had averaged £42 million, 4 per cent of the British total. Between 1936 and 1938 supplies from Australia, in the face of lower price levels, nonetheless averaged £62.5 million and accounted for 7.2 per cent of total imports. These figures seriously understate the *quantity* of Australian produce sold to Britain: by 1938 these sales were more than twice the 1929 volume. Measured by current prices the picture was one of widespread if unspectacular gains, but measured by volume the growth of sales was massive. None of this was apparent in the aggrieved rhetoric of Dominion statesmen.

Table 5.1 Total retained imports into the UK and the share of empire and selected Dominions, 1929, 1932 and 1937 (£000s and %)

	1929	**%**	**1932**	**%**	**1937**	**%**
Empire	298,992	26.9	220,958	34.0	364,648	38.3
South Africa	14,440	1.3	10,124	1.6	13,829	1.5
Australia	45,253	4.1	40,920	6.3	65,044	6.8
New Zealand	40,673	3.7	33,221	5.1	43,541	4.6
Canada	43,684	3.9	40,431	6.2	83,568	8.8
Total World	1,111,193		650,648		952,691	

Source: *Annual Statement of the Trade of the United Kingdom* (various years).

Canadian sales to the UK expanded even more impressively. The Canadian achievement is the more remarkable because of sectoral weaknesses: three of the most important exports in the late 1920s recorded lower sales figures in the post-agreement period. Wheat was the most catastrophic failure, imperial preferences notwithstanding, a victim partly of policy but also of disastrous harvests. Yet the expansion of other sectors was so powerful that by the end of the decade Canadian exports to Britain were well above pre-Depression levels, even when measured in current prices. Gains were made on a wide front, most spectacularly for non-ferrous metals that, ironically, were virtually unaffected by the trade pact. Despite the decline of wheat sales, Britain overtook the USA as Canada's major export market. Retained imports from Canada rose from £44.6 million in 1928–30 to £76 million in 1936–38, a rise of 70 per cent at a time of falling prices and in the face of an overall decline of imports into the UK. Canada more than doubled its share of the UK market from 4 to 9 per cent of total imports. Canada moved up from ninth place in the British market in the late twenties to second place by the eve of the Second World War.

The major losers in the British market were the industrial countries. Trade agreement countries, supplying predominantly foodstuffs and raw materials, had widely varying experiences, as indicated in Table 5.2. It is therefore also obvious that countries' prospects were influenced in large degree by the composition of their exports. North Europeans, much more interested in timber and ores than bacon, and therefore relatively immune from protection or preference, had at least a potential chance of benefitting from the buoyancy of the British market in the 1930s. Major suppliers of bacon and butter – and Denmark was the prime instance – were extremely vulnerable to British protection and imperial preferences. Beyond Europe, Argentina, heavily dependent on meat and wheat and with some interest in butter as well, was another country whose export structure exposed it to the full force of British protection. For wheat growers there was the prospect of compensation in supplying other markets – but for meat, including bacon, and to some extent butter, the British

Table 5.2 Imports into the UK from selected foreign trade agreement countries, 1929, 1932 and 1937 (£000s and %)

	1929	**%**	**1932**	**%**	**1937**	**%**
Finland	14,945	1.2	11,733	1.7	22,437	2.2
Sweden	25,709	2.1	13,424	1.9	26,191	2.6
Norway	14,149	1.2	8,283	1.2	11,574	1.1
Denmark	56,178	4.6	40,570	5.8	36,570	3.6
Argentina	82,447	6.8	50,885	7.3	59,836	5.8

Source: *Annual Statement of the Trade of the United Kingdom* (various years).

market was completely dominant and prospects elsewhere slim. These factors are reflected in the individual performances of countries in the British market in the 1930s.

British exports to the North European trade agreement countries did much better than to the Dominions (see Tables 5.3 and 5.4). They benefitted from the relatively robust recoveries of the Nordic states and through trade diversion, much of which stemmed from the trade agreements. All experienced growth in per capita incomes between 1929 and 1937, with Denmark the most sluggish and Finland the most dynamic. Except for Denmark all countries experienced some growth of imports (when measured in their own currencies). The British share of that import trade also increased. The trade agreements played a part together with the depreciation of the pound and possibly the linking of Scandinavian currencies to the pound as the sterling area developed. Britain's bargaining hand was far stronger with Denmark and Finland than with Sweden and Norway and this is reflected in the degree of import diversion achieved.[18]

British exports to the Dominions mattered far more than those to Northern Europe. In 1929 Australia alone bought more British goods than all the trade agreement countries of Europe put together. The Ottawa pacts should have been even more favourable to Britain than the foreign agreements. The Dominions had been given privileged access to the British market in 1931 and 1932, and they could and did give explicit preferences rather than the more devious variety extracted by Britain from Northern Europe. Moreover, the southern Dominions experienced economic expansion during the 1930s, South Africa in particular enjoying rapid recovery after the price of gold benefitted from American devaluation in 1933. But Australia and New Zealand also experienced solid expansion during the 1930s. Canada was the exception, and its experience, discussed below, was truly disastrous. As Table 5.4 indicates, this is not reflected in the performance of British exports. The Ottawa Agreements failed to deliver for UK exporters. Ironically the only growth that occurred was to South Africa, the country Britain conceded least to and received least from at Ottawa, and that reflects the strength of the South African economy after

Table 5.3 UK exports to North European trade agreement countries (averages, £000s, current)

	1928–30	**1936–38**
Denmark	10,226	15,875
Finland	3,126	5,213
Norway	10,239	7,883
Sweden	10,109	11,709
3 Baltic states (Estonia, Latvia and Lithuania)	2,165	4,406
Total	**35,865**	**45,086**

Source: *Annual Statement of the Trade of the United Kingdom* (various years).

Table 5.4 UK exports to selected Dominions (averages, £000s, current)

	1928–30	**1936–38**
South Africa	30,167	39,479
Australia	47,189	35,980
New Zealand	19,516	18,913
Canada	32,871	24,441
Total	**129,743**	**118,813**

Source: *Annual Statement of the Trade of the United Kingdom* (various years).

1933. The others were a great disappointment. Was this simply bad faith or were there other explanations? There was some trade diversion in Britain's favour, the UK share of imports rising quite sharply in the early 1930s, particularly to Canada, before tending to fall away again later in the decade.[19] But scope was more limited in the southern Dominions where Britain's market share was already quite high. What is very striking is the degree of import replacement that took place during the 1930s. Tariffs and other forms of protection rose sharply as the slump deepened. In Australia, for example, protection played a major part in strengthening the competitive position of manufacturing vis-à-vis imports. Devaluation, an 80 per cent jump in the tariff and the difficulty that importers experienced in obtaining sterling exchange created this position. By 1937 the import content of supplies of manufactured goods had fallen sharply from the 1929 levels, particularly in Australia and Canada.[20]

A major driving force behind these developments were the huge balance-of-payments problems faced by Dominions during the slump. These were countries that habitually borrowed heavily from abroad and were major international debtors. The Australian current account had already been weak before the slump, the deficit averaging £52 million per year between 1925/26 and 1929/30, about 7 per cent of the GDP.[21] By the late 1920s international money

markets were exhibiting growing unease about Australian indebtedness, and as international money markets deteriorated in 1929 Australia experienced funding difficulties and a sharp rise in short-term debt. The cost of servicing overseas debt grew even faster than the debt itself: at the end of the twenties this had absorbed approximately a quarter of export earnings, but as export prices plummeted the service burden rose even further so that by 1930/31 it had reached 48 per cent of reduced earnings.

Canada's balance-of-payments position was less precarious than Australia's at the end of the 1920s, and whereas Australia was finding capital markets wary of further loans as early as 1928, Canada was able to continue raising funds in Wall Street during 1929 and 1930. But this was only temporary relief; payment of interest and dividends increased from $240 million in 1926 to $348 million at its peak in 1930 when the current account deficit was nearly 6 per cent of GDP. But while exports fell precipitously, the cost of servicing proved more intractable. In 1931 merchandise exports earned only $601 million, less than half their 1926–28 average, and servicing foreign debt swallowed up 47 per cent of this.

The heavy burden of servicing was one reason it was so difficult to reduce invisible account deficits. Hence, the main burden of adjustment fell on the merchandise trade account. In both countries the collapse of purchasing power, and especially in Canada the fall of investment levels, contributed to a sharp reduction in imports. But this was by no means sufficient to close the external deficit, and anxious also to boost manufacturing employment, governments in both countries resorted to major hikes in tariffs and the extension or introduction of other controls. Imports fell sharply: in Australia from £143 million in 1928/29 to £44 million three years later and in Canada from $1,272 million in 1929 to $368 million by 1933.

Both countries were highly successful in selling more to Britain, but the restoration of equilibrium demanded that not all the additional sterling earnings were frittered away on buying more from the UK. This is important in explaining why British export performance was so poor. It is the savage contraction of total imports that explains why British exporters did so badly.

Before 1914, in Kindleberger's analysis, Britain had played a key role in stabilizing the international economy, in part through keeping an open market for distress goods in times of depression.[22] By the 1930s Britain no longer had the capacity to fulfil that role for the global economy. But it did continue doing so for a limited number of favoured primary producers, most conspicuously Australia and Canada. The main brunt of British protection fell on industrial imports while that on foodstuffs and raw materials was generally much lighter, the structuring of agricultural protectionism in the thirties keeping the import market for food relatively open, particularly for imperial suppliers. British bondholders and the City of London gained, British exporters lost.[23]

International repercussions

Did British protectionism accelerate or encourage the world to retreat further behind trade restricting barriers? Britain was a latecomer to protectionism and it is doubtful whether the introduction of protection per se by Britain in the winter of 1931–32 was an important direct influence in stimulating retaliation. The real damage was done by the abandonment of the gold standard and the devaluation of sterling in September 1931. This had worldwide repercussions, forcing countries either to follow Britain in currency depreciation or, alternatively, to deflate through tightening fiscal and monetary policy and/or raising further trade barriers to restrict imports directly.

Both the imperial and subsequent trade pacts were clearly unhelpful because most signatories tended to widen preferences in Britain's favour more by raising barriers against non-British imports rather than by reducing them on British supplies.[24] Moreover, imperial preference was an explicit departure from the MFN principles that had played such an important part in liberalizing world trade in the third quarter of the nineteenth century. The various trade pacts made by Britain with other countries in the wake of the Ottawa Conference also involved breaches in MFN obligations, generally of a more opaque and devious nature.

Further, Britain's unwavering adherence to protection in the mid 1930s was an obstacle to any kind of trade liberalization. British protectionism remained firmly intact through the course of preparations for the World Economic and Monetary Conference and the conference itself, held in London in 1933. The conference, coinciding with the nadir of the global slump, was a spectacular failure, although much of the blame lay in the American devaluation and subsequent refusal to stabilize the dollar.[25] More than ever, perceived national interests trumped any serious attempt to find common solutions, an outlook that also undermined attempts to manage wheat production in the 1930s, as Marchildon explains.

The reorientation of British trade, particularly of imports towards the empire, further undermined the delicate balance of the multilateral settlement system.[26] The combination of the sterling devaluation and industrial protection cut the import surpluses from Europe. West European countries had customarily used these sterling earnings to import food and raw materials from elsewhere. Unable to earn as much as before, countries increasingly resorted to direct purchases from their empires or spheres of influence. The Netherlands and France tightened links with their empires and, most notably, German penetration of Eastern Europe and Latin America intensified. British policy thus gave a powerful impetus to greater bilateralism.

There were moves towards liberalization in the mid 1930s, notably through the USA Reciprocal Trade Agreements Act (RTAA) in 1934 as well as various

European initiatives. Britain, after protracted negotiations, signed an agreement with the United States in 1938. Tariffs were reduced, but a close examination of the negotiations reveals little evidence of a liberal spirit or of a generous opening out of the trade channels. The Canada–USA agreement of 1935 liberalized trade although Canada was inhibited by the Ottawa Agreements.

Washington had brushed off approaches from Canberra and by 1936 found itself embroiled in a trade war with Australia.[27] The Australian trade diversion measures of 1936, which were part of the cause of this rift with the Americans, certainly represented an intensification of protectionism. The New Zealanders also tightened restrictions, notably in 1938 when faced by balance-of-payments problems following an expansion of domestic credit.

There was some recognition in the UK that the breakdown of the multilateral payments system, and Britain's role in that process, had imposed pressures on other European countries, especially Germany. Some in the UK saw this as a good reason to liberalize trade and payments, but they were in a small minority. There were fears about renewed German export competition. The response was significant: talks between British and German industrialists to restrict competition by cartel agreements. Industry greatly treasured the protection it had won itself in the 1930s and fiercely resisted any moves that might weaken it.

It would be a mistake therefore to assume that there was a widespread international move towards trade liberalization at the end of the 1930s, and one effect of the sharp international contraction of 1937/38 was to see tariff levels and other restrictions on trade increased. Protection was as firmly embedded as ever as war approached.

A paradox of economic performance and postwar policy

Notwithstanding high unemployment, devastatingly low prices for many primary products and widespread social deprivation, a number of countries made strong recoveries from the Depression. Generally these were the countries that had depreciated their currencies during the first two or three years of the slump rather than hang on to old gold parities, as Barry Eichengreen among others has forcibly argued.[28] All these countries also tightened protection. Long ago W. Arthur Lewis had suggested that these were useful devices for isolating economies from the worst of the deflationary forces emanating from the global economy after 1929.[29] The mistake, he argued, was the failure to liberalize trade once international recovery was underway again.

Britain fits this pattern. British economic expansion in the recovery rested heavily on import substitution for industrialization, and on a set of industries that by UK standards depended little on export markets.[30] Britain became markedly disengaged from the international economy in the 1930s, exports

plus imports of goods and services falling from 47.6 per cent of gross national product (GNP) in 1929 to 35.3 per cent by 1937. Currency depreciation together with tariffs led to a sharp contraction of manufactured imports: between 1924 and 1931 the manufacturing sector's propensity to import had risen from 9.9 per cent to 12 per cent, but in 1932 it dropped to 8 per cent and stayed around that level for the remainder of the decade.[31] The contrasting experience of some of the major participants is shown in Figure 5.2. Australia and New Zealand broadly match the UK in experiencing a strong recovery from the slump while the depth and persistence of the Canadian Depression is all too apparent (the trough year was 1933 for Canada).

Australian output also proved resilient: real GDP rose by 26 per cent between 1932 and 1937, and by the latter year was about 9 per cent above 1929 levels. Overseas sales rose sufficiently impressively for 1937 exports to reach 20.7 per cent of GDP, higher than before the slump. The huge expansion in the volume of exports to the UK had much to do with this: Eichengreen reports that the Australian export volume increased far more than would have been predicted by the extent of currency devaluation, a performance that he suggests had much to do with the prospects and policies of its main trading partner.[32] This export growth helped to maintain output and employment, but failed to translate fully into incomes because prices were low and the terms of trade unfavourable. Manufacturing output also expanded during the 1930s, the sharply

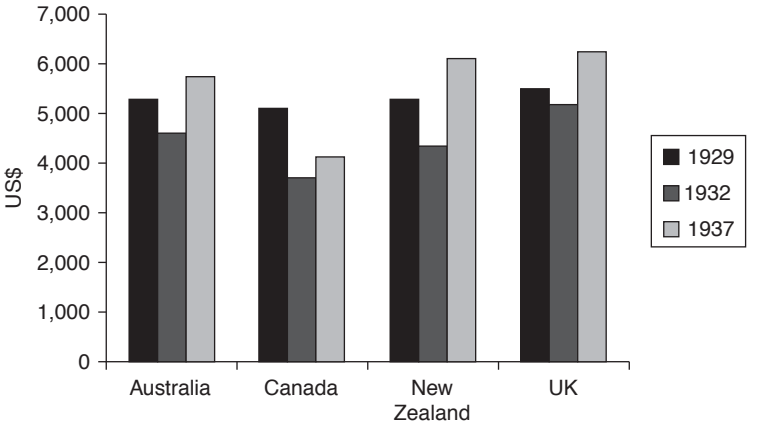

Figure 5.2 GDP per capita, selected countries, 1929, 1932 and 1937 (Geary-Khamis 1990 US$)

Source: Maddison (2003), p. 185.

reduced import content of manufactures providing space for this expansion.[33] As argued above, the suppression of imports was necessary for external solvency. Did Australia need to make such efforts to honour these commitments? Boris Schedvin has suggested that 'Australia's slavish adherence to the principle of sanctity of overseas contracts' led to a high price in unemployment.[34] Barrie Dyster and David Meredith have argued that in retrospect Australia 'might have got away with calling the creditors' bluff', and subsequent international experience lends some support for such a view.[35]

New Zealand, having experienced a troubled postwar decade, also witnessed strong economic growth during the 1930s. GDP per capita rose by 41 per cent between 1932 and 1937, and by some measurements it had the highest incomes in the world by 1938.[36] Strong export performance during the recovery of the thirties, which benefitted the high productivity dairy- and meat-processing industries, contributed to this impressive growth.

South African economic growth, not covered in the figures quoted, was also strong after 1933. But this had little to do with the British market or Ottawa Agreements and was largely based on the gold industry that benefitted from the devaluation of the US dollar. High gold prices stimulated a rapid recovery.

It is Canada that stands out by reason of its appalling experience in the 1930s. By the best year of the recovery, 1937, Canadian per capita incomes were still well below their 1929 level and had still not regained their 1917 values. Sales to the USA fell precipitously, hit by a combination of collapsing American incomes and the Smoot-Hawley tariffs. This alone would have caused major economic dislocation but the misfortunes of the wheat industry greatly compounded matters. The second major and linked aspect of the Canadian slump was the huge decline of investment, depressed by massive overcapacity across much of Canadian industry. Although the UK market could provide some compensation, it could not replace that of the USA or offer prairie farmers much help. Recovery to 1937 was quite fast but from a low base and not very apparent in the Prairies. The slump was exceptionally deep and protracted.

The paradox lies in the complete contrast between the economic experience of countries in the 1930s and their subsequent attitudes towards the international economy. In the war and immediate postwar discussions about the future shape of international institutions the Canadians on the one hand, and the Australasians on the other, took diametrically opposed positions. The New Zealanders took this to the extreme. The international economy was widely perceived, both in Australia and New Zealand as a source of dislocation and instability. It has recently been argued that in the case of New Zealand this may have been a misreading of the causes of instability, especially of the long depression of the 1920s, which owed more to domestically induced land market volatility.[37] Be that as it may, it was contemporary perceptions that count, and by 1945 in both Canberra and Wellington there was deep suspicion about

American plans for the postwar world.[38] Both countries had Labo(u)r administrations with a tradition of scepticism about the efficacy of markets. Although Australia, after much hesitation, reluctantly signed up for Bretton Woods, such was the depth of antagonism in New Zealand that it did not join until 1961. Yet Canada, even worse hit by the slump, proved much more enthusiastic about restoring an open international economy and was heavily engaged in the planning of the postwar monetary order.[39]

Conclusions: patterns of integration and disintegration

As Keith Hancock concluded in his magisterial wartime survey of Commonwealth economic relations, the 1930s had starkly revealed 'imperial self-insufficiency'.[40] This should not have come as a surprise to other than the most determined and ill-informed of the empire enthusiasts. Nonetheless, the economic linkages between Commonwealth countries had tightened during the Depression decade, a centripetal movement replacing the centrifugal forces of the 1920s. The emergence of the Sterling Area reinforced this (with Canada staying well away). This was an important part of the headlong retreat from globalization that had set in from around 1927. Trade exposure fell for most countries and trade balances were increasingly settled bilaterally. Price spreads, the narrowing of which is a key indicator of a globalized economy, widened dramatically.[41] Other features of a globalized world were also deeply affected by the slump. International capital flows dried up, enforcing painful adjustments, especially when debt payments continued to be made. Migration slowed to a trickle.

The economic crisis had forced the empire together. There was plenty of scope for conflict between Britain and the Dominions in the face of global economic overcapacity and the struggle for shrunken markets. British negotiating leverage was inhibited by the need to secure agreements in an era of mounting international tensions so as to maintain the appearance of imperial solidarity. And the preservation of imperial unity was achieved in that when the simmering tensions broke out into war, the Dominions, with the exception of Ireland, very quickly allied themselves with Britain.

The forging of closer Commonwealth economic integration was part of a movement that persisted and deepened well beyond the Depression decade, continuing into the war and immediate postwar years.[42] Several Commonwealth countries were prepared to sign exclusive food contracts with the British government in 1945–46, although with varying degrees of enthusiasm: in a period of acute food scarcity they pledged to send specified quantities or proportions of exports to Britain. The events of 1947 were also particularly significant. In the wake of the sterling crisis of 1947, Australia, New Zealand and eventually a reluctant South Africa still further tightened economic links with the UK.[43]

By the mid 1950s the British market had proved disappointing in the face of slow-growing demand for food and of determined British agricultural protectionism, British capital supplies were insufficient for ambitious development plans, and the capacity of the UK industry to supply Dominion requirements had been found wanting.[44] 'Imperial self-insufficiency' (the term 'imperial' was anachronistic by now) was rediscovered. The southern Dominions became increasingly aware of the benefits of a multilateral economy, by this time becoming a reality again, and Britain, more than ever conscious of the limited economic potential of the Commonwealth, was looking to Europe.

Notes

1. Findlay and O'Rourke (2007), p. xxiv.
2. League of Nations (1942b); Saul (1960).
3. Boyce (2009), pp. 425–7.
4. Maddison (2001), table F–5.
5. Kindleberger (1989), pp. 166–7. Boyce (2009) recounts this in detail.
6. Solomou (1996), p. 45; Solomou and Weale (1996), p. 105.
7. The Safeguarding of Industries Act, 1921, had placed duties on 6500 items of goods believed to be of strategic importance.
8. Churchill had resigned from the Shadow Cabinet in January 1931 over Conservative Party Leader Stanley Baldwin's support for the government's policy on India, thus marginalizing a potential source of opposition within the party. Toye (2010a), p. 176; and as explained in Chapter 6 in this book.
9. To the annoyance of the Australians. 'The New Zealand Government was abominably prepared', Frank MacDougall (Economic Advisor) to Charles Hawker (Minister for Commerce), 14 September 1932, Hawker Papers, MS 4848, Series 5, National Library of Australia (hereafter, NLA).
10. The tariff almost certainly helped Bennett win the 1930 election. See the discussion in Irwin (2011), chapter 3.
11. William Clark (British High Commissioner) to E. J. Harding (Dominions Office), 17 March 1932, The National Archives, Kew, London (formerly the Public Record Office; hereafter, TNA), FO371/16406. The major problem was in obtaining ministerial decisions. A study by Canadian officials of the administrative lessons to be learned from the conference concluded that effectiveness would have been far greater if members of the Cabinet Committee had made a detailed study of the data prepared for them. Library and Archives Canada (hereafter, LAC), RG25, vol. 159–U.
12. Hancock (1942), p. 215.
13. Drummond (1974), chapter 6 gives details.
14. Neville Chamberlain's diary entry for 23 July 1932 after discussions with officials recorded that 'the result was very startling as it appeared that the value of increased trade to be expected from the concessions would amount to something very small'. Chamberlain Papers, University of Birmingham, NC 2/17.
15. LAC, RG20, vol. 1423, F7–1.
16. Thomas remarks to Cabinet Committee on Proposed Economic Conference at Ottawa, 16 November 1931: TNA/CAB27/473 OC (31); MacDonald to Runciman, 28 December 1931, Runciman Papers, University of Newcastle, WR 245.
17. *Daily Express*, 11 May 1933.

18. Rooth (1986).
19. This is discussed more fully in Rooth (1993), pp. 250–8.
20. Maizels (1970), p. 136.
21. Dyster and Meredith (1990), p. 119.
22. Kindleberger (1973). Countercyclical lending was another but there was virtually none of this in the 1930s.
23. The Scandinavians were less debt prone, one factor in facilitating British exports in the 1930s. But in the case of Argentina explicit provision for the servicing of British investments was made in the Roca-Runciman Agreement.
24. Although both Canada and Australia did reduce some tariffs on UK supplies. Rooth (1993), p. 252.
25. Clavin (1991); and Rooth (1993), pp. 159–73, provide brief accounts.
26. League of Nations (1942b), pp. 89–95. The drying-up of capital flows was also an important agent in these changes.
27. Megaw (1975).
28. Inter alia, Eichengreen (1992).
29. Lewis (1949).
30. This is not to suggest that the British economy achieved a satisfactory recovery; even by 1937 heavy unemployment persisted in areas dependent on the older industries.
31. Kitson and Solomou (1990), p. 43.
32. Eichengreen (1988), pp. 47–50.
33. Maizels (1970), p. 136, shows import content falling from 37 per cent to 25 per cent between 1929 and 1937. British exporters were the major sufferers.
34. Ibid., p. 254.
35. Dyster and Meredith (1990), p. 142; Eichengreen and Lindert (1989), p. 5.
36. Greasley and Oxley (2009). By 1938 New Zealand's per capita income was 5.5 per cent above USA levels.
37. Greasley and Oxley (2009).
38. See also Lee (1995); Capling (2000); and Rooth (2002).
39. With a Liberal administration in power markedly more pro-capitalist than the immediate postwar Australasian governments. But Canadian industry cherished its protection.
40. Hancock (1942).
41. Hynes et al. (2012).
42. These developments also affected the colonial empire. A further major consequence of the Depression that had a profound influence on postwar events was the impact of economic dislocation in strengthening political nationalism in India and the colonial territories. The grievances of local populations were heightened (Tomlinson, 1999, pp. 365–6; and Findlay and O'Rourke, 2007, p. 469). Postwar pressures from London, particularly on the major colonial dollar earners, further stimulated the growth of nationalist movements and demands for independence.
43. Canada looked to the USA. It must be emphasized that this was perfectly compatible with import substitution industrialization. For some discussion, see Muirhead (1992), especially chapter 1; and Rooth (2000).
44. Rooth (2002).

6

Trade and Conflict in the Rhetoric of Winston Churchill

Richard Toye

In one of his many speeches about trade, Winston Churchill opined that 'commerce is utterly different from war'. In war, he said, 'both sides lose whoever wins the victory, but the transactions of trade, like mercy, are twice blessed, and confer a benefit on both parties'. He therefore advised that 'the phraseology' of war 'should never be applied' to trade.[1] Even though Churchill suggested that the linkage between trade and war was inappropriate, the notion of conflict is central to rhetoric about trade. Whilst protectionists frequently adopt the conceptual metaphor *trade is war*, free traders tend to use the contrasting metaphors *trade is friendship*, *trade is cooperation* and *trade is peace* – the latter of which Philip Eubanks has described as 'the great truism of the post-World War II era'.[2] Moreover, as argued below, the ways in which competing visions of trade have been justified rhetorically ought to be central to our understanding of political outcomes related to it. Not only are individual trade negotiations between governments in part rhetorical encounters, but the domestic political situations that affect their outcomes are themselves influenced by the rhetorical interplay between producers, consumers, civil society, political parties and 'special interests' determined to extract advantages for themselves. It could be argued that trade rhetoric is a mere epiphenomenon, simply being the surface expression of underlying economic interests. But although such economic interests may well be said to exist, they are strongly conditioned by people's *perceptions* of their own interests, which may well not coincide with what the rational-agent model would suggest.[3] There is, moreover, considerable scope for these perceptions to be shaped through discourse (not all of it overtly economic). Therefore, the study of rhetoric surrounding trade has much to tell us about the ways in which those interests are portrayed, perceived and to some extent refashioned in the course of intergovernmental negotiation and public debate.

Deirdre N. McCloskey has previously highlighted the importance of rhetoric to economics.[4] There exists a small body of work that specifically examines

trade rhetoric, some of it from a historical angle.[5] This scholarship, however, focuses on the USA rather than Britain, which is unsurprising given that the American school of rhetorical criticism is so much more developed than that in the UK.[6] Frank Trentmann's *Free Trade Nation* provides a rich guide to the free trade culture in the first part of the twentieth century, but there is room for a more explicit analysis of trade rhetoric per se.[7] In this chapter, 'rhetoric' refers chiefly to spoken efforts to persuade.[8] The significance of spoken rhetoric comes from the part that it plays in the 'symbolic ritual dimension of politics', as Alan Finlayson and James Martin have put it.[9] It is important, therefore, to be aware not only of the words spoken but also of the politics of gesture, the competition for dominance of political space and the construction of 'image events' for wider public consumption.[10] Many of these elements were present during the Edwardian tariff controversy, but the decline of public meeting culture to some extent coincided with the relative absence of the trade issue from British electoral politics between 1931 and Britain's first application to join the European Economic Community (EEC) 30 years later.[11] This is not to say that trade was depoliticized, merely that there were ebbs and flows in the level of public concern. Whether or not there was any causal relationship between these developments, shifts in British trade rhetoric cannot be understood in isolation from changes in the political culture and the international environment in which it was deployed.

Churchill's involvement in the politics of trade

Britain had been a pioneer and bastion of free trade during the nineteenth century but from the First World War onwards it shifted towards limited protectionism or 'moderated free trade'. Given Britain's central (albeit gradually declining) position in the international economy, the consequences of its internal policy debates were felt globally. The career of Winston Churchill, arguably *the* key figure in twentieth-century British politics, provides a useful window into how these arguments were progressively reframed over a long period. Churchill was first elected to Parliament in 1900 and stood down as prime minister for the last time in 1955. His career spanned the era of the pre-1914 Tariff Reform controversy, the Great Depression of the interwar years and the postwar inauguration of the General Agreement on Tariffs and Trade (GATT). Throughout his first three decades in Parliament, Churchill publicly espoused free trade that he justified in terms of supposedly immutable scientific principle but then became (seemingly in spite of his private convictions) an advocate of pragmatic protectionism.

After leaving the Conservative Party in 1904 as it shifted towards protection, he proved a vigorous and effective campaigner on behalf of free trade Liberalism. As a junior minister at the Colonial Office, he engaged

in discussions with the Dominions over imperial preferences, serving as a staunch defender of the free trade status quo. Returning to the Tories as Chancellor of the Exchequer in 1924, he was seen by many of his protectionist colleagues as an obstacle to their preferred policies. He came to play a central role as Chancellor of the Exchequer in warding off protectionist demands and attempting to keep the government to its election promises not to extend protection. Ironically, his decision in 1925 to return to the gold standard with the pound at its prewar parity was an important factor in the lamentable performance of the British economy in the late 1920s that stoked protectionist fires. (For Britain's move away from free trade and embrace of protection during the interwar years, see Tim Rooth's chapter in this volume.) During the political and economic crisis of 1931, however, he committed himself to support a tariff. Churchill thereafter ceased to portray free trade as a policy based on immutable and scientific principles and had adopted a more pragmatic stance by which trade policy should be determined by circumstance. Although he may still have believed in free trade, he in effect signed off as a free trade rhetorician. During the Second World War he did his best to defend Britain's imperial preference system – an interlocking network of preferential trade deals made by countries within the British Empire – against the efforts of the Roosevelt administration to ensure its demise. His final premiership of the 1950s saw a further twist: after some struggles with party dissidents, his government accepted GATT as a permanent fixture, committing itself to freer (if not completely free) trade.[12] Examination of the rhetorical techniques that Churchill used to justify the varying positions that he adopted casts light not merely on his personal political trajectory but on the culture of political economy – that is to say, the established parameters of the debate, together with familiar political behaviours and symbols – within which he was operating. To understand this culture fully, we need to view trade rhetoric not simply as a means of articulating economic beliefs or interests but as a tool that could be recruited into wider political battles. In turn, these domestic concerns helped shape national trade policy, which was inherently politicized. Put another way – and notwithstanding the fact that many members of the economics profession would claim otherwise – economic arguments can never be exclusively about economics, but must be linked to some broader set of values or beliefs about desirable societal outcomes.

