Just Trade

The Moral Imperative of Eliminating Barriers to Trade

by Julian Morris

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International Policy Network
Third Floor, Bedford Chambers
The Piazza
London WC2E 8HA UK
t: +4420 7836 0750
f: +4420 7836 0756
e: info@policynetwork.net
w: www.policynetwork.net

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info@macguru.org.uk
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IPN seeks to achieve its vision by promoting the role of market institutions in certain key international policy debates: sustainable development, health, and globalisation and trade. IPN works with academics, think tanks, journalists and policymakers on every continent.

About the author

Julian Morris is Executive Director of International Policy Network and a Visiting Professor at the University of Buckingham. He is the author or editor of many papers and books, including *Environment and Health: Myths and Realities* (co-edited with Kendra Okonski; International Policy Press, 2004), *Sustainable Development: Promoting Progress or Perpetuating Poverty* (Profile Books, 2002) and *Rethinking Risk and the Precautionary Principle* (Butterworth-Heinemann, 1999).

Executive summary

- Voluntary exchange between individuals is inherently good, because:
  - Each and every trade directly enhances the welfare of both participants;
  - Cumulatively, such trades drive entrepreneurial processes that lead to more, better and cheaper products being available and increase productivity;
  - In combination, these result in sustained development, leading to continuous improvements in human welfare.
- Restrictions on trade are immoral
  - They lead to less sustainable or unsustainable development;
  - They raise the costs of goods, harming especially the poorest;
  - They act as barriers to employment and entrepreneurship
- It is estimated that the removal of all tariffs and quotas on goods and services would increase World GDP by over 1 trillion dollars annually.
- The impact on Africa and Asia of removing tariffs and quotas is expected to be particularly dramatic:
  - Approximately 10 per cent of the static gains would accrue to Africa, over 18 per cent to China and nearly 8 per cent to India
  - This could translate into dynamic gains of over $100 per person per year to the poorest people in the world.
  - In a decade, this could mean average incomes of the poorest rising by $1000 per capita or more – potentially eliminating absolute poverty.
- There will inevitably be winners and losers in any liberalisation process, but the winners will be far larger in number than the losers.
  - The main winners will be the poor, who will benefit from lower cost goods, greater opportunities for employment and greater freedoms as entrepreneurs.
  - The main losers will be the members of the elite in both rich and poor countries, who have been the main beneficiaries of trade restrictions.
- For liberalisation genuinely to benefit the poor, however, the governments of poor countries must liberalise their trade

Just trade

The moral imperative of eliminating barriers to trade

The current round of multilateral trade negotiations initiated in Doha, Qatar, in 2001 and due to be completed in 2006, is called the 'Development Round'. But what is the relationship between trade and development? What should be the objective of a 'just' or 'fair' trade policy? This briefing paper offers some tentative answers to these questions.

Why trade?

The media representation of trade is often rather muddled. For instance, when the concern is the plight of the domestic economy, exports are typically portrayed as good and imports as bad – so, we are encouraged to worry about any trade 'deficit'. Meanwhile, when discussing policy towards Africa or 'the developing world' (but not, usually, China), exports from rich countries are deemed to be bad and imports to rich countries good. Sometimes, the morality of trade itself is called into question, as when it is claimed that trade is bad for 'the environment'.

The view that trade policy should focus on increasing exports and restricting imports can be traced to the English and Dutch mercantilist pamphleteers of the sixteenth and seventeenth centuries. These early spin doctors – they were funded by merchants seeking to promote their own interests – claimed that the wealth of nations was a function of the balance of trade: the larger the trade surplus, they asserted, the wealthier the country.

To see the fallacy of this view, one need only take it to its logical conclusion. Suppose that the people of England were to export all their produce to Dutch merchants, who gave them gold in return. Then suppose that the people of England purchased nothing from Holland or any other country – in other words England had no imports. On the view that exports are good and imports bad, England would have done as well as is possible and Holland would have done very poorly. But now although the people in England have gold, they have no other goods – because they have all been sold to the Dutch merchants. As gold is not terribly nutritious, under these circumstances, everyone in England would very soon die from starvation.

