Chapter 17. COMMERCE AND TRADE

I. Introduction

A. The General Division of Labor Problem

Recall from Chapter 13 on the evolution of social organization that division of labor and trade are unusual in animals, especially among the "higher" vertebrates. We have to go to "lower" animals like the social insects to find analogs of human behavior in this regard. It is also striking that humans engage in division of labor and trade on a variety of scales ranging from the family (division of labor by age and sex) to the societal (the standard economic roles of complex societies[1]) to international (e.g. U.S. specialties in agriculture, computers, and finance, Japanese specialties in smaller autos and consumer electronics). We can take time to consider only one of these scales, cross-cultural and international trade. However, the same general principles ought to apply to all forms of division of labor and trade. All forms give rise to several very interesting and unsolved theoretical problems.

The economic advantages of the division of labor are quite large. Adam Smith used the example of specialization in the manufacture of pins. If individual workers had to find the iron ore, mine it, smelt it, manufacture it into wire, solder on heads, sharpen the pins, and package and market them, their productivity would be abysmal. The dozen or so specialists involved in 18th Century pin making were much more efficient even for this extremely simple item. Species like humans and ants that make extensive use of division of labor are quite successful. Yet, relatively few species have evolved a division of labor and the human expansion of the division of labor to create modern economies is a very late process. The key question is *"Why is it so hard to achieve a division of labor?"*

There must be some serious impediments in the way of a free evolution of a division of labor. We argue that the primary problem is one of cooperation. A division of labor generally requires that partners be able to resist taking unfair short-term advantages. Empirically, divisions of labor seem to be supported either by kin selection (insect colonies, the clones of cells that make up the bodies of complex organisms), or by reciprocal altruism (the standard 2-species mutualism like the fungal-algal association that makes up lichens). However, for all the ink spilled since Adam Smith, this is a phenomenon of which we have only an incomplete understanding. Even in biology, the examples of mutualism between species are just coming under serious theoretical study, and the answers are confusing.

1. such as farmer, teacher, public servant, banker, factory hand soldier, politician, etc.

B. International Trade

As within-society division of labor, our example of the phenomenon of trade between major social groups is important in humans, and there is no close analog in other animals. If the general level of exchange of resources *within* human societies is unusual, the existence of cross-cultural exchanges is even more so.

The motivation for international trade is simple and obvious: societies can specialize based on their special skills and resource attributes and exchange with others, potentially to the net benefit of everyone. The absence of trade in the animal world suggests that successful trade relations might not the easiest thing to achieve. Indeed, tensions between modern trade partners who are on reasonably good terms politically, such as conflicts over trade policy between Western Europe, Japan, and the USA, testify that trade is indeed problematical. Trade rivalries, charges of unfair competition and rigged prices, and the like are common in trade relations.

Although trade is undertaken by merchants for quite mundane economic reasons, it has important evolutionary side effects. First, traders carry ideas from one society to another; trade thus provides an avenue for the diffusion of innovations. Second, trade is often a competitive business, and competition acts as a stimulus to invention. Thus, active international commerce tends to be an important force driving cultural evolution, particularly the basic technical aspects of culture. We'll return to the evolutionary implications of trade in Chapter 28.

II. Basic Theoretical Concepts

Four basic theoretical concepts will serve us as a foundation for understanding systems of trade: a) the idea of absolute and comparative advantage, b) the economic theory of free markets vs. monopoly, c) the costs of transport, and d) the idea of protection rents.

A. Absolute vs. Comparative Advantage

If one nation is simply better than its trade partner at producing one good and another at another, we say that there is an absolute advantage to trade. Some societies will be favorably endowed with certain raw materials, and others with an abundance of skills of certain kinds, etc. It makes economic sense for those societies that can produce a particular commodity more cheaply than others to produce it in surplus of local needs and offer the remainder for sale to another society in exchange for their specialized products. This absolute advantage is an obvious stimulus to trade.

The idea of comparative advantage is less obvious and therefore more interesting.

Even if one nation is only relating better at providing a product, but, absolutely worse at both, it makes sense to trade. This idea is one of the classics of economic reasoning, and is attributed to David Ricardo, whose theory of capitalist stagnation we met in Chapter 15.

For example, it might make sense for Japan to import large cars from the U.S. and the U.S. small cars from Japan, even though the Japanese can make both kinds of cars more cheaply than we can. How does this work?