In terms of 'what Churchill really thought', we can broadly accept the picture drawn by Peter Clarke: that after his early, genuine enthusiasm, Churchill 'signed off as a free-trader' during the 1931 crisis, having been pushed towards agnosticism by the perception that laissez-faire principles no longer met current conditions. Thereafter he became a pragmatist.[13] The aim of this chapter is to show how Churchill – like many other politicians before and since – used the language of trade and conflict to advance particular positions at different

times. (Thomas W. Zeiler's chapter on the Nixon Shock is a complementary case study of pugnacious trade rhetoric – combined with punitive economic initiatives – deployed to win votes and redress America's economic difficulties.) It would be a mistake, however, simply to mine his speeches for their 'economic content' in order to derive these changing stances. Although it had little overtly to do with economics, the way in which Churchill dealt with his political opponents – often through ad hominem attacks – illuminates the landscape of trade politics in which he was operating.

Whether he portrayed protectionists as in thrall to special interests, and thus on the borderline of corruption, or merely as suppressing their true beliefs in the interests of political expediency, the rhetoric of *party* conflict illustrated key assumptions about the nature of trade itself, as will be seen below. Similarly, many of Churchill's early arguments against protectionism were based not simply on its economic disadvantages but on the idea that tariffs would lead to the degradation of the democratic process by special interests. Likewise, the Cobdenite themes that he invoked in support of free trade were themselves essentially political. In other words, Churchill used trade rhetoric as a way to engage his political foes and, in order to do this, he alleged that his opponents' proposals would lead to conflict and catastrophe. The combative character of domestic politics led him, like so many others, to discuss trade issues in black-and-white terms. Paradoxically, driven in part by his strong personal preference for military metaphor, he often ended up discussing trade in a politically conflictual way, even when he was claiming that trade itself should not be viewed as a conflict and should not be discussed in such terms.

Churchill's defence of free trade and empire

From the 1846 repeal of the Corn Laws onwards, Britain had established itself as the European state most committed to free trade, with the commitment to cheap food serving as a touchstone of British political life. The consensus was, perhaps, always more fragile than it looked, and on 15 May 1903, Colonial Secretary Joseph Chamberlain destroyed it with a speech in his home city of Birmingham, in which he announced his conversion to a scheme of imperial tariff preference. Although the speech was immediately and rightly seen as a major challenge to the previously hegemonic ideology of free trade, it is notable that Chamberlain himself claimed to be a free trader, albeit one who rejected 'purely technical' definitions of free trade. 'I am perfectly certain that I am not a protectionist,' he said, claiming that Richard Cobden and John Bright, leaders in the Anti-Corn Law League and champions of nineteenth-century free trade would, in the circumstances of 1903, have been happy to make treaties of preference and reciprocity with the countries of the empire.[14] Presenting his

scheme as essential for imperial cohesion, Chamberlain made a virtue of his eschewal of the abstract economics of the Manchester School. Trade, for him, was something that was best conducted within the imperial family, with the Dominions and colonies explicitly cast as Britain's children. With his hostility to Germany only thinly veiled, Chamberlain argued that the empire needed to be 'self-sustaining and self-sufficient, able to maintain itself against the competition of all its rivals'. From the beginning, then, the rhetoric of the fiscal controversy dealt in issues of 'sentiment' as well as 'interest', the latter being cast not merely in the terminology of the balance-sheet but in the language of international power.[15] This was ground that free traders would have to contest.

Chamberlain's refusal to cast his argument as a dichotomy between 'free trade' and 'protection' helped in the short term to confuse his opponents, if not to divide them; as Churchill observed a few months later, Chamberlain gained from keeping his precise proposals vague.[16] The water was muddied further by Prime Minister A. J. Balfour's decision to commit himself to a policy of 'retaliation', whereby tariffs would be used in order to get other countries to lower their anti-British trade barriers. This idea of using tariffs to 'break open' foreign markets represented a mercantilist and conflictual view of trade, albeit in a guise that had some potential appeal to free traders. Initially supportive of the plan, Churchill denounced it only after concluding that it was merely 'an embroidered curtain to conceal the preparation of the Chamberlain battering rams'.[17] As early as October 1902 – already out of sympathy with his party's leaders – he had predicted that the tariff issue might force a reshaping of British politics. He did not, however, foresee that this would lead to him crossing the floor, but rather hoped for a Tory–Liberal 'central coalition', perhaps with former Liberal prime minister Lord Rosebery at its head.[18] And as late as September 1903, he was still suggesting in private that 'With a little care we might very easily set up a great Central government neither Protectionist nor Pro boer.'[19]

Churchill's early contributions to the fiscal controversy, therefore, were designed to reach out to Liberals without provoking any breach with his Unionist free trade allies. Speaking at Hoxton on 21 May 1903, Churchill began by defending his own record of criticizing the government over the issue of army reform. He then both denounced those who opposed the government's repeal of the Corn Tax (a move that helped trigger the tariff reform crisis) and – obviously somewhat sarcastically – claimed that Chamberlain's proposal deserved to be considered by the Conservatives with respect, 'however impracticable or even destructive it might appear at first sight'. Churchill then challenged Chamberlain's vision of empire, which, he suggested, represented a form of 'one-sided Imperialism'. He argued: 'While we cherished the loyalty and friendship of our colonies, we must not disregard or think of small consequence the very urgent needs of our immense working-class population and the real sources of our national wealth.' Finally, Churchill invoked the memory

of Benjamin Disraeli, who, he said, had understood this point, arguing that his example should be followed.[20] In other words, he was accusing Chamberlain (who was in fact a Liberal Unionist, not a Conservative, and hence an object of some suspicion within that party) of failing to live up to the Tory tradition of paternalistic concern for the workers.[21]

In the Commons on 28 May, he again referred to history in order to justify his own decision to speak out against tariff reform and to turn Chamberlain's own record against him, thus conflating trade with other political controversies. Without mentioning the Colonial Secretary by name, he blamed the outcome of the 1886 Home Rule crisis on the failure of Gladstone's critics to voice their protests at an early stage: 'Instead of that, they allowed themselves to slip from point to point; and then, when there was no means of retreat, the Party found itself committed to a policy which for twenty years has hung round its neck like a millstone.' Churchill then used a 'thin end of the wedge' type argument, suggesting that Chamberlain would not be able to stop at a straightforward system of tariff preferences even if he wanted to. He would become beholden to 'the manufacturers, fair traders, and agricultural protectionists' who would be his supporters; it would become progressively necessary to appease different interest groups, and 'an elaborate system of bounties and duties' would be the end result:

> This move means a change, not only in historic English Parties, but in the conditions of our public life. The old Conservative Party, with its religious convictions and constitutional principles, will disappear, and a new Party will arise like perhaps the Republican Party of the United States of America – rich, materialist, and secular – whose opinions will turn on tariffs, and who will cause the lobbies to be crowded with the touts of protected industries.[22]

Here we see the link with wider political/societal values. Churchill combined a proto-Hayekian slippery slope argument with the claim that tariffs would lead to the moral (and perhaps literal) corruption of the political system. The parallels with his notorious 1945 'Gestapo' election speech, in which he suggested that if a Labour government were elected it would be forced to rely on a repressive political police, are intriguing. The similarities are all the more interesting given that, after switching to the Liberals, he accused the Conservative government of moving towards a Tsarist-style police system.[23] Churchill's fears about the Americanization of British politics were by no means unique to him. As Edmund Rogers has shown, both sides in the free trade versus protection debate used the American example as a rhetorical resource. As a successful protectionist economy, the United States posed free traders with a problem, which they resolved by drawing attention to the allegedly damaging consequences

of tariffs for the conduct of politics.[24] Churchill's references to the 'religious convictions' of the Conservative Party being threatened by secular forces gave an additional spin to this discourse. His own religious convictions were far from conventional, but the line that he now adopted was in harmony with the views of Anglican Conservative free traders such as his friend Hugh Cecil, MP.[25] Although it is natural, and in most cases correct, to assume that free traders saw protectionism as a danger to 'liberal values', on this occasion Churchill was trying to show how it threatened *conservative* values.[26] Here we see the blurring of Conservative and Liberal identities that would recur at various times throughout his career.[27]

By the autumn of 1903, Churchill's sympathies had moved closer to the Liberals, and by the end of the year his relations with his constituency Conservative Party had broken down. For a few months he remained in a transitional state, still hoping for some kind of electoral pact between Unionist Free Traders and the Liberals.[28] One of the questions making it harder for him to make a straightforward switch was that of Irish Home Rule, to which he remained opposed. In January 1904, he delivered a lecture on 'Ireland and the Fiscal Question' to an audience of bankers in Dublin. The burden of his argument was that, if protectionism was right in principle (which of course he thought it was not) then Ireland should be entitled to set its own tariff rather than having a common external tariff with the rest of the UK. If tariff questions were to dominate politics in the future, he warned, 'there would be an overwhelming demand that Irish tariff arrangements should be left in Irish hands. Those Irishmen who were profoundly opposed to any parliamentary separation should take notice where the protectionist argument must inevitably carry them.' In other words, he was adapting for his own purposes the thin-end-of-the-wedge argument that Unionists traditionally used about Home Rule. He implied that Chamberlainite policies, which were intended to bolster the empire, would actually tend to subvert it.[29]

In April, he formally declared his Liberal candidacy for North-West Manchester. Showing his mastery of the Gladstonian idiom of peace and retrenchment, he argued that the necessary outcome of 'the greedy gospel of materialism and expediency' preached by Chamberlain was 'the policy of extravagance at home and aggression abroad'.[30] At the next election, the voters would be faced with the question of

> whether we are to model ourselves upon the clanking military empires of the Continent of Europe, with their gorgeous Imperial hierarchy fed by enormous tariffs, defended by mighty armies, and propped by every influence of caste privilege and commercial monopoly, or whether our development is to proceed by well-tried English methods towards the ancient and lofty ideals of English citizenship. … We shall have to choose between our

> peaceful league of progressive peoples under the Union Jack and a greedy Jingo profit-sharing domination.[31]

Churchill thus made an easy equation between free trade, peace and justice, and a British/English national and imperial identity supposedly based on liberty. He contrasted this with Chamberlainism, which he linked to a form of 'continental'/German imperialism predisposed towards conflict. Trentmann has pointed out both that anti-Germanism was endemic in free trade rhetoric and that Churchill's claims that the British Empire was held together by moral not material forces were deeply implausible. As he notes, it was just a few years since Churchill himself had returned from the Boer War.[32] However, provided that they were not thinking too hard about the speaker's own record, Churchill's Liberal audience could easily have read his attack on jingoism as a criticism of the recent war and of Chamberlain's role in provoking it. Liberal free traders' claims that the empire was, or ought to be, based on the idea of liberty were a way of suggesting that the Tory version of imperialism was not.

Churchill's shift of parties saw him paying increasing attention to standard Liberal themes. It was natural that at the 1904 Cobden Centenary demonstration – the occasion of Churchill's first really major Liberal speech – he should pay tribute to the 'peaceful, philanthropic, socialising doctrines of Mr. Bright and Mr. Cobden'. Cobden's political thought, he acknowledged, was not the final word of wisdom: 'But in the long stairway of human progress and achievement which the toil and sacrifice of generations are building it was Cobden's work to lay a mighty stone.' The depiction of progress as a stairway under construction was a characteristic metaphorical choice. It helped Churchill to suggest that although society was as yet imperfect it was nonetheless perfectible if 'stones of social standards and social reform' and 'stones of Imperial responsibility' continued to be laid upon one another above the foundation stone of free trade. On this occasion he also argued that free trade had the status of scientific truth, as valid in 1904 as it was in 1846, adding that 'it will still be true as long as men remain trading animals on the surface of the habitable globe'.[33] The notion of people as 'trading animals' spread around the globe had some connotation of trade as atomistic competition between individuals, the vision so disliked by Conservative historical economists of the period, who also rejected the idea that economic principles transcended time and place. But in spite of his homage to Cobden, Churchill never subscribed to the 'cosmopolitan' view, also an object of Conservative criticism, which presented trade as a force for developing international community and accordingly downplayed the importance of competition between nation states and empires.[34] For Churchill as for Chamberlain, the best kind of trade was that carried out within the imperial family; but the growth of such trade should not be artificially forced, nor should it be expected to supplant all other types of commerce. Free trade, indeed, was

the handmaiden of colonial loyalty, which sprang from 'that true commercial independence which is the child of free exchange and peace'.[35]

Of course, the view from the colonies was not quite the same. With the formation of the new Liberal government in December 1905, Churchill became a junior minister at the Colonial Office. With domestic protectionists seen off comprehensively (at least for the time being) at the general election of 1906, Churchill faced a new challenge, that of managing colonial expectations. Some colonial politicians, notably the Australian prime minister Alfred Deakin, were eager that the trade preferences they granted Britain should be reciprocated. The Liberal government could hardly concede such a thing. In their speeches to the 1907 Colonial Conference in London, H. H. Asquith (Chancellor of the Exchequer), David Lloyd George (President of the Board of Trade) and Churchill all made this clear, the latter being the most emphatic. There was no anti-colonial party in Britain, Churchill said, but forcing the Commons to consider each year, through its regulation of preferential tariffs, the narrow 'profit-and-loss account' of Britain's relations with her dependencies and Dominions, would be guaranteed to create one. Furthermore, any meaningful system of preference would involve taxing food imports. This would cause popular resentment, and it thus followed that preferential tariffs, '*even if economically desirable*, would prove an element of strain and discord in the structure and system of the British Empire'.[36]

It may be noted that in 1903 Churchill had ridiculed the idea that the loyalty of the Canadians and the Australians, who had given vital help during the Boer War, would melt away forever unless it were purchased by a trifling preference on their exports.[37] Now he suggested that such minor adjustments to the fiscal system could provoke intra-imperial conflict; it seemed that the ties of spiritual affection that in his view bound the empire together could be dissolved remarkably easily by material concerns such as higher food prices that would follow the introduction of preferential tariffs. In other words, he implied that imperial loyalty could not be bought for a few pence but that it could be lost for a few pence. Of course, Churchill – like most successful politicians, before and since – kept his eye on domestic opinion. Shortly after the conference he assured an audience in Edinburgh that the government had 'banged the door upon Imperial taxation of food' and that it would not 'give one farthing preference on a single peppercorn'.[38]

Pragmatism and politics: Churchill's defence of protection and imperial trade

Free trade ideology remained in the ascendant until 1914. Thereafter, its popular hold was weakened by the experience of war and postwar slump, and the fracturing of the Liberal Party after 1916 meant that it no longer had a secure

political home. However, it was as yet by no means defunct. The 1923 decision of Stanley Baldwin, the new Conservative prime minister, to call an election to secure a mandate to introduce protection, triggered the reunification of the Asquith and Lloyd George Liberal factions. This was the last election that Churchill would fight as a Liberal. Although some of his themes were familiar from the Edwardian period, he was fighting in a challenging new environment. The terms of party conflict had changed, with the emergence of Labour as a credible independent rival to the Liberals. Churchill chose to stand in West Leicester, where he faced a strong Labour candidate, F. W. Pethick-Lawrence, who was also a free trader; the only protectionist candidate, a Unionist, was to come bottom of the poll. Arguably, Churchill suffered from the fact that his most threatening opponent locally was actually in agreement with him on the main issue in the national election. He got round this to some extent by matching his assault on Baldwin's tariff policy with attacks on Labour's capital levy proposals. He made three or four speeches daily, each one new; full reports were printed in a special newspaper, the *Leicester United Liberal*.[39] A *Times* journalist who attended one of his meetings observed: 'His speech, for vigour and dramatic intensity, was exactly the kind of speech he would make in the House of Commons, but I thought the audience seemed puzzled or dazed as the well-rounded and high-pitched periods of the speaker fell on their ears.'[40]

If anything, Churchill's rhetoric had become more rather than less Cobdenite since the prewar period. Free trade was not merely a wise economic policy, he argued, but a 'touchstone' of political attitudes more generally:

> It makes an appeal to the mind to which every one who cares about the renewal of peace and good will among the tortured nations of Europe, and who sincerely wishes to heal the wounds of the war and make its fearful hatreds die, must immediately respond.[41]

This may have been a winning message, insofar as the Conservatives lost their majority, and the Liberals staged a recovery, even though the overall outcome was a minority Labour government, with Churchill himself losing to Pethick-Lawrence. However, the most striking of Churchill's campaign metaphors suggests that he was aware of free trade's vulnerability:

> Free Trade is to be tried by drumhead court-martial and shot at dawn. (Cheers and laughter.) … Surely before Free Trade is led out to execution, before the firing party of prejudice, interest and sheer ignorance level their rifles, we are entitled to say a few words on its behalf.[42]

Personifying free trade as a powerless victim facing a violent death may have been unconsciously revealing of its defenders' anxieties and loss of

self-confidence at this time. However, in the same speech, Churchill did also portray free trade in brighter colours. He presented the experience of the Great War as the refutation of Chamberlain's earlier argument that a system of preference was essential for the maintenance of imperial unity. 'All the component parts of the British Empire continued to enjoy complete fiscal freedom,' he noted: 'And in the hour of need the Empire was found united, heart and hand, after 70 years of Free Trade, in a manner far beyond the brightest and most sanguine dreams of any Imperialist.'[43] All the same, this was chiefly an argument that free trade had not impeded the strength of the empire rather than a claim that it had positively contributed to it. A notable absence in comparison to the prewar period was any suggestion by Churchill that protection would lead to American-style political corruption, although he did question Baldwin's honesty and constitutional propriety.[44] Compared to Baldwin's speeches, Churchill's had a thin range of historical reference. The prime minister's efforts were in fact remarkably argumentatively sophisticated, given that the aspect of his rhetoric that is best known are his bland evocations of the beauty of the English countryside. For example, he discussed Cobden in much greater detail than Churchill ever did, pointing out that laissez-faire of the Cobdenite variety was not, in general, exactly up the Labour Party's street.[45] Baldwin's rhetoric might in fact have been more successful had it had less economic content and had it fallen back on the simple platitudes for which he later became known.

Over the course of the following months, Churchill edged back towards the Tories. His appointment as Baldwin's Chancellor, following Labour's defeat in the 1924 general election, served as a symbol of the Conservatives' broad acceptance of the free trade status quo. During his five-year tenure, he did make some apparent departures from doctrinaire purity, notably the reintroduction of the McKenna Duties, introduced by the Liberals during the First World War, and repealed by Labour in 1924. Churchill dealt with the criticism by arguing that the duties were required purely for the purposes of revenue, and therefore did not amount to a protective measure. Furthermore, they had been approved by Asquith and other Liberals at the time of their original introduction. Churchill alleged that Philip Snowden, as Labour's Chancellor, had repealed the duties 'as a partisan measure to obtain Liberal support' and to divide the Liberals from the Conservatives 'in order that the right hon. Gentleman and his party, having isolated them, might destroy them at leisure. Moltke, Ludendorff – none of the great strategists planned so artfully and so successfully.'[46] However, in spite – or perhaps because – of his successful efforts to steer a middle course, Churchill continued to be regarded by those on the protectionist-imperialist wing of the Tory Party as someone who was unable to understand 'the meaning of Empire development' and was 'steeped in free-trade prejudice'.[47]

At the beginning of 1931, when the Conservatives were back in Opposition, Churchill broke with Baldwin, but over the issue of India rather than that of free trade, over which he chose to bite his tongue as the party swung further in the direction of protectionism.[48] Making a great bid for Tory hearts and minds, and perhaps hoping to seize the leadership, he could not afford to alienate potential supporters by sticking too closely to his old economic principles. From the rhetorical point of view, what is interesting is the way in which he nuanced his shift towards what was rapidly becoming the new conventional wisdom: that free trade could not be sustained in the face of severe economic slump, and that common sense dictated the need to experiment with new forms of economic medicine. As early as 1929, on a visit to Canada shortly before the Great Crash, he started to pave the way by arguing that the question of intra-imperial trade should be removed from the realm of party conflict and 'examined as a business proposition'. Leading businessmen from within the empire should make a study and report to an imperial conference.[49] Churchill still claimed to approach the issue 'along the lines of the old orthodox economists', but 'if there were a plan made of economic and useful service [*sic*], I cannot believe it would be turned down because it did not conform to doctrinaire economic principles'.[50]

After the formation of the cross-party National Government in 1931 (from which he was excluded), Churchill declared in favour of a prohibitive tariff on luxury goods as a means of dealing with the current economic emergency.[51] A tariff was 'only one part of a national policy', but as 'a necessary step in national self-regeneration, as a practical business measure, as a measure of Imperial reconstruction, it may become a bond of union for all the strongest forces in the country'.[52] As Tim Rooth's chapter in this volume shows, the 1920s had seen the Dominions reduce their reliance on the UK, a pattern that the Ottawa Agreements of 1932 would reverse via the radical extension of imperial preference. He still paid a degree of lip service to free trade, as in an interview with the Toronto *Globe* on the occasion of another visit to Canada in 1932:

> 'I would not say that free trade is done forever; I would say that protection is to be given a fair trial. The country wants it,' the man who was once Mr. Lloyd George's second-favourite free trade orator declared. 'What is the use of going on mumbling the politics of twenty years ago? Change comes. Old sayings, old circumstances, all our fads and pomps must give way.'
>
> 'On an absolute international view,' tariffs were not the ideal solution for the world's problems. An ideal world, Mr. Churchill thought, might well be a free trade world.
>
> 'But an ideal world isn't the world in which we live,' he said. 'And if nations are going to shut themselves in pens, well' – the Churchill smile irradiated the Churchill features – 'well we have a pretty good one in the British Empire.'[53]

The emphasis was slightly different in the press release for a Churchill speech made on the same trip:

> For many years … I was a Free Trader; but the march of events and the state of the world has convinced me of the necessity of a fundamental change in our outlook. I am going to urge the House of Commons that, now we are embarked upon a protectionist policy, we should give it a fair chance, and a scientific application, and not halt, with weak compromises, between two systems.[54]

Churchill now presented trade as something that could be abstracted from party conflict and raised up onto the higher plane of scientific enquiry and technocratic discussion by businessmen. This points to the shifting nature of his rhetorical appeal over the years. Businessmen were no longer presented as promoting tariffs for their own self-interest at the expense of the community but as experts who could provide the government with neutral, informed guidance. There was also a change in the way in which Churchill invoked science. In his 1904 tribute to Cobden he had portrayed free trade as being based on immutable and eternal scientific laws that the variation of circumstances could not alter. Now, he presented everything as contingent on events, the role of science being cast as that of pragmatic experiment, improvisation and disinterested enquiry into current facts. This brought him close to the position of the Conservative historical economists. It also took him back towards his own position at the very start of the Edwardian tariff controversy, when, in response to Balfour's retaliation proposal, he had called for 'a scientific, disinterested and impartial inquiry by persons not looking for money or votes to see how that principle can be applied'.[55] Most significant was Churchill's suggestion that a tariff could create a 'bond of union for all the strongest forces in the country'. This implied that protection, rather than promoting social tensions, could help to dissolve them. This does not mean that he had become a Chamberlainite, merely that, when seeking to justify his change of position, he found it easy to turn to an established tariff reform vocabulary, with which, given his long involvement with the trade issue, he would have been highly familiar.

In 1932, the National Government negotiated the Ottawa Agreements, a series of bilateral pacts with Dominion countries that greatly extended imperial preference and confirmed Britain's shift away from free trade. In private Churchill referred contemptuously to 'Rottawa' but made no public attack.[56] We might therefore offer a slight qualification to Clarke's observation that Churchill 'signed off as a free-trader' in 1931; what he did was to sign off as a free trade rhetorician. The trade question did not become important for him again until the early years of the Second World War, when it was revived in a

new form as a result of USA pressure to do away with the imperial preference system. In spite of Churchill's dislike of the Ottawa Agreements, he knew that to do away with them without consulting the Dominions would provoke anger. He was now, furthermore, leader of the Conservative Party. He told Canadian prime minister W. L. Mackenzie King: 'When the tariffs were discussed, while he, himself, was not sympathetic to the Conservative position, he nevertheless had felt it his duty to stand up for it.'[57] His instinct was to invoke his own reputation as a free trader to help him moderate USA demands for the abolition of the imperial preference system. In 1946, as Leader of the Opposition, he met key senators and congressmen privately in Washington in a bid to win their support for the postwar loan to Britain that was then before Congress.[58] He urged, however, that the USA should be moderate in its efforts to promote the freer trade agenda with which the loan agreement was wrapped up:

> Americans must be more understanding in their approach to this question. He himself had never believed in Imperial Preference; he was indeed a free trader. He wishes [*sic*], however, to make it clear that he did not regard the Loan Agreement as in any way obligating the United Kingdom to abolish Imperial Preference.[59]

He used the risk of future trade conflict as a means to underline his argument:

> Mr. Churchill's main emphasis was on the trade warfare which would be bound to follow on the rejection of the Loan by the United States. The United States with its economic power would clearly win such a fight but it would indeed be a pyrrhic victory.[60]

Although he emphasized his free trade credentials to the Americans, to domestic Conservative audiences he stressed that he had 'carefully safeguarded' the principle of imperial preference in his discussions with Roosevelt during the war.[61] In exchange for Lend-Lease aid, the Americans had done their best to extract British commitments to a non-discriminatory postwar trade and payments regime, with substantial but not complete success. The protectionist wing of the Conservatives was much less powerful than it had once been, but it was still capable of whipping up grassroots enthusiasm at party conferences, and Churchill had to treat it with some degree of sympathy. He returned to office in 1951 committed to the maintenance (but not the extension) of imperial preference in order to 'foster commerce within the Empire'.[62] However, as noted at the beginning of this chapter, his final term in office saw a swing back in the direction of freer trade. This did not spark substantial political controversy, not least because the Labour Party, having itself signed up to GATT when in government in 1947, had little rhetorical scope to contest the Tory position.[63]

Although in the 1960s trade in its European dimension would re-emerge as a site of contention, the free trade–protection debate in its established guise was now largely played out as a source of domestic political conflict.

Conclusions

As the quotation at the beginning of this chapter shows, Churchill did not believe that trade rhetoric should involve the phraseology of war. Although his own position changed in many respects over the years, here was one thing in which he was all but completely consistent. In general, he tended to view human progress as being driven forward by evolutionary struggle, but he never presented trade as being part of that conflict.[64] Trade could perhaps fall victim to violence – as in his 1923 firing-squad imagery – but it was not, *as he presented it explicitly*, innately conflictual. Nonetheless, he did situate trade within a conflictual political environment, anchored to rhetorical purposes that were designed to win votes or influence policy outcomes. If the activity of trade was not equivalent to warfare, as far as he was concerned, the activity of politics was – or so his speeches would suggest. Bright and Cobden had fought on the 'famous battleground' of Manchester;[65] and Labour opponents were to be compared with skilful (if ultimately unsuccessful) German generals. In later years, he claimed to want to see the trade issue lifted 'out of the arena of party politics and party scores' and 'onto a higher and more reasonable platform', but his changed rhetorical posture did not alter the inherently politicized nature of his trade discourse.[66]

All this reminds us that 'free trade' and 'protectionism' were rhetorically constructed terms. This is not intended as a post-modernist comment: trade barriers, or their absence, did of course have real economic effects that were experienced by producers and consumers. The point is rather that arguments over trade did not simply involve debate about the merits of two neat, antithetical categories of policy that were divided from one another along a boundary recognized by all players. Rather, these categories were constructed through argument and continuously reconstructed. For example, Churchill himself initially appeared to accept Balfour's argument that retaliation was the true free trade policy (because it would lead to other countries cutting their tariffs) before concluding, as a consequence of political developments, that in fact it represented the thin end of the protectionist wedge. Similarly, in the 1920s, Churchill's restoration of the McKenna Duties provoked debate not merely about their economic effects but about whether they should even be considered a departure from free trade. Arguments over trade, then, shaped both how particular policies were understood and, as a consequence, the likelihood of their implementation and acceptance. Churchill's trade rhetoric was not merely deployed in defence of free trade (or in defence of his eventual decision

to stop defending it), it was also part of a broader process that helped define what 'free trade' was, with consequences for its political demise and subsequent postwar reinvention.

The rhetoric of trade was undoubtedly influenced – although not absolutely determined – by the intersection of economic and political interests as well as domestic and international arenas. The rhetoric also influenced the reality. Casper Sylvest makes a useful distinction between *moral* internationalism that optimistically assumes 'that internationalist goals will be reached with a minimum of institutional interference or constraint' and *institutional* internationalism that takes the more pessimistic (but not despairing) view that human progress needs to be assisted 'for example through the creation of sanctions or other forms of supra-national political or legal authority'.[67] The creation of the GATT during the 1940s showed a triumph for the latter view, in contrast to the pre-1914 belief that the best route to free trade was unilateral action by individual nations. The form of the GATT (and later the World Trade Organization) was certainly heavily influenced by the economic interests of its most powerful contracting parties/members, but its birth required conscious political effort by multiple actors. In order to establish it they had to negotiate and argue with each other. The art of rhetoric – defined as the technique of making the most convincing case possible given the situation at hand – was therefore crucial in the birth of the modern international economic order. The rhetoric surrounding the negotiations was of course frequently highly conflictual. It is clear, then, that trade and conflict in this sense often went hand in hand.

Notes

1. Speech of 11 November 1903 in Churchill (1975), p. 76.
2. Eubanks (2000), p. 164.
3. For a brilliant summative contribution to the field of behavioural economics, see Kahneman (2011).
4. McCloskey (1988). For recent reflections, see Deirdre N. McCloskey, 'Prudence, You No Longer Rule My World', *Times Higher Education*, 14 January 2010.
5. Notably Eubanks (2000); Conti (1995); and Marinelli and Todd (2007).
6. For a discussion, see Toye (2010b).
7. Trentmann (2008).
8. However, it must be remembered that, at least until the dawn of the radio age, Churchill's speeches would have been read in the newspapers by many more people than were in the immediate audience.
9. Finlayson and Martin (2008), p. 448. See also Toye (2013).
10. Braddick (2009); Johnson (2007).
11. Lawrence (2009); Matthew (1988).
12. It should be noted that Churchill himself did not play much of a role in these later developments, but he did lend support to Peter Thorneycroft, President of the Board of Trade, at a crucial moment. See Kelly (2002), chapter 7.
13. Clarke (1993), quotation at p. 94.