Mercantilism was roundly debunked by the philosopher Adam Smith, who argued that humans have a natural tendency to 'truck barter and exchange'. Here he was addressing the morality of trade and he was saying, in essence, that voluntary trade – be it local, national or international – is inherently good: both parties benefit. Indeed it is the expectation of an improvement in wellbeing that induces people to trade in the first place. While sometimes we may regret having made a particular transaction, in general we do not, otherwise we would not continue to trade.

But Smith also gave further reasons to believe that voluntary trade was morally good: trade enables people to specialise in the production of certain goods and services. Thus, some people might become butchers, others bakers and yet others brewers – each specialising in the production of goods that we want and by selling them to us enhancing both our and their welfare. As Smith put it: "It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest."[1]

By enabling such specialisation, trade encourages the development of more efficient forms of production and the production of better, cheaper goods. In other words, trade leads to technological progress and economic development. The agricultural and industrial "revolutions" of the 17th and 18th centuries illustrate the case. Farmers sought means of increasing output, in order to improve their incomes. As a side effect, the total amount of food produced increased, driving down prices, enabling people to eat a more nutritious diet, and generally improving welfare. As farmers now had more food to trade, demand for other goods rose and this set in motion the development of larger-scale non-agricultural industry. Since then, there has been a virtuous circle of increasing output and increasing efficiency that has enabled people to live longer, healthier, more productive lives.

A recent example of the virtuous circle can be seen in the context of packaging. In the past century, packaging has become a specialist product in its own right, attracting many competing suppliers, who have developed many different technologies for hundreds of uses. Packaging serves both to improve the quality of products and to reduce costs. It enhances the shelf life of food products and ensures that less food will be wasted on the journey from the producer to the consumer. This means that appropriately packaged products can be sold at a lower price, satisfying more consumers and increasing the profits of the manufacturer and retailer. In addition, consumers benefit from being able to store their products at home for longer.

Nevertheless, packaging itself uses resources, so over time entrepreneurs have developed packaging systems that use less material. For instance, compare the heavy glass bottles that were the predominant means of packaging milk and other soft drinks thirty years ago, with the lightweight plastic bottles and laminated cartons used today. These modern alternatives are not only cheaper to produce, but their lighter weight and more rectangular shape also reduce transport costs. Moreover, in the case of fruit juices, the use of aseptic laminated containers (brick-like packs made of layers of plastic, paper and aluminium) has dramatically reduced the quantity of resources consumed during storage, since it is no longer necessary to refrigerate them.

Sustainable development

So far as it is possible to tell, there is no ‘end’ to this virtuous circle: after all, development is a process, not an end in itself. Sustainable development is simply development that can continue indefinitely, achieving improvements in welfare for all participants. By contrast, unsustainable development is development that is temporary and which leads to stagnation or decline at some point. Famous examples of unsustainable development are the planned economies of the Soviet Union and Eastern Europe; the attempt to establish Import Substitution Industrialisation in South America and elsewhere; and the kleptocratic failed states of Africa.

In the Soviet Union, successive governments attempted to increase output simply by increasing inputs – the presumption being that by putting more into the system, they would get more out. For a few years this worked – increased inputs led to increased output. But to the surprise of the central planners, that was followed by a flattening and then a decline in output.

The ultimate reason for the failure of the Soviet Union was explained by Ludwig Von Mises in 1921 in his essay *Socialism*. In a centrally planned system, Mises observed, planners have no effective guide as to how best to utilise factor inputs. In a market system, prices, brands and other signals enable participants to make rational decisions about which factors to use and provide a stimulus to the development of more efficient production methods. In a centrally planned system, there are no such signals.