> Let us suppose that the U.S. can produce 10 million large cars or 12 million small cars per 100 million person-days of labor per year. Let us suppose that the equivalent production per 100 million person-days in Japan is 12 million large cars and 25 million small ones. This difference might arise because each country has accumulated different skills and manufacturing facilities due to differences in past automobile manufacturing experiences. It might also arise because of different relative costs for the resources that go into the two types of cars.
>
> Now suppose that the demand for cars is 8 million large cars and 6 million small cars per year in the U.S. and 4 million large and 6 million small cars in Japan. If the U.S. makes both large and small cars to satisfy its domestic market, it will need 130 million person-days to manufacture them. The Japanese will need 57 million person-days to do the same, for a total of 187 million person-days to meet the joint demand. But suppose the two nations specialize and trade. The U.S. can make 12 million large cars for 120 million person-days and the Japanese can make 12 million small ones for a total of 168 million person-days. This provides a net saving of 19.3 million person-days if they trade, about 10% of total costs. Even though Japan is altogether better at making cars, it is better off buying its large cars from the U.S., if it can, say, share the labor savings 50-50 with the U.S. Table 17-1 summarizes the example.

Even with powerful reasons to trade, dividing the spoils is an impediment. Relative and absolute advantage together suggest that there will frequently be, at least in the abstract, powerful reasons to trade. However, as table 17-1 illustrates, a number of complexities that might rise. For trade to take place, American large cars will have to be sold in Japan at lower prices than home-produced Japanese cars. In order to accomplish this, U.S. wages will probably have to be lower since Americans are less efficient workers. Moreover, total employment is going to go up in Japan and fall in the U.S. if trade is opened. Although the U.S. *as a whole* is better off with trade, the auto sector will suffer from foreign competition. Since the general public's interest is relatively diffuse and the auto industry's is concentrated, it may be hard for politicians, even ones who are well aware of Ricardo's reasoning, to resist the well organized auto lobby. We see examples of this phenomenon every election year when one or more politicians argue for trade restrictions. Recent debates over NAFTA and GATT were tolerable victories for free trade, but intense efforts by groups like French farmers nearly derailed the process, and certainly warped it.

Table 17-1. An Illustration of the concept of Comparative Advantage.
(Note: Demand is given in millions of autos and costs are given in millions of person-days of labor.)

	JAPAN			**UNITED STATES**			**GRAND TOTAL**
Demand for Autos	4 large	6 small	*total costs*	8 large	6 small	*total costs*	
Costs *Without* Trade	33.3	24	*57.3*	80	50	*130*	*187.3*
Costs *With* Trade	40	24	*64*	80	24	*104*	*168*

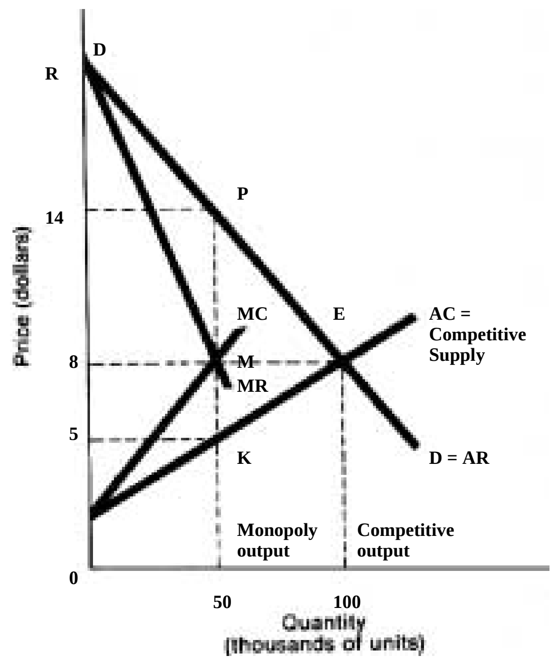
Thus, the opening of trade is liable to have "distributional" effects (some people will become worse off and some better) even as it increases "efficiency" (makes both trade partners better off on average). For example, organized labor in the US tends to oppose free trade. Labor unions suspect that one effect of trade is to force all labor to compete on the world market, driving wages in first world countries toward third world levels. Even as efficiency of the world economic system increases, business is managing to get a larger and larger share of the total benefits, at the expense of labor. It would be naive *not* to expect a political struggle over how the free trade pie is divided, and for people who think they will lose not to resist its temptations.