14. 'Mr Chamberlain in Birmingham', *The Times*, 16 May 1903.
15. Ibid. It is unsurprising that Chamberlain should have claimed that he was a free trader, given the tendency of innovators to appropriate the vocabulary of the system that they are attempting to subvert. See Skinner (2002), p. 157. Similar claims had been advanced by the Fair Trade movement in the 1890s. See Rogers (2007), p. 601.
16. Churchill to Hubert Carr-Gomm, 5 December 1903 (copy), British Library of Political and Economic Science, Archives Division, Coll. Misc. 0472.
17. Churchill to Alfred Harmsworth, 1 and 18 September 1903, Northcliffe Papers, British Library, Add. 62156.
18. Churchill to Rosebery, 10 October 1902, in Churchill (ed.) (1969), p. 168.
19. Churchill to Alfred Harmsworth, 1 September 1903, Northcliffe Papers, British Library, Add. 62156. The 'Pro-Boers' were those Liberals who had opposed British involvement in the Boer War.
20. 'Mr. Winston Churchill at Hoxton', *The Times*, 22 May 1903.
21. The Liberal Unionists, Chamberlain prominent among them, had split with Gladstone in 1886 over the issue of Irish Home Rule and subsequently allied themselves with the Conservatives. Hence the exchange in Oscar Wilde's *The Importance of Being Earnest* (London: Leonard Smither and Co., 1899, p. 35):

    Lady Bracknell: What are your politics?
    Jack: Well, I am afraid I really have none. I am a Liberal Unionist.
    Lady Bracknell: Oh, they count as Tories. They dine with us. Or come in the evening, at any rate.

22. Parliamentary Debates, House of Commons, 4th Series, vol. 123, 28 May 1903, cols 193–4.
23. 'Mr. Churchill at Salisbury', *The Times*, 15 April 1905. For the 'Gestapo' speech, see Toye (2010b).
24. Rogers (2007).
25. Addison (1993).
26. Rogers (2007), p. 596.
27. See Toye (2007a).
28. Churchill (1967), pp. 74–5.
29. *The Times*, 26 January 1904.
30. Speech of 29 April 1904. Unless otherwise stated, all Churchill's speeches cited are to be found in Rhodes James (1974).
31. Speech of 29 April 1904.
32. Trentmann (2008), pp. 95–100 and 166.
33. Speech of 4 June 1904.
34. For the historical economists, see Green (2002), pp. 56–64.
35. Speech of 14 December 1905.
36. Speech of 7 May 1907 in Churchill, vol. 7 (1973–76), pp. 168, 171 and 173. Emphasis added.
37. Speech of 11 November 1903.
38. 'Mr. Churchill in Edinburgh', *The Times*, 20 May 1907.
39. The production of this freesheet was necessary because there was no longer a Liberal paper in Leicester. However, it may have back-fired, because the *Leicester United Liberal* was in fact printed in Nottingham, and 'Leicester people did not like the idea of receiving political instruction from the "rival" city.' Pethick-Lawrence (1943), p. 127.

40. 'Mr. Churchill and the Socialists', *The Times*, 29 November 1923.
41. 'Mr. Churchill and Glasgow', *The Times*, 12 November 1923.
42. Speech of 16 November 1923.
43. Ibid.
44. Speech of 5 December 1923.
45. 'Prime Minister at Bradford', *The Times*, 30 November 1923.
46. Helmuth Johann Ludwig von Moltke, Chief of the German General Staff, 1906–14; Erich Friedrich Wilhelm Ludendorff, the general chiefly responsible for commanding the German war effort in the second part of the First World War. Parliamentary Debates, House of Commons, 5th Series, vol. 183, 7 May 1925, col. 1230.
47. Leo Amery to Baldwin, 10 April 1927, Leo Amery Papers, Churchill College, Cambridge, 2/1/13.
48. For a discussion, see Toye (2007b), pp. 255–6 and 279–81; and ibid. (2010a), pp. 175–6.
49. *Ottawa Morning Journal*, 16 August 1929, in Dilks (2005), p. 65.
50. Ibid.
51. Parliamentary Debates, House of Commons, 5th Series, vol. 256, 15 September 1931, col. 705.
52. Speech of 29 September 1931.
53. 'Snakeskin Slippers Remind Churchill Reds are Reptiles', *Globe*, 3 March 1932, in Dilks (2005), p. 120.
54. Draft press release for speech by Churchill in Toronto, 3 March 1932, in Dilks (2005), p. 120.
55. Churchill to Alfred Harmsworth, 1 September 1903, Northcliffe Papers, British Library, Add. 62156.
56. Barnes and Nicolson (eds) (1988), p. 384 (entry for 19 July 1934).
57. W. L. Mackenzie King diary, 24 August 1941, available at: http://www.collections-canada.gc.ca/databases/king/001059-100.01-e.php (accessed 16 April 2010).
58. For a full discussion of this episode, see Toye (2004).
59. J. A. Hudson, 'Mr. Churchill and the Loan', 14 March 1946: The National Archives, Kew, London, PREM 8/197.
60. Ibid.
61. 'Mr. Churchill's Warning to Western World', *The Times*, 11 October 1948.
62. Conservative Party manifesto, 1951.
63. See Toye (2003b).
64. Toye (2010a), pp. 27–30.
65. Speech of 29 April 1904.
66. *Ottawa Morning Journal*, 16 August 1929, in Dilks (2005), p. 65.
67. Sylvest (2009), p. 10.

7

War, Revolution and the Great Depression in the Global Wheat Trade, 1917–39

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As Francine McKenzie pointed out in her Introduction to this volume, there is a reciprocal relationship between trade and conflict: while trade can ignite conflict so, too, can conflict reshape trade. The international wheat trade during the interwar period of the twentieth century provides a graphic illustration of this relationship. The First World War and the Russian Revolution ruptured existing trade patterns such that only four countries outside the areas of armed conflict – United States, Canada, Argentina and Australia – dominated the export trade until the Second World War. At the same time, the exigencies of world depression combined with preparations for further conflict put a premium on food security and autarkic economic policy. This intensified existing rivalries among the Big Four wheat exporters and the resulting international wheat glut was instrumental in accelerating protectionism and creating trade blocs. The desire for domestic control over food supplies lay behind the Japanese Empire's invasion of Manchuria and repopulation of the regions with Japanese landowners and farmers, as well as Nazi Germany's *Lebensraum* policy to enslave and kill Slavic populations in Eastern Europe and Russia and use the vacated lands to create an agricultural surplus for Germans.[1]

It is hard to exaggerate the importance of wheat to human sustenance and survival. Today, this basic food, feeds 35 per cent of the world's population.[2] By the beginning of the twentieth century, wheat was the most important staple food of peoples throughout Europe, Australasia and the Americas, as well as a key staple in some regions in north-east Asia. Countries of recent settlement, in particular the United States, Canada, Argentina and Australia, began to produce wheat for export to the highly urbanized and industrialized countries of Western Europe, competing with the wheat-producing countries of Eastern Europe and Russia. Focusing on the changes wrought by war, revolution and the Great Depression, this chapter examines the rivalry among the Big Four country exporters and their respective reactions to increasingly protectionist markets and a shrinking trade. If the world had become 'one huge food market'

in the decades leading up to the First World War, as stated in the Introduction to this book, it had become a highly contested and sometimes violent market during the interwar years.[3]

The First World War triggered the beginning of the reversal of what had been a pronounced trend towards a more globalized trading system in the latter decades of the nineteenth century.[4] As Tim Rooth argues in his chapter, even with the British Empire and free trade Great Britain, the 1920s and 1930s marked a major retreat from globalization.[5] While there is considerable debate concerning the precise definition of globalization, there is consensus that the intensity of commodity trade is one of the principal measures of globalization. Since commodity trade does not exist in a vacuum, any increase in the intensity of trade is accompanied by an ever expanding specialization in, and ultimately an integration of, the factors of production of land, labour and capital. Indeed, for economists and economic historians, 'globally integrated commodity and factor markets' are the very essence of globalization.[6]

While historians often point to different waves of globalization from the first European voyages of discovery and European empire to the Industrial Revolution,[7] economic historians generally designate the nineteenth century as the beginning of globalization. If integration of international commodity trade is used as the key measure, then globalization's 'big bang' can be dated from 1870 to the outbreak of the First World War. Based on their study concerning the convergence of commodity prices, and the extent to which the domestic and relative prices of land, labour and capital were increasingly determined by international commodity prices, Kevin H. O'Rourke and Jeffrey G. Williamson have argued that this period marked an unprecedented integration of global markets.

In terms of progressive market integration, the commodity trade in wheat provides a particularly spectacular study of globalization.[8] Wheat was at the centre of the debate concerning free trade in the first half of the eighteenth century. The abolishment of the Corn[9] Laws in 1846 and its tariffs on imported wheat marked Britain's emergence as the world's first great free trade power.[10] In the second half of the nineteenth century, as Britain and other countries in north-western Europe became more industrialized, their rapidly growing populations of urban workers became increasingly dependent on bread as a cheap and central staple in their diet.[11] This growing demand for bread in turn encouraged the expansion and settlement of new wheat-growing areas in the rest of the world where climate and soil conditions were suitable, particularly in the United States, Canada, Argentina and Australia.

The growth in the wheat trade was accompanied by lower trade costs and more facilitative commercial, monetary and foreign policy arrangements. Of course, globalization was not limited to an intensification of commodity trade in the four decades preceding the First World War. These accompanying

features included large-scale migration and mixing of populations, agricultural specialization and commercialization and rapid technological innovation and dissemination.[12]

The nineteenth century witnessed a revolution in transportation through the introduction of steam-powered trains and ships and, by the latter part of the nineteenth century and early twentieth century, a rapid reduction in the cost of transporting goods such as wheat with very low value to bulk ratios.[13] Before this, global trade shipments were dominated by basic commodities with higher value to bulk ratios, including luxury goods for the wealthy. From 1870 to 1910, the four decades that saw the most dramatic decline in transportation costs, the freight cost to wheat price ratio fell from 41 per cent to 22.6 per cent.[14] At the same time, the plains and the pampas of the Americas and Australia were opened to new, primarily European settlers, and wheat became a key export staple.[15]

The low cost of land in these areas of new settlement meant a lower cost of production than in more densely populated Europe, and relatively open trade facilitated even more specialization in manufacturing – all at the expense of agricultural production in the Old World.[16] At the same time, this specialization spurred a high degree of mechanization of wheat agriculture with a consequent need for high capital investment and credit by wheat farmers and the enterprises that purchased, stored, transported and exported grain.[17] Manpower shortages, coupled with the generally high cost of labour (at least relative to land and capital) in the countries of new settlement drove the early and rapid adoption of mechanized methods to plough, seed and harvest wheat. The labour required to farm one acre of wheat in the United States plummeted from 61 hours in 1830 to three hours and 19 minutes by 1896.[18] As mechanization expanded, the size and capital intensity of wheat farms also grew. Wheat producers were increasingly integrated into the cash economy, relying more on credit and capital markets, including commodity exchanges.

This golden era of globalization was ruptured first by war, the economic instability of the 1920s and then, most significantly, by the Great Depression of the 1930s. The First World War reduced the wheat-growing capacity of a number of European producers. The Russian Revolution disrupted production to the extent that one of the world's main exporters would be removed from the international marketplace until Stalin's subsequent policy of forced industrialization that depended on wheat exports to pay for needed inputs. By this time, the capitalist world was in the throes of severe and long-term economic depression.

The dislocation caused by the Great Depression was so severe that the degree of globalization achieved between 1870 and 1914, as measured by commodity trade integration, would not recover until the end of the twentieth century.[19] The purpose of this chapter is to examine the impact of the Great Depression

on the wheat trade in the context of a movement away from globalization and towards economic autarky and the Second World War. First, I summarize the impact of the First World War and the Russian Revolution on the structure of the global wheat trade. Second, I examine the hypothesis that the wheat trade was a main contributing cause of the Great Depression that then exacerbated the tensions that would lead to the Second World War. Third, I review the movement to home market protectionism and the impact of the Smoot-Hawley Tariff of 1930 on the wheat trade and tariff retaliation. Fourth, I examine the role of wheat in the imperial trade preferences that came out of the Ottawa Conference of 1932. Finally, I examine the initial failure of wheat exporters and importers to solve the crisis of the wheat trade through a managed trade agreement in 1933.

The impact of the First World War and the Russian Revolution on the wheat trade

By the end of the nineteenth century, the main wheat-exporting countries were located outside of industrialized Europe. These countries included the United States, Russia, Canada, Argentina, India and Australia. By the end of the First World War, Indian exports had declined and the Russian Empire was transformed by revolution and civil war into the Soviet Union. Out of the embers of the Great War and the Russian Revolution emerged four dominant exporters – the United States, Canada, Argentina and Australia. While the reparations settlement following the First World War caused a general contraction in the volume and growth of trade for the majority of commodities and manufactured goods, after the short but sharp postwar recession, the trade in wheat grew from an annual average of 686 million bushels for the 1909–13 crop years to an annual average of 777 million bushels for the 1922–26 crop years. This annual average would increase slightly to 808 million bushels in the next five years, then drop to a 572 million bushel average – an almost 30 per cent decrease from the previous five-year average – in the midst (1932–36) of the Great Depression.[20]

In response to war-inflated grain prices, wheat acreage in the Big Four exporting countries expanded dramatically from 1914 to 1918, particularly in Canada and Australia where there was more arable land left to settle than in Argentina and the United States. Canada's wheat acreage increased by 50 per cent, from 10 million to 15 million acres, while Australia's acreage increased two-fold, from 6 million to 12 million acres.[21]

As shown in Table 7.1, the Big Four wheat exporters were responsible for 50 per cent of the world's wheat trade on the eve of the First World War. This percentage would reach a peak of almost 90 per cent in the early to mid 1920s as a consequence of the disruption and destruction of agricultural

Table 7.1 The Big Four exporters' share of world wheat trade, 1909–37 (5-year annual averages, in %)

	1909–10 to 1913–14	1922–23 to 1926–27	1927–28 to 1931–32	1932–33 to 1936–37
United States	16.0	23.2	17.7	9.0
Canada	13.9	36.9	34.6	37.4
Argentina	12.3	17.5	20.4	24.1
Australia	8.0	11.3	13.7	19.1
Total	**50.2**	**88.9**	**86.4**	**89.6**

Source: de Hevesy (1940), appendix 10.

production due to the First World War and the Russian Revolution. The Big Four's share would decline slightly after the mid 1920s, largely due to the rise in protectionism as countries strove to defend home agricultural markets and producers. However, this decline was gradual, primarily because of the massive international specialization of wheat production that had already taken place from the 1870s until the mid 1920s, and the Big Four would hold their position as the world's four largest wheat exporters for the next half century.

There were also some important differences among the Big Four. By 1914, the United States had a population that was at least ten times larger than any one of its three export competitors, and was also the single largest consumer of wheat and flour in the world. Moreover, as a major manufacturing nation, the United States had a far more diversified economy than Canada, Argentina and Australia, which were highly dependent on the export of staple agricultural commodities. In Canada's case, wheat was by far the country's most important export staple in the interwar period.[22] For Argentina, wheat vied with beef exports, while wool vied with wheat in Australia.[23]

During the interwar period, the remaining export market for wheat was divided among Eastern European exporters, including the countries of the Danube River Basin (Bulgaria, Hungary, Romania and Yugoslavia), as well as Poland and the Soviet Union. Of these countries, only the Soviet Union had the land mass and therefore potential to compete on the same scale as the Big Four. However, due to the years of disruption caused by the First World War, the Russian Revolution and the civil war that followed, the Soviet Union could only sporadically export enough wheat to affect supply and price in the global market in the 1920s – although it would further disrupt an already falling market in the early years of the Great Depression when it began to export wheat again as part of Stalin's forced industrialization drive.[24]

During the interwar period, the principal market for the Big Four and other wheat exporters was furnished by Western and Central European countries. These

European importers received 73 per cent of global wheat exports during the worst years of the Great Depression, from 1930–31 to 1934–45. During this time, these same European countries were also wheat producers with domestic markets and farmers to protect. However, after erecting a host of tariff and non-tariff barriers in the depths of the Great Depression, these European countries still only met 71 per cent of their domestic requirements for wheat and flour.[25]

The four largest European importers were the United Kingdom, France, Germany and Italy. By the 1930s, all four countries were attempting to protect their own wheat farmers from disastrously low prices, and, in the case of continental countries, from cheap imports. The continental countries were also highly concerned about food security as they increasingly prepared themselves for war. Autarky, in the sense of becoming independent of other countries in terms of raw resources including food, was at least as important a motive for protection as the desire to gain strategic leverage in the game of trade protection. However, after decades of industrialization and specialization, it was difficult for these European countries to wean themselves off wheat imports, and for the United Kingdom, the world's single largest importer of wheat, the history and ideology of free trade and 'cheap food' was too strong for governments even to consider full-scale protectionism. Before the end of the 1930s, these countries would be rearmed for war, and large parts of the wheat-growing areas of France, Germany, Italy, Poland and the Soviet Union would become the killing fields of Europe.

Wheat and war: exploring the causes of the Great Depression

While there is considerable controversy among economists and economic historians concerning the more proximate causes of the Great Depression, there is somewhat less debate concerning the longer-term factors that led to this global slump. The underlying conflict among the major powers that produced the First World War was not resolved through the terms of the Treaty of Versailles in 1919. Although historians continue to debate whether Germany was actually capable of paying reparations, the conflict triggered by contested reparations, financial disruption, collapsing incomes and rearmament, meant that the pre-1914 globalized order could not be re-established. A global recession followed hard on the heels of the Great War. Major trading nations such as the United Kingdom and Germany, far from enjoying the postwar prosperity of the 1920s, faced high unemployment and financial dislocation.[26] Most agricultural commodity markets, including wheat, were volatile during the 1920s. It was not until the 1924 crop year that wheat prices reached prewar levels. However, after 1925, as shown in Table 7.2, the price of wheat began to drift down and then plummet after 1929 as unsold inventories grew.[27]

Table 7.2 Average annual prices of imported wheat in the United Kingdom, 1922–38 (gold Swiss francs per quintal)

Crop year	Manitoba No. 3	Argentine Rosafé	Australian
1922–23	25.0	25.7	27.6
1923–24	22.7	23.0	24.4
1924–25	34.5	34.3	34.5
1925–26	32.0	31.6	33.4
1926–27	31.2	30.4	31.9
1927–28	29.3	28.7	30.3
1928–29	26.3	24.5	26.6
1929–30	26.1	23.3	25.2
1930–31	14.7	13.6	15.2
1931–32	11.5	10.7	11.8
1932–33	10.2	9.5	10.4
1933–34	9.1	7.2	8.8
1934–35	9.9	7.8	9.1
1935–36	10.7	10.0	10.6
1936–37	15.3	13.6	15.0
1937–38	15.1	13.4	13.2
1938–39	8.0	7.6	8.1

Note: 1 quintal = 100 kg (equivalent to approximately 36.7 bushels of wheat). Manitoba No. 3 refers to lower-quality Canadian wheat.
Source: de Hevesy (1940), p. 829.

The pre-Depression weakness in agriculture has been closely examined by scholars searching for an underlying cause of the Great Depression. One hypothesis maintains that this earlier decline in agricultural prices was a key factor in lowering the general price level, consumption and investment in a large number of European countries and in the United States and Canada, thereby transmitting the conditions that led to a depression on a more global scale. This hypothesis is supported by evidence of overproduction and mounting stocks of agricultural commodities that 'made agricultural prices vulnerable to shocks in demand, international lending and the international financial system'.[28] Wheat stocks accounted for only 14.7 per cent of world production from 1922 to 1928 on average, compared to 17.6 per cent of world production in the prewar boom years from 1890 to 1913. Only after the 1928 bumper crop did inventories rise to about 25 per cent of world production, the level at which they would remain for most of the 1930s.[29]

Evidence for this hypothesis is presented in Table 7.3. Wheat stocks in 1927 and 1928 exceeded the five-year average set in the mid 1920s (from 1922 to 1926). By 1929, wheat stocks were 37 per cent above the average of the mid 1920s. The glut of wheat would only continue to grow during the worst years of the Great Depression. When the trend finally began to reverse, it was a direct result of drought and major crop failures in Canada and the United States,

Table 7.3 World wheat stocks, the Big Four exporting nations and the world, 1922–39 (millions of bushels)

	1922–26	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
United States	120	111	115	232	294	329	391	382	274	148	142	83	155	275
Canada	37	56	91	127	127	139	136	218	203	214	127	37	24	105
Argentina	63	69	95	130	65	80	65	75	118	85	65	51	65	180
Australia	29	35	36	41	49	60	50	55	85	57	43	41	50	70
Big Four	249	271	337	530	535	608	642	730	680	504	377	212	294	630
World	622	669	726	993	934	1,023	1,022	1,125	1,186	942	784	567	630	1,194

Note: All quantities have been rounded off to the nearest million bushels.

Source: de Hevesy (1940), appendix 25.

which can be seen in the precipitous decline of wheat production illustrated in Figure 7.1.[30] With the bumper crop of 1939 came another surfeit that would require a world war to be ameliorated.

The early glut meant that wheat prices were already falling before the American stock market crash of October 1929. Moreover, the collapse of agricultural credit markets in developed countries such as the United States in the 1920s eventually triggered a global contraction of credit that was especially harsh on agricultural credit markets in the First World War from the Americas to Australia, as well as in less industrialized colonies as different as India and Indonesia. According to Dietmar Rothermund, this 'recoil' in the global 'web of credit' explains why the Great Depression had such a severe global impact.[31]

There was a sudden drop in the price of wheat months before the New York stock market collapse of October 1929. The trouble appears to have begun in Canada with the bumper crop of 1928. Attempting to exercise market power as the single largest exporter of wheat, domestic grain-dealers held back the release of high-grade Canadian wheat into world markets, hoping that the consequent shortage of wheat would raise prices.[32] Within the first months of 1929, it was clear that the gambit had failed. European buyers 'went on strike against' the much higher than normal margin for top-grade Canadian wheat and instead purchased lower-grade wheat from other countries.[33] By May, there was a sudden and major collapse in the price of wheat on the Winnipeg Grain Exchange – the main agricultural commodity market in Canada – in a single day, known as Black Tuesday. Despite this drop in price, the grain dealers persisted in their policy of holding back supplies, leading to lost wheat exports and severe balance-of-payments difficulties. The price of wheat would continue to decline until the mid 1930s when it began a sluggish recovery, only to plummet again in the 1938 crop year (see Table 7.2).

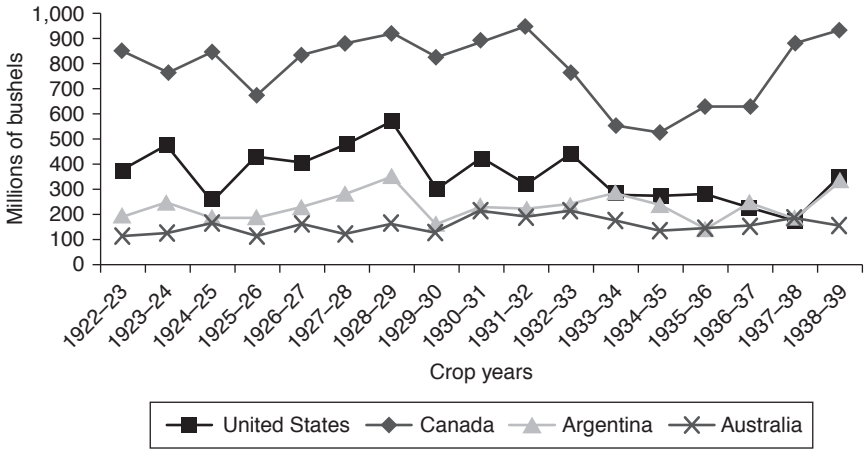

Figure 7.1 Wheat production, the Big Four, 1922–38 crop years (millions of bushels)
Source: de Hevesy (1940), appendix 7, after p. 748.

In a perfectly competitive market, supply should respond to demand with prices responding in a manner designed to eliminate short-term surpluses and shortages. As can be seen in Table 7.2, wheat prices did drop in response to a decrease in demand caused by the Great Depression, but it took until 1937 and 1938 before wheat stocks were reduced to a level as low as the mid 1920s – only to be upset by the bumper crop of 1938–39, which caused prices to plummet yet again. Although it was difficult for wheat producers in the exporting countries to adjust quickly to annual changes in price, the degree of specialization of these wheat-growing areas – and the public and private storage and transportation infrastructure that supported it – also worked against converting wheat acreage into alternative agricultural production. While the United States and Canada had extensive grain-storage capacity that allowed their grain sellers to hold large inventories, Argentina and Australia did not. As a consequence, the latter countries were forced to export wheat irrespective of market conditions, even if it meant flooding the market, thereby contributing to the downward spiral in wheat prices. Moreover, if wheat producers and grain marketers in any of the Big Four countries were under strain from creditors due to low wheat prices, and their national governments were experiencing severe balance-of-payment problems, then the pressure to sell immediately at ever lower prices may have been almost irresistible. Wheat acreage was, at best, poorly responsive to price changes and, at worst, perversely responsive to downward shifts in the world price for wheat due in part to national policies on agricultural production and currency exchange.

In Australia, the Commonwealth government responded to the collapse in the prices of wool and wheat by launching the 'grow more wheat campaign'

of 1930. In addition to the 6 million acres that had already been added to wheat production during the 1920s, this policy would increase total wheat acreage from 18 million acres in 1929 to 21 million acres in 1930.[34] Through a compulsory pool operated under the central control of the Australian Wheat Board, producers were encouraged to expand their operations. However, the government ultimately bungled its legislative efforts to provide farmers with a guaranteed price, and had to rely on currency devaluation in order to give Australian wheat a competitive edge in world markets. While this form of competitive devaluation did alleviate the Australian government's balance-of-payments crisis, it did little for wheat farmers as prices continued to drop.[35]

The situation worsened when the Soviet Union resorted to using wheat exports to obtain the currency needed to purchase imports of capital equipment essential to Stalin's industrialization drive. Although this policy began in 1927, a combination of poor crops and peasant resistance to forced collectivization delayed any major exports of Soviet wheat to Europe until the bumper crops of 1930. In that year, the Soviet Union exported almost 2.3 million metric tons of wheat. Soviet exports more than doubled to 5.2 million tons in 1931, but a lower price meant that the value remained the same as the year before.[36] While the Big Four accused the Soviet Union of dumping, they also found it difficult to avoid exporting more wheat into a falling market even as they were taking steps to protect their own farmers and domestic markets.

Although trade protectionism had been rising even before the Great Depression, the 1930s were marked by a major increase in the intensity of beggar-thy-neighbour commercial policies. After the election of the Nazi Party in Germany, these policies were fortified by the division of the world into hostile blocs accompanied by a group of European countries nervously preserving their neutrality. Almost all the continental European nations were concerned about ensuring adequate food security given the increasing possibility of war, a concern that was especially acute for countries that relied heavily on imported wheat (see Table 7.4).

Of the three major continental importers, France and Germany were the most effective in using a combination of tariff and non-tariff barriers to protect local wheat production and improve food security in the years immediately preceding the Second World War. Both countries managed to become almost self-sufficient in wheat during the Great Depression. Italy continued to depend on imports to satisfy nearly one-quarter of its total wheat and flour requirements. The United Kingdom remained the great exception, dependent on imports for almost 80 per cent of its consumption. As a destination for wheat exports, the United Kingdom grew in relative importance during the 1930s by virtue of the increasingly protectionist measures imposed by the majority of continental European countries.

Table 7.4 Four major European wheat importers, consumption (millions of bushels and % imported)

	1922–27		1932–37	
	Consumption	**Imports (%)**	**Consumption**	**Imports (%)**
United Kingdom	261	78.5	269	77.2
France	329	16.9	324	3.1
Germany	169	35.0	187	4.5
Italy	288	22.4	281	22.2

Source: de Hevesy (1940), appendix 18, pp. 768–9.

By the end of 1930, it was obvious to all exporters that the shrinking global market for wheat caused by protectionism, balance-of-payments crises and plummeting income created a surplus of global wheat stocks. Prices could only continue to decline unless the main exporters could agree to take some wheat out of production and reduce existing stocks of wheat.

From 1930 until 1933, there would be a total of 20 international conferences that would attempt to grapple with this problem. Of these conferences, 11 were general, 7 were restricted to Eastern European producers and 2 were limited to the British Empire and Commonwealth countries.[37] None of these gatherings produced a workable plan to address the overproduction of wheat and, as a consequence, the price of wheat continued to be determined by climate and crop yields. As shown in Table 7.3, global wheat stocks remained high by historical standards. They had climbed to almost 1 billion bushels by 1929 and would hover around this level or higher until the 1935–36 crop year. Only the Big Four exporters had the market power to alter this trajectory through international cooperation and agreement, but all of their efforts ultimately failed. The Smoot-Hawley Tariff of 1930, and as reviewed by Rooth in this volume, the imperial preferences of 1932, produced domestic protection and encouraged trade diversion – beggar-thy-neighbour efforts that attempted to solve the problem for one country at the expense of another. The International Wheat Conference of 1933 was the first global effort by major wheat producers to manage the world trade in wheat by setting export quotas and reducing the volume of land seeded to wheat.

Home market protectionism and the Smoot-Hawley Tariff

Passed into American law in June 1930, the Smoot-Hawley Tariff is the most infamous trade protectionist measure of the Great Depression. Observers at the time as well as historians and economists after the fact blamed Smoot-Hawley for triggering tariff retaliation throughout the industrialized world

and continuing the downward spiral.[38] From this perspective, Smoot-Hawley turned what was a sharp recession into a longer and more severe global depression. In recent years, some historians and economists have revised this view, providing evidence demonstrating that Smoot-Hawley was less a major cause of the Great Depression than one contributing cause among many others.[39]

For most of the 1920s, tariff levels for a number of agricultural commodities (as opposed to manufactured goods) were not far off prewar levels.[40] However, in the case of wheat, protectionism started early. As can be seen in Table 7.5, Germany, Italy, Sweden and the United States were already in the protectionist camp. By 1928, France, Germany and Italy – continental Europe's three largest importers – increased their wheat tariffs to levels that exceeded what would become the Smoot-Hawley Tariff rate some two years later. Moreover, well before the stock market crash of 1929, some European countries were introducing non-tariff barriers to protect their farmers against import competition as wheat prices fell. Compulsory milling requirements in which domestic millers had to use a minimum percentage of domestic grain was one such non-tariff barrier.[41]

Contrary to the revisionist interpretation of Smoot-Hawley,[42] historical evidence does support the assertion that tariffs were raised in direct retaliation

Table 7.5 Import duties on wheat (gold Swiss francs per quintal, as of 1 January of each year)

	1926	1928	1930	1931	1932	1933	1934	1935	1936
United Kingdom	0.0	0.0	0.0	0.0	0.0	0.8	0.7	0.7	0.7
France	2.7	7.1	10.2	16.2	16.2	16.2	16.2	16.2	16.2
Germany	4.3	6.2	8.0	3.9[a]	13.8[a]	13.9[a]	13.9[a]	4.3[b]	4.3[b]
Italy	7.5	7.5	14.0	16.5	19.6	19.9	20.5	19.8	18.4[b]
Austria	0.3	0.3	2.1	2.1	10.5	9.6	16.8	16.8	16.8
Belgium	0.0	0.0	0.0	0.0[b]	0.0[b]	0.0	0.0[b]	+1.4[b]	+1.0[b]
Czechoslovakia	1.9	4.6	4.6	8.4[b]	8.4[b]	8.4[b]	11.5[b]	9.6[b]	9.6[b]
Denmark	0.0	0.0	0.0	0.0	0.0	0.0	0.0[b]	0.0[b]	0.7[b]
Ireland	0.0	0.0	0.0	0.0	0.0	0.0	0.0[b]	0.0[b]	0.7[b]
Netherlands	0.0	0.0	0.0	0.0	0.0	0.0	3.1[b]	3.1[b]	4.2[b]
Norway	0.0	0.0[b]	0.0[b]	0.0[b]	0.0[b]	0.0[b]	0.0[b]	0.0[b]	0.0[b]
Sweden	5.1[b]	5.1[b]	5.1[b]	5.1[b]	3.6[b]	3.5[b]	3.1[b]	2.9[b]	2.9[b]
Switzerland	0.6[b]	0.6[b]	0.6[b]	0.6[b]	0.6[b]	0.6[b]	0.6[b]	0.6[b]	0.6[b]
United States	5.7	5.7	5.7	8.0	8.0	8.0	5.0	4.7	4.7

Note: [a] Indicates that imports against payment of the given import duty are subject to special conditions; while [b] indicates that all imports are under national controls such as a quota, licence system or similar non-tariff barrier.