The sad thing is that not only does central planning not work; it actually has horrid adverse consequences. In an attempt to implement central planning more effectively, the rulers in Russia murdered people who disagreed with their views, sent millions of people to gulags, and in many other ways violated basic freedoms. Worse, millions of people died as a result of the inability of the system to deliver basic necessities.[2]

For people who are concerned about the environment, the 1986 explosion at the Chernobyl nuclear reactor in the Ukraine (then part of the Soviet Union) is a horrendous instance of what happens when government attempts to control everything from the centre. Another example is the Aral Sea. Beginning in the 1920s, the Russian central administration attempted to increase cotton production in the region around the Aral Sea by using water from the rivers that fed it. Although there was an initial rise in production, this was followed by a decline as the water table fell and agricultural land became saline. The sea is now at about one-third its previous level, has a very high salt concentration and is polluted with all manner of contaminants. The fish, which previous were responsible for an industry employing more than 60,000, are mostly gone. And the ecosystems of the sea and surrounding areas have been changed beyond recognition. [3]

A second example of unsustainable development is import-substitution industrialization (ISI), which was promoted very widely after World War II and was implemented aggressively and enthusiastically in Latin America, especially in Brazil.[4] The justifications for ISI policies were twofold. First, it was taken as a given that development required industrialisation. Second, it was supposed that governments could speed up this process by preventing imports of industrial goods – thereby encouraging the development of a local industry.

Following the advice of proponents of ISI, Brazil and other Latin American economies put massive restrictions – quotas, tariffs, and outright bans – on imports of industrial goods. As a result, there was a temporary rise in industrial output. This is not surprising: if a country restricts the import of goods that people traditionally import, then local production will step in to some extent.

Initially, the main cost was a reduction in agricultural output, as productive factors moved into industry and away from agriculture. Meanwhile, people migrated from the countryside into the cities. After a period of time, industrial output began to level off. The reasons are manifold, but most significantly, producers ceased to be internationally competitive: they had a captive local market, so they had less incentive to innovate to compete; also, the cost of some imported inputs had risen because of the tariffs. Meanwhile, companies in other countries not cosseted by protective tariffs were forced to compete and so innovated better, cheaper goods, winning market share.

To save the industries that had been sponsored by import-substitution policies, governments started to subsidize them. To pay for those subsidies, they raised taxes on agriculture and monetized government debt through inflation. The net result was hyperinflation, combined with unemployment and economic decline.

In addition to those problems, there was social chaos. In part, this was a result of the fact that many people had migrated to towns and were now unemployed. If they had been unemployed in the countryside, they would have been in the presence of social support networks that they had developed over previous decades. But the new migrants to towns had not developed such networks.

The record of Africa, our third example, is even more depressing than that of Latin America and in many ways similar to Russia's. Leaders such as Nyerere (Tanzania), Mengistu (Ethiopia), Amin (Uganda), Abacha (Nigeria), Moi (Keyna), and others employed various forms of centralized state control of resources and enterprises, restrictions on property ownership, and restrictions on trade. The results-sometimes intentional, sometimes not-were corruption, embezzlement, and the entrenchment of the ruling elite. Another result was conflict and war. Oppressed minorities – or even majorities – often rose up and tried to capture the power of the state for themselves. Other consequences included slow, zero, or even negative growth and environmental degradation. [5]

Occasionally, African economies grew under conditions of massive state investment – backed by huge loans from international institutions. But the lack of private sector investment meant that the growth was unsustainable: indeed, it was little more than a mirage, with current consumption being financed from overseas capital. Perhaps worse, state control of large portions of the economy actually undermined private investment and – in combination with the biases of imperial and post-imperial trade policy – led to the misallocation of resources into inefficient production of commodities for export. As a result, many nations have been saddled with huge debts, combined with essentially dysfunctional economic institutions that are unable to support dynamic growth.

What are the lessons for sustainable development from those examples of unsustainable development? The first and most obvious lesson is that governments should not try to plan centrally. They should allow economic activity to occur in a decentralised way; enable private ownership through clearly defined property rights, and allow people to trade freely both locally and internationally.

