

# Rise and Fall of Autarky



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**H**umans are a social species. This is not unique within mammals, as many live in packs. These animals enjoy support of other group members, but their roles are mostly uniform. At the same time, the level of specialization humans developed is barely comparable with social insects like ants or bees. In fact, over the course of civilization's development, very few humans could perform all tasks required for survival. This strategy is risky, of course, as detachment from civilization likely spells death. That is why in some cultures exile was used instead of the death penalty, because it was mostly equivalent, especially in harsher environments<sup>1</sup>.

On the other hand, specialization yields huge benefits. It allows accumulation of specialized capital and allows one to gain *know-how*, which increases efficiency exponentially. The problem is that the producer is limited in her consumption to her product. Higher production allows one to enjoy higher standards of living, but only if trade is possible.

The choice between being a generalist or specialist applies to individuals, tribes, nations, societies, and states. We observed many approaches over the course of the years, with societies more open to trade and more reclusive. There were also various explanations to particular decisions based on historic animosities, religion, culture or even geography. But even in pre-historic times groups of people met and traded. Long distance trade took place at least 150,000 years ago which is about half of our existence as a species<sup>2</sup>. In order to

<sup>1</sup> Firth, R. (1978) *Banishment and Exile: Reflections on a Tikopia Practice*, Paideuma: Frankfurt Frobenius Institute.

<sup>2</sup> Watson, P. (2005) *Ideas: A History of Thought and Invention from Fire to Freud*, New York: HarperCollins Publishers.

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facilitate trade between otherwise suspicious or even hostile groups, people created rituals<sup>3</sup>.

The decision whether the state should be a self-sufficient generalist and independent from the outside world, or a specialist and fulfil the needs of its citizens via trade is an important political issue highly debated nowadays. Of course, the decision is very rarely between the two extremes: pure autarchy versus full openness. This is because very few countries could support the size of its population on current levels given limits in their natural resources (not to mention quality of living). In fact, in many cases even the food production could be a challenge as demonstrated by the case of the most autarkic state nowadays – North Korea<sup>4</sup>.

It is more a debate about the degree of openness, and it was recently amplified by the COVID-19 pandemic. And the arguments go both ways. On the one hand,

<sup>3</sup> Flood, J. (1983) *Archaeology of the Dreamtime*, Sydney: Angus & Robertson.

<sup>4</sup> <https://www.nytimes.com/2021/06/16/world/asia/north-korea-food-shortage.html>



## GLOBAL PRODUCTION IS VERY FRAGILE IN CASE LOGISTIC CHAINS ARE BROKEN

access to vital medical supplies is of paramount importance in such situations. As the global demand grew, shortages appeared and countries that were the centers of production of essential medical supplies could stop exports to fulfill their needs first. Such was the case of Germany, which stopped exports of protective gear<sup>5</sup>. This act was met with outrage and was quickly criticized by EU institutions, but still the fear that such situations can happen again under even more dire circumstances remained<sup>6</sup>. This Shortage in the time of global need is the first argument for more autarky or self-sufficiency.

The second argument was based on the scope of international trade that allows for faster spread of epidemics in the first place. Moreover, global production is very fragile in case logistic chains are broken. In March 2020, many feared the factories would halt due to raw materials and component

shortages. These were not as bad as anticipated, but quite persistent in areas like construction<sup>7</sup>.

However, recent months have shown an argument in favor of cooperation and openness regarding vaccines. The most successful ones were the result of international cooperation. The Astra-Zeneca vaccine is a joint success of Sweden and the United Kingdom, while the Pfizer vaccine is the result of joint forces of the United States and German companies. On the other hand, vaccines created by countries that are focusing on being less cooperative (like Russia or China), turned out to be less successful. Nonetheless, the discussion whether to be independent and rely on one's own resources and activity, or to specialize and trade is far older than recent events and is one of the foundations of today's economics.

### TRADE IS NOT A ZERO-SUM GAME

Early mercantilists (from the 16<sup>th</sup> century) believed that gold equals wealth, therefore the state should do anything in its power to obtain as much of it as possible. One of the main sources was international trade, but it was state-controlled in such a manner that exports were encouraged by subsidies, whereas imports were discouraged via tariffs. The aim was to create a trade surplus and, therefore, gold inflow (while gold outflow was often banned)<sup>8</sup>. Such an approach in the economy is an extreme form of autarky as it not only encourages self-sufficiency but countries are supposed to produce more than they need for export as well.

<sup>5</sup> <https://www.bloomberg.com/news/articles/2020-03-09/germany-faces-backlash-from-neighbors-over-mask-export-ban>

<sup>6</sup> <https://www.ft.com/content/1bbdfbd0-5f8e-11ea-b0ab-339c2307bcd4>

<sup>7</sup> <https://constructionmarketexperts.com/en/news/pandemic-causes-shortage-of-raw-materials-price-rises-on-construction-chemicals-market/>

<sup>8</sup> Sargent, A. (1899) *Economic Policy of Colbert*, London: CreateSpace Independent Publishing Platform.