Source: de Hevesy (1940), p. 762.

to the American tariff increase in 1930. In at least one case, agricultural tariffs were increased in order to dissuade the American government from passing Smoot-Hawley. Canada's cross-border trade with the United States in agricultural commodities had already been suffering from the Fordney-McCumber Tariffs of 1923, when Republican presidential nominee Herbert Hoover advocated even higher agricultural duties in 1928. After Hoover's election, the protracted negotiations over the content of what would become the Smoot-Hawley Tariff were carefully followed in Canada. When some rates were actually raised in March 1930 before Smoot-Hawley had been finalized, the Canadian government intervened with retaliatory food tariffs in an effort to let American legislators know what to expect if Smoot-Hawley was passed into law. This pre-emptive strike by Canada had no appreciable impact on American legislators, however, and President Hoover signed the Smoot-Hawley Tariff into law on 17 June 1930, just as an election was being called in Canada. The Conservative opposition leader successfully used Smoot-Hawley in his election bid, promising to impose even higher tariffs than the more free trade Liberals in retaliation against the United States.[43] Indeed, there is compelling evidence that the Conservatives could not have won the Canadian election without Smoot-Hawley.[44]

Both Canada and Australia were 'in the vanguard' of nations retaliating against Smoot-Hawley after its passage, imposing higher tariffs and introducing preferences for countries within the British Empire and Commonwealth, moves that fortified the decision of Great Britain to shift 'away from free trade' by adopting an imperial preference policy in November 1931.[45] Although there is some debate as to the motives surrounding tariff hikes by other countries after Smoot-Hawley, there is evidence that Smoot-Hawley indirectly contributed to the severity of the Great Depression by destabilizing the international monetary system. In strengthening the balance-of-payments situation for the United States and conveying additional gold flows to America, Smoot-Hawley strengthened the American dollar at the expense of the stability of foreign currencies.[46]

As shown in Table 7.5, whatever the more direct impact of Smoot-Hawley had on tariff retaliation, there is little question that both tariff and non-tariff barriers on agricultural commodities were raised in the Great Depression. Even some of the smaller, open European countries that had previously been committed to free trade – Belgium, Denmark, Ireland and the Netherlands – eventually restricted wheat imports. As the largest exporters of agricultural commodities within the British Empire, both Canada and Australia were eager to engage the United Kingdom and all other empire countries in a larger agreement that would divert trade to member countries and, most importantly, give privileged access to the lucrative British home market, the largest destination market for wheat and flour in the world.

The British Empire, the Ottawa Conference and trade diversion

Unlike Imperial Conferences previously hosted in London, the organizers of the 1932 Imperial Conference broke with tradition and held the meeting in Ottawa at Canada's long-standing request. The Ottawa Conference came in the wake of a disastrous Imperial Conference two years earlier.[47] From the perspective of the United Kingdom and at least some of the self-governing Dominions, the economic portion of the 1930 Imperial Conference had ended in failure, partly because of personality clashes between the British and Canadian prime ministers.[48] At the time, the prime minister of Canada, R. B. Bennett, had proposed a 10 per cent increase in the British tariff that was summarily dismissed by the United Kingdom.[49] However, even before the 1930 conference had begun, the British government had 'ruled out' the possibility of any 'taxes on food and raw materials', and Britain maintained its no-tariff position throughout the conference.[50] As a sop to the Dominions, the British delegates said that they would consider a Dominion quota for wheat as long as it did not involve any guaranteed price, but this was rejected – at least initially – by the Canadian and Australian prime ministers. The 1930 conference ended without agreement, and the issue of both tariffs and quotas was tabled for the next meeting to be held in Ottawa.

By the time that governments were preparing for the 1932 conference, the political situation had changed considerably. A new government in the United Kingdom had reluctantly accepted the principle of imperial preference as part of a strategy that would give it bargaining leverage in convincing protectionist countries to lower tariff and non-tariff barriers against British exports. In addition, the United Kingdom would use its concession to move the Dominions to provide similar preferences and some tariff reductions for British goods.[51] As major wheat producers in the world, Canada and Australia not only wanted privileged access to the British home market but also new bargaining leverage against other wheat-importing countries.

At bottom, the governments of both Dominions understood that they, along with other empire countries, produced more wheat than could be consumed within the empire so that any protection could only produce trade diversion rather than any fundamental changes in global production, consumption and price patterns. In other words, whatever Canada and Australia gained in the British home market for wheat they would likely lose to other exporters in third markets. Nonetheless, Bennett, the prime minister of Canada, would not be swayed on any point of negotiation without obtaining a commitment from the British government to impose a tariff on wheat. Bennett was making good on his earlier election promise to use tariffs to 'blast' a way into world markets.[52] Neither the Canadian nor Australian government thought that the British tariff on wheat would change the underlying conditions, but

it would provide a political bargaining chip for both countries.[53] The British delegation not only understood this, but were extremely worried that giving a preference to the Dominions through a wheat tariff that would be applied against the rest of the world would cause 'more harm than good' in the long run 'when the Dominions came to realise that the scheme had not been as beneficial to them' as they had expected.[54] In addition, the British government concluded that any agreement reached in Ottawa could not affect the United Kingdom's ability to conclude commercial treaties with countries outside the empire, a significant consideration given the government's desire to avoid imposing penalties on historically important trading partners such as Argentina.[55]

While the British government was extremely reluctant to impose any tariff on wheat and reverse a policy that had been in place since the Corn Laws were abolished in 1846, the British negotiators reluctantly concluded that a tariff on wheat was essential to achieving progress on other fronts given the entrenched positions of Canada and Australia. The new tariff was set at 2 shillings per quarter (approximately 6 cents per bushel). This tariff was substantially lower than that requested by the prime minister of Canada two years before. Certainly, the modest tariff provided no protection for home markets. Farmers in the United Kingdom and Canada had been receiving government subsidies that ensured that domestic prices were above world prices well before the Ottawa Conference.[56]

Moreover, such a modest tariff would do little to stop the Soviet Union from 'dumping' its wheat on Western European markets, a major concern for both Canada and Australia, and despite those countries' best efforts, the United Kingdom refused to capitulate to demands that Soviet wheat be excluded from the British market.[57] In order to deal with the larger problem of low wheat prices caused by the global glut and dumping, the Big Four promoted the idea of a wheat conference. Undoubtedly concerned about their exclusion from the imperial preference system established at the Ottawa Conference, the United States and Argentina were looking for a way to bind Canada and Australia to a larger, non-exclusionary agreement.

At first, the Argentine government requested that the 'problem of abnormal overproduction of wheat' be put on the agenda of the World Monetary and Economic Conference that was to be held in London under the auspices of the League of Nations in the summer of 1933.[58] Eventually, it was agreed to deal with wheat in a separate, dedicated meeting following the major conference. Representatives of the Big Four exporters had a preparatory meeting in Geneva on 10–17 May, where they agreed on the principle of export quotas for themselves as well as the Eastern European and Soviet exporters. Although the Big Four were not unanimous on the issue of whether even to suggest production limits for the major Western European producers, they did agree

that a meeting with the major importers was essential to the success of any final agreement.[59]

The International Wheat Conference of 1933

The four-day International Wheat Conference held in London began on 21 August 1933. As the leader of the world's largest wheat-exporting country, Bennett chaired the meeting. Major wheat-exporting countries were invited to the London conference, including the Soviet Union, which had not previously been extended diplomatic recognition by a number of countries including the United States.[60] The main objective of the conference was to get the key exporting and importing nations to agree to quotas and acreage reductions in order to reduce wheat production for both export and home consumption.[61] If an agreement could be reached among the majority of the principal country producers, then the participants expected that global stocks would be reduced and the world price of wheat would recover to a level that would, once again, provide an adequate living for farmers and a profit for landowners, grain marketers and transportation companies.

An agreement was signed by 22 wheat-exporting and wheat-importing countries on 25 August.[62] The main exporters agreed to maximum export quotas for two crop years, the levels of which were based on their recent export history. The export quotas for the 1933–34 crop year were: Canada (200 million bushels); Argentina (110 million bushels); Australia (105 million bushels); the United States (47 million bushels); the four Danubian countries, Hungary, Romania, Bulgaria and Yugoslavia (50 million bushels); and others, including the Soviet Union (48 million bushels).[63] This set a target for total global wheat trade of 560 million bushels for the 1933 crop year, considerably below previous levels of trade. For example, the global trade in wheat exceeded 945 million bushels in the 1928 crop year, the highest level reached in the 1920s. While the global trade fell to 637 million bushels the following crop year, it reached 838 million bushels in 1931 and 802 million bushels in 1932.[64] The group set a slightly higher, and less aggressive, global export quota for the following year. Although they could not secure the inclusion of the Soviet Union and the Danubian countries, the Big Four exporting countries agreed to reduce their own wheat acreage by 15 per cent based on the average of seeded wheat acreage from 1931 to 1933.[65]

For their part, the wheat-importing countries agreed that they would not increase their home production beyond existing levels. They also agreed to encourage the consumption of wheat and more high-quality wheat imports, and to begin lowering their tariff duties on wheat once the world price exceeded 63.2 cents per bushel (at the time of the agreement, the price was 50 gold cents per bushel). They also made a soft commitment to relax import restrictions if

prices improved over a minimum period of one year. Finally, a Wheat Advisory Committee composed of both exporting and importing countries was established with a secretariat headquartered in London and a mandate to monitor the terms of the agreement and report export, production, acreage and price data to the participating countries.[66]

At the time, *The Economist* described the agreement as providing an armistice in the wheat trade war rather than an interim solution to glut and low prices.[67] In fact, the agreement was broken well before the two-year period was over. Argentina was the first to renege. In 1933–34, Argentina had a bumper crop, but suffering a lack of storage facilities it exceeded its export quota in the first year of the agreement. To justify its action, the government of Argentina pointed to the fact that the United States and Canada had not met their promises to reduce their wheat acreage by 15 per cent. Although none would come close to achieving a full 15 per cent reduction in 1934, Canada reduced its sown acreage by 8.6 per cent, Australia by 8 per cent and the United States by 4 per cent. Among the Big Four exporters, only Argentina had moved in the opposite direction by increasing its acreage. As for the wheat importers, they did not make any major changes to domestic agricultural policy as prices remained stuck below the higher target price under the agreement.[68] As a consequence, the first global effort to alleviate the crisis in one of the world's most tradeable agricultural commodities lay in tatters.

Conclusions

The historical consensus is that the imperial preferences established under the 1932 Ottawa Conference and the export quotas agreed to at the 1933 International Wheat Conference had a minimal impact on supply and price conditions in the wheat trade.[69] The demand for wheat was simply too low due to the reliance by European countries and their colonies on protectionism to achieve greater food security while preparing for war. Instead, it would be the continuing drought in North America, as well as poor harvests in other major producing countries, that would ultimately reduce surplus inventories of wheat and allow the world price to reverse its downward trend. Ultimately, however, it would take the dislocation and destruction of the Second World War to create the shortages necessary for the price to rebound to pre-Depression levels.

With this recovery in the price of wheat came greater harmony in the wheat trade. However, this did not mean reverting to the more globalized wheat trade regime in the decades preceding the First World War. Instead, in the global wheat trade, protectionism and managed trade became the dominant feature of postwar prosperity. The domestic agricultural supports that had been

introduced in the 1930s became a permanent part of the policy landscape in advanced industrial countries, including the Big Four. The government-run wheat boards in Canada and Australia continued – or even expanded – their respective mandates. Managed trade agreements such as the Canadian–British Wheat Agreement of 1946 and the International Wheat Agreement of 1949 (involving the United States, Canada, Australia, France and Uruguay) shaped the direction of the trade.[70]

Agricultural production became the exception to the rule in trade liberalization efforts following the Second World War. In 1955, the fate of freer trade in agriculture through the General Agreement on Tariffs and Trade (GATT) was sealed when the United States requested an agricultural waiver.[71] Countries such as the United States introduced export subsidies to give their grain producers and marketers competitive advantages in a highly controlled market. By the 1960s, the Common Agricultural Policy in Europe not only controlled production throughout the Member States of what would eventually become the European Union, but also turned Europe into a net exporter of wheat, after decades of being a net importer. The experience of the Great Depression and the conflict that followed was at least partially responsible for this postwar preference for orderly markets in wheat and managed export trade. In the decades following the war, wheat remained one of the more important export commodities in the world, and major exporters preferred stability and certainty over the free market.

At the same time, postwar agricultural protectionism was not motivated by the fear of imminent armed conflict as it had been in the interwar years. While some countries – particularly the United States and the Members of European Community (later European Union) – provided considerable domestic protection to their domestic wheat producers, it was not motivated to the same degree by an autarkic economic policy or a desperate desire to protect foreign reserves. In fact, in contrast to the interwar years, marked as they were by falling commodity markets, the two decades following the Second World War were marked by economic growth and prosperity. Although the Cold War ensured that conflicts among countries continued, the postwar wheat trade was no longer a flash-point in these conflicts as it had been during the interwar years.

Notes

1. Young (1998); and Snyder (2010).
2. Kiple and Ornelas (2008), p. 158.
3. Francine McKenzie in the Introduction, quoting from Kiple and Ornelas (2008), pp. 1223–4.
4. Findlay and O'Rourke (2007), p. xxiv.
5. See Tim Rooth in this book.

6. See O'Rourke and Williamson (1999).
7. For a summary of these views, see Northrup (2005). Hopkins (ed.) (2002) and the authors contributing to his volume describe three stages of globalization: archaic globalization (pre-seventeenth century); proto-globalizations (1600s and 1700s); and modern globalization (Industrial Revolution to the present). For Eltis (2002), globalization began in AD 1000, when the previously dominant pattern of global population dispersion and isolation became a pattern of increased contact and mixing.
8. Federico and Persson (2007).
9. 'Corn' in the sense used here is defined as the chief cereal crop of a region, thus wheat in England and oats in Scotland are both known as 'corn'.
10. See Schonhardt-Bailey (2006); and Semmel (2004).
11. Turner (2004), p. 136.
12. Jacks (2006).
13. Harley (1988); Mohammed and Williamson (2004); and Jacks et al. (2010).
14. O'Rourke and Williamson (2000), table 1.
15. Solberg (1987). Over the period 1870–1913, net migration to the United States was 15.8 million people; in Australia, it was 885,000; and in Canada, it was 861,000. Over a similar period (1871–1910), Argentina received a net migration of 2.5 million people. See Maddison (2001), p. 128, for data on the United States, Australia and Canada; and Solberg (1987), p. 75, for data on Argentina.
16. Tariffs on wheat remained low until the protectionist backlash of the 1880s. By the mid 1890s, wheat import duties in France, Germany and Italy exceeded 60 per cent of the Chicago price. See Federico and Persson (2007).
17. Adelman (1992).
18. Ibid., p. 282.
19. O'Rourke and Williamson (2000).
20. de Hevesy (1940), appendix 9.
21. Hammond (1946).
22. Fowke (1957).
23. Schedvin (1990).
24. Kuromiya (1988).
25. Manenbaum (1953), p. 63.
26. Feinstein et al. (2008), pp. 60–3.
27. Kindleberger (1973), p. 90.
28. Madsen (2001), quotation at p. 356.
29. For a contrary argument, see Federico (2005b).
30. On the United States, see Cunfer (2005); and Worster (1979). On Canada, see Marchildon (2009); Marchildon et al. (2008); and Jones (1987).
31. Rothermund (1996), pp. 12–18. On the United States, see Alston (1983).
32. As a general rule, the higher the protein content in wheat, the harder the wheat and the higher the quality. Due to the climate in the northern Great Plains, Canada tended to produce a larger quantity of high-quality 'hard' wheat. Canadian hard wheat fetched a premium in world markets because it could be mixed with softer wheat to improve the quality of bead-making flour. MacGibbon (1952), p. 22.
33. Kindleberger (1973), p. 92.
34. Ibid., 92; and Schedvin (1970), p. 146.
35. Schedvin (1970), pp. 146–53; and Rothermund (1996), pp. 82–6.
36. Kindleberger (1973), pp. 92–3; and Gregory and Sailors (2003). The Soviet Union depended most heavily on oil products, wood and grain to pay for its strategic imports of the machinery and metals required for industrialization.

37. Kindleberger (1973), pp. 92–3.
38. The classic account is Jones (1934).
39. James (2001), pp. 112–18; Zeiler (1999), p. 7; and Eichengreen (1989). Also see Irwin (2011); and Eckes (1995b).
40. Federico (2005a), p. 192. See James (2001), p. 119, who argues that while the tariffs on manufactured goods did go up significantly in the 1920s, agricultural tariffs stayed relatively low until the advent of the Great Depression.
41. From 1929 to 1932, Belgium, France, Germany, Italy and Sweden introduced compulsory milling requirements (James, 2001, p. 113).
42. Irwin (2011).
43. Kottman (1975); and Marchildon (1998).
44. McDonald et al. (1997).
45. Pomfret (2000), p. 118. On this shift by Britain, see the chapters by Tim Rooth and Richard Toye in this book.
46. Eichengreen (1989); and on the financial weaknesses of the interwar economy, see Eichengreen (1990).
47. Drummond (1972), pp. 69 and 89–90.
48. Malenbaum (1953), p. 199.
49. Proposed Imperial Economic Conference at Ottawa, Report by Cabinet Committee, 23 November 1931, Memorandum by the Secretary of State for Dominion Affairs: The National Archives, Kew, London (hereafter, TNA), CAB24/224, Cabinet Memorandum, available at: http://www.nationalarchives.gov.uk/cabinetpapers/themes/economic-policy-1930s.htm (accessed 26 May 2010).
50. Cabinet Conclusion 7, Imperial Conference 1930, 9 October 1930: TNA/CAB23/65, available at: http://www.nationalarchives.gov.uk/cabinetpapers/themes/economic-policy-1930s.htm (accessed 26 May 2010).
51. Cabinet Memorandum, Proposed Imperial Economic Conference at Ottawa, Report by Cabinet Committee, 23 November 1931: TNA/CAB24/224, available at: http://www.nationalarchives.gov.uk/cabinetpapers/themes/economic-policy-1930s.htm (accessed 26 May 2010).
52. Glassford (1992), p. 116.
53. Rooth (1992, 1993), pp. 84 and 89.
54. Cabinet Memorandum, Proposed Imperial Economic Conference at Ottawa, Second Report by Cabinet Committee, 2 May 1931, p. 2: TNA/CAB24/221, available at: http://www.nationalarchives.gov.uk/cabinetpapers/themes/economic-policy-1930s.htm (accessed 26 May 2010).
55. For trade purposes, Argentina was often treated by the UK as an honorary Dominion, and the Roca-Runciman Pact (1933) between the two countries was, in large part, an effort to undo any damage done by the Ottawa Conference; see Knight (1999).
56. Rooth (1992), p. 230.
57. Ibid., p. 90. Although a general clause was put into the agreements that suggested that the UK would act if it could be shown that Soviet wheat supplies were destroying the value of the UK home market for the Dominions, the British prime minister and Cabinet were resolved not to allow their relationship with the Soviet Union to deteriorate any further. Conference (Agreements) Bill, Note by the Cabinet Secretary, 9 September 1932: TNA/CAB24/232, available at: http://www.nationalarchives.gov.uk/cabinetpapers/themes/economic-policy-1930s.htm (accessed 26 May 2010).
58. Malenbaum (1953), p. 205; and Carr (1966, repr. of 1937), pp. 149–52.
59. Malenbaum (1953), pp. 205–6.
60. Bowers (1966).

61. MacGibbon (1952), p. 26.
62. Every country except Ireland had signed the agreement by 30 August. Sweden and Czechoslovakia signed conditionally (Malenbaum, 1953, pp. 206–7).
63. Ibid., p. 207.
64. de Hevesy (1940), appendix 9, following p. 750.
65. Malenbaum (1953), p. 207; and MacGibbon (1952), p. 27.
66. MacGibbon (1952), pp. 27–8; and Malenbaum (1953), p. 208.
67. *The Economist*, 2 September 1933, summarized in MacGibbon (1952), p. 29.
68. Malenbaum (1953), pp. 194 and 208–9; and Hammond (1946), p. 6.
69. Malenbaum (1953), p. 199.
70. Marchildon (1998), pp. 245–7.
71. Warley (1990), p. 306. Also see, Evans (1971).

8

Trading Blocs and Trading Blows: GATT's Conflictual Path to Trade Liberalization, 1947–67

Lucia Coppolaro and Francine McKenzie

At the end of the nineteenth century, the global economy was highly interconnected and interdependent: this was the climax of the first wave of globalization. Over the next 50 years, protectionist policies, recessions, depressions and two world wars reversed this state of economic affairs. Bilateral and barter trade agreements flourished, autarkic aims prevailed, the commitment to foreign lending was sapped and demand for international commodities disintegrated. Many officials and policymakers in the 1940s believed that the establishment of a global trade system had to restore a high level of interdependence and exchange. They also believed that a liberal global economy was a general condition for peace. The classic liberal axiom that trade and peace went hand in hand whereas wars and the absence of trade were bedfellows informed this view. Cordell Hull, the American Secretary of State (1933–44) and an architect of the postwar trade order, was a successor to Montesquieu, Kant, Cobden and Mill, although he might not have appreciated the finer points of liberal economic theory. He explained this thinking in his memoirs when he wrote that 'unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war'.[1]

The belief that a liberal trade order was integral to a peaceful international community was widely shared during the Second World War. As a result, when policymakers from countries across the Grand Alliance contemplated the construction of a new postwar order to prevent a third world war, they included an organization called the International Trade Organization (ITO) to oversee, manage and expand a liberal trade order. Alone among the plethora of postwar organizations, including the United Nations, International Monetary Fund, World Bank, United Nations Relief and Rehabilitation Administration, Food and Agricultural Organization, World Health Organization, the ITO was not established. But that did not leave a void because the portion of the ITO charter that dealt with trade practices and negotiations had earlier come into effect. This fragmentary and interim agreement evolved into a de facto trade

organization called the General Agreement on Tariffs and Trade (GATT) that operated until the end of 1994.[2] More than an international agreement, the GATT was an expression of the widespread faith that without a prosperous and economically interdependent world, there would be no peace.

The GATT had an explicit economic mandate to promote freer trade by reducing barriers to trade and eliminating discriminatory trade practices that impeded the flow of goods. It pursued these aims in rounds of trade negotiations. It was also charged with responsibilities of oversight and mediation to resolve clashes of principle and competing interests so that they would not antagonize relations between states and hamper the growth of trade. The GATT, however, was no stranger to conflict. Its history was replete with many kinds of conflict: members accused one another of bad faith and the negotiating process to reduce tariffs was marked by acrimony and key negotiations frequently teetered on the brink of collapse, usually accompanied by prophecies of economic doom and trade war. Rarely was a resolution on any substantive issue achieved without démarches, threats, emergency sessions or presidential intervention. For this agency dedicated to the peaceful management of international trade relations, conflict was chronic and endemic. Moreover, the GATT provoked conflict by pressing for ever more liberalization, sparking opposition from those states that believed that liberalization had gone far enough and disappointment from other countries who believed that the fruits of liberalization were not shared equally. In other words, the GATT's methods, structure and goals engendered fierce competition and zero-sum outlooks that reinforced the pursuit of national interests. Somewhat counter-intuitively, recurrent conflicts did not undermine the GATT's diplomatic mandate or its economic objectives. This chapter isolates, examines and compares two principal axes of recurring conflict in the GATT's history: between the United States and the European Economic Community (EEC), and between developing and developed countries (in which the USA and EEC also figured prominently). What follows is a story of endless disputation and what it reveals was the relentless forward momentum of the liberalizing project – albeit in fits and starts – not just in spite of, but sometimes because of, the conflicts that it engendered and the combative mechanisms that it employed.

War, conflict and the establishment of GATT

The GATT came into existence on 1 January 1948 against the backdrop of the Cold War, but it was a product of wartime planning for a new international order.[3] The early draft charter for the ITO bore a strong American impress, emphasizing reciprocity, non-discrimination and the most-favoured-nation principle (MFN). Other participating countries were troubled by aspects of the American vision of postwar trade. For example, the British government

opposed the elimination of imperial preferences, a tariff system that applied within the British Empire and Commonwealth – which Tim Rooth describes in more detail – but that was doubly offensive to American officials for being discriminatory and imperial. European states wanted to be able to use quantitative restrictions (QRs) to offset balance-of-payments problems, whereas American officials regarded them as a commercial sin. Indian officials pointed out that free trade did not work equally well for all countries. What were considered economic vices from a liberal economic point of view – such as the protection of infant industries or the use of quantitative restrictions – were essential to development. Indian officials elaborated this line of thinking as they prepared to attend GATT meetings in 1946: 'Free competition is not an unmixed blessing if it is competition between countries of unequal strength, nor are tariffs an unmixed evil, if they serve as an instrument for raising the standard of living in poor and undeveloped countries.'[4] Through compromise and American acceptance of exceptions to hard and fast rules, broad support for the ITO emerged. A revised draft charter was ready by the middle of 1947.

Alongside international negotiations of the principles and practices of postwar trade, there was a round of negotiations to reduce tariffs, held in Geneva over six months in 1947. Tariff negotiations were organized bilaterally, involving the principal supplier on one side and potential markets on the other. This very first negotiation was deadlocked by Anglo-American disagreements, which in turn paralyzed many other bilateral pairs of negotiations. There was not yet a Western European bloc in the GATT; thus it fell to the British government to check what seemed to them to be the excesses of liberalization. Despite having teetered on the brink of collapse, the Geneva round achieved satisfying results. In fact, it was the threat of collapse, and the prospect of catastrophic economic and political consequences that would ensue, that was essential to the far-reaching lowering of tariffs that was achieved. The United States reduced tariffs by about 20 per cent. The Europeans also reduced tariffs, but by a much lower percentage. For example, Sweden and Denmark reduced their already low duties by an average of 15 per cent. Overall, more than 100 bilateral pairs of negotiations were concluded. Individual results were subsequently multilateralized, meaning that all participants benefitted from all reductions. Altogether they reduced tariffs on over 45,000, mostly industrial, items. The first round of tariff negotiations also gave rise to the establishment of the GATT. Needing a trade agreement to conduct the negotiations, the participating states adopted the commercial policy chapter of the draft ITO charter as an interim agreement. It was subsequently bundled with the results of bilateral negotiations amongst 23 participating states and introduced as the GATT.[5]

During the Geneva round of tariff negotiations, there had been little discussion of economic development. The main work was negotiating tariff

reductions. Developing countries did not figure prominently or benefit significantly, for several reasons. First, negotiations on specific commodities were typically spearheaded by the principal suppliers: developing countries rarely qualified. Second, one area of competitive advantage was in agricultural production but as Gregory P. Marchildon has explained in his chapter, agriculture was managed after the Second World War in such a way that agricultural products were largely excluded from the negotiations. Moreover, the way in which tariff negotiations worked exacerbated their marginalization. Countries produced lists of tariff concessions that they were willing to make; these lists were then exchanged with another country: reciprocal or balanced trade concessions was the goal. Developing countries wanted protection, not lower tariffs. With few concessions to offer, developing countries received few benefits in return. Finally, many lacked the personnel, resources and information to participate fully in tariff negotiations.

There was a follow-up conference in Havana to complete the ITO project. It was in Havana that the economic circumstances, needs and priorities of developing countries came into sharp relief against a trade order that bore the impress of developed countries intent on removing tariff barriers. The representative of Mexico denounced the ITO charter's emphasis that could wipe out rudimentary industrialization in developing nations; instead the ITO should focus on the underlying problems of global economic inequality and propose positive measures to achieve 'the economic development of all nations and the international co-operation required to expedite it'.[6] Over 800 amendments were proposed and the purpose of the ITO charter subsequently emphasized trade-related development. Developed and developing conceptions of the purpose of a global trade organization and the priorities of a global trade system clashed, not for the last time, and developing countries largely prevailed, for the last time.

Developing countries were nonetheless dissatisfied with the final product. Representatives from Chile and Colombia lamented a 'one-size-fits-all' approach to international trade whereby nations at different stages of economic development had to behave according to one set of standards and expectations.[7] But there was also praise for the new trade charter. As China's representative, Dr Wunz King, put it at the closing session, the new charter was 'a delicately balanced document'.[8] Developing countries also looked ahead to the actual implementation of the ITO as the real test of success.[9] They expected economically advanced states to be proactive to lift the conditions of deprivation elsewhere. As the Chilean officials explained, there was a 'need for the economically stronger countries to co-operate altruistically in the work of speedily improving the standards of living of the weak countries'.[10]

The United States also supported the Havana Charter. But it did so because of strategic considerations rather than a commitment to development. American officials hoped that the ITO would fortify the Western alliance,

whereas failure in Havana might create openings for the Soviet Union 'to bring other countries under their economic and political influence'.[11] Initial American support did not end in ratification of the ITO. President Harry S. Truman submitted the Havana Charter to Congress in 1949, explaining its importance in terms of global prosperity and international cooperation. Because the congressional agenda was crowded, the ITO was left in abeyance. Truman intended to put it forward again in 1950 but did not because support for the organization had withered. Without American backing, the charter lapsed.[12] A development-focused trade agenda was also defeated. That left the GATT to function as the arbiter and leader of the regulation of international trade along liberal lines. It was an accidental organization overseeing a global trade order 'stamped with the mark of competition and rivalry',[13] a dynamic that ill-suited, and possibly exacerbated, the weak bargaining positions of developing countries.

In its earliest years, discrete constituencies emerged: the USA was the champion of the GATT and freer trade; Britain was committed to liberalization in theory but in practice insisted on exceptions and accommodation as its economy recovered from the devastation of war; developing countries, who were not now or ever a cohesive group, were nonetheless committed to economic growth and diversification but for them free trade presented more perils than possibilities.

Liberalization and development: stalled agendas

There were three more rounds of GATT negotiations over the next decade: in Annecy (1949), Torquay (1951) and again in Geneva (1956). As Table 8.1 shows, none of these three rounds had as large an impact as the 1947 round as all together they reduced tariffs by 7 per cent. The negotiations were nonetheless important. They involved new members and perhaps even more significantly, they locked in lower tariff rates by binding them, thereby preventing any backsliding.[14] These achievements inspired some confidence in the GATT.

