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The argument for free trade



Saving the dolphin can damage the poor

Almost all arguments against free trade blame it for problems it has little to do with. Free trade enables people to lead better lives and it benefits the environment as well, according to Julian Morris of the Institute of Economic Affairs, writing as the Seattle trade talks collapsed in 1999

Free trade is wrongly blamed for many problems.

Most of the arguments against free trade bolster the arguments of those who seek to perpetuate managed trade.

> Free trade enables people to sell their products to those who are willing to pay the highest price for them. That means the original producer is able to capture a larger proportion of the value of the product. In this sense free trade is fair trade.

Good for the environment

Free trade also enables production to occur in places where it is most environmentally appropriate.

For similar reasons, most aluminium is produced in places where there is abundant hydroelectric power, which is less resource intensive than gas or coal.



Thus the gains from

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trade are environmental as well as economic.

Hurting poor producers

Most trade barriers, whether tariffs, quotas, or subsidies, hurt producers in poor countries most.

A tariff has two effects: it reduces the amount of the product sold (people usually buy less of any product when it is more expensive) and it reduces the amount that is received by the people making the product (part of the sale price is removed in the form of taxation).

So for example, a tariff imposed by the United States on the importation of nuts from Brazil reduces the quantity of Brazilian nuts bought in the United States and it reduces the amount that Brazilian nut producers obtain for the nuts they harvest.

The primary beneficiaries of such taxes are the government and the domestic producers (in this case, of nuts), whilst both the export producers (in this case, the nut harvesters) and the consumers in the importing country lose out.

Quota puzzle

An import quota directly reduces the quantity of a product that is imported and indirectly reduces the amount of money that the export producers receive. The primary beneficiaries of quotas are the importers, whose profits are increased, and the domestic producers, who face less competition. Again the consumer and the foreign producers lose out.

Quotas seem to be even less fair than tariffs because it does not matter how cheap the foreign producers make their goods, they simply cannot sell into the market more than the quota allows.

A subsidy artificially reduces the costs of production, thereby increasing production in that country. This artificially lowers world market prices, reducing the amount that producers in other countries receive for their goods.

Thus, the European Common Agriculture Policy results in overproduction of many goods, lowering the amount that developing country producers of these goods receive. The fact that such subsidies also encourage overuse of marginal land, drainage of wetlands, destruction of hedges and overuse of pesticides and fertilisers, makes them doubly heinous.

The way forward

By reducing tariffs, quotas, and subsidies and by making sure that regulations affecting trade have a clear and scientific basis, a new agreement at the WTO could lead to significant improvements in the lives of almost everyone on the planet, especially people in developing countries.

Research from Australia suggests that merely halving current average tariff rates would lead to a global increase in output of US\$450 billion per year -- that is an extra \$75 per person: not much to you and me, perhaps, but a month's income to someone in Burkina Faso.

But if instead the WTO gives in to protectionist pressures, these potential gains will not be available; indeed, we may see regression to more heavily managed trade, an outcome which would benefit a rich minority at the expense of the poor majority.

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