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Mercantilists did not learn from the story of king Midas, which stated that gold on its own is not edible and has very few uses overall, therefore it is not the same as wealth, well-being, or power. In fact, such a policy adopted by several countries – chiefly France and Great Britain – led to competition between states as trade was perceived as a zero-sum game with the seller winning over the buyer. Such approach led to animosities, trade wars, and conflict with colonies that were supposed to provide cheap raw materials to fuel the export of goods.

Criticism of mercantilism gave rise to modern economics starting with Adam Smith whose *The Wealth of Nations*<sup>9</sup>, is mostly a critique of mercantilism. He pointed out

<sup>9</sup> Smith, A. (2002) *The Wealth of Nations*. Oxford, England: Bibliomania.com Ltd. Retrieved from the Library of Congress. Available [online]: <https://lccn.loc.gov/2002564559>

that mercantilists failed to distinguish between *wealth* and *money*. They also failed to notice that increased amounts of gold in one country would lead to the decrease of value of gold (or inflation) and an increase of its value in other countries. Such situation would create a pressure to reverse the flow of goods. Only harsh state policy could prevent the flow of gold from countries that amassed it to other countries as it would be very profitable to do so. An example of such a situation could be glimpsed in the 1964 *007 Goldfinger*<sup>10</sup> movie, where a villain creates fortune by smuggling gold from UK where it is relatively cheap.

But even so many years after being discredited, mercantilist ideas are still alive as they are easy to explain and remain appealing to the public. Those in favor of protectionism often bring up the protection of particular jobs. They omit, however, that the cost of these policies are higher prices, a smaller selection of goods, and lost jobs in other industries.

One of the main issues constantly brought up by Donald Trump, a former president of the United States, was the trade deficit with China amounting to over USD 300 billion per year<sup>11</sup>, which led to a trade war that he dubbed “easy to win”<sup>12</sup>. Apparently, this was not so easy as the deficit under Trump actually further increased<sup>13</sup>.

Seeing the deficit as *dollars lost by the U.S.* is a wide-spread false assumption, while the opposite is actually true. As we know

<sup>10</sup> Hamilton, G. (1964) *Goldfinger*, United Artists.

<sup>11</sup> <https://www.census.gov/foreign-trade/balance/c5700.html>

<sup>12</sup> <https://www.cnbc.com/2018/03/02/trump-trade-wars-are-good-and-easy-to-win.html>

<sup>13</sup> <https://www.bloomberg.com/news/articles/2021-01-11/how-china-won-trump-s-good-and-easy-to-win-trade-war>

now, import is the nice process of getting goods from the others. Export is actually a painful process when we have to part with what we have produced. If we could import more than export on a perpetual basis, we would be better off as this is equal to a situation like constantly receiving gifts from abroad. A typical country cannot do it in the long run as the currency exchange will eventually bring trade to balance – exactly as described by Adam Smith in the case of gold. The United States is an exception as it provides global currency and can, therefore, run with almost perpetual deficits enjoying the goods they get for free from the rest of the world. This is the part that Trump failed to realize.

Mercantilists also failed to recognize benefits of trade and comparative advantage. Up to the works of David Ricardo, people believed that given free trade, a good would be produced only by a country that can do it the cheapest (absolute advantage). Ricardo showed that even a country that is not the best in anything can still benefit from trade and specialization if they are able to produce something cheaper, in relative terms<sup>14</sup>. Comparative advantage allows countries that are the best at producing certain goods to focus and specialize on them and purchase other goods abroad – even if they could produce the imported goods cheaper as well.

The gains from specialization for both parties are higher than without trade. Ricardo's ideas were further developed in the Ricardo-Viner model<sup>15</sup>. Later, the Heckscher-Ohlin model<sup>16</sup> finally extended it on

<sup>14</sup> Ricardo G. (1891) *Principles of Political Economy and Taxation*, London: John Murray.

<sup>15</sup> Ishikawa, J. (2000) "The Ricardo-Viner Trade Model with an Intermediate Good", [in]: *Hitotsubashi Journal of Economics*, pp. 65-75.

<sup>16</sup> Ohlin, B. (1933) *Interregional and International Trade*, Cambridge: Harvard University Press.



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more than two countries and the Dornbusch-Fisher-Samuelson model on more goods as well<sup>17</sup>. Very few theoretical models show the advantages of protectionism, and they work only in very specific situations<sup>18</sup>.