The second lesson is that governments should be prevented from engaging in arbitrary or discretionary actions. To prevent corruption, embezzlement, and general oppression of minorities, any restrictions imposed on the ownership of property or the freedom to trade must be justified by abstract principles that are, as far as possible, universally accepted. Meanwhile, laws must apply equally to the governing and to the governed.

Workers of the world unite

As economies develop and grow, production and employment become more diverse and remunerative. This is generally good news for workers, who are more likely to find jobs better suited their individual temperaments and talents, and on average will be better paid. However, some workers who have acquired skills that are no longer in demand suffer as they are forced either to re-skill, find less skilled work or retire.

The rate of economic development is to some extent dependent on the number of people in an economy. In general, the larger the potential market for any product, the greater the possibilities for specialisation and division of labour. So, if the effective size of the economy can be expanded by allowing foreign trade, then the rate of economic development can be increased, to the benefit of all – except those whose skills are no longer in demand.

In many cases, labour unions – originally formed to bargain for better pay and conditions for their members – have found their very existence to be threatened by the changing structure of employment. Unsurprisingly, they have resisted such changes. Thus, in places where production costs for goods manufactured by their members are high by world standards, unions tend to oppose trade liberalisation. This is equally true for unions in rich and in poor countries.

Sadly, while import restrictions may protect some low-skill jobs, they drive up costs, reduce productivity and undermine investments in high-skill jobs. Consumers – a larger but more disparate entity – are punished by higher priced consumer goods, which means that they have fewer resources available to buy other goods and services. Meanwhile, workers in countries with lower production costs are harmed because their skills are undervalued. More generally, global economic growth is retarded and the impact on workers as a whole is negative. If workers of the world really were united, they should call for freedom to trade.

Trade, empire, war

Indeed, for these reasons support for free trade was strong among workers during the late 19th and early 20th century in Europe, especially in Britain.[6] During that period, many European governments unilaterally reduced tariffs on imports, resulting in a substantial increase in trade and consequent positive impacts for economic growth,[7] as Angus Maddison (2002) explains:

> *Between 1820 and 1913, British per capita income grew faster than at any time in the past – three times as fast as in 1700–1820. The basic reason for improved performance was the acceleration of technical progress, accompanied by rapid growth of the physical capital stock and improvement in the education and skills of the labour force, but changes in commercial policy also made a substantial contribution. In 1846 protective duties on agricultural imports were removed and in 1849 the Navigation Acts were terminated. By 1860, all trade and tariff restrictions had been removed unilaterally. In 1860 there were reciprocal treaties for freer trade with France and other European countries. These had most–favoured nation clauses which meant that bilateral liberalisation applied equally to all countries.*
>
> *Free trade was imposed in India and other British colonies, and the same was true in Britain's informal empire. China, Persia, Thailand and the Ottoman Empire were not colonies, but were obliged to maintain low tariffs by treaties which reduced their sovereignty in commercial matters, and granted extraterritorial rights to foreigners. This regime of free trade imperialism favoured British exports, but was less damaging to the interests of the colonies than in the eighteenth century,*

> *when Jamaica could only trade with Britain and its colonies, Guadeloupe only with France.*
>
> *The British policy of free trade and its willingness to import a large part of its food had positive effects on the world economy. They reinforced and diffused the impact of technical progress. The favourable impact was biggest in North America, the southern cone of Latin America and Australasia which had rich natural resources and received a substantial inflow of capital, but there was also some positive effect in India which was the biggest and poorest part of the Empire.*[8]

However, by 1913 many governments had begun to impose restrictions on trade in the form of new tariffs and quotas. This tendency increased dramatically during and after the First World War, especially during the late 1920s and 1930s. Nevertheless, European governments continued to give preferential treatment to colonies and former colonies, mainly in the form of reduced tariffs. These tariffs inevitably limited trade, which – combined with restrictions on migration and substantial reduction in international capital flows – led to a dramatic slow-down in world economic growth and increase in global inequality.[9]

It was not until the 1950s that trade and investment flows – and with them more rapid economic growth – returned. There has been a considerable liberalisation of trade in the past fifty years, through unilateral, bilateral and multilateral action. However, the structure of the remaining trade restrictions to a considerable degree still reflects the complex mixture of inter-war protectionist thinking and specific policies designed to give preferential access.