B. Free Markets (Free Trade) vs. Monopolies

It is notorious among economists that when there is only one seller or one buyer in a market, those who trade with the monopolist will be less well off than if markets are free. The reason is the following: (see Baumol and Blinder, 1979:434-440 or any good basic economics text for a more technical discussion.) In a free market, each seller has only a tiny effect on the market. A selling firm sees only a price "out there" in the world determined by the aggregate of all transactions in the marketplace. If sellers can make a profit producing at the present price, they do so up to the point that price falls to their average costs. Each seller competes with every other to drive the price down. As the price drops, the less efficient sellers drop out, but more efficient sellers survive. The classic equilibrium in such a situation is the point where supply and demand balance. At this point the price equals the average costs of production for sellers.

In a monopoly market, one seller sells all or most of the goods. As this seller increases production, it watches the price go down, as prices have to be lowered to attract new customers. It isn't other producers over whom one has no control who are affecting price, it is the actions of our dominant seller that drive prices down. At some point, the seller will have to spend more than one dollar to produce an additional dollar of revenue. At this point, the monopoly seller will stop producing more because its marginal return will equal its marginal cost. However, its average cost of production will still be quite a bit lower than the price, and it will earn monopoly profits.[2] Figure 17-1 illustrates these ideas:

Figure 17-1 Equilibria of competitive and monopolistic industries. Competitive equilibrium *E* occurs at price $8 and quantity 100,000 units, which is where the supply and demand curves intersect. The smaller monopoly output (50,000 units) occurs where the marginal cost and revenue curves meet (point *M*). The monopoly price, $14, is given by point *P* on the demand curve at the monopoly output (Baumol and Blinder, 1979:439)."



Under most circumstances, it will pay producers to try to create monopolies, or to try to engage in quasi-monopolistic practices like cartel arrangements that fix prices and share market. Perhaps a firm can create a monopoly by driving all others out of business by fair means or foul, and then raising prices to the monopoly level. If a competing firm can't be prevented from entering the market when the price is higher than average production costs, perhaps a little agreement can be arranged. If producers can do so, it will pay them collude to fix prices at the monopoly price, and not engage in competition. This is

2. Notice that this argument depends mainly on marginal cost of production *rising* with volume. This may not be true of goods with large economies of scale. In these cases, costs per unit decline as production increases—a situation that may lead to "natural monopolies" such as electric utilities.

fraught with political problems, as they will have to share the market by agreement. OPEC has tried to behave as a cartel, but was only briefly successful. In the US this is generally illegal. In the section on protection rents we will consider some of the ways cartels and monopolies can be accomplished.

C. Costs of Transport

The total volume of trade, the distance over which trade can be carried, and the kinds of goods that can be carried depend on the costs of transport, measured in units like dollars per ton-mile. When transport is cheap, bulk goods that are big, heavy, and low priced per unit of weight can be moved to respond to the advantages of trade. When such costs are high, only expensive goods can be moved, and these only short distances. The price of transport must obviously be added to the price of goods, and the volume of trade is likely to respond quite strongly to transport costs.

Thus, the volume of inter-society trade has grown in direct proportion to advances in transportation technology. These advances have come in many forms, from the evolution of human hands down to the container ship and supertanker. There is a hypothesis that upright posture and hands first arose to take advantage of a division of labor by age and sex. Men hunted and women gathered, and then carried their specialized products back to a camp to exchange. In known hunter-gatherer societies, baskets, slings, carrying nets, and the like allow people to move 10s of kilos tens of kilometers, an impressive feat by animal standards. Recall the key role attributed to the 100 ton ship in the early modern period in permitting the first very long distance direct trade, initially for fairly valuable and light cargoes like spices.

A by-product of cheap transportation and the expansion of trade is that societies can become highly dependent on trade in essentials and customary luxuries. Food, clothing, building materials, industrial raw materials, and the like tend to be bulky and heavy in proportion to value. The division of labor advantage here is plain, but so are the risks. Nations heavily dependent on trade are quite vulnerable to disruptions of trade, as for example Germany was in WWI and WWII due to British naval superiority. Germans attempted and failed to use submarine warfare in both wars to counter-blockade the British. A few ancient societies, like Rome and China, were dependent on long-distant trade in food and other essentials when transportation was unusually easy and well organized. There are political risks in trade that often figure in trade policy. Famine and food riots in Rome when the grain supply was interrupted shook the Empire. Actual risks aside, the argument of vulnerability is a good one for political groups adversely affected by trade. For example, in the U.S., the government until recently subsidized key agricultural, energy, mineral, industrial, and manufacturing industries as part of our strategic (i.e., national defense) preparedness programs.