The above-mentioned models of international trade were the beginning of a long way of abandoning mercantilist views. However, it was politically difficult. Local industries were used to protection from foreign competition and could extract significant rents from high prices in the domestic market. Lowering these shields often resulted in bankruptcies and unemployment. It is difficult to explain to people that were laid off

<sup>17</sup> Dornbusch, R., Fischer, S., and P.A. Samuelson (1980) "Heckscher-Ohlin Trade Theory with a Continuum of Goods", [in]: *The Quarterly Journal of Economics*, Vol. 95(2).

<sup>18</sup> Krugman, P. R. (1987) "Is Free Trade Passe?", [in]: *Journal of Economic Perspectives*, Vol. 1(2).

today that things will get better over time as their needs need to be satisfied right now. That is why the process was rather slow and is still ongoing. Great Britain removed mercantilist regulations over the course of the 18<sup>th</sup> and 19<sup>th</sup> century, while France stuck to Colbertism until the French Revolution. In Germany, mercantilism was applied well into the 20<sup>th</sup> century as it was one of the cornerstones of the German Empire and then the Third Reich.

### THE ROAD TO OPENNESS

The end of World War II marked the end to mercantilism and isolationism – and not only for economic reasons<sup>19</sup>. Apparently, countries that are closely linked are less likely to wage a war – and another European war was something nobody wanted. The European Coal and Steel Community was the first European integration attempt – focused on limited scope but a crucial one for military. But the experiment was so successful that it quickly developed in the highest form of economic integration: the common market. The case of European integration was so successful that many other attempts at economic integration followed at various levels.

The simplest type of trade cooperation system is a preferential trade area (PTA), which bind two or more countries to reduce trade barriers, quotas, tariffs, and other obstacles to trade in some areas, although not abolishing them completely. The largest PTA is governed by the World Trade Organization (WTO), which consists of 164 members. It officially started operating in 1994, replacing the General Agreement on Tariffs and Trade (GATT) established in 1947 – just after World War II. Efforts in GATT rounds managed to help reduce the overall level of tariffs



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from 22 % in 1947 to 5 % in 1999<sup>20</sup>. Due to wide membership, the WTO rules are the baseline of global trade, and in most cases have the worst possible terms of trade. But often countries make bi- or multilateral agreements to improve them.

Still, this nearly world-wide agreement was not ambitious enough for some partners which created a multitude of multilateral and bilateral agreements that provide even lesser hurdles to trade than the WTO. Such PTAs with even broader scope and deeper reductions in tariffs are called free trade areas (FTAs). The list of such agreements is long, but some of the most prominent examples are the United States-Mexico-Canada Agreement (USMCA, 2020), which replaced NAFTA (1994) due to a whim of

<sup>19</sup> Lee, J. W. and J. H. Pyun (2016) Does Trade Integration Contribute to Peace?, [in]: *Review of Development Economics*, 20(1), 327–344.

<sup>20</sup> Goldstein, J. L., Rivers, D., and M. Tomz (2007) "Institutions in International Relations: Understanding the Effects of the GATT and the WTO on World Trade", [in]: *International Organization*, Vol. 61(1), pp. 37–67.



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Donald Trump<sup>21</sup>, and CETA – between the European Union and Canada (2016, applied provisionally). The biggest in terms of area is the African Continental Free Trade Area (AfCFTA), which is supported by all countries of the continent, except for Eritrea, and has an ambition to eliminate 90% of tariffs within 10 years<sup>22</sup>.

Furthermore, Transatlantic Trade and Investment Partnership (TTIP) was the largest trade initiative ever negotiated, however, the agreement between the EU and the U.S. was never finalized. Donald Trump withdrew from negotiations and then entered a trade war with the EU instead. It is estimated that TTIP would have boosted EU's economy by EUR 120 billion, the U.S. economy by EUR 90 billion<sup>23</sup>.

TTIP and CETA were also a target of anti-globalist movements, claiming some

aspects of the agreement could be detrimental. Some arguments were clearly mercantilist and based on the premise that local industry should be protected from international competition in order to protect jobs. Others were largely unfounded – like fears of detrimental effects to local quality standards. Others seemed quite sensible placing possibly too many rights in the hands of international corporations and freeing them from local jurisdiction in some cases. But this could have been fixed without throwing the agreement out of the window. At this point, TTIP seems dead, as the new U.S. administration does not seem to be interested in reviving it.

A step forward in trade integration is a customs union, which is a free-trade area (as described before) with a common external tariff. Common tariffs make trade even easier as in an FTA for actual free trade goods were required to have a certificate of origin, so that importers could not arbitrage on differences in tariffs between countries. When tariffs are harmonized, no such thing is necessary.