Neo-mercantilism

For the past fifty years, perhaps the most powerful mercantilists have been the agricultural interests in Europe, North America and Japan, which have consistently opposed liberalisation of trade in agriculture. However, there are signs that the power of these agro-mercantilists is declining, especially in the context of multilateral trade negotiations.

Many poor countries are strongly in favour of liberalising trade in agriculture (at least when it comes to opening the markets of rich countries). Because these countries now account for a significant majority in the World Trade Organisation, they are in principle able to sway the outcome of negotiations. Indeed, in November 2001 when trade Ministers met in Doha, Qatar, for the Fourth Ministerial of the WTO, they agreed to negotiate an agreement on opening up markets for agricultural products. This is part of a comprehensive new round of trade negotiations called the Doha Development Round.

Unfortunately, few poor countries invest sufficient resources in these multilateral trade negotiations. Often they rely instead on the advice of Western advocacy groups, many of which are neo-mercantilists. While typically claiming to represent the interest of some under-represented group, such as ‘the poor’ or ‘the sick’, many of the policies these groups advocate would be contrary to the interests of practically everyone, poor and rich alike.

‘Development’ NGOs have made much of the desirability of enabling poor countries to export their agricultural goods to rich countries. But at the same time they demand that poor countries themselves be allowed to continue to protect their local producers. They call such policies ‘fair’ or ‘just’ trade, yet their effect would be far from fair, serving primarily to protect powerful and often rich vested interests in poor countries, while harming everyone else.

If more efficient imported technologies can only be bought at a premium – or not at all – because of tariffs or quotas, people will continue to buy the old technologies produced by local companies. That may seem like good news for the local economy but it is not. The ‘protected’ companies produce goods that consumers do not want, as foreign companies steam ahead in the production of better, cheaper, more efficient goods. The result is inefficiency and corruption as companies pay ever increasing sums to government officials in order to retain their protection from competition and stave off the inevitable demise of their businesses. Meanwhile, other local companies must pay higher prices for inputs, so they become less competitive internationally. In sum, ‘protection’ of local companies has the opposite effect to that claimed by these pauvre-mercantilists.

Eco-mercantilism

Some environmentalist groups also oppose trade liberalisation, claiming variously that trade itself is harmful (because of the nasty emissions produced when goods are transported from place to place in anything other than sail-boats or horse-drawn carts) and that trade encourages the depletion of natural resources, such as forests (because, as we all know, people only chop down trees in order to sell them to furniture manufacturers in Sweden).

The reality is that trade is, on the whole, generally beneficial to the environment for three main reasons. First, it enables goods to be produced in environments better suited to production, thereby reducing resource consumption: the amount of energy required to grow bananas in Scotland would undoubtedly be greater than the amount required to transport them from Honduras. Second, by encouraging the development of new, more efficient technologies, trade leads to fewer effluents and emissions from production processes, and reduces the use of natural resources. Trade in computers, combined with trade in email software, has enabled people to send documents electronically, reducing the use of paper and reducing the use of energy required to transport packages. Third, trade enables the owners of natural resources to obtain the highest value for those goods. As a result the owners of natural resources (be they elephants or eels) are able to invest more in the protection of those resources.