D. Protection "Rents"

"Protection rents" is a bit of economist's jargon that refers to the price international traders must pay to avoid having their goods seized by bandits, generals, and government functionaries. This important problem (Curten, 1984) is related to the political vulnerability issues discussed above. Cross-cultural trade between different societies typically takes place between politically autonomous units. A trader carrying goods from one society to another has to deal with two political jurisdictions, at least one of which is likely to be a foreign country. Further, trade routes over water or across lightly populated country are vulnerable to piracy and banditry. Successful traders have to have some way of ensuring that their goods are safely transported to a distant market, and that the foreign society will not plunder instead of buy the goods. In modern societies, and in some historical cases such as the Mediterranean routes under the domination of the Roman empire, this is accomplished by an international system of laws, regulations, and law enforcement supported by ordinary taxes. Historically however, and to some extent today, traders had to purchase their protection directly.

Many methods were used:

Self-help violence.Traders could arm themselves, especially for protection along the route, but also possibly to deal with local customers at the foreign terminus. The trouble here is that armed merchants are a recipe for trouble; the difference between an honest armed merchant and a bandit gets a bit thin if the weapons are powerful enough to be effective—and if some temptation arises. A classic example was the armed trade/piracy that English, Dutch and French merchants carried on with Spanish America in the 16th century. Drake and Hawkins brought cargoes of slaves and other products to the New World to sell illegally (the Spanish Government wanted to monopolize trade with its colonies to gain revenue for the Crown). If the colonists were slow to buy, the English ran out their cannon, and threatened to shoot up the town in order to grease the wheels of commerce. Or so the "reluctant" buyers, whose alternate market was the Crown monopoly, claimed anyway. Drake and Hawkins claimed it was merely a convenient charade. Of course, if the ship was light on the way home, and relations with Spain were bad, as usual, the English captains engaged in a little outright robbery, secure that the profits would cover their protection rents to Queen Elizabeth, who would then turn a deaf ear to the Spanish ambassador's complaints (which he pursued energetically, by the way). (See Morrison (1974) and Thompson (1972) for entertaining histories of this period.) Dealers in illegal goods often arm themselves to protect their businesses today. The Cali and Medellin cocaine cartels are notorious examples armed international businessmen.

Hire protection. A common strategy was to hired armed private guards to deter small-scale banditry during the trip, and pay protection rents to the societies at both termini of the trip, and any major ports or trade towns along the way. Local political figures and the governments of large states were often well organized to provide local protection and regular access to local markets—for a protection fee. The magnitude of the fee was likely to depend partly on the degree of monopoly the local officials could exercise on violence as well as market forces. Similarly, local tribesmen between towns were often for hire as private guards. Of course the problem here is that if you are known to be willing to hire protection because you are not sufficiently well armed to help yourself, your hired protection can prove troublesome. Often the people who are for hire are bandits or pirates on their own account, if the opportunity offers. A protection racket is a frequent activity of criminal conspiracies. First the gang breaks a few windows, then is sells protection from window breakers. In practice, on many trade routes infested with pirates and bandits, it is not always clear when you are buying protection and when you are the victim of a protection racket! Today, privately purchased protection, like self-help protection, is commonest in international trade in illegal goods like drugs. It is also very common within and among states with a poor rule of law, such as the former Soviet Union, where mafias are extremely important.)

Dane-Geld

It is always a temptation to a rich and lazy nation,
To puff and look important and to say:-
"Though we know we should defeat you, we have not the time to meet you.
We will therefore pay you cash to go away."

And that is called paying the Dane-geld;
But we've proved it again and again,
That if once you have paid him the Dane-geld
You never get rid of the Dane.
(Rudyard Kipling 1865—1936)
Dane-Geld

Government monopoly. Often, the protection of trade is organized as a government monopoly. Honest, competent governments can greatly favor trade and increase wealth by offering cheap, effective protection. By contrast, "kleptocratic" governments offer expensive, incompetent, and thieving protection, often wrecking the economy and providing fertile grounds for the development of mafias. The most effective governments can even engage in diplomacy that extents substantial protection across international boundaries, as in the modern world trade system.

Trade was often most extensive when there were just enough providers of protected ports of entry to ensure a bit of competition, but not too many. On the one hand, if each trade expedition had to pass through many jurisdictions, each wanting a payment, the total protection rents became exorbitant and trade declined.The great caravan routes across Central Asia were only intermittently open from China to Europe because these long land routes usually had too many petty chieftains/bandits demanding protection money to make them competitive with the Southern Indian Ocean-Suez (or Lebanon)-Mediterranean routes. On the other, state monopolies over wide areas, such as in Spanish America, inhibited trade via government monopoly.