Examples of organizations that are (or aspire to be) customs unions are Andean Community (Bolivia, Colombia, Ecuador, Peru), East African Community (Burundi, Kenya, Rwanda, South Sudan, Tanzania, Uganda), South African Custom Union (Botswana, Eswatini, Lesotho, Namibia, and South Africa). Some of the customs unions also reach for a common currency – like the Economic and Monetary Community of Central Africa (Angola, Burundi, Cameroon, Central African Republic, Chad, Republic of the Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, São Tomé and Príncipe and Rwanda), which share CFA Franc, or West African Economic and Monetary Union (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Niger, Senegal, Togo) – also sharing CFP Franc.

<sup>21</sup> <https://edition.cnn.com/2020/07/01/politics/usmca-nafta-replacement-trump/index.html>

<sup>22</sup> <https://www.humanprogress.org/africa-tries-free-trade/>

<sup>23</sup> <https://www.foreignaffairs.com/articles/usa/2013-07-10/getting-yes-transatlantic-trade>

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IN RECENT YEARS, EUROPEAN INTEGRATION HAS STAGNATED DUE TO VARIOUS POLITICAL PROBLEMS AND ROGUE STATES LIKE HUNGARY OR POLAND TRYING TO REVERSE AND LIMIT THE EU TO THE ROLE OF A SINGLE MARKET

Yet another type of integration is a single market. It gives the freedom of movement of not only goods but also capital and labor, enterprise, and services. It also has common regulations concerning product safety and standards. The European Economic Area is one such organization, and consists of EU countries (but not automatically) and Norway, Iceland, and Lichtenstein.

The most integrated countries form economic unions. They have both a common market and a customs union. Most notable examples are the Caribbean Single Market and Economy (Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago), Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kirgizstan, Russia), MERCOSUR (Argentina, Brazil, Paraguay and Uruguay), Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE), and the Central American Integration System (Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama). Some of these are also reaching for a common currency – most notably the Switzerland-Lichtenstein union and the European Union.

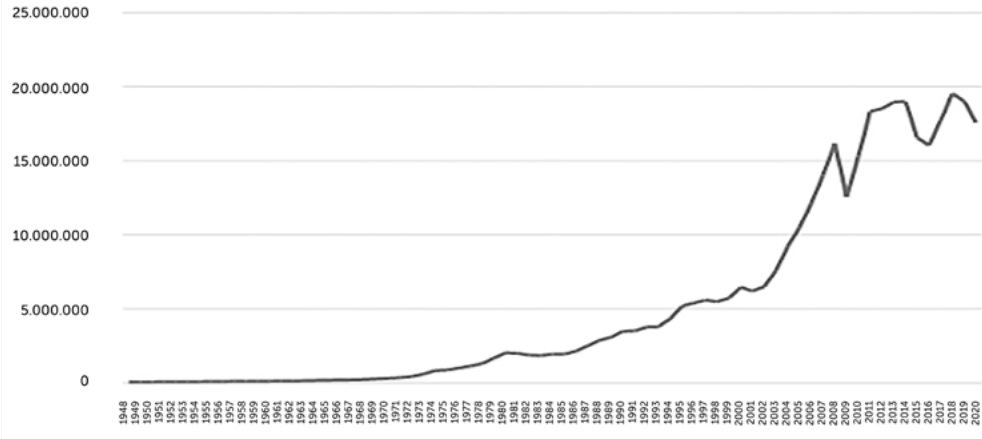
The latter is also an example of the integration that reaches even farther with some common fiscal policy, debt, and political bodies. In recent years, European integration has stagnated due to various political problems and rogue states like Hungary or Poland trying to reverse and limit the EU to the role of a single market. Yet, recent crises were used to further integration. The 2008 financial crisis pushed for a common banking and financial oversight policy. The COVID-19 crisis allowed for introducing common debt. Too deep integration was also one of the reasons of Brexit – the first departure from a continuously expanding organization.

### **OPENNESS CHANGED THE WORLD (FOR THE BETTER)**

The result of trade liberalization efforts was unprecedented growth of international trade slowed only by major global crisis and rebounding quickly after [See: Figure 1]. But that was to be expected. There were even more effects.

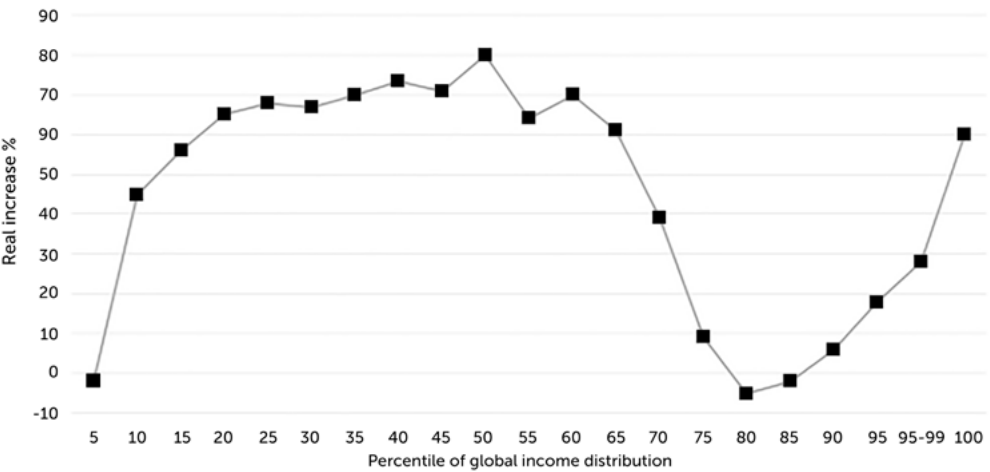


Figure 1: Global exports (merchandise, millions USD, 1949-2020)