In Southern Africa, much of the wildlife is owned privately – by individuals, companies and communities. The owners of the wildlife make money by selling viewing and hunting rights to tourists and reinvest a portion in conservation. They also sell animal products, but because of an international agreement called the Convention on International Trade in Endangered Species, some such products can only be sold locally, which reduces their value. If the owners could sell these products on the international market they would have more money available to reinvest in conservation.[10]

By contrast, import restrictions harm the environment by perpetuating the use of old and inefficient technologies. In India, the Birla family grew rich on sales of the Hindustan Motors Ambassador automobile. Protected from foreign competition for over forty years, the Ambassador remained essentially unchanged until 1984, when the first competing cars were produced locally. The consequence of all these old and inefficient cars roaming the roads was a stinking smog. Today, with intense competition from other locally produced cars, the market share of the Ambassador has fallen from over 80 per cent to less than five per cent[11] – and the smog is noticably reduced.

'Le mercantilisme culturel'

More recently, various pampheteers and vested interests have argued that trade restrictions should be imposed on 'cultural' goods – an ambiguous term that can mean anything from CDs to cheese. Their argument is that trade in cultural goods adversely impacts on culture. As with most other arguments for protection, this logically applies at the local as well as international level. Thus, if the cheese manufacturers of Provence are threatened by competition from those in the Cheddar gorges, they are surely also threatened by those in the Rhone valley – perhaps more so since the transport costs would be lower – and the consistent response is to impose restrictions on all competing varieties.

Taken to its logical conclusion, this argument says that no cultural item should be sold outside the locale in which it is manufactured. Rather than 'protecting' cultures, this would lead to cultural stasis. Also, expanding the definition of 'cultural' goods sufficiently means that such reasoning could be used to justify almost any trade restriction.

Cultures are not naturally static, either geographically or temporally. Today, Switzerland and Belgium are associated with fine chocolate. Meanwhile, much Italian food is dependent on tomatoes. Yet prior to the development of trade between the Americas and Europe in the sixteenth century, Europeans ate no tomoatoes or chocolate. Had a ban been imposed on imports of food in the sixteenth century, European diets would be far less diverse – we would have no potatoes, pasta, tomatoes, cocoa, chili, etc. – and our food culture would have been thus impoverished.

The same goes for artistic culture. If it had not been possible for painters in Holland to see works by Raphael and Titian, would Rembrandt have developed his more radical use of light? If François de Belleforest's *Histoires tragiques* had been prohibited in England, would Thomas Kyd have written *The Spanish Tragedy* and Shakespeare *Hamlet*? If Shakespeare's works were prohibited in Germany, would Schiller have written *Don Carlos*? If Kafka's *Metamorphosis* and Bulgakov's *Master and Margarita* were prohibited in South America, would Gabriel Garcia Marquez have written *One Hundred Years of Solitude*?

Trade and development: the realities

So much for the theory. What are the practical implications of trade liberalisation? In the two thousand years from 500 BCE to 1500 CE, international trade approximately doubled (Table 1) – indeed, the level of trade in 1500 was little different to the level in 1CE and even declined substantially after the fall of Rome. In the 500 years since, the size of international trade has increased nearly eight-fold. Much of this increase was no doubt due to technological improvements – as Ann Krueger notes: "Between 1830 and 1910, ocean shipping costs fell by close to two-thirds. It cost 177.5 pence to ship a quarter (eight bushels) of wheat from Chicago to Liverpool in 1868; by 1902, that same shipment would cost barely one fourth of that (46.5 pence)."[12] Since 1910 ocean shipping rates have again halved.[13]

However, it is also clear that trade 'policy' – i.e. the extent to which trade was inhibited by tariffs, quotas and other restrictions – has had a significant effect. This can be seen from Table 2, which shows the fluctuation in size of trade as a proportion of GDP – the significant decline from 1929 to 1950 shows the negative impact of increases in tariffs during that period.

Estimates of the benefits of future trade liberalisation on GDP vary considerably, but it is likely that they would be of the order of several hundred billions of dollars annually – and possibly over 1 trillion dollars. Table 3 gives an overview of studies looking at the impact of trade liberalisation on World GDP.