III. Types of Cross-Cultural Trade

Historically, several different variants of systems for organizing cross-cultural trade have been important (Curten, 1984, McNeill, 1982). Each of these variants has been influenced by the four major theoretical considerations discussed above. Of course, an infinite variety of local circumstances also affected their operation.

A. Trade Systems in Hunter Gatherer and Simple Horticultural Societies

Trade systems in hunter gatherer and simple horticultural societies are generally limited by the rather high cost of transportation. Usually also hunting and gathering societies are politically autonomous on a quite small scale. Thus, it is difficult to move heavy goods *far enough* to cross cultural boundaries; there is seldom a large ecological difference between societies to create major comparative or absolute advantages to trade, and protection costs are high per unit of distance moved due to the number of independent polities involved.

Most trade in these societies is between immediate neighbors, and is restricted to high value goods, such as ornaments, obsidian for tools and the like. Nevertheless, some high value goods could move surprising distances by what is called *relay trade* in such societies. For example, stingray spines (for use as spearpoints) from the Northern Australian coast were traded for stone axeheads from far in the Australian interior. These goods moved from the coast to the interior of Australia by relay trade, passing through many hands along the way. Similarly, *Dentalium* shell (used as a kind of money) was moved down the U.S. West Coast from the Puget Sound area to Northern California, abalone shell moved inland, and obsidian spread widely from sources like the Clear Lake area in Northern California. Often, the increase in value with distance is recorded in the increase of trade value of shell money by ethnologists, or in the tendency for finished or semi-finished obsidian to move much farther than large chunks and crude tools since the value to weight ratio had to be improved as transport distance and thus costs increased.

Trade between societies was often organized on a ceremonial and expeditionary basis in order to cope with the risks of theft in cross-cultural trade. Large groups of people would travel to a host society at an agreed upon time, chiefs would exchange gifts, negotiate prices, settle disputes that threatened to erupt, and generally supervise trade. The ceremonial *Kula* trade system was a spectacular and famous example. The Trobriand Islanders, studied by the famous ethnographer Bronislaw Malinowski, participated in this trade which involved a large area along the northeastern coast of New Guinea. The ceremonial centerpiece of the trade was a circular flow of valuable necklaces and arm bands in opposite directions in a rough ring of societies. The system involved canoe voyages of up to several hundred kilometers for such trading episodes. The exchanges of valuables among long-established trade partners in pairs of societies served as a "cover" for the exchange of more mundane products such as food, raw materials, etc. that were quantitatively more important.

Elements of ceremonial trade survived until quite late, even among more sophisticated societies. For example, the tribute exchanges between China and her Asian neighbors went on until early in this century. The North American fur trade with the Indians had an aspect like this. Political leaders and their followers would bring goods to a trading post, where gifts would be exchanged with the post agent before trade began. Early Agrarian states often had elaborate "diplomatic trade," with exchanges of gifts between monarchs serving as the ceremonial cover for more mundane trade.

One school of thought has been that these systems of exchange had a very different character than market exchanges. Karl Polanyi (in Dalton, 1974) argued that such trade was centrally organized by political leaders, and was conducted at traditional, fixed prices, rather than market prices which responded to supply and demand. More recently, students of these systems like Curten have argued that the gift exchanges were incidental to trade between followers, and that the fixed prices were mostly a fictional by-product of a lack of a reliable monetary system. In fact, adjustments were made to reflect supply and demand.

B. Systems of Advanced Horticultural and Agrarian Societies

Port of entry trade. Agrarian states commonly opened a few ports of entry for highly regulated trade. Motivations for this system included monopoly controls on the trade of imports or exports, protection of domestic industry from foreign competition, and a desire to prevent foreign ideas from entering a country. For example, China restricted early Portuguese trade to one port of entry, Macao, and the Japanese long restricted all foreigners to Nagasaki. Substantial departures from this pattern did not occur until the 19th century—and only under intense European pressure.

Entrepot trade. States with a stronger interests in trade often set out to create trade entrepots (specialized trade centers) with open access to all traders at modest protection fees. They aimed to make markets, provide transshipment points, offer supplies, and attract as much trade as they could handle. Many such states might have few of their own citizens involved in long-distance trading, and merely specialize in services for a fee. Examples include some of the Spice Islands ports like Malaka (Malay Peninsula) before the time of European dominance, and Venice in the later period after about 1500 when Venetian citizens themselves withdrew from trade.