Source: WTO

Figure 2: Elephant chart: Change in real income growth by income percentile (in the years 1988-2008)



Source: Lakner, C. and B. Milanovic (2016) "Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession", [in]: *The World Bank Economic Review*.



## AGRICULTURE IS USUALLY SEEN AS A SPECIALIZA- TION THAT CON- DEMNS TO PERPET- UAL POVERTY

Probably the most important liberalization effect was a decrease in global inequalities. This was best presented by the famous elephant chart<sup>24</sup> [See: Figure 2].

Figure 2 shows how the income grew for various groups of people. People in the bottom decile did not increase their income level. These are mostly people locked in atrocities of wars or politically forced autarky (North Korea). However, income in every other decile up to the 7<sup>th</sup> increased significantly<sup>25</sup>. This was the effect of emerging economies in countries that managed to narrow the income gap. And the growth

<sup>24</sup> Lakner, C. and B. Milanovic (2016) "Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession", [in]: *The World Bank Economic Review*, Vol. 30(2).

<sup>25</sup> It is important to note that we are comparing deciles not people. Say we see that income in the wealthiest decile increased by 60%, it does not mean that it is true for every person that was in this group in 1988. It is not even true on average. In fact, this number will be much lower than 60% as some of these people could lose all the income and end up in the poorest decile. So, we are not comparing the same people but cohorts. We can say that the richest had 60% higher income in 2008 than in 1988 but the rich at both points in time could be completely different people. Same goes for any other decile. The income of the poorest did not stagnate and many managed to climb out of poverty, while other groups lost everything usually due to war.

was possible thanks to ease of trade which allowed multinational corporations to spread their logistic chains all around the globe.

The best-known example of a country that benefited from this solution is China, which managed to lift seven hundred million people out of poverty<sup>26</sup>. Similar effects are visible in many other Asian and South American countries. This was mainly due to the global division of labor in line with the ideas of Ricardo and his followers. As a result, we have seen the rise of a huge global middle class. The rise of middle class happened in countries that provided cheap labor in manufacturing – the area where they had a comparative advantage. The reduction of poverty is the slowest in Africa, where the integration into global value chains did not take off [See: Figure 3]<sup>27</sup>. In effect, global income distribution is now getting quite like the one existing in the times before the industrial revolution and domination of the West.

One of the criticisms of Ricardo's ideas was the indication that focusing on comparative advantage may yield unfavorable long-term results. If a country has a comparative advantage in the industry that yields low margins, it may get locked into activities that preclude further growth. Agriculture is usually seen as a specialization that condemns to perpetual poverty<sup>28</sup>. This fear was also extended to low-technology manufacturing and created unease in many countries that an increase in the standard of living may be short-lived, and the country will remain just a reservoir of cheap labor or face stagnation when the level of wages converges with