Despite these gains, the GATT's momentum slowed in the 1950s, for several reasons. First, Western European governments worked towards trade liberalization at a regional level and through the removal of QRs. They did so within the framework of the Organisation for European Economic Co-operation (OEEC). To offset the impact of the removal of QRs, Western European OEEC members wanted to maintain tariff protection, especially against American products. European governments were not yet ready to engage in open competition with American exporters. Second, as the number of GATT contracting parties increased, the cumbersome bilateral–multilateral method of tariff negotiations complicated, and sometimes prolonged, tariff reductions. Moreover, this method presumed that the United States would initiate major

Table 8.1 GATT Rounds and their main results

Year and name of Round	Number of participating countries	Average tariff cuts in the industrial sector (% *ad valorem*)	Number of concessions exchanged
1947 Geneva	23	19	45,000
1949 Annecy	29	2	5,000
1951 Torquay	32	3	8,700
1956 Geneva	33	2	2,700
1960–62 Dillon	29	8	4,400

Source: Asbeek Brusse (1997), p. 118; and Hoekman and Kostecki (2009), p. 101.

tariff cuts. Even though the State Department and Office of the President typically endorsed freer trade, Congress had to ratify all trade agreements and it was more susceptible to domestic protectionist pressures. It tended to obstruct and constrain American negotiators in Geneva. For instance, Congress introduced safeguard clauses and 'peril point' conditions that handcuffed American negotiators.[15] With qualified American leadership, and no other states stepping up, there was little impetus to continue to liberalize international trade through GATT.

The growth of regional trade blocs also sapped enthusiasm for GATT's mandate. In 1955, Belgium, Luxembourg, the Netherlands, France, the Federal Republic of Germany and Italy (subsequently referred to as the Six) decided to establish a customs union. Since 1953 foreign trade between them had been growing faster than elsewhere in Western Europe. They favoured a customs union that would extend preferential trade liberalization only to its members in order to sustain the ongoing dynamism and growth of trade. Moreover, the customs union would protect against American competition through a common external tariff (CET) and would strengthen their bargaining stance at the GATT. In 1957 the Treaty of Rome formally established the EEC.

Other GATT members were apprehensive about the establishment of the EEC, which they contended contravened GATT rules and norms. The GATT secretariat was also anxious about the regional trade bloc and tried to assert powers of oversight over it, without success. Even the United States, which had supported the EEC within the GATT, feared that it could be protectionist in practice and could undermine the liberalization and expansion of world trade. Despite these concerns, the EEC came into existence and both complicated and transformed the workings of the GATT.[16]

American concerns about possible injurious economic consequences stemming from the EEC prompted the Eisenhower administration to initiate a new

round of tariff negotiations. Its aim was to attenuate the discriminatory and protectionist elements of the EEC, alongside the usual goal of reducing tariff barriers. The Dillon Round started in September 1960 and was named after the USA Under Secretary of State C. Douglas Dillon. Despite widespread concerns that the EEC would stifle liberalization, it offered to reduce its CET across the board by 20 per cent, subject to reciprocity. This was an unprecedented offer. It far exceeded the depth of tariff cuts made in all previous rounds. But the United States could not reciprocate because of the congressional limits imposed on the negotiating authority of the USA government. Instead, negotiations returned to the cumbersome bilateral item-by-item approach.

The overall results were modest. The EEC reduced duties on transportation equipment, electrical and industrial machinery and chemicals; and the United States on machinery, electrical apparatus, steel and automobiles. Reductions affected only one-third of all USA–EEC trade. The average overall rate of tariff reductions was 7 per cent, a far cry from the 20 per cent reduction initially offered by the EEC. Negotiations in the agricultural sector were more contentious and the results more disappointing. Foodstuff-exporting countries such as Denmark, Canada, Australia and New Zealand were determined to make agriculture the major issue of the Dillon Round in the hope of ensuring their access to the markets of the Six before the expected protectionism of the Common Agricultural Policy (CAP) was in place. However, the EEC refused to enter into agricultural negotiations before the CAP had been fully settled. The USA Department of Agriculture suggested suspending the trade talks to signal American displeasure. But Washington's stance was shaky because the United States had received a GATT waiver in 1955 so that it could protect its own agriculture. In the end, the USA backed down and conceded that agriculture and the CAP were off the negotiating table. In turn, the EEC pledged not to increase protection until the CAP was implemented and not to set up any restrictive or import-controlling system.[17]

The Dillon Round highlighted problems in the promotion of freer trade, in particular that the bargaining authority of the USA executive was inadequate. There could not be major results as long as Congress restricted the extent of concessions. With the increased number of contracting parties, the item-by-item method of negotiations had become cumbersome, time-consuming and ineffective. A bold new initiative was needed to encourage the further liberalization of trade. That initiative had come in the form of the EEC during the Dillon Round. Although many feared that the EEC would become a protectionist bastion, it gave liberalization a new push. Because the GATT was increasingly dominated by the transatlantic dynamic between the United States and the EEC, EEC support was critical to the subsequent success of rounds of negotiations. However, real progress depended on agreement between them.

In contrast to the centrality of the USA and EEC in GATT, developing countries were marginalized. Although developing countries had been underrepresented in GATT at the outset, there had been reasons to expect their position to improve. The number of developing countries in GATT grew steadily, initially mostly from Latin and South America where there was a strong movement in support of development through trade championed by influential economists like Raúl Prebisch.[18] As decolonization spread from the mid 1950s, new developing countries joined from Asia and Africa. By 1963, self-described developing countries constituted a majority within GATT. But thus far they had little success in reconstituting the GATT to better serve their needs. For instance, during a general review of the GATT in 1954–55, developing members emphasized the need to protect vulnerable economies by staving off the harsh forces of international competition until they were better able to compete. They wanted to protect their own market (often through high tariff barriers), yet they also wanted foreign markets opened to their exports. What they called for was asymmetrical liberalization. This flew in the face of the ways in which GATT norms of reciprocity, non-discrimination and openness were understood by the Western powers.

The clash of visions crystallized in discussions about the use of QRs. The General Agreement permitted their use only under certain circumstances – such as an emergency provoked by a balance-of-payments problem. The United States and other developed countries insisted that now that the period of recovery from the Second World War had ended, QRs were no longer justified. But developing countries wanted to use them to promote economic diversification and encourage industrial activity. India's influential delegate, L. K. Jha,[19] explained that without such devices, developing economies would be susceptible to volatility and economic strain, which would undermine the growth of international trade. Sensing that a general ban would not be endorsed, the USA tried to impose restrictions on their use. Where they might still be used, the USA called for GATT oversight. The American position was compromised because the United States used QRs against agricultural imports – here was clear evidence of a double standard. The result was that the specific articles dealing with QRs (Articles XI and XII) were preserved with minor modifications and Article XVIII was amended to justify the use of 'any non-discriminatory measure' for the sake of economic development.[20] Although developing countries succeeded in maintaining access to QRs as a tool of economic development, the GATT was not transformed to promote more actively or effectively economic development. Its main mandate – to open up world trade through tariff negotiations – remained at its core.

Patterns of trade seemed to justify the complaints of developing countries that liberalization ill-served their economic development. The *Haberler Report* of 1958 showed the extent to which the developing world lagged behind as

exporters, in part because of barriers in developed markets.[21] As Table 8.2 shows, the developing country's share of total world trade (both imports and exports) fell between 1950 and 1970. Although the volume of trade was rising in absolute terms, the drop in the relative share seemed to justify the accusation that the GATT was a rich man's club. This was not something that the GATT secretariat felt it could ignore.

In 1963, an eight-point action plan programme was produced by 21 developing countries in order to stimulate their exports. Some of the key points included a standstill provision to prevent the introduction of new barriers, either tariff or non-tariff; the elimination by developed countries of all quantitative restrictions within one year; tariff-free access in industrial markets for tropical products; the elimination of tariffs on primary products; a 50 per cent reduction of tariffs applied to semi-processed or processed goods, to be phased in over three years; and curbing internal taxes that raised prices that made their exports less competitive. Throughout the programme it was clear that the authors expected developed countries to take action that would boost the exports of developing countries.

These measures were formulated as imperatives but their implementation depended entirely on the willingness of developed members to act on them. The EEC was particularly intransigent. Its representatives refused to endorse the first seven points, but cast their opposition as a protest against their inadequacy – the measures did not do enough for development because they either missed the point or threatened to make matters worse. For instance, the crux of the problem with tropical products was related to price rather than access to markets. They called for 'more positive measures' and more studies to understand better the particular challenges confronting developing countries.[22] Because nothing was done, developing countries became embittered.[23]

Table 8.2 Share of world trade (%)

	1950	1960	1970
Imports			
Developed countries	66	66	72
Less developed countries	26	22	17
Centrally planned economies	8	12	11
Exports			
Developed countries	61	67	72
Less developed countries	31	21	18
Centrally planned economies	8	12	10

Source: Compiled from United Nations (1981), special table B, pp. 1080–1.

Philip H. Trezise, Deputy Assistant Secretary of State for Economic Affairs in the USA, was alarmed at 'how disgruntled the developing countries are with GATT'.[24]

If the response to the eight-point action programme was lackluster, there was progress on other fronts. A trade and development centre was established in 1964 to provide technical expertise to developing countries with regard to trade policies and participating in trade negotiations. The GATT also began to consider the pros and cons of extending preferences from developed to developing countries as well as between developing countries. This was a more promising measure because it embodied some of the premises of development thinking: developing countries should receive special and differential treatment and the onus was on developed countries to take unilateral action to encourage development. But American officials opposed preferential tariff treatment because it was discriminatory and because they did not think that it would work. In their opinion, the best way to help developing countries was by removing discriminatory barriers, not introducing a new layer of discrimination.[25] Not all developed countries agreed with the American stand. Belgium's officials believed that individual countries could extend individual preferences to specific industries. This selective approach would ensure that those countries that most needed a preference would benefit and that those industries with the greatest promise of efficient production would receive the preferential advantage. Japan favoured preferences only to competitive industries and only for a short time. Divided opinions about the best way to implement preferences, combined with American opposition, meant that nothing was decided.[26]

Division amongst the prospective beneficiaries of preferences further weakened the case for preferences. Nigeria and Uganda wanted preferences to be applied to the least developed countries, in contrast to the better-off less developed countries. Developing countries already enjoying preferences (such as former French colonies) were reluctant to share their advantages. Israel insisted that preferences should only benefit products with the greatest likelihood of becoming competitive on world markets, whereas Brazil advocated for preferences for all developing countries, inside and outside of GATT.[27] The developing members of GATT were also an ineffective lobby because the GATT functioned through the quest for unanimity. It rarely held votes. Developing countries could not capitalize on their majority.

By the mid 1960s, developing countries had other forums that they could turn to, in particular UNCTAD, which had been established precisely to promote development. It held its first meeting in 1964 and turned a critical eye on the GATT. The GATT's emphasis on the removal of trade barriers made it irrelevant to development from UNCTAD's point of view. The assumption that all contracting parties should be treated equally – what Prebisch called 'an abstract notion of economic homogeneity' – was injurious to developing countries. The GATT had also been unable to prevent the rise of regional trade

blocs, particularly in Europe, which developing countries claimed diverted trade away from them. The GATT could not curb the use of QRs as applied by developed countries to the exports of developing countries, nor could it broker commodity agreements that most developing countries wanted.[28] In short, the GATT approach was outdated and as a result it would be sidelined in the creation of a 'new order which must meet the needs of development'.[29]

Eric Wyndham White, the first executive secretary of the GATT, defended the organization against its many detractors.[30] He appeared at UNCTAD to confront a hostile group. He admitted that not enough had been achieved. But the GATT could not simply waive aside its rules and obligations. He admitted that preferences were unresolved and noted that the GATT was acting with 'more prudence than heroism'; however, the issue was unresolved rather than shelved.[31] He also pointed out that developing countries made up two-thirds of the contracting parties and the onus was on them to work together within GATT to make trade serve the cause of development. Hence, he boldly asserted that GATT was a 'one-time rich-man's club', and upheld an inclusive and universal ideal of GATT. Finally, he deflected attention to the future, in particular the Kennedy Round – to begin in a few weeks' time – which he believed was filled with promise for the future of world trade.

During the years when the GATT developed institutionally – having more members and a more elaborate organization – conflicts and clashes were constant, particularly along two dominant axes between the USA and the EEC and between developing and developed countries. Some of the clashes were resolved in favour of one or the other side – such as the exclusion of agriculture from the Dillon Round, which the EEC had insisted upon, and the failure to introduce new practices so that trade would spark economic development. Even though liberalism maintained that trade benefitted all, it is also widely believed that trade produces winners and losers. The GATT's major members tried to ensure that everyone won, at least some of the time. Even so, the benefits were not equally spread. Liberalization in manufactured goods meant that industrialized countries benefitted more from GATT than countries producing agricultural exports. The so-called losers, developing countries for whom the benefits were less substantial, became disgruntled and pushed for meaningful actions and concessions. But developed economies did not support liberalization wholeheartedly either. To the surprise of many, it was the EEC that pushed the potential for liberalization in manufactured trade in this period rather than the United States. Conversely, it was the USA that pressed, half-heartedly to be sure, to include agriculture in the negotiations, a move that the EEC blocked. The push-pull dynamic was the engine that drove liberalization and that determined whether and how the GATT could respond to the demands of development. This dynamic was intrinsically combative and oppositional but it engendered progress as well as stalemate.

The Kennedy Round: liberalization revitalized but some left behind

From the USA perspective, the EEC was both a challenge and an opportunity. On the one hand, it could develop into an inward-looking trade bloc; on the other hand, for the first time since 1947 it had a credible negotiating partner. Equally important, trade in manufactures was increasing rapidly across the Atlantic and Western Europe. Further cuts to tariffs might sustain this growth. These developments pushed the USA to formulate a new trade policy that would allow it to play its part in galvanizing far-reaching liberalization through 'percentage cuts across the board rather than the traditional item-by-item haggling'.[32] In January 1962, President Kennedy sent to Congress the text of the trade bill enhancing USA bargaining power. He observed that 'the growth of the European Economic Community' had made the United States' traditional trade policy obsolete.[33] The Trade Expansion Act (TEA) authorized the linear reduction of tariffs in the industrial sector by as much as 50 per cent and, in some cases, even the elimination of duties, thereby abandoning the item-by-item negotiations used in previous rounds. The existence of a strong and equal partner capable of offering reciprocal concessions was also crucial to congressional support for a new round of trade negotiations based on new negotiating principles.[34] A bolder American approach to trade was also prompted by fears that the EEC could become a bastion of protectionism in agricultural trade. Although the CAP was still not finalized, fears of its protectionist impact increased. Washington therefore insisted that agriculture should be fully included in the round. The new trade policy was a response to the protectionist and liberalizing impulses of the EEC.

The EEC members supported the USA proposal for a new round of trade liberalization. They saw a reduction of tariffs as an opportunity to sustain the growth of industrial exports to the United States and the countries of the European Free Trade Association (EFTA), another European trade bloc, but one that was considerably less dynamic than the EEC. They were willing to reduce the CET in order to obtain compensating reduction of duties elsewhere. Improved competitiveness made multilateral liberalization bearable to countries like France and Italy that had traditionally been more protectionist. Moreover, negotiating as a single entity gave them a new-found bargaining power to push Washington to make larger tariff cuts. The EEC was now ready to step in front of the protective wall of the CET and compete head-on with the USA.[35]

With UNCTAD in the background, the commercial priorities of developing countries were apparently given serious consideration in the lead-up to the Kennedy Round. A series of ministerial resolutions noted that 'every effort' would be made to lower barriers to the exports of developing countries; although the goal of the round was to lower tariffs by 50 per cent, this threshold should be exceeded on items affecting developing country products; special attention

would be paid to tropical products; and, finally, developed countries could not seek balanced reciprocity in their negotiations with developing countries – concessions would be asymmetrical.[36] This seemed to be the most promising basis for their participation in a round of tariff negotiations yet.

The new round, which the Europeans dubbed the Kennedy Round, took place in Geneva between 1963 and 1967. As expected, the EEC and USA dominated. Despite their joint support for a new round, their bilateral negotiations did not go well. As in all previous rounds, participants sought balanced agreements, important once negotiators had to sell the agreements to domestic audiences. As a result, the EEC emphasized the disparity between EEC and American tariffs, meaning that the band between the highest and lowest EEC tariffs was much narrower than in the USA, where the highest tariffs tended to be much higher. This meant that even though a linear cut would reduce higher tariffs, they would nonetheless remain higher than the more moderate European tariffs. Thus the EEC asked for harmonization of the level of duties across the Atlantic that would require a bigger cut of USA tariffs.[37]

The USA refused to negotiate on the basis of harmonization. American negotiators tried to isolate the EEC in the harmonization debate. They campaigned strongly against it – and, the French claimed, above all against Paris. The EEC was taken aback by the unbending American negotiating stance, in stark contrast to the earlier kid-glove treatment that they had received. Some wondered if the American negotiations reflected an underlying anti-EEC attitude. In fact, American firmness in negotiations reflected the belief that the EEC, too often focused on internal quarrels and crisis, needed to be pressured to contribute to the liberalization of trade.[38]

Even though the American decision to confront the EEC head-on was part of their negotiating strategy, the Kennedy Round threatened to pull the Atlantic alliance apart rather than strengthen it through expanding trade links, as Kennedy had originally envisioned. America's bilateral relations with France and the Federal Republic of Germany were particularly fraught over issues unrelated to the round but that were nonetheless implicated in trade negotiations. A quarrel over the financing of USA troops in Germany irritated American–German relations. At a time when there was increasing American concern about its balance of payments, the question of burden-sharing in the security sector became a pressing political issue. American relations with France were strained by disagreements over the governance of the Atlantic alliance, security and monetary issues and nuclear weapons. The decision of French president Charles de Gaulle to quit the command structure of the North Atlantic Treaty Organization (NATO) in March 1966, together with French policy on the US dollar and the open criticism of Johnson's military effort in South East Asia aggravated their relations. By the middle of 1966, the Treasury Department concluded that France was 'practicing economy warfare' against the United States.[39]

The American position was also strongly influenced by its declining trade surplus with the EEC. The elaboration of a fully protectionist CAP exacerbated American concerns about illiberal EEC economic policies. A deteriorating domestic economic situation revived the protectionist inclination of Congress, where mistrust for selfish European allies and European integration mounted. Johnson could not ignore the mood of Congress. By 1967, as the Kennedy Round drew to a close, the State Department was hard pressed to make a compelling case that domestic economic interests should be subordinated to security considerations. American policy was still strongly supportive of European integration and was willing to endure some forms of discrimination, but the change of policy orchestrated by Nixon, which Thomas W. Zeiler examines in the next chapter, was already in the air. For the time being, these tensions seeped into the Kennedy Round. Mistrust between the USA and the EEC delegations in Geneva intensified.[40]

Despite these quarrels, negotiations went well in the industrial sector where the USA and EEC had a shared interest in reducing tariffs. As Figure 8.1 shows, the deepest cuts affected the most dynamic areas of trade amongst industrialized countries, notably mechanical, machinery and transport equipment sectors where tariffs were reduced by 45 per cent. In other sectors there were smaller tariff cuts. For example, the EEC reduced tariffs on paper products by 15 per cent. Because of the opposition of both the United States and the EEC, tariffs on steel and textiles were only cut by 10 per cent and 20 per cent, respectively. QRs remained and they offset the impact of some duty reductions.[41]

Negotiations to reduce agricultural protectionism made significantly less progress. Rather than discuss trade barriers that applied to individual commodities and how to reduce them, the United States and EEC argued about whether there should be liberalization at all. The United States insisted that this sector had to be liberalized. However, by liberalization it meant that the EEC had to enlarge its import quotas on basic commodities like grains, while it refused to relinquish its quotas obtained in 1955. For the EEC, any liberalization was highly problematic. The Six would not move on agriculture in the GATT context until the CAP was set up. However, when the mechanism was eventually in place in July 1966, there was not much room to negotiate in Geneva because of the internal veto system. For example, the EEC could extend import quotas to third countries in order to maintain a stable level of imports and offset the discriminatory effects of the CAP. France objected to doing this. Or, the EEC could reduce its common prices, which in the case of some commodities – such as grains – were 60 per cent higher than world prices. Germany staunchly opposed lowering prices.[42] To strengthen its position, Washington threatened not to conclude negotiations in the industrial sector unless the EEC agreed to reduce protection in the agricultural sector.[43] Even with this pressure, as the end of the Kennedy Round loomed, only token tariff reductions had been made on poultry, fruits and vegetables, offals and

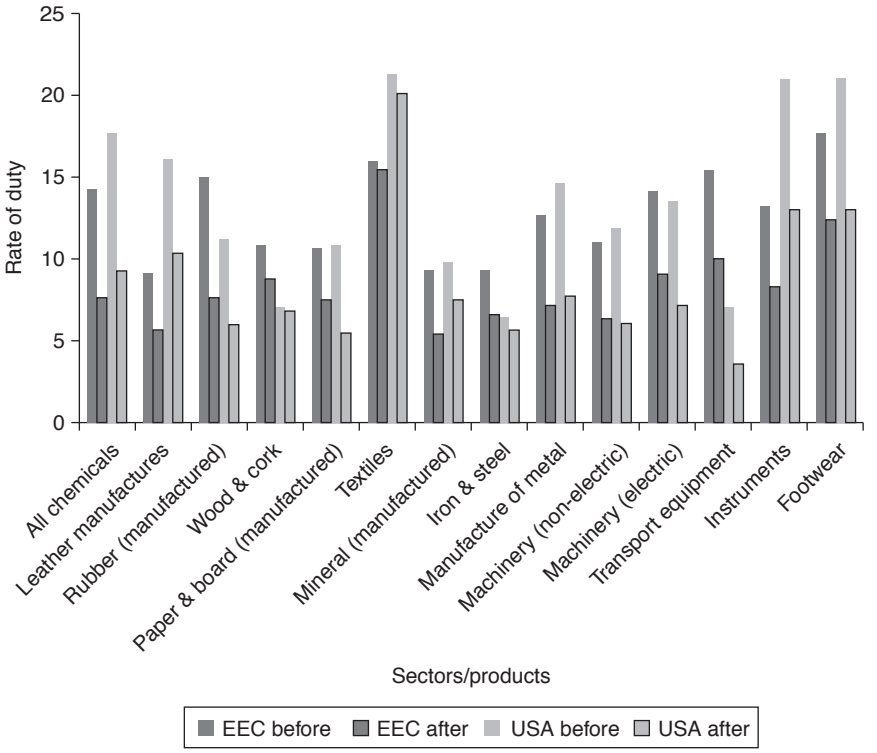

Figure 8.1 Average EEC and USA tariffs on dutiable imports, as a percentage of cost, insurance and freight (CIF) value, before and after the Kennedy Round
Source: Compiled from Preeg (1970), pp. 208–12.

tobacco. Despite the promise of a breakthrough in agricultural trade when the round began, it was once again set aside. The USA accepted the GATT's failure in this sector that allowed the round to conclude.[44]

The Kennedy Round ended with much fanfare. Despite prolonged disagreement and many shortcomings, the shared aim of reducing barriers led to notable, even if mixed, results. There was also considerable relief that a USA–EEC fallout had been averted. Duties were cut by 35 per cent on average, with about two-thirds of the reductions reaching 50 per cent. The average level of the CET would sit at 8.2 per cent, Japan would have an average tariff level of 11.5 per cent, the United Kingdom 10.4 per cent and the United States 9.4 per cent.[45]

But for developing countries there seemed to be little cause for celebration. Liberalizing trade in tropical products like tea, coffee, cocoa, bananas, oilseeds and timber had been one of their top priorities. Not only did these commodities encounter tariff barriers but they also had to surmount internal charges that raised prices, often making these commodities uncompetitive. For example,

an internal fee in West Germany was equivalent to an *ad valorem* tax of 71 per cent on tea.[46] Although there were a few significant reductions affecting tropical products, they affected less than 50 per cent of the volume of trade in tropical products and internal charges remained.[47]

The representatives of developing countries believed that the EEC was the main obstacle to liberalizing the trade in tropical products. EEC resistance had much to do with their preferential agreements with former African colonies, negotiated under the Yaoundé Convention, the association agreement signed in 1964 between the EEC and the 18 former African colonies that had recently gained independence. The associated countries were opposed to any reduction of preference and even asked the EEC to raise duties against other developing countries: this restrained the EEC's bargaining leverage. The issue was also one that elicited divided opinions among the Six. Germany and the Netherlands favoured drastic tariff reductions on coffee, cacao, bananas and rum; this would demonstrate the liberal attitude of the EEC, whereas France insisted that the flow of trade had to be stabilized before EEC markets could be made more open. It was concerned about flooding European markets with such commodities and with maintaining the preferential access for French former colonies. Belgium, Luxembourg and Italy took a middle-ground position. Eventually the Six agreed to consolidate duties to the level set by the Yaoundé Convention and to reduce tariffs on some products, such as tea, by 50 per cent.[48]

Even with such cuts, the EEC and its associated countries did not meaningfully reduce the Yaoundé preferences. Many developing countries were deeply critical of this, supported by the USA and UK although they had ulterior motives.[49] The British increased the pressure of developing countries on the EEC to improve offers because such cuts would compensate Commonwealth countries that saw their competitive advantages shrink in the British market.[50] As for the USA, under the TEA it could only reduce duties on tropical products in tandem with the EEC. The refusal of the EEC to make serious reductions closed the way to any meaningful result in this sector.[51]

Developing countries were also intent on liberalizing trade in textiles, an area in which they had achieved a globally competitive position and whose growth was linked to plans to modernize, diversify and industrialize their economies.[52] Protective barriers and practices had long offset their competitive advantage.[53] Even though textile and clothing exports from developed countries far exceeded the volume of developing countries (see Figure 8.2), governments like those of the United States, Canada, Britain and France complained of market disruption and imposed restrictions on the amount and type of cotton and wool textiles that could gain access to their markets. As a result, countries like Japan, India, Pakistan, Egypt, South Korea, Hong Kong, Taiwan, Colombia, Spain, Poland and Yugoslavia had their access to foreign markets blocked through quotas.[54] Far from being weak and needy, developing countries were portrayed as aggressors.

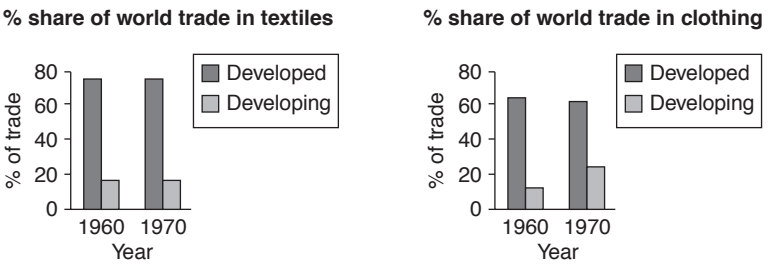

Figure 8.2 Developed and developing countries' market share in textiles and clothing

Source: Study on Textiles: Report of the Working Party in Textiles, GATT: L/3797, 29 December 1972, GATT Digital Library, Stanford University, CA (GDL).

Leading up to the Kennedy Round, the GATT wrestled with problems in the cotton textile trade. In 1962, the Long-Term Arrangement Regarding Trade in Cotton Textiles (LTA) had been concluded. Although the LTA encouraged developing countries to establish efficient textile production, it really privileged the domestic market stability of developed countries and permitted participating governments to introduce restrictions against cotton textiles if such imports 'cause or threaten to cause disruption in the market of the importing country'.[55] Nine months after the agreement came into effect, the USA introduced 160 actions to restrain cotton textile imports from 17 countries.[56]

During the Kennedy Round, negotiators for the developing countries asked for the dismantling of the LTA, whereas the USA and EEC wanted the LTA renewed for five more years. Representatives of the developing countries shifted their position, now seeking tariff reductions and enlargement of the import quotas: this was their condition for accepting the renewal of the cotton agreement for three more years. Although the Johnson administration in the USA understood its own double standard – calling for liberalization while blocking imports through quotas – and sought genuinely to liberalize trade in textiles, it faced entrenched domestic opposition. In the end, its success was in holding the line on levels of protection. Despite domestic opposition, duties on cotton textiles were reduced by 21 per cent, although this was far lower than the 35 per cent average reduction of the Kennedy Round and the 45 per cent reduction achieved in the mechanical sector. Residual quotas offset the impact of the duty reduction. Negotiations over textiles plainly showed the unwillingness of industrialized countries to make concessions to developing countries, despite their initial statement that the Kennedy Round would be a breakthrough for trade and development.[57]

The lackluster commitment to development was evident in other areas. The connection between international trade and development was laid out in a new chapter of the General Agreement, Part IV: Trade and Development, whose

text was finalized in 1964, in the midst of the round. Its contents reflected earlier proposals, for instance calling for a standstill on barriers to the trade of developing countries and unilateral action by developed countries. Two-thirds of GATT's contracting parties had to endorse the new chapter to amend formally the General Agreement; there was no rush to ratify. On 27 June 1966, the requisite two-thirds threshold was finally met and Part IV came into effect. The apathy and delay in ratifying Part IV confirmed that promoting development through trade was not a priority for the Kennedy Round. GATT countries had also long been discussing the possibility of introducing preferential tariffs to benefit the exports and industries of developing countries. Such a measure contradicted the core GATT principle of non-discrimination but it was consistent with the assumption that developing countries needed special treatment to achieve economic growth and diversification. GATT countries, however, were divided about whether or not such a measure would work in practice. The United States was the most determined opponent to preferences. Its practical implementation was also controversial: should preferences be extended to the most needy countries or the most promising industries? Should they be general or selective? Piecemeal measures were introduced but there was no definitive GATT position on preferences. While GATT debates went on, UNCTAD moved to introduce a General System of Preferences (GSP) in 1968. In 1971, the GATT finally ratified preferences that had been introduced to promote the exports of developing countries. But this was another case of too little, too late.[58]

As the Kennedy Round entered its final and critical phase, resolving lingering disagreements between the USA and the EEC was the priority to wrap up the round. To try to appease developing members of GATT, Wyndham White organized two meetings with their representatives. They asked for maximum reduction of tariffs on their exports and the elimination of duties on tropical products, to take immediate effect. These demands were not met. José Encinas, the Ambassador of Peru, speaking on behalf of an informal group of developing countries, expressed their collective disappointment. Those trade questions of greatest interest to the developing countries – tropical products, commodity agreements, the removal of non-tariff barriers and immediate implementation of concessions for developing countries – were not addressed. The result, he explained, was that the developing countries 'are not in a position to share, to the same extent, the satisfaction of the developed countries at the conclusion and the achievements of the Kennedy Round'.[59] Eight developing countries had opted out of tariff reductions and eight more did not sign the final agreement. Their protests were partly symbolic and partly political. American officials publically insisted that the Kennedy Round brought real benefits and opportunities to exports of developing countries. American concessions alone were valued at $900 million.