Ports-of-trade and entrepot towns were often neutral points as far as regional conflicts were concerned. Even warring polities had an interest in recognizing this neutrality so trade could proceed. A grand version of this sort of thing operated in Western Europe in the commercial period. Wars in Europe were often settled by treaties that guaranteed naval peace only in home waters. Unrestrained, violent commercial rivalries were carried out in American, African and Asian waters. "No peace beyond the line" was the aphorism to express this situation, where the "line" was drawn down the Mid Atlantic and across to Africa near the Equator. Here, Europeans were tending to treat their whole continent as a giant entrepot for the many national trade systems.

Diaspora trade. During most of the agrarian period, and in many situations dominated by horticulturists (especially Africa during the last 2000 years) most trade was carried on by what have been termed "trade diasporas," composed of a farflung ethnic group specializing in international trade. Trade diasporas are a response to the organizational complexities of cross-cultural trade when laws, literacy, communication, and transportation are poorly developed, but transport technology makes a fair volume of long-distance trade possible. In the classic cases an ethnic group spreads outward to a series of port towns and entrepots and organizes the trade between them by becoming experts in cross-cultural exchange. Usually, the original homeland of the ethnic group is important in trade, so there is a natural way for people to develop this specialization, but as the diaspora grows, the original homeland often becomes relatively insignificant. Often, the diaspora merchants are foreigners in the host countries at both ends of the trade routes. Participants in the diaspora are usually subdivided into people who remain resident in the host country and specialize in services for traders, and those who actually travel and conduct the trade. In some cases, for example the Jews, the home country disappeared entirely, and only the diaspora traders remain.

The diaspora residents usually go to some lengths to organize the protection rents with the host country, provide translation services and other local knowledge, and regulate the affairs of the merchant community. Frequently, the local representatives are married into the host culture, and thus have access to valuable local knowledge and influence. A chain or network of such communities constitute a *trade diaspora* and trade between such communities could cover great distances.

Often diaspora peoples were able to cultivate close relationships with local rulers, and came to serve as advisors or bureaucratic staff. The Ottoman court in Istanbul often made use of diaspora peoples in such roles. The Mongol dynasty in China recruited many trade diaspora personnel into its bureaucracy so as not to have to rely too much on the native Chinese. Such people are typically easier for kings and emperors to control than local politicians with independent power bases, and they may bring useful expertise as well. A diaspora community is often small and unpopularly foreign. This puts them at the king's mercy and makes them appreciate his protection[3].

Host countries usually granted diaspora communities the right to regulate their own internal affairs, and the community was often residentially segregated. Local rulers were often reasonably sympathetic to diaspora communities because having them was the only way to take advantage of the opportunities of trade. Big entrepot towns like Alexandria on the Nile Delta, an important way point on a major Far East-Orient route, played host to a large number of these diaspora communities from quite distant localities.

You are perhaps familiar with some ethnic groups who were important participants in classic diasporas. Jews (Europe and Western Asia), Armenians (South Asia), and Chinese (Southeast Asia) are well known examples. But the list is very long. A number of African trade diasporas are also known; for example the peoples who organized the Sahelian and Saharan trade routes. Indians from various groups created diasporas along the Indian Ocean routes, for example Klings and Gujeratis. Southeast Asian islanders created several, for example the South Sulawesi people. Literally dozens of long-distance diasporas are reviewed in Curtin's book.

There were two main reasons for organizing trade around an ethnic group. First, before the advent of specialized educational institutions, such an exotic specialization on cross-cultural affairs could be most efficiently organized within a single ethnic group. At that time, the only way to major in international relations was to learn the trade from your parents[4].

Second, the dangers and risks of trade are multiplied when one has to deal with for-

3. For example,the ethnic Chinese trade diaspora in the Philippines dominated both external and internal trade. They were also an important source of loans for the Spanish aristocracy. When the aristocrats became overburdened with debt, they regularly incited ethnic Filipinos to massacre Chinese. The same tactic was used for centuries in Western Europe against Jews.
4. Remember the earlier discussion about whether to treat occupational specialties as cultural analogues of species.

eigners, especially powerful foreigners who can loot or extort at a whim. Bonds of kinship and ethnic solidarity help ensure cooperation in the absence of effective legal systems. Diaspora communities did have effective customs and codes of conduct that made business on a handshake and a merchant's word of honor possible in the face of lavish temptations to take unfair advantage of a brother merchant. There are a host of ways for unscrupulous merchants to take advantage of one another. They can welsh on debts, debase the quality of goods or coinage, cut side deals with pirates to steal goods of known location and shipment date. Trust is an essential ingredient of extensive trade, and coethnics are more trustworthy than foreigners. From the host country's point of view, merchants are potential thieves and cheats. The local representatives of a diaspora were known quantities, and could be held to account for the misbehavior of their coethnic traveling traders. In a sense, the local residents were hostages for the honest behavior of their coethnics and were accordingly given the right to regulate their behavior. One might hesitate to leave ones coethnics at the mercy of a local mob by cheating the natives.