The larger estimates – such as those produced by Oxford Economic Forecasting (OEF) and the OECD – allow for dynamic effects, such as enhanced innovation that would result from increased competition under a more liberal regime. In addition, there is a strong likelihood that if poorer countries cut their tariffs with one another, they would have incentives to improve the domestic economic environment in order to take advantage of economic possibilities. The recent OEF model makes such an assumption *vis a vis* especially macroeconomic conditions (i.e. the provision of a stable money supply, leading to low rates of inflation, which provides for a more certain environment for investors). As a result, trade liberalisation is seen as being especially beneficial for poorer countries.

Table 1 **Length of major trade routes 3500 BCE–2000 CE[14]**

Date	*Sea routes km*	*%*	*Land routes km*	*%*	*Total km*	*Size relative to 1500 CE*
3500 BCE	1,000	11%	9,000	89%	10,000	6%
3000 BCE	1,000	8%	12,000	92%	13,000	8%
2500 BCE	2,000	13%	14,000	87%	16,000	9%
2000 BCE	8,000	38%	13,000	63%	21,000	12%
1500 BCE	10,000	43%	13,000	57%	23,000	13%
1000 BCE	6,000	32%	13,000	68%	19,000	11%
500 BCE	35,000	41%	51,000	59%	86,000	50%
1CE	58,000	38%	95,000	62%	153,000	89%
500 CE	41,000	40%	63,000	60%	104,000	60%
1000 CE	69,000	48%	73,000	52%	142,000	83%
1500 CE	104,000	60%	68,000	40%	172,000	100%
2000 CE	410,000	31%	929,000	69%	1,339,000	778%

Table 2 **Ratio of world merchandise exports to world GDP**

Year	*Ratio (%)*
1820	1.0
1870	4.6
1913	7.9
1929	9.0
1950	5.5
1973	10.5
1998	17.2

Source: Maddison (2001)

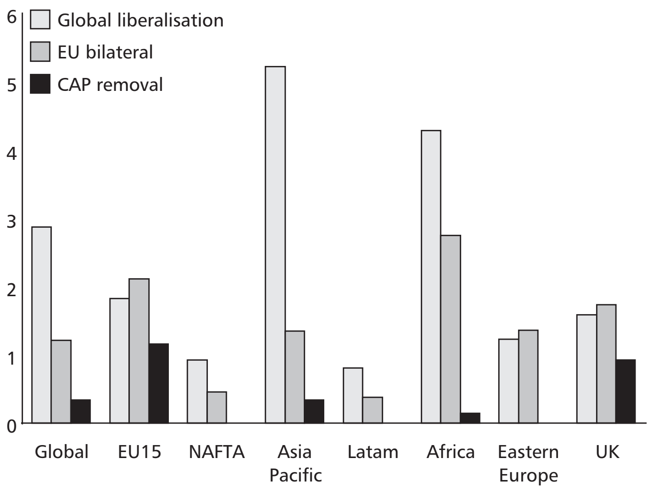
Figure 1 shows the impact of trade liberalisation under three scenarios: global liberalisation (100% removal of all restrictions in goods trade); bilateral removal of trade restrictions with the EU; and the removal of the Common Agricultural Policy. While the removal of the CAP is clearly desirable (especially for people within the EU, who are currently its primary victims), the OEF study suggests that the removal of trade restrictions offers far more potential for improvement in the economic conditions in most poor countries.

The poor benefit from trade liberalisation both directly – the costs of goods falls, increasing their spending power – and indirectly, through an increase in economic activity and in the availability of jobs and entrepreneurial possibilities, all of which leads to an increase in wealth and greater security. Nevertheless, it is the poorest countries – especially India, China and Sub-Saharan Africa – which have the highest import barriers, as Figure 2 shows.

