

Free trade = free choice

Below is my essay that was a runner up to Tech Central Station's essay writing contest on "Do free trade agreements help Asia become globally competitive?" Posted in TCS website,

<http://www.tcsdaily.com/article.aspx?id=051506B>

Actions Louder than Words

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15 May 2006

Free trade agreements and their variants (economic cooperation agreements, regional and sub-regional trade agreements) are agreements among Presidents and Trade Ministers, agreements among governments; they are not agreements among people of those countries.

Funnily enough, countries or governments do not trade with each other; people do. And when people trade with each other, they normally do not set conditions, they do not make paper agreements. For instance, a Filipino software engineer does not require that a Thai garments producer should first buy his software program before he will buy the Thai's new lines of long sleeve shirts. People simply buy certain goods or services from everywhere because they want something of value for their money.

People are happy when they find bargains -- cheap clothes, shoes, computers, food, drinks, cell phones, -- whether or not those are available in their traditional, often local, shops. People are happy when they have plenty of choices of products, and sources to find various goods and services to fill their needs. In this sense most people advocate free trade whether they know it or not.

Some groups, however, have a double standard. They want all their consumption needs and production inputs to be liberalized and to be available at bargains, but want their own products and services to be protected from competition. It doesn't work that way. Still, governments the world over so often give in to protectionist aspirations. Such is done often in the name of "nationalism" and "helping the poor", but this view is myopic.

Enabling the poor to have access to high quality but affordable food, clothing, medicines and housing or construction materials (made available by markets and competition among producers and sellers) is, itself, "helping the poor". Expanding job creation and employment opportunities as companies expand or the number of small- and medium-sized entrepreneurs grows due to lower production inputs and costs; is also "helping the poor".

If people want protectionism, then everything should be protected, no exemptions. If local farmers want their rice or bananas or pineapples to be protected from foreign competition, then they should not expect to buy cheaper, free-trade-price fertilizers, chemicals, seeds, tractors and their spare parts, and other production inputs. They

should not expect to buy cheaper clothes, toys, shoes and other consumer items for their families.

Why we don't have free trade

There are a number of reasons why government trade negotiators are prone to leaving trade restrictions that sabotage free trade.

One -- protectionist lobbyists, from local farmers or manufacturers, to plain anti-globalization NGOs and ideologues, are more organized than consumers. And government officials tend to listen to noisier, more organized groups, despite the fact that everyone on this planet is a consumer.

Two -- governments want to retain high tariffs to raise revenues that finance bloated bureaucracies in their countries. Corrupt leaders benefit from high tariffs, bureaucratic paper work and other non-tariff barriers. So often, of course, importers and traders will be forced to bribe them in exchange for letting in the restricted commodities.

Three -- the "net gains in trade" is still not realized and appreciated by majority of government officials and their trade negotiators. Take rice trade liberalization. When poor households including non-rice farmers (banana farmers, aquaculture farmers, and so on) save from buying cheaper imported rice than locally-produced rice, they do not burn their savings. They will use the money saved to increase their consumption of bananas and other fruits, vegetables and fish, poultry and livestock products, or have haircut more often. This price signal will alert some rice farmers to shift to other livelihood like vegetable farming, aquaculture, poultry and livestock farming, and so on. The job displacement is temporary but the economic efficiency of labor and resource re-allocation is more long-lasting.

What to do?

Since government trade negotiators have such limitations, the WTO should not be headed and negotiated by them, but by leaders and representatives of federations of traders (exporters and importers) in each country. Now, this is easier said than done since the WTO was formed by governments, not private traders and consumers.

If full free trade among many people in Asia and the rest of the world is not possible, there are other alternatives. One is for countries whose political leadership and trade negotiators understand the benefit of full free trade, to undertake unilateral trade liberalization.

Two, allow "dumping" of surplus products and services by other countries. Dumping is good, especially if the "dumped" products are still of good quality. As discussed above, economic and job dislocation of the adversely affected sectors is short-term, but millions of consumers who realized great savings from buying "dumped" clothes from abroad will have extra money to buy other goods and services which they would not buy otherwise if said dumped products are not available.

Three, allow export subsidies by rich country governments and do not make it a hindrance to more trade liberalization. If those governments will over-tax their citizens so that their exports can be sold at a lower price to poorer countries, so what? Buy their heavily-subsidized farm products, let the citizens of recipient countries enjoy cheaper imported food and dairy products.

While free trade agreements among Asian countries can help them be more globally competitive, very often such agreements are couched in various conditionalities. That actual free trade between and among partner countries are 10 or 20 years from their signing date. Hence, what will really help Asian countries be more economically dynamic and globally competitive, is actual free trade, preferably with no more paper free trade agreements.