In this connection, recall the advantages of cultural transmission for creating the opportunity for local specializations and cooperation on an ethnic basis. The trade diaspora system appears to be a good example of how a fairly large group can evolve a system of cooperation. That cross-cultural trade should have so long been dominated by ethnic specialists is some confirmation of the cultural group selection hypothesis. Note further how important trust and cooperation are in all aspects of a system of the division of labor, and the manifold threats to trade from those who would take advantage in one way or another.

Perhaps the most interesting surviving trade diasporas are those involved in illegal trade. International law now protects legitimate traders, but smugglers of drugs, arms, and the like still face complex political problems. As we have already noted, such businesses still provide their own protection or hire private protection. Smuggling rings generally have a strong ethnic component; the Sicilian Mafia, the French Connection, the Medellin and Cali Colombian cocaine cartel are examples. In the former Soviet Union, "Mafias" from the Muslim republics are said to be quite active.

C. Trade and Commercial Societies

The mercantile empires of the commercial era of Europe were an interesting special type of trade diaspora. Here, the home state took an active role in organizing, promoting, and protecting the trade of its nationals. The model for this type of state-supported trade was Venice and the other Italian trading states like Genoa.

The home country did not just establish enclaves in terminus cities, it also set up a series of fortified trading and supply posts at convenient locations along the route which *sometimes acted as termini in their own right*. Venice's chain of forts stretched down the east coast of the Adriatic and usually included forts in Greece, Cyprus, Crete, and other Mediterranean Islands as well as more typical diaspora communities in the Levant and Asia Minor. The Portuguese trade empire was a chain of fortified "factories" that stretched down the African coast and across the Indian Ocean to the Spice Islands in Indonesia. The main Indian Ocean center was Goa, on the West Coast of India. The Dutch and English East India companies were state-sponsored corporations with a similar structure and inspiration. Spain carried on a transpacific trade with Asia from a main base in Manila and a intermediate terminus on the way to Spain in her American colonies (Acapulco, and the Panamanian Isthmus).

Unlike a typical diaspora, these Western European enterprises were backed by a considerable naval force, and advanced land military techniques. To pay for all of this, and to try to earn some extra profits, the European diasporas usually went into the business of selling protection and creating monopolies. The Portuguese and Dutch both tried at various times and with varying success to monopolize the whole of the East Indian trade, both the long-distance trade with Europe and the internal trade in the area. Usually, they tried to monopolize local trade by selling licenses to local traders, and seizing the cargoes of "smugglers" who refused to buy them. This was nothing but a bald protection racket of course, although to whatever extent the Europeans were more efficient at suppressing piracy and increasing the volume of trade, honest native traders might have benefited. One big protection racket is perhaps preferable to many small ones.

Rivalries between the Europeans and the high cost of supporting naval forces so far from home meant that these tactics were effective only for short periods of time. For example, the Dutch East India Company went broke from the expense of trying to monopolize trade and protection.

In the New World, the disease die-off (see Chapter 20), the relatively short sea voyages involved, and the Europeans' vastly superior military technology allowed full-scale colonial empires to emerge quickly after 1500. In the rest of the world, colonial empires only emerged in the 18th and 19th centuries as transportation technology advanced, the military disparity between Europe and the rest of the world increased, and medical developments reduced the disease risks to Europeans. All this, combined with the trade possibilities inherent in the industrial revolution's cheap manufactures and high demand for raw materials made a brief episode of Old World colonialism possible. Thus, the factory style trade empire lasted longer than the full-fledged colonial empire, the New World excepted.

The full economic and political history of this episode remains to be written. Was the

European thrust for monopoly control of trade with, for example, India ever economically sensible? Were the terms of trade so distorted by monopoly and forced extractions that the development of the economies of the colonized countries was grossly distorted and handicapped? Are the present inequities between nations a function of past colonialism and present neocolonialism? The latter case is made by neo-Marxist Dependency Theorists (e.g. Wilber, 1979; Wallerstein, 1974). Conventional economic historians picture the situation as one in which the costs of empire always made the enterprise marginal at best, and that, while elements of monopoly, plunder and protection rackets were clearly important, trade on net benefited the colony or ex colony. Along these same lines, there is a dispute about the costs and benefits of the former Soviet Empire in Eastern Europe. Today, the US is the only superpower (read main imperial power), and Congress is very reluctant to fund the foreign aid, UN dues, and military costs that Presidents tend to see as necessary to excercise imperial power. Similar political debates took place in the British Parliament during the period when the British Empire was growing.