<sup>26</sup> <https://www.bbc.com/news/56213271>

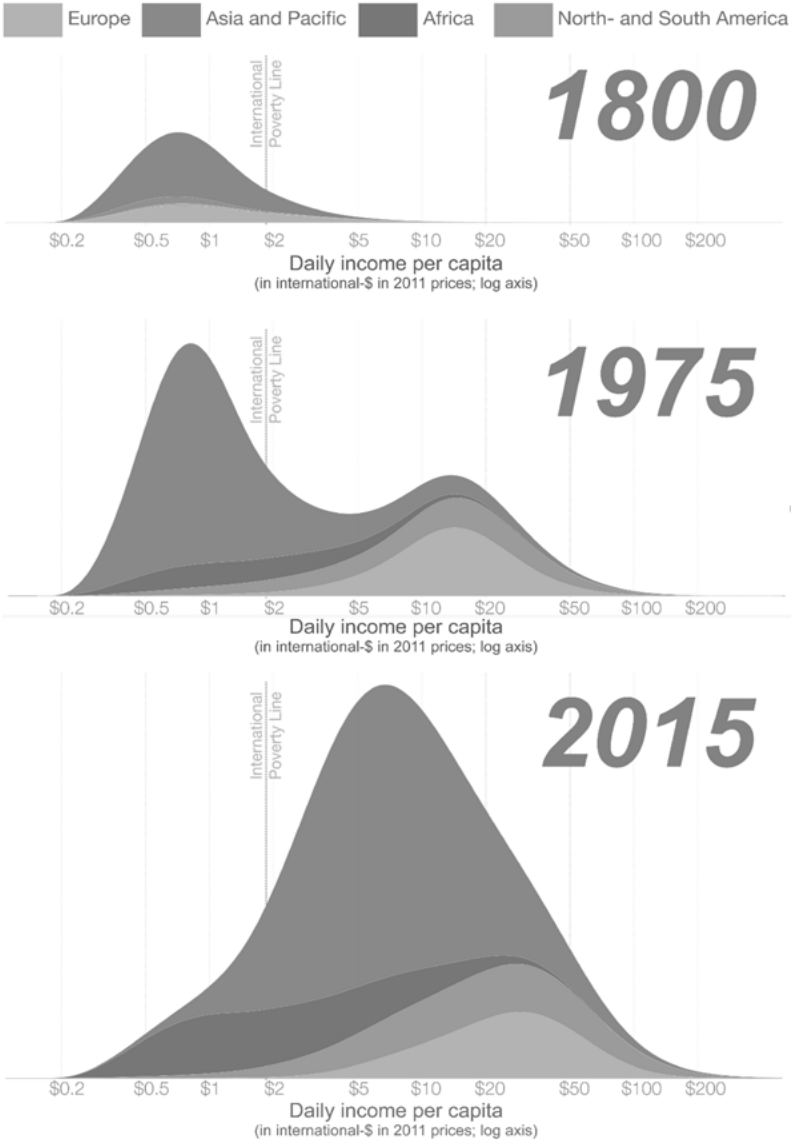
<sup>27</sup> <https://blogs.worldbank.org/opendata/global-poverty-reduction-slowing-regional-trends-help-understanding-why>

<sup>28</sup> Galbraith, J. (2008) *The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too*, New York: First Free Press.

Figure 3: Global income distribution in 1800, 1975, and 2015

Income is measured by adjusting for price changes over time (inflation) and for price differences between countries (purchasing power parity (PPP) adjustment). These estimates are based on reconstructed National Accounts and within-country inequality measures. Non-market income (e.g. through home production such as subsistence farming) is taken into account. The *International Poverty Line* is set by the *United Nations* and is the poverty line that defines extreme poverty.

Our World in Data



main trading partners. This problem was called *middle income trap*<sup>29</sup> – the idea that it is quite easy to get out of poverty, but hard to reach high income levels. It was hard to test whether such a premise is true with East-Asian countries as the disparity in the standards of living is still far too large.

To avoid such a scenario, some countries like Taiwan or South Korea decided to build up their capabilities under protectionism first and only then open for trade<sup>30</sup>. These formerly poor countries became industrial and technological powerhouses of the world thanks to this strategy. So, it seems that maybe protectionism is a good idea after all. But then – maybe not.

Here we should turn to the example of how opening economies helps to transform and modernize companies, like in the case of post-communist countries after the fall of the USSR. These countries followed various paths in their transformation to the market economy. Some decided to rapidly reform the economy via privatization and mostly opening their economy to exports and imports. These are the V4 countries and the Baltic States. Others chose protecting their companies from foreign competition to save jobs and the local industry – like Ukraine, Belarus, or Russia. After thirty years, the countries that decided to drop protectionism are far better off and even managed to become developed economies, showing that the middle-income trap might be just a theoretical phenomenon [See Figure 4].

Companies in post-Soviet countries were facing fierce competition and had to innovate and modernize quickly. At the same time, companies in countries that decided

<sup>29</sup> Larson, G. M., Loayza, N., and M. Woolcock (2016) "The Middle-Income Trap: Myth or Reality?", [in]: *World Bank Research and Policy Briefs*, (104230).

<sup>30</sup> Doo-yun, H. (2001) "Korea's International Trade Policy in the Global Age", [in]: *East Asian Review*, Vol. 13(3).