Privately they admitted that 'the LDCs got less from the Kennedy Round than did the DCs' and that as a result the developing countries were 'at a relatively greater disadvantage in world trade after the Kennedy Round than they were before'.[60]

A GATT study also confirmed that their disappointment was merited, especially because of the expectations set at the start of the round. For example, the challenge to lower tariffs by more than 50 per cent only affected about one-quarter of all tariff concessions to developing countries.[61] The average decrease in tariff reduction to goods from developing countries was lower than the overall average reduction achieved in the negotiations: 29 per cent compared to 35 per cent.[62] There were still quantitative restrictions in place against their products. Tariffs levied against the manufactured exports from developing countries were higher than for similar products in an unprocessed form. Hence, the analysis concluded: 'The principles and procedures on which the negotiations had been based could not take account of the special development problems of the developing countries and had thus led to disappointing results for these countries.'[63] Under pressure, Wyndham White issued a statement noting that the results of the Kennedy Round fell short of the expectations of developing countries.[64]

Conclusions

Trade negotiations within the GATT always involved conflict between negotiating partners. The bilateral framework for negotiations pitted representatives of two countries against each another. Where one country would be seeking expanded access to a market, the other did not typically welcome greater accessibility. Possible concessions were held out to entice their counterparts to overcome their reluctance. The quest to establish a balanced exchange of concessions was not easily arrived at: there was a grudging and combative quality to these negotiations. By holding rounds of negotiations, the GATT became a forum in which members met to pursue freer trade where they were most competitive and resist it doggedly where they were most vulnerable to competitive pressure. Overall, this embattled exchange worked. At the end of every round of negotiations, liberalization of world trade was pushed farther and deeper. Conflict did not prevent the USA and EEC from liberalizing trade between them. Both believed that liberalization would benefit their economic growth and therefore were able to reconcile their conflicts through compromises that steadily reduced barriers to trade. In this sense, transatlantic conflict was embedded in the GATT but it was also crucial to the promotion of ever freer trade. Conflict was also entrenched in trade relations between the developed and the developing countries, but in this case it was not as conducive either to liberalization or to initiatives that would allow trade to spark

economic development. Like others in this collection, this chapter shows that conflict was inherent in the pursuit of trading opportunities, whether it was free or not.

Conflict was also entrenched in trade negotiations because the boundary separating international trade activity and domestic economic activity dissolved and politicized trade. In GATT, national negotiators therefore adopted a zero-sum outlook and fought hard to extract maximum benefits while giving up as little as possible in return. Resistance to economic logic also explains why developed countries did not work for the economic development and diversification of developing countries in GATT. No one denied that as developing countries became more prosperous, their citizens would become more active global consumers. But few were willing to take steps to foster development if doing so imperilled domestic economic sectors. Because developing countries were most active in agricultural production – a sector of the economy widely subject to protection – and textiles – where workers in Europe and North America tended to be unskilled and therefore subject to long-term unemployment – they met with determined resistance. The promise of future prosperity was not strong enough to persuade governments to accept real pain and a backlash in the here and now. The power of domestic pressures and lobby groups meant that GATT rules had to be applied with flexibility. Because protectionism and freer markets coexisted, GATT rules tolerated the neo-mercantilism that characterized their commercial policies. Most importantly, this flexibility provided room for developed countries to reconcile their conflicts within the framework of the GATT.

Both the competitive nature of trade and the structure of GATT ensured that rounds of trade negotiations would be conflictual, an outcome that has been confirmed with each subsequent round of negotiations, including the Uruguay round (1986–94) when the World Trade Organization was established and the GATT was subsumed within it. But the GATT negotiations add some further inflections to the relationship between trade and conflict. Conflict was also a process that resolved competing claims and pushed its members to ever greater commitment to a liberal trade order, although there were always exceptions, such as agriculture, where conflict did not overcome stalemate. The emergence of the EEC as an effective and powerful collective member within GATT ignited the process of trade liberalization once it had begun to stall. It pushed the United States to renew its commitment to trade liberalization in the 1960s. Similarly the USA pressured the EEC to resist its own protectionist leanings, especially in agriculture. The trade negotiations between them were a struggle between commercial titans and, because of their evenly matched positions, these negotiations could and did drag on. But when they could agree, their combined influence propelled liberalization forward.

GATT members were not able to channel conflict between developed and developing countries in a way favourable to trade liberalization in key sectors like agriculture and textiles. The arrival of developing countries as independent states on the world stage in the 1960s could not be ignored in Geneva. They had a sound economic justification for their demands, as well as a compelling logic rooted in social justice but their place in the expanding global trade system did not keep pace with Western and industrialized countries. Two hurdles impeded them to push forward their trade interest and, in particular, the liberalization in the areas of greatest interest to them. First, they were divided and therefore could not use their collective power to bargain with the developed countries. Second, their unwillingness to reduce their own trade barriers marginalized them at the negotiating table. In the bazaar-style of swapping concessions, the only way to get was to give. The non-reciprocity rule introduced to offset the disadvantages of developing countries in negotiations did not in fact help them reach their aims and developed countries could disregard their requests. Even when there were concessions, developing countries remained unsatisfied; their dissatisfaction only reached a breaking-point in the thwarted Doha Round of trade negotiations. They had more success in seeking exceptions to liberal trade policies because these measures involved little sacrifice on the part of the leading developed members of GATT. Piers Ludlow has recently characterized the EEC as a commercial heavyweight;[65] the developing countries, in contrast, were heard but carried little weight. These axes of conflict were more broadly representative of the distribution of power in the global economy.

The GATT was a focal point for disagreements, tensions and competition such that it was frequently disparaged and rarely praised. While some countries occasionally considered quitting the organization, there were no serious defections. Indeed, there were always countries lined up for admission to GATT – evidence of the belief that they would benefit from inclusion in the organization. But there were few GATT members willing to champion or cheer for the GATT – evidence of the domestic political and economic costs that membership entailed. Hence, it remained a valued but unloved institution. To demonstrate its ongoing relevance it had to spark ever more rounds of trade negotiations, instigating and escalating the tensions, competition and acrimony that the pursuit of trade always begat. The General Agreement on Tariffs and Trade was central to a process that highlighted clashing interests amongst nations, created winners and losers and employed crisis and failure as tools to propel liberalization forward. The process, however, should not be conflated with the end results. The underlying confidence that freeing trade would generate economic interdependence that would make the world more prosperous, stable and peaceful proved to be surprisingly resilient even though the path by which it was reached was strewn with discord.

Notes

The authors are grateful to Tim Rooth, Fernando Guirao, Richard Toye and the anonymous reviewer for their helpful comments.

1. Hull, vol. 1 (1948), p. 81.
2. Political scientists describe the GATT as an international regime. Krasner (1983), p. 1, has provided an oft-used definition of a regime: 'principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area'. However, we use the term 'organization' to describe the GATT because it also had an institutional framework and mandate. It was an actor in its own right, although one that developed over the course of its existence, which promoted liberal norms and upheld a body of trade rules. This chapter examines the GATT primarily as an institution that was a forum for its members as well as an agent of liberalizing world trade.
3. There are only a few studies of the impact of the Cold War on GATT. See McKenzie (2008); Zeiler (1999); and Kostecki (1979).
4. Brief for the Delegates to the First Meeting of the Preparatory Committee on International Trade and Employment to Commence in London on 15 October 1946, Commerce and Industries: National Archives of India, 53 (4) – TB/52: Brief to Government's Representatives to Sixth GATT Session.
5. On the origins of GATT, see, among others, Irwin et al. (2008).
6. Address by L. J. C. Ramón Betata, President, the Mexican delegation, UN Conference on Trade and Employment, Havana, 26 November 1947: GATT Digital Library, Stanford University, CA (hereafter, GDL), ITO/32.
7. Statement to be delivered by Mr Walter Muller, President of the delegation of Chile to the Conference on Trade and Employment in Havana, Cuba, 21 March 1948: GDL/ITO/188; Speech Delivered at the 17th Plenary Meeting on behalf of the delegation of Colombia by H. E. Dr. Fulgencio Lequerica Veles, Minister of Colombia in Cuba, Delegate to the Conference and Minister Plenipotentiary, 20 March 1948: GDL/ITO/187.
8. Speech to be delivered by the chief delegate of China to the Closing Session of the Havana Conference, 19 March 1948: GDL/ITO/179.
9. Address by Licenciado Ramón Betata, President, the Mexican delegation, in the closing session of the UN Conference on Trade and Employment, 21 March 1948: GDL/ITO/192.
10. Statement to be delivered by Mr Walter Muller, President of the delegation of Chile to the Conference on Trade and Employment in Havana, Cuba, 21 March 1948: GDL/ITO/188.
11. 'Considerations in Deciding Course for Havana', 30 December 1947, Truman Library: Clayton-Thorp Papers/RG59/Box 4/Memoranda – copies of, July–31 December 1947. For an alternative perspective on the USA stance, see Toye (2003a).
12. On the failure of the ITO, in addition to Zeiler (1999), see Diebold (1981); and Toye (2012).
13. Operation of the General Agreement: Note by the Secretariat, 18 June 1953, from a memo from Government of Haiti: GDL/L/96.
14. Irwin (1995); and Asbeek Brusse (1997), p. 119.
15. On the consequences of the European and USA policy for the GATT trade liberalization, see Asbeek Brusse (1997), pp. 84–6 and 131–9.

16. McKenzie (2010); and Coppolaro (2013), pp. 18–20.
17. For an account of the Dillon Round and its results, see Dryden (1995); Preeg (1970), pp. 40–1; and Zeiler (1992), pp. 64–5.
18. On this aspect of Prebisch's activities, see Dosman (2008).
19. Win Brown singled out Jha as one of the two 'outstanding personalities' at the review, who was 'wise in judgment, eloquent in debate, reasonable in approach and extremely well informed'. He paid what must have been intended to be a great compliment when he remarked that Jha 'thought like a Westerner'. Brown, memo, *Foreign Relations of the United States*, [hereafter, *FRUS*] *1955–1957*, vol. 9, p. 101.
20. 'Review of the General Agreement on Tariffs and Trade', held at Geneva, 8 November 1954–55, March 1955, Commonwealth of Australia: National Archives and Records Administration, College Park, MD (hereafter, NARA), RG43: General Records of the Department of State – International Trade Files, Box 278, File Australia.
21. *Trends in International Trade* (1958). United Nations Conference on Trade and Development (UNCTAD) figures reveal the same pattern. See Schenk (2011), see table 1.5, p. 15.
22. Measures for the Expansion of Trade of Developing Countries as a Means of Furthering their Economic Development, Meeting of Ministers, 17 May 1963, Min (63) 2 and 21 May 1963, Min (63) 3: Library and Archives of Canada (hereafter, LAC), MG32–B41: vol. 12/12–9/G.A.T.T. 1963.
23. Measures for the Expansion of Trade of Developing Countries as a Means of Furthering their Economic Development, Meeting of Ministers, 21 May 1963, Min (63) 3: LAC/MG32–B41: vol. 12/12–9/G.A.T.T. 1963.
24. Interdepartmental Committee of Under Secretaries on Foreign Economic Policy, Summary of Meeting on 23 May 1963: NARA/RG59: Records of Component Offices of the Bureau of Economic Affairs, 1941–63, Box 2, File: Economic Affairs (Gen), E3 Organizations and Conferences, Interdepartmental Committee of Under Secretaries on Foreign Economic Policy 1963. Sir Edgar Cohen also believed that the developing countries were rightly disappointed by the outcome: 'It may have left some of the less developed countries with a sense of having missed a trick; of having lost, despite many strong speeches of support, the unequivocal decision for the Action Programme which their case deserved.' Cohen to Earl of Home, 29 May 1963: The National Archives, Kew, London (hereafter, TNA), CAB134/1959.
25. Memorandum from the Under Secretary of State (Ball) to President Kennedy, United Nations Conference on Trade and Development, 12 November 1963, *FRUS, 1961–1963*, vol. 9: Foreign Economic Policy, pp. 624–5.
26. Report on the First Meeting of the G.A.T.T. Working Group on Preferences in Geneva on 7–11 October 1963, Note by the Board of Trade, 22 October 1963: TNA/CAB134/1961.
27. Ibid.
28. 'The Developing Countries in GATT', *Proceedings of the United Nations Conference on Trade and Development (1st Session), 23 March–16 June 1964* (hereafter, *Proceedings of UNCTAD I*), vol. 5, pp. 430–69.
29. Report by the Secretary-General of the Conference, 'Towards a New Trade Policy for Development', *Proceedings of UNCTAD I*, vol. 2, pp. 5–23.
30. For a short biography of a leading international civil servant about whom little is known, see McKenzie (2012).
31. Statement by Mr Eric Wyndham White, Executive Secretary, General Agreement on Tariffs and Trade at the Twenty-Fourth Plenary Meeting, held on 8 April 1964, *Proceedings of UNCTAD I*, vol. 2, pp. 432–9.

32. Report to the Honourable John F. Kennedy, dated 31 December 1960, Pre-Presidential Papers – Transition Files, Task Force Reports, Box 1073, John Fitzgerald Kennedy Library; Ball (1984), pp. 159–65.
33. President's Message to the Congress, H.R. Doc. No. 314, 87th Congress, 2nd Session; reprinted in *Hearings Before the Committee on Ways and Means of the House of Representatives on H.R. 9900*.
34. This point has also been made by Eichengreen (2007), pp. 180–1.
35. Note S/628/62 and Annex 2 'Eléments qui pourraient faire l'objet d'études ulterieures au sein de la Communauté', 30 November 1962: Historical Archives European Union, Brussels (hereafter, HAEU), CM2/1963/946. On the EEC stance in the Kennedy Round, see Coppolaro (2013).
36. Meeting of the Committee at Ministerial Level: Resolution Adopted on 6 May 1964: GDL/TN64/27.
37. Rapport du Comité 111 sur l'attitude de la CEE 30.04.1963: HAEU/BAC506/026/1969; Telegram 40 from Cohen to Foreign Office, 27 April 1963: TNA/FO371/172308.
38. On the USA strategy, see CEE Conseil, Troisième Réunion de Coordination, 18 May 1963: HAEU/CM2/1963/947; and Telegram 3299 from Roth to Bator, 20 April 1967, Roth Papers, Box 3, Lyndon Bains Johnson Library, Austin, TX (hereafter, LBJL). On the USA stance towards the EEC, see Coppolaro (2011).
39. Memorandum from Winthrop Knowlton to Fowler, 'France', 11 July 1966, Fowler Papers, Box 68, LBJL. On the tensions in transatlantic relations, see Schwartz (2003), pp. 92–140.
40. On the tension between the USA and the EEC delegations in Geneva, see Telegram 3299 from Roth to Bator, 20 April 1967, Roth Papers, Box 3, LBJL. Telegram 384 from UK delegation in Geneva to Foreign Office, 21 April 1967: TNA/PREM13/1869.
41. On the results of the Kennedy Round sector by sector, see Curtice and Vastine, Jr. (1971).
42. For the intra-EEC discussions over the treatment of agriculture, see PV de la 177ème Réunion du Conseil de la CEE, 28 February–1 March 1966: HAEU/CM2/1966/4; PV de la 179ème Réunion du Conseil de la CEE, 21 March 1966: HAEU/CM2/1966/8. For a broader description of the role of the EEC in the agricultural negotiations, see Coppolaro (2013), pp. 149–76.
43. For the USA stance, see Memorandum to Mr Bundy, 26 October 1964, Bator Papers, Box 1, LBJL; and Note of McGeorge Bundy, 'Kennedy Round Strategy', 27 October 1964: NSF Subject Files: Trade–Kennedy Round, Box 48, LBJL.
44. On the USA decision to conclude the round, see Zeiler (1992), pp. 217–40.
45. For an evaluation of the results, see Preeg (1970), pp. 204–55.
46. Implementation of the 1963 Ministerial Conclusions on Trade in Tropical Products: Note by the Secretariat, 17 March 1966: GDL/CDM.TD/18.
47. Report of the Ad Hoc Group on Assessment of the Kennedy Round Results, 2 November 1967: GDL/COM.TD/49.
48. Note d'information, 'Consultation des EAMA sur les négociations en cours dans le cadre du Kennedy Round', 2 June 1966: HAEU/BAC62/1980–59; and PV de la 3ème session du Conseil d'Association CEE–EAMA, 18 May 1966: HAEU/BAC62/1980–59; PV de la 188ème Réunion du Conseil de la CEE, 13–14 June 1966: HAEU/CM2/1966/34; Note 'Tropical Products' by the Tariffs Division, October 1966: TNA/FO371/189599.
49. Rapport 79 de la délégation de Commission pour le négociations du GATT, 22 August 1966: HAEU/BAC122/1991–5; and Note 'Tropical Products' by the Tariffs Division, October 1966: TNA/FO371/189599.

50. Note of Roy Denman (UK delegation in Geneva) to Carter (Board of Trade), 7 October 1966: TNA/FO371/189599.
51. US Delegation to the Sixth Round of GATT Trade Negotiations, 'Part 1: Delegation Evaluation of Offers', 1 November 1966: NARA/RG364: Records of the US Trade Representative on the Kennedy Round, Box 1; Administrative History of the Department of State, vol. 1, pt 8, 'International Economic Relations', undated, Box 2, LBJL.
52. Rostow calls it a take-off industry. Perlow (1981), p. 94.
53. Ibid., p. 100.
54. Study on Textiles: Report of the Working Party on Trade in Textiles, GATT, 29 December 1972: GDL/L/3797.
55. *The Activities of GATT 1961–62* (1961), pp. 29–30.
56. Memorandum from the Under Secretary of State (Ball) to President Kennedy, 17 April 1963, *FRUS, 1961–1963*, vol. 9, no. 274, p. 590.
57. Administrative History of the Department of State, vol. 1, pt 8, LBJL, and Administrative History of the Department of Commerce, vol. 1, pt 3, 'Report of Trade Policy Activities', undated, Box 2, LBJL.
58. On the EEC and the GSP, see Bartels (2007). On the discontent of the developing countries in the Tokyo Round, see Winham (1986), pp. 273–80.
59. UK Mission Geneva to FO [Foreign Office], tel 613, 4 July 1967: TNA/BT241/1171.
60. Contingency Paper, Kennedy Round Results, 16 January 1968, Records re Kennedy Round, Box 10, File FT3 (UNCTAD II 1968), Bureau of European Affairs, Office of the OECD [Organisation for Economic Co-operation and Development], European Community, and Atlantic Political-Economic Affairs: Records Relating to the Kennedy Round Trade Negotiations, 1963–1970: NARA/RG59.
61. Report of the Ad Hoc Group on Assessment of Kennedy Round Results, 2 November 1967: GDL/COM.TD/49.
62. Zeiler (1992), pp. 212–13.
63. Report of the Ad Hoc Group on Assessment of Kennedy Round Results, 2 November 1967: GDL/COM.TD/49.
64. Note, 'Négociations commerciales multilatérales de Genève, Bilan succinct des travaux du 8 au 15 mai 1967', 18 May 1967: Archives Nationales Français, *Fontainebleau*, 724.713, Box 7, Ministère de l'Economie et des Finances – DREE; Telegram from State Department to various posts, 22 May 1967, Bator Papers, Box 13, LBJL; PV de la 224ème session du Conseil de la CEE, 26–27 June 1967: HAEU/CM2/1967/48.
65. Ludlow (2007).

9

Nixon's War with the International Economy

Thomas W. Zeiler

'The P said … The country needs a purpose. Maybe we have to demagogue it. We've been program-oriented, now we need to be purpose-oriented.'[1] So recorded Chief of Staff H. R. Haldeman in his diary entry of 23 July 1971, regarding a White House conversation with (the 'P') President Richard Nixon about challenges facing the United States and the world in maintaining peace and prosperity. The statement indicates Nixon's overall approach to the international economy in a crucial period, just three weeks before the second 'Nixon Shock' (the first being the opening to China) that rocked the international economy and political structure. As a result, the administration gutted the Bretton Woods dollars-for-gold exchange system that had existed for decades and imposed a temporary 10 per cent surcharge on imports. In this private moment, the president determined to do something about the American trade and payments imbalance that imperilled USA commitments abroad and hurt the domestic economy (and his political standing at home before the 1972 election campaign), but not go *too* far down the road of protectionism and beggar-thy-neighbour policies that could upset allies and undermine America's record of liberal trade leadership. It was a tricky balancing act, one that included quite frank and brutal words and actions towards friends abroad. It was aggressively unilateral and motivated by domestic politics, and certainly a blow to the ethic of multilateralism, at first glance. Nixon did not want trade conflict in the General Agreement on Tariffs and Trade (GATT) system as a whole, but antagonistic exchange as a tactic could serve his political purposes as well as shock the capitalist trade regime into a new era of more equal responsibility to be shared by America's trade partners – one that recognized that USA power was no longer as hegemonic as before. Thus, behind the Nixon Shock of 15 August 1971 was the notion that trade could be used to *force* changes that benefitted the American national interest. A deviation from multilateral cooperation was, seemingly, certainly acceptable, to attain larger ends.

By the time Nixon took office, the multilateral, market-oriented regime that permitted the United States to spend expansively at home and abroad had reached a crisis point marked by the payments deficit, or the net loss suffered by America from its trade, investment and monetary exchanges with the rest of the world. Nixon accepted that USA power had entered a new era of constraints. Since 1945, the United States had enjoyed the stature of the hegemon over the international economy and economic system. By the late 1950s, the European nations especially had gone a long way to restoring their economies and, in doing so, challenged American hegemonic power. Their recovery had been a goal of USA diplomacy. That they had risen from the ashes of the Second World War and Nazi rule to regain their positions of power was to be expected, and even welcomed by the United States. Thus, the new president understood that, in practical terms (although not necessarily in the American psyche), the so-called 'American Century' had been an abbreviated one, of a quarter of a century or so. Still, Nixon would not take the challenges to USA leadership, national interest and profits lying down; he aimed to change untenable policies and correct the ever worsening balance-of-payments deficit that undermined American power and prestige in the world.

A seemingly clear neo-mercantilist outlook characterized his approach. In short, Nixon – an internationalist who determined to fight the real menace, Sino-Soviet communism, by multilateral financial and commercial agreements – nonetheless placed the subjects of imports, exports, the status of the dollar and financial exchanges squarely in the category of domestic politics. That is, this political manipulator at home viewed international economic policies in terms of how many votes it would earn him (in this case, in his 1972 re-election bid) among the American populace as well as how well a tough approach abroad would play in Congress. Thus, whereas the first two decades of the postwar era witnessed the subjugation of economics to politics – because America was so far ahead of other competitors that it had little to worry about regarding its own economic performance – the decade of the 1970s joined trade with diplomacy once other nations began cutting into USA hegemony. Thus, it was not surprising that Nixon tapped the new Council on International Economic Policy, established in January 1971, to integrate trade with domestic concerns and a strategic foreign policy.[2] Neo-mercantilism would join with liberalism to gain Nixon approval at home. General principles of open and fair liberal economics alone would no longer steer America's transactions with the world – 'program-oriented' policies would be replaced by the 'purpose-oriented', as he noted to Haldeman. The second Nixon Shock would be the kind of 'big play' that the president relished from the game of football, that carried risks of angering allies but could bring gains for all, and certainly redress unrealistic patterns and deleterious trends in the world economy.[3]

Money-driven trade policy

America's problems in the trade arena stemmed from a dysfunctional and outdated system of financial exchange under the Bretton Woods arrangements. Actually, the most enduring legacy of the second Nixon Shock emerged in global monetary relations. Nixon focused on inflation that was spiraling out of control and threatening both the trade balance and monetary convertibility. He told frustrated world bankers that the 'dollar may be our currency but it's your problem'.[4] Mounting unemployment and debt worried the administration, and Republican Party losses in Congress during the mid-term elections of 1970, moreover, alarmed a White House looking towards re-election in 1972. It was time to reflate the economy but such action threatened to bring a wave of speculation against the dollar in global currency markets in 1971.

Under Bretton Woods international monetary rules, the dollar could not be devalued to correct a payments deficit. Thus, the conversion of dollars to American gold was the sole recourse for trading nations. Yet that process was clearly unworkable; the American payments deficit was projected to reach a huge $22 billion in 1971, which meant that the United States would continue to see gold drain out of the country. Rather than focus solely on Europeans, especially the West Germans, to increase their share of the NATO defence burden, recommendations emanating from the nationalistic Treasury Department under John Connally counselled an overhaul of the Bretton Woods system by forcibly realigning currencies. Connally cherished grandstand moves; as Peter Flanigan, Nixon's assistant and future advisor on international economic policy, later recalled, the former Texas governor 'really didn't have a clue [regarding exchange rates] but he loved stomping up and down with a big gun on his hip'.[5]

As the run on the greenback, and gold, continued, Connally advocated suspending the convertibility of dollar reserves into gold and negotiating a new, flexible monetary regime entirely. He had hinted at this more aggressive, if not radical, approach with European finance ministers and bankers during the previous spring and summer. As French and German bankers reported, for instance, after a meeting in Munich, Connally refused to talk about devaluing the dollar or modifying the price of gold. What America might do is retreat into a 'Fortress America' mode that would 'severely amputate' the credits necessary to finance overseas military commitments in order to 'recalibrate' the USA balance-of-payments account. He did not detail views on the gold–dollar standard or an overhaul of the entire international monetary system, but the implication was clear: trade partners could make the necessary reforms to help the United States out of its financial quandary, or they would face action from Washington itself.[6]

Connally won over Nixon on this score but the president jarred America's allies and certainly tested the multilateral ethic. The new policies announced

by the administration after the historic meeting at Camp David of American officials on 15 August 1971 served USA interests. The rhetoric was indelicate. Ominously, no State Department member was invited to the presidential retreat, and even National Security Council (NSC) Advisor Henry Kissinger was unaware of the gathering. Instead, economic nationalists ruled the day. Urged by Connally, who had informed international bankers that the United States would no longer engage in a system that did not achieve America's long-term interests, the administration imposed its bold New Economic Policy of wage and price controls, a tariff increase and, most important, a suspension of dollar convertibility into gold. As Kissinger noted, the Treasury Secretary had said earlier:

> [n]o longer can considerations of friendship, or need, or capacity justify the United States carrying so heavy a share of the common burdens. And, to be perfectly frank, no longer will the American people permit their government to engage in international actions in which the true long-run interests of the US are not just as clearly recognised as those of the nations with which we deal.[7]

Kissinger – no stranger to tough, realistic talk with allies – noted, '[s]uch language had not been heard since the formation of our alliances. It shook the crockery of our bureaucracy almost as much as it did the comfortable assumption of our allies that the doctrine of consultation gave them a veto over unilateral American actions.'[8] By slamming shut the gold window, Nixon appealed to a domestic audience but alarmed those at home and abroad who cherished monetary and trade liberalization on a multilateral, consultative basis. Economic warfare and, at a minimum, a war of words, seemed imminent.

Nixon stunned global financial networks into abrupt change. He refused to depreciate the dollar, so central banks largely went along with the new approach by letting their currencies float downward. In November 1971, the ten big capitalist powers met in Washington to sign the Smithsonian Agreement. In return for America devaluing the dollar to $38 per ounce of gold, Japan appreciated its currency (making its exports more expensive) by a whopping 16.9 per cent and West Germany revalued upward by over 13.5 per cent. Even this arrangement turned out to be temporary as the entire monetary system soon turned ever more volatile, and after more revaluations and then the closure of European currency markets in early 1973, nations opted for the free floating of currencies that moved up and down against the dollar. Artificial props were cast aside, the market took over and Bretton Woods was buried. The IMF and World Bank saw their job descriptions transformed from their traditional narrow focus on maintaining fixed exchange rates and aid to agents of a free-enterprise, market ideology. The dollar maintained its privileged position as the world's medium

of exchange but its movement against other currencies set the foundation for multilateral openness; global trade and financial expansion underlay the market revolution and globalization process of later decades.

Global competition

Trouble actually stemmed from the success story of USA leadership over the recovery of the world economy from the Second World War, which necessitated an overvalued dollar to make the exports of allies more attractive and the consequent deterioration of America's overseas trade and payments balances as Europe and Japan righted themselves. Enjoying relatively inexpensive security largely paid for by the Americans, the Free World powers – namely the six-nation European Economic Community (EEC), Canada and Japan – became effective trade competitors both by their vigorous export expansion but also by protecting their markets from outsiders during the Nixon years. The burden on the USA economy intensified as a result. The overall American trade surplus had rapidly dwindled by the 1970s and, by 1971, America had run its first trade deficit of the century. The news grew worse, though, as this $1 billion trade shortfall quadrupled by the following year. Japan, for one, doubled its trade surplus with the United States to $8 billion from 1970 to 1971. America enjoyed a trade surplus with the EEC but its imports from Europe were rising fast.[9]

Eyeing these depressing statistics, the Nixon team targeted the security-dependent, pliant Japanese as a convenient scapegoat, but the EEC represented the bigger threat. In every economic category, the Six emerged as a powerhouse that challenged USA leadership and hegemony. The gap between American and European production was fast closing even in the 1950s, and certainly by the time Nixon took office in 1969. European steel production rose, industrial production fell, as the EEC took a larger piece of the pie. The Europeans also caught up on exports as the American trade surplus with the region began to wane. Of course, this was all largely inevitable as recovery from the Second World War was completed by the 1970s; the United States could not possibly maintain its tremendous economic edge of the immediate postwar years. But the Six and the British-led seven-nation European Free Trade Association (EFTA) – a looser association than the EEC that resisted political integration – threatened to become inward-looking trade blocs that might close the door to the United States. Indeed, exports to both entities began to decline, raising alarms across the Atlantic about European protectionism, especially after the Kennedy Round of GATT trade negotiations failed to open EEC agricultural markets to outsiders, an outcome that Lucia Coppolaro and Francine McKenzie explain in their chapter. From an American perspective, the EEC hindered USA trade policy, particularly in the agricultural sector, despite a massive effort by Washington to maintain an open door in Europe.