Of course, the benefits and costs of empire both to the mother country and the colony are likely to be variously distributed so that some groups win and others lose. Thus empire generates complex political reactions in both societies. Displaced elites, and victims of monopoly and shifting markets in the colony, are not at all favorably disposed, for example. British colonialism in India destroyed the local cloth industry via competition with machine made cloth, displaced the governing elite, and spread British institutions—not the least of which was the ideology of representative government. As a result, perhaps aided by ethnocentrism, native elites (e.g. Gandhi, Nehru) were able to run the costs of Empire up to unacceptable levels for most European countries after only a hundred years or so of domination. The U.S. set the pattern in 1776; although in this and many other cases, the pattern of trade changed only marginally as a result of decolonization, leading to the controversy over neo-colonialism. In the current regime of intense global international trade supervised by the US and our allies, American labor unions feel victimized by the drift of manufacturing jobs to overseas locales, and the Anglo middle class is restless over the immigration of ambitious people from overseas.

D. Trade and Industrialization: Ecumenical Trade

One result of intense trade is that expertise in cross-cultural contacts tends to spread. Even the classic trade diasporas tend to work themselves out of business, as the cultural diffusion they engender spreads knowledge of foreign languages and customs. The trend has been for trade to become ecumenical, meaning that individual merchants and their representatives can organize trade with a wide variety of foreign nations. For example, multinational firms can organize world-wide business empires by drawing on an international staff of managers. No longer must a merchant sell to the ethnic specialists of a diaspora. This pattern is not entirely novel; the giant cross-cultural empire of the Roman period allowed a similar development in the Mediterranean in antiquity. Often, a sort of international culture with a lingua franca grows up under such circumstances; the English-speaking international business community of today and the Roman/Greek ecumenical culture of antiquity are examples.

IV. Consequences of Cross-Cultural Trade

A. Increased Economic Efficiency

Regional specialization and improvements of economic efficiency are the classic results of trade. A society can overcome the ecological limitations of its own territory and the historical differences in technical skills to a significant extent via trade. The negative side of this consequence is an exposure to political and social risks. A dependency on the world market and other nations is created. Political conflicts between the beneficiaries and victims of trade within a country are likely to create internal political strife, as noted above.

B. Flow of Ideas

Trade is one of the most important channels for the flow of innovations from society to society. For example, Europeans acquired many key technical innovations from China via trade from 1000-1500 AD. Nowadays the flow of innovations is back to the Orient. Other aspects of culture flow as well, for example religious and political ideas. Islam spread to Indonesia, to Central Asia, and across Northern Sub-Saharan Africa along trade routes from the central area of Moslem conquest conversion in Western Asia.

The spread of liberal political ideas from Western Europe and Communist ones from Eastern Europe are a more modern example. Because of the political and economic risks of trade mentioned above and the ideological ones noted here, many nations have greatly restricted trade. The close regulation of European trade by China and Japan are older examples. Pre-Gorbachev Soviet restrictions on cross-cultural communication provide a more recent example of this attempt. Of course, such restrictions tend to be difficult to enforce without restricting the flow of useful innovations and foregoing the economic advantages of trade. The recent partial opening of China to the West is a result of elites trying juggle these costs and benefits.

C. Biological Contact

Ideas are not the only things that spread with trade, so do genes and diseases. We cover the case of diseases in Chapter 20. Genetic mixing between trade partners is probably not ordinarily too effective at long distance. Permanent migrants and long-term conquest are presumably more effective. However, diaspora traders often intermarried extensively with local communities, and some important mixed-race neoethnic groups have arisen in as a result. For example, mixed Indian-French people were an important part of the Western fur trade, and Portuguese-Africans were important in the Portuguese colonies of Mozambique and Angola. In both cases, the disease resistance of the mixed race as well as their abilities to communicate with both parent cultures gave them an important role in the economy.

V. Conclusion

Cross-cultural trade has played an important and gradually increasing role in the ecology of the human species. The economic advantages of trade are directly important in finessing ecological limitations and taking advantage of specialized opportunities. However, the political consequences of a dependence on trade, the by-products of having to organize protection, the cultural evolutionary consequences of increased diffusion of ideas, and the demographic and genetic impact of large-scale population movements are at least as important.

VI. Bibliographic Notes

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