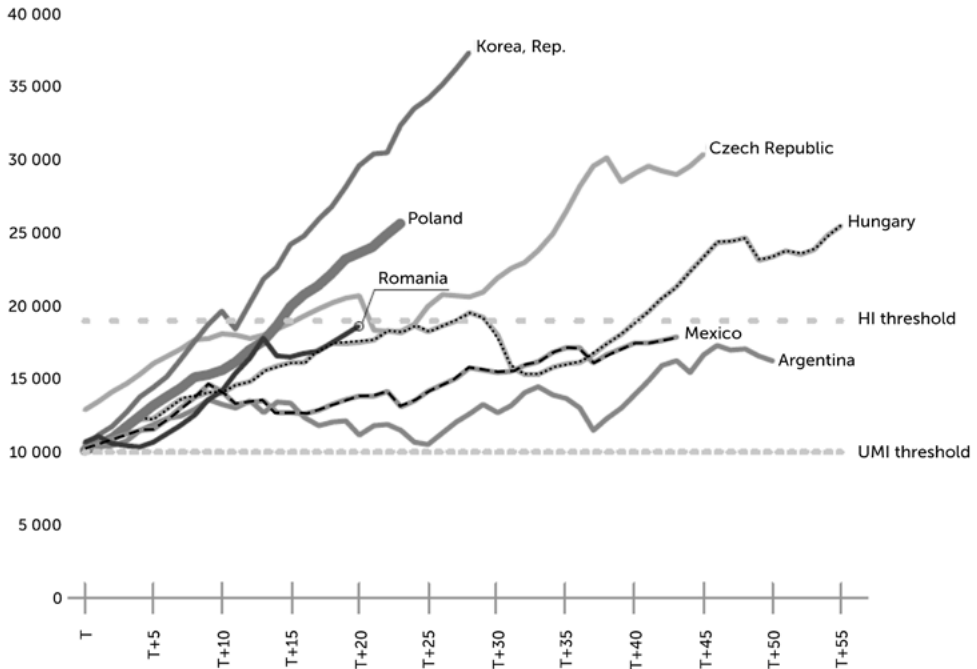


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to protect them had no pressure to modernize. Therefore, when the time to open the economy came, they were still not ready for competition and managed to extend the protection. Eventually, protectionists ended up with inefficient and mostly corrupt economies requiring perpetual protection<sup>31</sup>.

<sup>31</sup> Kasprowicz, T. (2019) "30 Years of Freedom in CEE: Various Paths and Destinations", [in]: *Liberty Review*, No. 11.

Figure 4: Escape from middle income trap (GDP per capita in 2014, USD)



Source: WDI, Groningen Growth and Development Center

Note: T=period when the country crossed Upper Mic threshold for good.

It seems that short-term protectionism may help in certain situations, but requires a lot of determination on the side of politicians to use the time efficiently in order to avoid complacency and corruption. Successful cases were performed in authoritarian states that forcefully implemented economic policies (like making labor unions illegal) and focused on survival from external enemies (China in the case of Taiwan, North Korea in case of South Korea)<sup>32</sup>. And even their corruption became a problem – as in

the case of Korean chaebols, whose problems were one of the main reasons for East-Asian currency crisis<sup>33</sup>.

The right-most part of the elephant chart is, however, the biggest threat to free trade and international cooperation. The world's rich – or those who we call *middle class* in the West – have seen their incomes stagnating in recent decades. At the same time, incomes of the super-rich went up as much as in the case of global middle class [See: Figure 2]. This was the effect of outsourcing manufacturing, which benefited

<sup>32</sup> Kim, K. S. (1991) *The Korean Miracle (1962-1980) Revisited: Myths and Realities in Strategy and Development*, Helen Kellogg Institute for International Studies, University of Notre Dame.

<sup>33</sup> Krueger, A. and J. Yoo (2001) *Chaebol Capitalism and the Currency-Financial Crisis in Korea*, NBER Conference on Currency Crises Prevention.



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consumers via lower prices and capitalists via higher profits but harmed certain categories of workers. So, despite falling global inequalities, the inequalities within developed countries started rising.

This phenomenon gave rise to many populist movements, with Brexit and Donald Trump being the most prominent and harmful example. The issue of locally raising inequality was also tackled by the left-wing parties as their traditional focus on poverty is less and less appealing along with its demise<sup>34</sup>. Inequalities are also heavily debated

by economists – starting with the monumental work of Thomas Piketty<sup>35</sup>. However, the problem lies in the fact that inequality is not inherently a bad condition: both full equality and extreme inequality seem like a perverse situation. We do not know the optimal level of inequality, so, in many cases, it is hard to judge if the rise of inequality is good or bad for the wealth and prosperity of an economy.

It seems, therefore, that the only reasons and arguments for self-sufficiency are politically based, as the voluntary trade between well-meaning parties is beneficial for all parties involved. Even arguments concerning strategic sectors that should be kept in the country are not holding up in a fair and open environment. Yet, sometimes, trade might be used in malicious way and for political reasons.

Sales of gas and oil are one of the favorite weapons used by Russia towards former Soviet republics. Russia provides goods (mainly gas and oil) at lower than market prices to assure alliance and compliance with Russian wishes<sup>36</sup>. Failure to comply is met with sudden cuts in supply and price hikes. The society of former Soviet republics are often accustomed to low energy prices and, thus, any changes were widely unpopular – and, hence, politically impossible. This simple scheme allowed them to subdue many former Soviet republics, with the goal of reintegration with Russia of at least some of them. The first one to go seems to be Belarus<sup>37</sup>. Ukraine was one of the few countries that managed to get out

<sup>35</sup> Piketty, T. (2018) *Capital in the Twenty-First Century*, London: London Belknap Press.