The Kennedy Round is worth a closer look, because USA policymakers believed that American salvation lay, in part, in trade negotiations to deal with Common Market protectionism, and the resistance met shaped Nixon's views that shocking the European allies was in order. During the talks from 1964 to 1967, the United States had tried to reassert its leadership over the Western economic system by promoting traditional trade liberalization towards Europe and Japan. Of particular importance was liberalizing the EEC's Common Agricultural Policy so that America could take advantage of its comparative advantage in farm trade and rid itself of surpluses. Washington also sought to lower the external industrial tariff so that American firms would manufacture at home and export, rather than try to jump trade barriers and invest and produce in Europe. The French refused to play because they understood the Common Market rested on their access to German agricultural markets in exchange for opening up to West German industrial products. When the Americans tried to sneak Britain into the EEC to undermine French intransigence, French president Charles de Gaulle vetoed British membership, reading the ploy as an attempt to halt integration of the Common Market itself. The Europeans did lower industrial tariffs at the Kennedy Round, although trade in chemical products and steel remained plagued by ingenious non-tariff barriers. Furthermore, transatlantic agricultural trade remained stymied by the Franco-German quid pro quo as well as long-time protectionist tendencies, as it does today. The effect was clear on the United States. American grain sales to the Six in 1969 totalled less than half the figures of just three years before.[10]

Western European economic behaviour and patterns related to trade actually turned out to be even more transformative, and worrisome for Nixon. Although the Six generated just one-third of USA production by the mid 1960s, the real purchasing power of the customs union reached half that of the United States. The region's shift from the hierarchies of production and worker to a consumer area in which workers enjoyed rising incomes and spending power was in full swing. Europe became a magnet for American multinational enterprises that injected mass-marketing techniques into the workplace and literally changed Europeans from their social stratification as labourers, homemakers, salarymen and conservative executives into affluent and chic consumers. Advertisements depicted managers, as well as workers, skiing, eating at fast-food restaurants and driving sleek automobiles. By 1965, approximately 4.2 million colour televisions were sold in France when just 5,000 were bought in 1954 – the consumer revolution brought Europeans into stores. Belgians abandoned bicycles to travel by car, German washing-machines and Italian refrigerators sold in Holland and EEC members shared in markets ranging from shoes to food thanks to lower national tariffs that unsealed borders and allowed trade in consumer goods to flourish. Buying on credit became more acceptable. As integrationist Jean Monnet noted, Europeans would equal the

USA standard of living within 15 years of the EEC's creation. His prediction was fairly accurate as the EEC's gross national product rose by an average of 3.5 per cent per year until 1974, while American growth amounted to 2.1 per cent over the same period. USA consumption figures also lagged those of Europe. As disposable income doubled for wage and salary earners, the volume of trade tripled within the Common Market, showing that European purchasing power (and habits) had changed dramatically. While Canada remained the top destination for USA investments, and Britain second, the EEC (with the addition of the UK in 1973) surpassed America's northern neighbour in the 1970s. European nationalists lambasted the 'Americanization' of Europe, and even Canadians launched a wave of nationalistic criticism against USA corporate domination and continued continental economic integration, but consumers rejoiced in their new-found status.

European consumerism might warm the hearts of market advocates and serve as a victory for American multilateralism that ultimately installed peaceful economic exchange (rather than political recrimination and war) as the guiding force in Europe and Asia, but Nixon also looked at the bottom line. Multinational corporate investments further drained USA international payments and diverted capital from the domestic economy, although globalized American firms did well. Europe adapted to the tide of investments from across the Atlantic by partnering with USA know-how. For instance, the old French perfume industry joined with synthetic scent-makers in New Jersey to allow Americans to take over 11 of France's leading perfume companies by 1970. Goodyear and Firestone got round regulations by offering French car producers discounts on tyres. Britain, Germany, Switzerland and Italy were swept by chain and self-service stores so prevalent in America, and Kraft, Kellogg's and other companies gained market leverage in Europe. This did not mean that small provisioners disappeared, but their numbers began to wane as multinationals cut prices and bankrupted local concerns. In the end, there was much grousing about the American challenge but even the French drank Cokes and bought Mobil gasoline. In sum, President Nixon knew that he faced a new economic world and substantial challenges to the old regime of GATT and Bretton Woods.[11]

Trade as the symptom

Trade policy, because it involved both external and internal constituents and was the most visible format for international economic exchange for Congress and other domestic observers, became the cause célèbre in the Nixon Shock once monetary reform was underway. In Congress, legislators from both parties, including the traditionally low-tariff Democrats, protested the Cold War liberal trade consensus. Their constituents suffered from the effects of

the downturn, blamed partly (and erroneously) on a traditional scapegoat: imports. Restricted from Japanese industrial goods markets, severely limited to access to European grains consumers by the EEC's restrictive agricultural levies and facing a tidal wave of competitive imports, the American business community took aim at the seeming juggernaut of private–public collusion that they called 'Japan, Inc.' and French-led betrayal of American friendship. Tokyo had reaped large dividends from the recent Kennedy Round of GATT through considerable tariff concessions for its exports to the United States but had not opened its market to a commensurate extent. Worse, protectionists lashed out that such politically charged goods as textiles were flooding the USA market, and their outcries intensified as Japanese competition in particular became more potent, the economy struggled and payments accounts remained in the red.

In part, shoddy USA craftsmanship, high costs and a lack of an industrial policy explained the trade troubles, yet politicians looked to scapegoats. Textile competition was synonymous with the rise of Japan. Europe could wait; Nixon would go after the more vulnerable yet powerful Asian ally that southern textile producers had long blamed for their production and employment woes.

The Nixon administration issued its initial salvo against textile imports, actually motivated by the desire to quell protectionism but also appeal to a southern constituency that the Republicans had increasingly courted due to disgust with civil rights activism, shared cultural values and general conservatism. That a president might embrace side-deals to preserve the overall trend of liberal trade was not new, nor was a fracas over textiles a novelty: agreements on export restraints had existed since the mid 1950s. What was a break from the past was the pitiless nature of the Nixon approach. From 1969 to 1971, the president strong-armed the Japanese into a deal for the sake of domestic observers. Japan took notice, for nearly a third of its exports went to the United States.[12] Merciless, dismissive, even aggressive behaviour on the administration's part, however, should not be taken at face value.

To be sure, like all presidents after the Second World War, Nixon led his administration to endorse liberal trade policies that had effectively built the Western Alliance as a mutually prosperous and stable entity. For starters, even in his transition period to the presidency, Nixon endorsed a confidential report of a transition task force, chaired by economic consultant Alan Greenspan, urging him to announce that the country's liberal trade approach would not change, regardless of difficulties. Indeed, removing barriers to trade remained America's cardinal objective. The report warned that should trade restrictions on a specific product such as oil, steel or textiles be deemed necessary, they should be temporary and negotiated with trade partners. 'Protectionism is bad for our image abroad, bad for our economy at home and capable of vitiating our world leadership stance for which we have spent billions of dollars

annually – militarily, economically, and in the space program,' summed up a Treasury official just weeks into the Nixon presidency in March 1969.[13]

That a domestic-oriented bureau like the Treasury would stick with liberal trade was telling, but the internationalists were urged to push beyond the protectionist atmosphere that had arisen after the Kennedy Round in trade, and the dollar problems in finance, and restart the momentum towards liberal trade policies in the international economic system. Secretary of State William Rogers urged Nixon to remember that 'the US in the past has been virtually the sole source of initiative in foreign trade liberalization' and that the country could not relax and await the lead from Europeans, Japanese and others, but both seize the 'opportunity' and recognize 'an obligation to reassert our leadership'. American trade barriers must fall across the board, and should include the repeal of the American Selling Price that discriminated against outsiders and other non-tariff barriers that were on the rise and were replacing traditional duties as the means of protectionism. Threats of myriad quota bills brought uncertainty in the GATT trade regime and 'frayed the nerves' of allies, who might simply retaliate with restrictions of their own and precipitate 'a trade war that could undercut our major political interests in Europe'.[14]

Even Rogers' counterpart, Maurice Stans, who headed the Commerce Department, an agency that cared even less for trade liberalism, sought to alleviate protectionist irritants. Top of his list were menacing textile problems that might discourage Japan from emerging from trade isolationism and changing policies that varied 'markedly from that of the US and even from the principles of such international organizations as the GATT and [the Organisation for Economic Co-operation and Development] to which both countries belong'.[15] In other words, the health of the free trade regime hinged, in part, on paying special attention to this reliant ally.

Because the transformation in the USA–Japanese trade balance was so dramatic and in Japan's ascendancy was so meteoric, politics intruded on the textile issue. Prime Minister Eisaku Sato could not deliver on his pledge to his textile industry to open up USA markets but Nixon fixated on a show of force against Japanese exports anyway. The president sought limits on man-made and wool textile imports from Asia, a campaign promise from 1968. Thus, officials recognized that 'the only viable position that we have with regard to textiles is that it is basically a political problem. Unless an international solution can be found, the Congress will enact restrictive legislation.'[16]

Textile trade war

This bilateral disagreement reached such heights of politicized frenzy that it diverted the attention of Nixon and Sato from national security issues – such as the reversion of Okinawa to Japanese control – to wrangling about textile

quotas and the like. Clearly, as State Department officials lamented, the issue deteriorated into an argument in which domestic political considerations, and domestic lobbying pressures, took precedence over international comity and peaceful trade relations between the two nations. Sato had the weak hand, as he could be bullied by the more powerful Americans. Regardless of the urging by national security and diplomatic officers, Nixon stood his ground that Sato and the Japanese had to give on textiles – namely, by agreeing to restrictive export quotas – or there would be a price to pay in bilateral relations. That position was criticized by State Department officials as insensitive, but the president looked past trade relations, and Sato's uneasy political status at home, to his own domestic political interests of assuaging textile state legislators and voters with a tough policy towards an ally.[17]

Nixon was not bluffing on quotas on textile imports. When Sato did not come through, Nixon accused him of welshing. His frustration was clear, especially because he believed that Japan could be 'added "as a fifth finger" to the four existing areas of great power, the United States, Western Europe, the Soviet Union, and China'. Instead, Nixon thought that Sato was, metaphorically, giving him the finger.[18] It was at this point in the negotiations that NSC Advisor Henry Kissinger issued his infamous statement about the Japanese, referring to them as 'little Sony salesmen' focused on trade advantages and nothing more.[19] When Sato responded that the entire issue was being shaped by domestic political pressure, which undermined the historical drive for freer trade, he came up empty. Nixon might agree but he looked to the reactions of textile protectionists at home more than he did to the prime minister abroad.[20]

And, Nixon also faced a Congress, led by House Ways and Means Chairman Wilbur Mills, who sought a quota bill. He did so (and even bargained with the Japanese himself) because he believed that the textile states were beleaguered by imports, and also because he was a political rival of Nixon's. Indeed, Mills not only controlled the fate of the president's signature trade legislation in 1971, but he also eyed the presidency in 1972. Nixon got the message – clearly. In order to preempt Mills, he backed the quota bill, issued his Nixon economic shock of August 1971, and followed this up with a textile shock (the third Nixon Shock) the next month that was aimed at Japan. In a stunning announcement, he threatened a clamp-down on textile imports under the Trading with the Enemy Act of 1917. This unprecedentedly belligerent move, taken not only in peacetime but directed towards a friendly nation, initiated the most miserable period in bilateral relations since the end of the American Occupation of Japan. Nixon played politics with the trade system.[21]

In the end, Japan gave in, and under duress agreed to a set of comprehensive textile quotas. Japanese producers were furious at Sato's surrender, but he had no other option as Nixon vowed to hold up progress on bigger issues (Okinawa) if Japan did not take into consideration his domestic political problems on

the textile trade. Sato simply preferred to end this distasteful episode in USA–Japanese relations – negotiations that extended for over two years and absorbed the energies of officials from legislatures and ministries all the way up to the pinnacle of power – and fight another day. This textile wrangle also put free-riding friends on notice that Nixon meant to shore up American economic power.[22]

Camp David and the import surcharge shock

As the textile conflict approached its denouement, the president precipitated the end to the Bretton Woods monetary system with his dramatic evening television announcement on 15 August 1971. He would prevent allies from exchanging accumulations of dollars for bullion, and impose a 10 per cent surcharge on imports. Not since the Great Depression had the world witnessed such economic nationalism. Not since the Second World War had such inward-looking policies been voiced by the United States as they were in Nixon's New Economic Policy. In reality, though, it was a needed antidote to the international trade system that, in fact, did not change in terms of imports, exports and deficits. The second Nixon Shock, in other words, aimed to jolt traders by altering the monetary system; the GATT system would remain intact and continue not to profit the United States in terms of economic gain.

Nixon decided to take out America's economic problems on the international economic community. On 15 August 1971, he appeared on television to proclaim his New Economic Policy. There were several points, but the key ones involved the suspension of the convertibility of gold into dollars – and thus stem the gold drain – as well as to subject trade partners to a punitive 10 per cent tariff surcharge to compel them to accept a new monetary system, one that they eventually negotiated into the floating exchange rate mechanism that exists today. Turning to the American economy, he imposed the other key provision of his audaciously nationalistic plan: wage and price controls. All in all, the measures favoured business and anti-inflation policies over labour and foreign countries. Still, something had to be done, as his aide H. R. Haldeman and others counselled him. Nobody rejoiced in the punishing, unilateral and American-centred approach, except for John Connally. Once the Treasury Secretary had persuaded him to link the domestic and international agendas – and Connally thumped the president's desk to emphasize that the shock should neither be defended nor explained, but simply announced as a solution to a huge problem of imbalance in the world economy – Nixon went for the 'big, bold' programme, convinced that, like the 'China thing', it would hit the newsstands at an unforeseen time for maximum effect abroad. The key, he pointed out, was that Americans more than 'needed to run against the tide; they needed to turn the tide'. The Texan Connally agreed, adding that

the president should 'not run in front of the cattle but alongside the cattle and gradually turn them', which this 'dramatic action' would do.[23]

Yet, the Camp David decisions, and the second Nixon Shock, were not taken without consideration of their potential impact globally and on allies, nor without some bit of consensus that included traditional free traders and the internationally minded in the administration (as opposed to Connally, who looked for domestic political and economic advantages). There was fear of a trade and exchange war, and also much talk (before, during and after the Camp David meetings) of bringing equilibrium back to the world economy by American actions. The meetings themselves were conducted in utmost secrecy, in which those in attendance were told not to leak their whereabouts or the subject of economic reform because such information might precipitate financial panics worldwide, unduly stir up emotions and undercut Nixon's tactic of the 'big play'. Because trade is the topic of this chapter, the gold and dollar issue was briefly surveyed above, although the financial crisis (instability of the dollar and the gold drain) and balance-of-payments problems were the catalyst to the Nixon Shock and the president's bold action. But the emphasis, again, was on balancing American and international interests after the 'shock' to the system.

In the heated weeks and days before Camp David, policymakers stressed the need for a new regime to replace the existing broken (or malfunctioning) one of trade and payments. The learning curve would be steep. The president's Assistant for International Economic Affairs, Peter Peterson, heard from James Schlesinger, then at the Office of Management and Budget (OMB), that the basic premise of trade theory carried as 'relics of our graduate student days' the view that 'self-equilibrating mechanisms' operating 'without fail on all nations' brought appropriate adjustments in international pricing and exchange rates. This was simply an 'entrancing vision' with no basis in the situation of imbalance then in existence. Nations did not play by the same rules in this supposed 'dreamland of equilibrium', as Federal Reserve Chairman Arthur Burns put it, a system that had been enshrined in the Bretton Woods agreement. Instead, they undervalued their currency, which led to a 'beggar-my-neighbour policy' in commerce. Patchwork answers were not the way to solve this problem; rather, a deep, permanent realignment of exchange rates, backed by the stunning force of trade threats (such as a retroactive but temporary import tax), must be undertaken. 'What is required is a code of behavior or a new set of rules to which the major nations will adhere either voluntarily or per force.' It was Nixon's job to develop this code and put it into place to ensure USA competitiveness by compelling other nations to revalue their currencies and remove quantitative restrictions to American products. Violations of the rules of the game of trade liberalism, which led to the 'persistent exploitation of the US international position as banker and world leader', must be dealt with not by protectionism against all, but by targeted recrimination through quotas or

tariffs against specific offenders. One would be Japan, but others would include the Europeans and Canadians.[24]

The import surcharge, or 'border tax' as it was called by the administration, on all dutiable imports from most-favoured-nation countries, was a tactic to bring allies into line on monetary transformation. To be sure, the president was worried about the impact of such a dramatic turn from traditional USA trade liberalism. Kissinger recalled that Nixon used a favourite technique whenever he had an unsavoury policy to announce by excluding those advisors (Kissinger as well) from the decision, and then burying it within a larger context as if to hide its importance. Nixon knew what he was doing with the surcharge; namely, providing negotiating leverage on revaluation abroad. Perhaps appearing as an example of uncooperative exchange, the tax was good political theatre, he believed, to show Americans and the world that he meant business on the gold–dollar issue. If this were not done, warned the State Department, then Congress would most certainly act by imposing much more drastic import quotas on a random, discriminatory basis that could, indeed, unleash a trade war. An executive action, rather than a legislative mandate for the surcharge, would ensure that it could be removed quickly and would only be temporary so as not to stoke the fires of American protectionism that were already rising in Congress.[25]

Foreign leaders protested the Camp David terms in public but they understood the Nixon tactic with the surcharge, which they nonetheless decidedly did not like. Abroad, the 15 August announcement was seen, Kissinger reported, 'as a declaration of economic war on the other industrial democracies' as well as a retreat by the United States from trade liberalism.[26] Actually, untying the dollar from gold was not a problem for them in general, although the timing and other particulars over revaluation would cause considerable dismay and arguments. What was startling was the insulting import surcharge, which seemed to undermine, not boost, monetary reform. In this regard, some French officials, who had long eyed with suspicion American unilateralism and the defence of the dollar, claimed that the entire Nixon economic shock reflected the status of the United States as the dominant power that required 'tribute' from its 'vassal' states of Western Europe and Japan.[27]

As the representative from the Bank of Italy explained, he could understand both closing the gold window and applying the surcharge, but 'he could not understand both since they seemed contradictory and countries might not move on the exchange rate' when faced with such protectionism. America's closest friend and top trade partner, Canada, demanded an exemption from the tax. And the Germans wondered how temporary the border tax would be and how closely it was tied to monetary reform, and warned that the tax would be an obstacle to revaluation because the exports from some industries and regions in Germany would be hit hard by the 10 per cent duty hike. The

Bank of England was disturbed that the Americans sought a 'strong position', which meant that they might extend the surcharge for months in the interest of returning to, and building up, trade surpluses.[28] The French suggested that nations might retaliate, thereby undoing a quarter of a century of American achievements in trade and monetary liberalism. USA officials certainly recognized the danger but worried more about mounting protectionist pressure in the United States that could prove much more damaging than foreign measures to the GATT regime and free trade ethic.[29]

Allies hoped that Nixon would quickly remove the border tax, although they recognized that the 'big play' of which it was a key element was also destined for domestic as much as international consumption. But as he also explained later, the import tax would serve as a bargaining chip to discourage foreigners from promoting their exports by depressing their currencies.[30] Trade partners must usher in an era of meaningful reform or suffer the consequences of congressional and presidential recrimination.

They acted, in Europe and in Asia. In the latter, the panicked Japanese rushed into government sessions and tried to bolster the yen by tens of millions of dollars in spending, but to no avail. The yen was significantly revalued against the dollar. In Europe, most foreign exchange markets shut and even stock markets were temporarily shut down. France, among all the EEC nations, most resisted Nixon's strong-arm tactics by refusing to revalue the franc. The Germans and British toed the American line and pushed for floating rates. Both Germany and Italy, amidst recessions, took measures domestically to restrict trade and money but otherwise relented to the Nixon pressure. The president, unlike Connally, was not thrilled by the impact of his pronouncement, although he expected it and thought it necessary to correct the American accounts' imbalances. He heard the outcries from Europe about the bad timing of the Nixon Shock, and particularly about the injustice of the insulting 10 per cent import surcharge imposed on loyal and close allies.

As they noted, the president's draconian border tax likely would not work. The surcharge, noted an official of the Bundesbank, was 'indigestible negotiating fare' that was of doubtful use as a lever to prompt real change. In fact, it did the opposite. Clearly, the longer the surcharge was in effect, the greater the chance that other nations would institute such retaliatory measures as export subsidies, capital controls on the inflow of dollars or barriers against USA products. This would strengthen their bargaining positions in future trade negotiations because America would have to make concessions to convince them to end their protectionism. Likewise, the United States itself would become invested in the surcharge and thus Nixon would encounter great political opposition to removing it. In any case, within weeks of its imposition, by October 1971, the whip of the surcharge was no longer needed because it was clear that allies had moved towards monetary reform. Thus, the

president decided to terminate by the end of the year the 10 per cent import tax, a 'wasting asset', he acknowledged, that unnecessarily irked partners abroad to send a clear signal that America remained a friend of liberal trade.[31]

President Nixon, the astute foreign policymaker, understood that his meat-cleaver approach to solving world economic problems by nationalistic measures could harm his diplomatic efforts within the Western Alliance. Indeed, as he later wrote in his memoirs, 'I knew I had opened myself to the charge that I had either betrayed my own principles or concealed my real intentions' by wage and price controls, a halt to gold exchange and a duty hike.[32] But as his political advisors argued, the import surcharge kept the feet of trade allies to the fire, forcing them to modify their commercial and financial policies. Nixon told a group of congressional leaders a month after his economic shocks address that 'we could expect a growing crescendo of demands that we lift the surcharge from the Common Market and from Japan [but] we are taking a firm line on this' and not bending, yet. The first director of the OMB, George Schultz, spoke to the bargaining tactic, calling the surcharge our 'wild card' that allowed the administration to manage the economy when other avenues – such as freezing interest rates or altering prices on cars and homes – were either impractical or impossible.[33] There were opponents of such a move. Strict monetarist Milton Friedman, a professor of economics at the University of Chicago, expressed his disappointment (he was reportedly 'crushed' by the news of wage and price controls) by what Herbert Stein of the Council of Economic Advisors to the president labelled the most dramatic economic news since Roosevelt closed the banks in March 1933, because he abhorred fiscal, state interventionist solutions to economic problems. Liberal Democrats thought that not only should there be fewer attacks on American trade allies but more price controls, and few if any on wages.[34] But the Cabinet, and most of Nixon's economic advisors – Federal Reserve Chairman Burns, Peterson, the Assistant to the President on International Economic Affairs (and Secretary of Commerce in 1972), the Council of Economic Advisors' Paul McCracken and the OMB's Schultz – agreed with the need for dramatic change and even with the rigid stance. They took little issue with the domestic side of the New Economic Policy, which was actually the more draconian element due to the wage and price limits. They did, however, counsel Nixon to come up with a plan for monetary reform very soon or risk a 'solution' to the current exchange crisis that would mean, wrote Peterson, 'a drift back to the old system' and no long-term resolution at all.[35]

But Nixon had other motivations. He used world monetary policy to address domestic and security priorities. A day after the second shock announcement, Nixon was clearly elated by the publicity coup of disapproval abroad and support at home for his bold move. Monday newscasts fixated on his Sunday announcement, so his 'big play' got excellent press. The New York Stock

Exchange reacted favourably, as did responses in polls that showed backing for his economic policies.

The administration focused on domestic support; the politics of trade, the tough image of near warlike exchange and the overall effort to combat inflation played well in Peoria, Illinois. As White House aide and pollster Patrick Buchanan later reported from surveys of newspapers and meetings in the heartland of the country during the 1972 campaign year, the 'silent majority' of white, European ethnic workers and small business owners who Nixon courted soundly supported the vigorous economic policies. Crowds of 'solid, no-nonsense, pure-bred, mid-America' audiences who listened to Nixon understood that the economic moves had a political import, but they also liked what they heard from their straight-shooting, nationalistic president. From Xenia, Ohio, came word that Nixon's theme was 'US Supremacy', while Chicago newspapers mentioned the 'New Prosperity' inherent in combatting inflation at home and hostile trade partners abroad. The *Milwaukee Journal* placed a photo of Nixon under a poster of Uncle Sam on its front page with a byline that read 'Time for Fair Trade'. It was the kind of 'straight text' that won the president votes.[36] Noting that inflation fell due to the wage-price freeze and that unemployment dropped, too, Nixon claimed that he had guarded the American dream of prosperity.

He also protected his political flank. The year 1971 had been an inauspicious one for the economy but 1972, an election year, held promises of improvement. While Nixon had preferred to overhaul rather than progressively reform the international exchange system, he also understood that doing so brought into question the very multilateral regime of trade and finance on which the American Century had been built and maintained since the Second World War. Thus, while he certainly recognized, privately, the political expediency in his economic shock policies, he regretted that they had been necessary. He even admitted that they were wrong in principle. But, they paid political dividends. The folksy radio commentator, Paul Harvey, indicated as much just after the historic 15 August 1971 speech, as he likened Nixon to a 'gutsy quarterback' in American football who had faced near certain defeat on the inflation field. He had tried numerous plays and had come up short. Then, instead of a 'hand off' to Congress on the issue, the president 'carried the ball around left end for what now looks like a turnaround in the final quarter of the game'. And 'congressional Democrats who thought they had cornered the supply of economic stimuli' now knew better, and if Nixon could 'show an impressive number of yards gained' in terms of easing inflation and creating jobs, concluded the quirky, middle-American Harvey, then 'he is likely to be re-signed for another session'.[37] The prediction was borne out, as economic gains trumpeted through a bold, mercantilist defence of USA trade interests played a part in winning Nixon re-election. Still, his temporary fix had stuck it to the global monetary

regime as well as trade partners. 'The piper must always be paid', he lamented, 'and there was an unquestionably high price for tampering with the orthodox economic mechanisms.'[38]

Very few observers of the second Nixon Shock believed that it was the sound answer to USA problems but in the end their complaints disappeared into history and Nixon came out looking good. Indeed, he had used Connally to intimidate, cajole and bully allies, a role that his Treasury Secretary obviously relished but one that made Nixon, as well as other foreign policy leaders, uncomfortable. Such attacks on close trade partners, underscored by 'brutal unilateralism' of, in particular, the 10 per cent border tax, were as unappealing and galling as they were gutsy. Yet statistics show that no matter how harsh the measures were at first glance, in the last analysis they neither altered the multilateral financial system to the disadvantage of Europe and Japan, nor solved America's problem of decline relative to its allies. The dollar remained the key global currency but others soon rivalled it, especially in the impending age of oil shocks. The country also ran its first of then repeating trade deficits, beginning in 1971. How long the economy could survive under those conditions depended on circumstances, and the oil shock of 1973–74 immediately put it to the test. Soon overshadowing the second Nixon Shock, this latter development resulted in an eventual five-fold skyrocketing of oil prices that, as Henry Kissinger and others noted, created billions of new dollars that added to the turmoil in global exchanges of money. Precipitated by Arab lobbying within the Organization of the Petroleum Exporting Countries (OPEC) to embargo shipments of oil to supporters of Israel and to raise the price of world oil, the third 'shock' of the Nixon years demonstrated once again that the United States was no longer immune from international economic pressures.[39] In fact, its very hegemony was called into question by OPEC and the payments imbalance prompted by Western competition. The 1970s became a long decade of woeful economic news.

Negative impact?

The second Nixon Shock served as a warning to other nations that they must help the United States solve its problems or the entire multilateral trade and financial system would be put at further, and increasing, risk. Some experts believe that such surplus trading partners as Japan and Canada actually deserved the stern treatment meted out by Nixon. Considering that Japan, for instance, would overtake American industry in the production and sale of autos, electronics and textiles – and thereby mount a huge and growing trade edge with the United States from the 1970s onwards – Nixon's policies of 1971 seemed appropriate, indeed, even a bit too tame. Canada, too, would also have to fall in line. After all, more could be done to alleviate America's $29 billion

payments deficit by 1972, of which Japan, Canada and the EEC accounted for the lion's share. In essence, Nixon had altered the usual calculation of trade policy in the postwar era, focusing on the domestic impact rather than sacrificing home producers and workers on the altar of the Cold War. That is, preserving the stability, prosperity and strength of allies by encouraging their exports to the United States and permitting them a certain level of protectionism against American trade goods had worked to build stable economies – and allies – but times had changed. In light of America's economic struggles, and the risks not only for Nixon's re-election fortunes but to USA leadership in world affairs, the emphasis on the Cold War would have to be temporarily shoved aside. What was good for the American economy would be good for American allies, and not the other way round.[40]

But it was also time for allies to start sharing the burden of supporting the free world. Japan, the EEC and others (including the United States, the hegemonic leader) had developed some sophisticated mercantilist networks of overt and covert import restrictions that threatened the cooperative liberalism of the GATT trade regime, as well as USA interests. The administration would remedy a situation that had long festered. 'Santa Claus is dead,' announced OMB Director Schultz in November 1971, as Connally sought 'a New Deal, a Fair Deal for America in the world'. Nixon agreed, lashing out that for 'twenty-five years the United States has not bargained hard for a better position in world trade, the goddam [*sic*] State Department hasn't done its job. We're changing the rules of the game.'[41] Thus began a campaign to open up Japan's markets, just as the doors to American markets had been flung open during the Cold War. With the launch of the five-year-long Tokyo Round of GATT, beginning with bitter talks with Japanese ministers in Honolulu in December 1973, Nixon and his two successors, Gerald Ford and Jimmy Carter, pursued a version of the old open-door policy towards Japan. Trade negotiators entered the arena with the goal of reducing the Japanese trade surplus with America by at least $1 billion by removing restrictions on USA computers and agricultural commodities. In return, the Nixon administration would lift the import surcharge.[42] Tokyo agreed and, in 1974, the Tokyo Round began based on the success of this horse-trading.

Nixon came armed to the Tokyo Round with some significantly new powers. One purpose of the Trade Reform Act of 1974 and the Tokyo Round of GATT was to persuade the EEC to open up its markets to Japanese goods, thereby alleviating European protectionism and diverting Japanese goods from USA markets. Actually, the United States had tried since the 1950s to bring Europe round to agreement on the entry of Japanese products but had largely failed to persuade the Community partners. Back home, the administration portrayed its approach to Japan on trade matters as very tough in order to stave off congressional retaliatory action. In general, Congress seemed satisfied but Senator Russell Long and his Finance Committee added provisions to the Trade

Reform Act that imposed restrictions on nations refusing to grant reciprocal concessions at negotiations. The Treasury Department enforced more aggressive anti-dumping actions but it was Congress, through the Trade Reform Act, that became the tougher opponent of foreign governments. Congress, not the president, eventually pushed for more protective measures as trade competition stiffened for American producers at home.[43]

The Trade Act of 1974 armed the United States with tools to combat protectionism at home and abroad. To answer domestic outcries, the legislation required deeper and quicker investigations into protests by industry about imports and also authorized the president to find ways to eliminate unfair practices abroad against USA exports and investment. For the first time, moreover, the power of Congress to amend or filibuster against a trade agreement was removed; the president could 'fast-track' GATT accords through the legislative process, on an up or down vote without fear of a long debate inspired by protectionists. That Congress granted fast-track authority to the Executive branch at the very time that Richard Nixon, the chief executive, was being removed from office, was stunning to all GATT negotiators, but they welcomed the development of sweeping power granted to American officials nonetheless. The Nixon, Ford and Carter administrations used the Trade Act to negotiate at the Tokyo Round.[44]

And the results were impressive, surely due, in part, to Nixon's leadership, even though he was not around during or at the end of the GATT talks. The results in terms of trade concessions were sizable, and remarkable given the economic climate by 1979. Over the 74 months of talks, the Tokyo Round was bookended by two oil crises, followed the collapse of the dollar and the Bretton Woods system and ended during a deep recession. Nonetheless, the GATT regime adjusted – in this era of competition combined with duress – to produce over $300 billion in tariff reductions. The 102 nations that participated in the Tokyo Round took their usual stance to reduce tariffs and quotas and to implement and enforce GATT rules and principles, but they then sailed into uncharted waters of non-tariff barriers on a broader and more numerous scale than ever before, and addressed the interests of the developing nations for the first time in the GATT process as well. For their part, the Ford and Carter administrations decided to make the Tokyo Round so expansive in terms of adding more issues to the table that the Japanese were compelled to negotiate – and the Europeans coaxed into negotiating – on pernicious obstacles to trade (that would boost USA exports) or risk failure of the negotiating enterprise. Regardless of American self-interest (which Nixon would have supported), the Tokyo Round was a hallmark in GATT's breadth and scope, and Nixon could take some credit by shocking the international economic system into action in 1971 and then returning to the usual policies of postwar USA internationalist and multilateral trade policies.