<sup>36</sup> [https://www.bakerinstitute.org/media/files/files/ac785a2b/BI-Brief-071817-CES\\_Russia1.pdf](https://www.bakerinstitute.org/media/files/files/ac785a2b/BI-Brief-071817-CES_Russia1.pdf)

<sup>37</sup> <https://www.atlanticcouncil.org/blogs/ukrainealert/soft-annexation-inside-the-russian-takeover-of-belarus/>

<sup>34</sup> <https://ourworldindata.org/extreme-poverty>

of such a situation, but only due to a high level of resolve in society – and at a great cost that is still increasing.

The decision about whether to be self-sufficient today is mostly hypothetical. Very few countries have tried adopting autarky and, notably, those who managed to do it typically bear great costs. This is because the decision to trade changes the structure of the economy by introducing specialization according to comparative advantage (or, sometimes, political decision). The benefits that follow in the form of lower prices, better selection of goods, and increasing income are enormous – even if introduced gradually and, therefore, not associated with opening the economy.

These benefits manifest radically in case trade is limited – for example, by protectionist policies. The recent lesson in the importance of free trade was learnt in the United Kingdom due to Brexit. Even modest turbulences in the flow of goods had quite a significant impact on the British economy<sup>38</sup>. Also, the United States after the easy-to-win trade war lost estimated 0.3-0.7% of GDP in 2019 and estimated 300,000 jobs, although saving jobs was the main reason to enter this war<sup>39</sup>.

The only real decision countries can make is to select particular industries or products and make sure they are independent from foreign producers. One reason might be the willingness to build up these industries and right after that, letting them compete in global markets. As the case of South Korea shows, this strategy may work to a certain point. However, the cases of many other countries illustrate that such shielding more

<sup>38</sup> <https://www.cer.eu/insights/cost-brexit-february-2021>

<sup>39</sup> <https://www.brookings.edu/blog/order-from-chaos/2020/08/07/more-pain-than-gain-how-the-us-china-trade-war-hurt-america/>



## THE DECISION ABOUT WHETHER TO BE SELF-SUFFICIENT TODAY IS MOSTLY HYPOTHETICAL

often leads to corruption and inefficient companies requiring protection in perpetuity. For most countries, it is far more likely to end up like Ukraine, not like South Korea.

Another reason for partial self-sufficiency may be based on the fear that the country that delivers a bulk of strategic products may use our dependence in order to gain the upper hand in future negotiations and, eventually, subdue us. Clearly, such a situation happened before in the case of post-soviet countries and their relationship with Russia. Responsible countries should be weary of such possibility. But an obvious solution is the diversification of sources – even if some suppliers are a bit more expensive. Also, it is a good idea to have ties with countries that are reliable and business oriented. If their products or services are a lot more expensive, it is a good point to start asking the question, why are we getting such a preferential treatment from our usual vendor. If something seems too good to be true, it probably is not that good after all. Then a country may decide to ensure diversification of supply even if that is costly. A good example of such approach is Polish investment in LNG terminal on the Baltic sea designed to accept deliveries

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from USA and the Middle East. In both cases gas is more expensive than delivery from Russia, but few were skeptical of the need to diversify even at a significant cost<sup>40</sup>.

Finally, there is the argument of essentials that might be in short supply in case of a global crisis. In such a situation, producers may stop exports of crucial goods (like masks or protective gear). However, there are several aspects to be considered. Firstly, the truly global crisis is an extremely rare phenomenon. I know this may look strange written during a global pandemic, but this event is truly unprecedented.

<sup>40</sup> [https://ec.europa.eu/regional\\_policy/en/projects/poland/upgrade-of-polish-ports-lng-terminal-to-strengthen-energy-security](https://ec.europa.eu/regional_policy/en/projects/poland/upgrade-of-polish-ports-lng-terminal-to-strengthen-energy-security)

Secondly, for the periods of disruption, states should be prepared – by having strategic inventory to cushion shortages. This approach is most likely much cheaper than sustaining inefficient factories *just in case*. Especially given the fact that a reasonable size of such a factory is far greater than the needs of one country and, hence, economic loss would also be significant.

Finally, the case of the COVID-19 pandemic has shown that global logistic chains have proven to be quite resilient, whereas the disruptions – relatively short-lived. What shook the people's confidence was not shortages themselves, but reactions of some countries (like Germany or France) limiting trade in essential items. This was, fortunately, quickly criticized and reversed by EU bodies<sup>41</sup>. It seems, therefore, there are better ways to ensure safety than promoting self-sufficiency.

<sup>41</sup> <https://www.nytimes.com/2020/03/07/business/eu-exports-medical-equipment.html>



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