Conclusions

Trade conflict, and jockeying for advantage, should not be considered belligerent, at least in the long-run. Nixon knew the costs of his jarring proposals, but he hoped that allies would accept their medicine so that the real patient of the international economy – the United States – could recover from its ills. He came on strong because he also understood the domestic political arena in which he operated, one in which electoral chances hinged on righting the economic ship of state. Americans were suffering from inflation and unemployment, and they voted. Thus, in style and substance – but not as much in principles – Richard Nixon acted tough towards his friends and allies. In reality, though, he did not really change traditional American foreign economic policies. He shifted priorities but did not change direction: the United States would remain wedded to multilateralism no matter how much the president scapegoated Japan, Europe and Canada for American economic dilemmas. As Nixon himself wrote, Connally had told him weeks before the 15 August announcement that '[i]f we don't propose a responsible new program, Congress will have an irresponsible one on your desk within a month'.[45] And Connally should have known, because the Treasury Secretary was a leader, advisor Peter Flanigan later noted, who 'just didn't have a set of principles that went with the free-market world'.[46] Rather, he operated in the realm of politics and mercantilism. Nixon understood that position and, in fact, had tapped Connally, in part, to represent that side of his policy. Thus, when Nixon confessed that he had become a Keynesian in economics (Milton Friedman had issued the original 'we are all Keynesians now' in 1965, the famous statement that is erroneously attributed to Nixon), he was playing to the domestic crowd and particularly voters disgruntled by inflation. The president sought control over his economic agenda as a means of presenting himself as the only viable choice for the presidency in 1972. He achieved his objective on that score.

Along with the aim of holding back undesirable political moves such as protectionism, there truly was also the need for international redress. White House foreign economics czar Peterson explained that while trade and finance might be low diplomatic policies, they related directly to USA power in the world.[47] The United States could no longer afford unilateral support payments to free-riding allies, especially as the trade balance fell into deficit, gold reserves dropped to dangerously low levels and uncertainties in the Middle East threatened the flow of cheap oil. Nixon fought a battle to prod the international economic system into a new era of competition. This was fuelled by his domestic concerns with the political fall-out from an inflated economy, and played into psychic needs to be a leader, to show up his rivals and prove to the press that he was a worthy politician, to orchestrate the 'big play'.

Yet Nixon also viewed the monetary and trade systems as reinforcing his grander strategic vision, one in which the United States would join with allies to win the Cold War and deal with enemies like the Soviet Union and the People's Republic of China to acknowledge new shifts and potential transformations in the world order. Thus, trade played into his notion of the Pacific Century as well as America's continuing global leadership. To that end, he reigned himself in after the Nixon Shocks. What were the most nationalistic and politically centred measures ever taken by an American president in the post-Second World War era might have become permanent fixtures in USA foreign policy. He acknowledged this and later regretted his heavy-handed approach. In the final analysis, Nixon prevented that slide into the abyss of Great Depression-era, dog-eat-dog policies and thereby averted sending the free world into a tailspin of diplomatic recrimination, disunity and, perhaps, break-up. He shocked the world, but he did so without launching a larger war and injuring America's trade partners over the long haul.

Notes

1. Haldeman (1994), p. 328.
2. Memorandum by President Nixon, 18 January 1971, *Foreign Relations of the United States, 1969–1976* [hereafter, *FRUS*], vol. 3, pp. 811–12.
3. Barnhart (2001), p. 217.
4. Gavin (2004), p. 187, also pp. 166–85; Eckes, Jr. and Zeiler (2003), p. 178; and Calleo (1984).
5. Peter Flanigan Oral History, 23 April 2007, Disc No. 2, Richard M. Nixon Library, Yorba Linda, CA (hereafter, Nixon Library).
6. Minutes, International Bankers Conference, Munich, West Germany, end of May 1971, Dossier: Congrès et Conférences Monétaires, Réunions Privées, Cote, Ministère des Affaires Étrangères, La Courneuve, France (hereafter, MAE France); and P.M. 2.2, Série: Monétaires, Fonds CE: Direction des Affaires Économiques et Financières, MAE France.
7. Kissinger (1979), p. 952.
8. Ibid., p. 953
9. Calleo (1984), pp. 416–19; Matusow (1998), pp. 4–5; and Carter et al. (2006), tables Ee533–660, Exports by country of destination: 1790–2001, and Ee551–568, Imports by country of origin: 1790–2001.
10. Zeiler (1992), pp. 25–9 and 225–38; and Calleo (1984), pp. 400–5, 408–9 and 447.
11. Pollard and Wells, Jr. (1984), p. 367; Winand (1993), pp. 109–37 and 310–15; Zeiler (1992), pp. 25–9 and 225–38; Calleo (1984), pp. 400–5, 408–9 and 447; De Grazia (2005), pp. 364–70, 376–88 and 404; Eckes, Jr. and Zeiler (2003), pp. 161 and 171–2; Spero and Hart (2003), p. 136; and Wilkins (1974), pp. 341–8 and 395.
12. Schaller (1997), pp. 215 and 231.
13. Victor A. Mack, 'US Trade Problems and Policies', 11 March 1969, Declassification Record No. 28668, National Security Archives, George Washington University, Washington, DC (hereafter, NSA with filing information); also Report of the Task Force on Foreign Trade Policy, *FRUS,* 1969–1976, vol. 4, pp. 463, 467 and 469–70.
14. Rogers to President Nixon, 24 March 1969, *FRUS, 1969–1976*, vol. 4, pp. 481, 482 and 488.

15. US Embassy, Japan, 'US and Japanese Trade Politics and the Role of Japanese Non-Tariff Barriers' and attached airgram, 18 April 1969, No. 74833, NSA. See also, Stans to Nixon, 20 March 1969, *FRUS,* 1969–1976, vol. 4, p. 480.
16. John Petty, staff assistant, Briefing Memorandum, 5 May 1969, *FRUS,* 1969–1976, vol. 4, p. 525. On the textile negotiations, see Destler et al. (1979).
17. Cooper (1972–73), pp. 9 and 31.
18. Summary of conversation, 20 November 1969, *FRUS,* 1969–1976, vol. 3, p. 79.
19. Quoted in Kalb and Kalb (1974), pp. 255–6.
20. Notes of conversation at luncheon, River Club, 19 October 1970, Box 11, White House Special Files: Peter Flanigan Files, Nixon Library.
21. William Timmons, assistant for legislative affairs, and Harry Dent, political advisor to Nixon, 4 June 1970, *FRUS,* 1969–1976, vol. 4, p. 602; Robert Solomon to Chairman Burns, 16 June 1970, Box C15, Arthur F. Burns Papers, Gerald R. Ford Library, Ann Arbor, Michigan; Meeting with the President regarding Mills, 9 March 1971, No. 71711, NSA; LaFeber (1997), pp. 351–2; and Schaller (1997), pp. 224–5.
22. Destler et al. (1979), pp. 310–13 and 320.
23. Editorial Notes, *FRUS,* 1969–1976, vol. 3, p. 455. See also, Haldeman (1994), p. 340.
24. Schlesinger to Peterson, 20 July 1971, *FRUS,* 1969–1976, vol. 3, pp. 446, 447 and 449.
25. Editorial Note, Katz to Rogers, 13 August 1971, *FRUS,* 1969–1976, vol. 3, pp. 459 and 463; Kissinger (1979), p. 954.
26. Kissinger (1979), p. 955.
27. Director J. P. Brunet conversation with M. Lemerle, some pellmell reflections on the international monetary crisis, 24 August 1971, Folder: Notes de M. J. P. Brunet, mai–décembre 1971, Directeurs: Brunet, Box 66, MAE France.
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29. Memorandum of Conversation, US and French Minister of Economics and Finance Valery Giscard d'Estaing, 17 August 1971, *FRUS,* 1969–1976, vol. 3, p. 481.
30. Nixon (1990), p. 519.
31. Robert Hormats, economic advisor on the National Security Council, to Kissinger, 1 November 1971, *FRUS,* 1969–1976, vol. 3, p. 526. See also, Editorial Note, ibid., pp. 484–5; and Hormats to Kissinger, 6 September 1971, ibid., pp. 488–90.
32. Nixon (1990), p. 520.
33. Memorandum to the President from Patrick Buchanan, Notes on 14 September 1971, Congressional Leadership Meeting, 25 September 1971, Box 1, Folder: July 1971/September 1971, White House Special Files: Staff Members and Office Files (hereafter, WHSF: SMOF): Patrick J. Buchanan (hereafter, Buchanan Files), Nixon Library.
34. George Schultz's Report from Home, undated, Box 150, Folder: August 15, Speech 1971, WHSF: SMOF, H. R. Haldeman (hereafter, Haldeman Files), Nixon Library.
35. Memorandum, Peter G. Peterson to the President, 18 August 1971, Box 84, Folder: Peter Peterson August 1971, Haldeman Files, Nixon Library. See also, Memorandum, Dr Burns to the President, 20 August 1971, Box 150, Folder: August 15, Speech 1971, Haldeman Files, Nixon Library.
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37. Paul Harvey News, 'President Nixon: A Gutsy Quarterback', August 1971, Box 3, Folder: Erlichman–1971, Buchanan Files, Nixon Library.

38. Nixon (1990), p. 521. For critics, see Block (1977); Bergsten (1972); and Kunz (1997), pp. 219–22.
39. Kissinger (1979), pp. 951 and 962. See also, Ambrose (1989), pp. 456–8; and Wells (1994), pp. 85–9.
40. Eckes, Jr. (1995a). See also, Prestowitz, Jr. (1988).
41. P. Buchanan, Memorandum for the President's File, Leadership Meeting, 16 November 1971, No. 71698, NSA.
42. Eberle to Volcker, and memorandum, Japanese Trade Measures, 7 December 1971, No. 74120, NSA.
43. Eckes, Jr. (1995a), 244–5 and 269–70.
44. Eckes, Jr. (2000), p. 119; and ibid. (2009), pp. 18–19.
45. Nixon (1990), p. 518.
46. Flanigan Oral History, 23 April 2007, Disc No. 2, Nixon Library.
47. Matusow (1998), pp. 133 and 136.

Conclusion: Dismissing the Kantian View of Trade and Peace

Renato Galvão Flôres, Jr.

'Make trade, not war' is a classical motto that, depending on the times, finds more or less debatable theoretical and empirical support. Trade negotiators and international relations people in general lend sophisticated support to this proposition by invoking Immanuel Kant's modest short essay on perpetual peace, raised by many to the heights of a major work, to the great suspicion of experts on the Master of Königsberg.

Zum ewigen Frieden – Ein philosophischer Entwurf, a concise text of 1795,[1] makes only a rather indirect reference to trade, being more focused on the role of civil and international public law – and of a domestic governance system called 'republic' – in keeping and securing peaceful relations among nations. It is only in the second section, when the philosopher outlines three important instruments of peace – *definitive articles*, in his language – where alongside the republic and proper international organizations, he refers to something called '(conditions of) universal hospitality'. The enthusiastic transformation of this oblique and minor reference into an authoritative endorsement of (free) trade as a key peace factor is somewhat baffling.

An impressive example of how powerful this exaggerated understanding took hold is that Michel Foucault, in his 1978–79 lectures at the *Collège de France*, explicitly referred to Kant's manuscript in the above understanding, to conclude with a near cliché: '*La garantie de la paix perpétuelle, c'est donc en effet la planétarisation commerciale*.'[2] It is surprising that Foucault simply overlooked – something quite unusual in the French academic tradition – that about half a century before, one illustrious compatriot of his, namely Montesquieu, had explicitly said the same thing, and in a much less obscure way than Kant.[3] No doubt, *les idées reçues* have considerable power.

And yet, everything could be seen in reverse, similar to when turning a beautiful watercolour and carefully looking at its back against the light, one perceives odd masses and darker shades looming on or interspersed in an otherwise peaceful landscape. Trade can be the driver of conflict, or a quite powerful weapon in

wars either of attrition or open confrontation. Notwithstanding, economists and political scientists regularly produce theoretical models or empirical verifications of the sacred statement by (the innocent) Immanuel Kant. Although Katherine Barbieri and Gerald Schneider have a reasonably balanced view, Philippe Martin et al. and Solomon W. Polachek are examples of scholars who have addressed the question mostly to uphold the association between trade and peace.[4]

The point of this concluding chapter is not to engage in a methodological debate about pieces like the ones just cited that, without denying their merit, are *ab initio* circumscribed by the assumptions and variables chosen for their models and regressions. Instead, I shall use the chapters in this collection as a point of departure in sketching out an overview of the ways in which, throughout history and still today, trade has sided with conflict rather than peace.

Perhaps the best way to start is with the Portuguese saga (Freire Costa). After the not-so-bold although still surprising Asian incursions by the Arabs, since at least the eleventh century, Portugal opened up and established key trade lanes. The Portuguese quest was largely a response to a significant military outcome: the definitive fall of Constantinople to the Ottomans in 1453, closing to the Western world the major trade hub between it and the rich, spice-rich Eastern kingdoms and regions. Progressively, through trial and error and incremental technological improvements, coupled with an amazing dose of courage, the caravels went on stretching ever longer sea routes, which eventually led to the conquest of the Strait of Malacca, a crucial gateway to which nowadays thriving Singapore owes a great part of its importance. The whole epic is a narrative of audacity, violence – often incongruous, such as the ironically misguided bombardment by Vasco da Gama, the purveyor of the True Faith, of populations who actually professed the Christian creed – and perennial conflict, frequently solved through the arts of diplomacy and shrewd negotiation, but conflict nonetheless. The ensuing impact on and interaction with the established empires and power relations in the Indian Ocean, notably China, is sometimes over-emphasized, but it still deserves further analysis (Brook).

The emergence of the Dutch, and the ferocity with which the two fleets and their colonizing armies fought each other for securing places regained, as in the case of Angola,[5] or eventually conceding defeat and loss, as in Indonesia, still stands today as emblematic of the violence associated with trade. The Spanish Crown from 1580 until 1640 absorbed Portugal, while trying to suppress the revolt in the Low Countries. The inside information gathered when helping in the trade of major Portuguese colonial goods – like sugar – was used by the Dutch to attack the very former partner, as a way to retaliate against Spain. And, as Freire Costa has shown, the Portuguese similarly made use of pepper as a way to weaken the military resources of the Dutch.

Piracy, raised by the British to a state policy and a way to build up and consolidate their long-lived empire, nearly constitutes a separate field for the study

of trade and conflict. From the numerous groups in the China Seas and the Indonesian Archipelago to the Somali ones, the latter undoubtedly linked to some extent to aggressive fishing practices in the Horn of Africa by developed nations, it has far from vanished in the modern world.

The slave trade, whose varied economic and social impacts spawned a huge literature, persisted despite pioneering libertarian movements in the Caribbean. They were not powerful enough to change an unjust pattern that had profound influences on the making of big nations like the USA and Brazil (Topik; Cardoso).

It was Napoleon who perceived that the abolition of long supply lines, with the army relying on local provisions, along its penetration routes, could drastically increase the speed of an invading force. This simple insight was at the heart of the extreme mobility that characterized the Napoleonic army, but it was also involved in the disgrace of what had initially been a successful Russian campaign. The destruction of his fleet in Trafalgar triggered a dual trade blockade in continental Europe – both by the French and the British sides – with varied consequences abroad (Cardoso).

Since then, trade has been clearly perceived as a powerful tool in a war effort and a way to inflict significant collateral damage on the enemy. The combination of trade with logistics progressively acquired a major dimension. The impact of this fusion on military strategies still attracts considerable attention. Empire trade logistics, greatly facilitated by the absence of non-trade barriers and a system of taxes, duties and tariffs ultimately administered by a single authority, suffered greatly with the dismemberment of the classical nineteenth-century European maritime empires. If the Portuguese had experienced this since the independence of Brazil in 1822, the great example of the twentieth century is undoubtedly Britain (Rooth; Toye). But France and the Netherlands underwent similar changes, and the way in which they reacted to the new realities was often coupled with violence and stark intolerance.

The evolution of trade in specific commodities are enlightening case studies (Topik; Marchildon). In the case of grains, developments are usually drastic and provoke or interact with major economic crises (Marchildon). Other interesting paths, not necessarily linked to open aggression or local wars, although surely to competitive practices hard to distinguish from sheer conflict, are related to rubber, coffee, cocoa, special waxes and many others; in the instance of diamonds or ivory, it is hard to scrape off the stains of blood on each traded piece. Sometimes, the exploitation–trade pattern is responsible for acute social injustices and lack of progress. Latin America is familiar with this dynamic and its consequences, from the silver- (and gold-) mining disaster, greedily orchestrated by the Spaniards and Portuguese, to symbolic examples involving tin in Bolivia and platinum in Colombia.

The social dimension of trade and conflict, in a highly disturbing way, continues to be present in the modern agribusiness. Technological progress

coupled with trade imperatives have led to mechanized, extensive plantations, boosted and supported by debatable chemicals. The urge to export huge quantities has, in half a century, transformed world agriculture and created environmental and social disequilibria. If the optimal compromise between size/efficiency and non-disruptive practices is something elusive, aberrant examples are becoming alarmingly frequent both in the North as in the South.

Fossil fuels are not touched in this book but their ties with my main argument are a constant. Beyond the enormous literature on the subject, and an unending economic discussion of side effects, like the Dutch Disease, the disastrous invasions in both Maghreb and Mashrek countries, or in Central Asia, during recent decades, are blatant evidence of how deadly – and hypocritical – trade interests can be.

Rare earths play a prominent role in advanced economies, thanks to their key uses in several components and modern equipment, and are likely to become another source of conflict. Out of the 63 rare earths and minerals demanded by the USA economy, including lanthanides, scandium and yttrium, one-third is imported. For 17 others, imports range from 50 to 98 per cent of total domestic consumption. For the remaining 25, including nickel, the USA imports up to 49 per cent of its needed quantities. Dependence on strategic imports is a source of vulnerability that many governments will defend by 'all necessary means', to use the UN euphemism for the highly probable use of force.

Even when trade conflict is at first sight solved by the creation of a multilateral mechanism, like the GATT and later the WTO, appeasement has usually been broadly superficial (Coppolaro and McKenzie). On the one hand, tough power struggles take place behind the multilateral trade negotiations, be it either along the corridors or in infamous 'Green Room Meetings' in Geneva, or in other forums, where trade concessions are exchanged for different currencies, from votes in the UN Security Council to foreign debt wavers. On the other hand, excessive recourse to formal dispute settlement mechanisms, like panels or appellations, risks transforming the multilateral organization into a litigation court: something looming in the present state of affairs at the WTO, and a far cry from the original objectives of the institution.

Regional integration, apparently – and in a candid view – an intermediate step to world free trade, can also be the realm of hidden motivations and conflicts of interest. Extending membership facilities, like the most-favoured-nation clause, to nations outside the system has also been a powerful political tool in the international arena. The above points seem to make the case against the Kantian, idyllic view of the trade alternative in humanity's quest for universal peace.

But what of the formidable accomplishments of the European Union (EU) during the second half of the twentieth century, symbolically started when Jean Monnet crossed the French border and extended his hand to Konrad Adenauer, proposing a Coal and Steel community to strengthen their trade

and economic relations and consolidate a long-term peace between the two historical rivals? Was Kant right after all?

In my view, the example of European integration needs to be broadened in three directions. First, trade may be used as a diversion from more violent competition. In certain cases – and the EU example is a fairly spectacular one – the mesh created by trade relations is a useful instrument in avoiding brutal and direct ways of conflict; a view found in classical, nineteenth-century trade theorists like David Ricardo. Conflict is certainly there, but subsumed under the economic concepts of competition – fair or unfair. The active Directorate General for Competition of the European Commission in Brussels is solid proof of the *Sturm und Drang* below the surface of the 'smooth' trade relations within the Union – and the tricky world of non-tariff and regulatory barriers. The 'German beer' and 'chocolate definition' cases are additional (and savoury) examples of the complexities behind an apparently innocent product.

In a specific realm, *where not so disparate cultures live together and higher motives for securing peace exist*, Kant's argument, or its far-fetched interpretation, conditionally applies. Notwithstanding, enlargement of the European project to the Iberian Peninsula created tensions in France, with some echoes in Italy, due to the entry of the new and powerful competitors in the supply of Mediterranean fruits and vegetables. What if Turkey, which – aside from the geopolitical and cultural prejudices – already conspicuously exports even fashion goods, under discreet adaptation of etiquettes, to the EU market, becomes a full member?

Is all this far better than war? Can it be compared to the catastrophic consequences of a single battle?

The final evaluation is not simple, as through slave labour, disruption of cultural practices and the introduction of famine and violence in small, stable if poor, agricultural communities, trade can also exact a heavy toll. Not to mention the several misfortunes created by the trade and development rhetoric, coupled with debatable instances of development aid.[6]

The second consideration is the power derived from trade domination (Zeiler). What did the sweet philosopher think of the Pax Romana, reproduced after his lifetime in the Pax Britannica? The modular structure of the extremely efficient, deft Roman legions and Her Majesty's Navy – the most powerful navy in the world for nearly three centuries – were the main pillars sustaining those 'peaceful trade relations'. The same applies to the US Army and, especially, the US Navy nowadays, securing the main sea-trade lanes of the planet. In a seeming paradox, *trade brings peace*, *because trade needs peace*, even if guaranteed by a stronger, superior force, *to* (*peacefully) take place*.

Mongolian and other hordes of nomads who for centuries descended from the high plains of Asia always had their eyes on two main empires: Persia and China. Beyond the strong attraction exerted by these ancient and fascinating cultures, both were realms, agents and focuses of important and wealthy

trade routes. Any stable and successful Persian or Chinese dynasty secured their caravans, routes, trading posts, passages and other geographic accidents, guarded many times by vassal states and partners. Fascinated by these elaborate networks, the unbeatable nomads repeatedly destroyed them – partially or completely, as with Genghis Khan (approximately 1162 or 1164–1227) – and when settling down, or being absorbed by the more powerful culture, restored the same routes and posts, and secured peace for their daily trade.

But there is no need to resort to so-called 'barbaric' cultures to produce such examples. In revenge for the confiscation in 1176 by the Byzantine Emperor Manuel I Komnenos of the assets of Venetian merchants in Constantinople – who controlled a very rewarding, luxury goods trade in silks and oils – the sophisticated (then blind) Doge Enrico Dandolo 'convinced' the Fourth Crusade in 1204 to make a stop at Constantinople and, simply and totally, ravage and sack the city. From then on, Venice controlled trade in the Peloponnesus and Crete, while Constantinople actually never recovered from the brutal devastation, to end a quarter of a century after in the hands of the Turks.

Starting with the advanced post of Calcutta, and then Bombay, Madras and other cotton-exporting centres, the British dominated the whole of the Indian subcontinent. In spite of the fierce resistance of several Maharajahs, part of their long-standing success was due to securing more stable and increased trade flows within the whole subcontinent, and from it to the rest of the world. It is an irony, supporting the underlying premise of this book, that the conquest of India was first pursued by a trading enterprise, the notorious East India Company.

The peace brought by absolute power, so useful to trade, also encourages the prospering of techniques and arts related to several goods and services, under the incentive of both enlarged and more refined demand. The finest period of the art and craftsmanship of the Persian rug was under Suleiman the Magnificent (1520–66), perhaps the greatest Ottoman ruler, when increasing requests from all corners of his empire for ever more elaborate and precious rugs spurred an unparalleled flourishing of their manufacturing.

Were these static moments of mystifying perfection in the mind of wise Immanuel Kant while walking through the pleasant, mathematically famous, seven bridges of his Königsberg?

I fear not. Although he also produced perceptive texts on aesthetic experience and judgement – the *Beobachtungen über das Gefühl des Schönen und Erhabenen* (1764) and the first, highly original and insightful part of the third 'critique', *Kritik der Urteilskraft* (1790) – he overlooked the odd marriage of artistic excellence with concentration of wealth. But, playing the devil's advocate, can we achieve superior technical and artistic levels – apart from individual, marginal occurrences – without scale, size, urge for variety and indeed a considerable concentration of riches?

Think of Michelangelo madly painting the roofs of the *Cappella Sistina* generously sponsored by Pope Julius II; think of the artistic splendour of Tuscany under the Medici; or even the extraordinary diversity of Cuban music under dictator Fulgencio Batista, played in the dozens of cabarets of La Habana mobbed by an underground society, with plenty of outlaws and illicit USA fortunes, and where all kinds of unspeakable trade and business deals took place all through the night. Behind fine artistic outcomes stands chaos, blood, a highly skewed distribution of fortunes and key trade flows – of whatever is needed – commanded by the powerful.

The third dimension is another dark side of economic domination. By expanding their markets through trade, producers enforce drab uniformity and flood distant regions of the world with their goods, destroying local producers, cultures and social threads. During the expansion cycle, the accompanying rhetoric is that of free trade, pseudo-scientifically supported by all the classical theorems that, as with any theorem, are valid under very specific sets of hypotheses, hard to be approximated in the crude reality of 'peace and trade'. If a satisfactory market size is achieved, trade rules, WTO-like, are then used to maintain one's position and deal with the inevitable changes in competitiveness that usually take place.

The appearance of new, cost-cutting and more competent producers prompts a switch in the rhetoric. It is enlarged to encompass whatever argument is needed to prove – while still preaching one's faith in free trade – that the competitor is unfair and so must be restricted by the classical protectionist weaponry. Child labour, environmental concerns, health and safety measures, sanitary and phytosanitary rules are some of the marvellously creative domains used to enlarge the trade rhetoric, most of the time with the sole purpose of trade protection. A regulatory war is then waged.

This evolutionary process can be detected – taking into account the different spirits of the times – from the ancient practices of the Chinese Empire until the present day, when the monotonous complaints by the USA and many other nations against the Chinese are a curious reinterpretation of free trade. Actually, free trade seems like the grace in the striking statement by Saint Augustine, in his outstandingly sincere confessions: 'Give it to me, O Lord, but not now.'

Where does this economic entity, the consumer, who wants good and cheap products – but other things as well, which may run from a secure job to the preservation of an annual festivity or a family tradition – fit in this process? Consumers are oftentimes manipulated by price and marketing practices, heavy advertising and related psychological-induction techniques, carefully designed information asymmetries and sheer lack of access – through the tyranny of the distributive systems – to competitive varieties. This is not to imply that they are defenceless victims immolated on the altar of modern consumption, but to

highlight once again the tension and (varied forms of) conflict inherent in all relations associated with trade and market creation and domination.

There is also another fundamental point, common to many stories or historical episodes analysed in this book, but missed by our kind philosopher and many of the interpretations and criticisms of *Zum ewigen Frieden*: the dynamic character of all the concepts at stake.[7] How to associate a static abstraction, like 'perpetual peace', to an essentially dynamic activity such as trade? There is a contradiction in terms, as Kant himself would say, guided by his small *Logik* treatise, 1800.

As the chapters in this volume have demonstrated, trade patterns shift according to changes in desires, technology, logistics, lanes and the balance of power. Schumpeterian creative destruction may in a short time sweep away once strong suppliers; the information that inevitably flows with trade inspires new products and appliances in previously non-menacing importers; copying, incremental innovation elsewhere, lateral thinking in the development of new varieties, ingenious adaptations, all add to the endless dynamics of trade relations.

Even if some routes or classical goods or supplies may last longer – and what is longer in a historical time frame, one century? – trade creates and destroys cultures, works of art and social practices. It is at least far-fetched to see this as an instrument of (perpetual) peace, something perhaps possible if human beings had no desires or ambitions, and did not covet their neighbour's novelties.

Is it possible to reconcile Immanuel Kant's perhaps misused legacy with reality? How to use the great philosopher's implicit assertion?

My final view is that the point – rightly or wrongly – attributed to Kant is indeed misplaced and has perhaps caused more harm than good, especially in recent times. Some could counter this by saying that rejecting an idea like the one at stake would imply, as a consequence, rejecting the whole spirit of international public law, where good offices, conciliation, consultation and mediation practices, together with an unquestionable faith in the pacific resolution of conflicts, are at the basis of all constructs and treaties. Even if the several modern examples of sheer disrespect for international public law might be invoked as evidence that such derivation is correct, I refuse the enlargement of the argument. Conciliation measures must be at the core of international relations, and this has nothing to do with the fact that trade should not be blindly taken as an instrument of peace.

It may have strategic results in certain contexts, as in the construction of the European project mentioned above, but it certainly can be misleading as a guiding principle. This naive view of trade accounts for several stalemates we face nowadays, the impasse at the Doha Round – where many are unable to see that, in certain areas, members are cornered in terms of the concessions that their constituencies will allow them to make – paying witness to the misuse of the distorted view, which starts from a Kantian-idealistic assumption on trade.[8]

Acceptance that trade relations are conflicting, essentially dynamic and oftentimes disaggregating will surely ease the task of all – academics, negotiators, businessmen, policymakers, social leaders – involved in the trade drama. The WTO *exists exactly because trade is conflict*; it will never lead us to a rosy garden of free, perpetually peaceful trade. Not at all; it will through considerable trouble and strife mend fences, try to impose close to 'fairer practices' in the swiftly changing trade flows and stand as one of the (fragile) barriers to more drastic approaches to conflict resolution.

It is high time that we abandon this development of the minor text of the Master and leave the outstanding philosopher in peace with the monumental triptych construed during his 'critical philosophy' period in the 1780s.[9] In doing this, considerable time and vapid rhetoric will be spared, but far more important, we shall be in better condition to face the myriad problems posed by trade relations, focusing in a more realistic manner on what should and may be changed. I hope this book will be a stepping-stone in this pursuit.

Notes

1. All references to Kant's works are based on their major, authoritative compilation by the Berlin Academy, the *Gesammelte Schriften,* which started in 1902. Spelling differences (like *Kritik*/*Critik*) from the eighteenth-century titles may occur.
2. Precisely, in his third lecture (*Leçon du 24 janvier 1979*). See Foucault (2004).
3. Montesquieu (1748).
4. Barbieri and Schneider (1999) provide a useful outline of the state of the field; Martin et al. (2008); and Polachek (1980). On Barbieri and Schneider's contributions see also the Introduction in this book.
5. Boxer (1952). This little masterpiece is an enticing narrative of how the Portuguese regained full control of Angola from the Dutch.
6. Easterly (2006); and Moyo (2009).
7. Having started his career as a mathematics and physics teacher, Kant was aware of – and impressed by – the recent works of Newton and Leibniz, his first essay being on kinetic theory: *Gedanken von der wahren Schätzung der lebendigen Kräfte* (1746). Although the idea of dynamics was known to Western philosophy since at least Heraclitus (*c*.535–475 BCE), its formal, full application to economic and social processes dates after its introduction as a main concept in Newtonian physics. However, since the tenth century, Chinese historians had this perception, coupled with that of cyclical behaviour, in the interpretation of their history.
8. The author apologizes for the unintended (philosophical) pun.
9. The three masterpieces that make up the core of Immanuel Kant's contributions to philosophy are a sequence of 'critiques', produced in about a decade: *Kritik der reinen Vernunft* (1781), *Kritik der praktischen Vernunft* (1788) and the already mentioned *Kritik der Urteilskraft* (1790).

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