An example of the beneficial effect of trade liberalization on poor countries can be seen with the effect of liberalization on Vietnam. Ganesh Seshan looked at the "effects on poverty and income distribution of national and international market integration in Vietnam's rice sector and fertilizer market between 1993 and 1998, a period of ongoing market reforms when the national poverty rate fell sharply from 60% to 37%."[16] Seshan found:

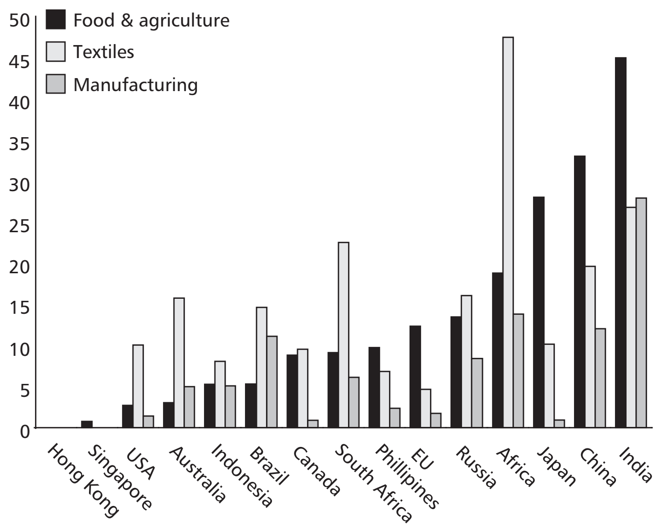
> *"Vietnam's agricultural trade reforms contributed to about a third of the decline in headcount poverty over this period and can explain nearly half of the reduction in poverty incidence among farm households. The results also show that liberalization did not exacerbate income inequality, but did generate real income gains for rural*

Figure 1 **Total GDP impact of trade liberalisation with R&D impacts**
%



Source: OpenEurope/Oxford Economic Forecasting (used with permission)

Figure 2 **Comparison of import barriers***
%



*All import barriers have been converted to tariff equivalents
Source: GTAP

households across the distribution at the expense of urban households."

Studies looking at a cross-section of countries have also found positive effects of trade liberalisation on poverty reduction. Thus, David Dollar and Aart Kraay conclude:

"We have identified a group of developing countries that have had large cuts in tariffs and large increases in actual trade volumes since 1980. Since China, India, and several other large countries are part of this group, well over half of the population of the developing world lives in these globalizing economies. The post-1980 globalizers are different from the rest of the developing world in terms of the extent of tariff cutting (22 point reduction compared to 10 points) and in terms of the increase in trade volume over the past 20 years (an increase from 16% to 32% of GDP, versus a decline from 60% of GDP to 49% of GDP). While rich country growth rates have slowed down over the past several decades, the growth rates of the globalizers have shown exactly the opposite pattern, accelerating from the 1970s to the 1980s to the 1990s. The rest of the developing world, on the other hand, has followed the same pattern as the rich countries: growth decelerating from the 1970s to the 1980s to the 1990s. In the 1990s the globalizing developing countries grew at 5.0% per capita; rich countries at 2.2% per capita; and nonglobalizing developing countries at only 1.4% per capita. Thus, the

Table 3 **Impacts of trade liberalisation on world GDP**[15]

Study	*Scenario*	*Gains*
Shakur, Rae and Chatterjee (2002)	100% liberalisation of Agriculture and Manufacturing tariffs plus removal of all subsidies. (Static)	$82bn
OECD (2003)	100% reduction by OECD, and reduction by non-OECD to 5% max. (Static)	$98bn (LDC $27bn)
Lippoldt and Kowalski (2003)	100% reduction in Agriculture and Manufacturing plus trade facilitation. (Static)	$173bn (LDC $80bn)
Hertel et al (2000)	40% cut on protection by in goods and services (Static)	$130bn (LDC $85bn)
Anderson et al (2002)	Full pre Uruguay round liberalisation goods (Static)	$254bn (LDC $108bn).
Francois (2001)	50 percent cut in pre Uruguay round trade barriers and 1 percent reduction in trade costs (Static)	$231–$370bn (LDC $138–191bn)
World Bank (2004)	Abolition of trade barriers (Static)	$291bn (LDC $59bn)
World Bank (2002)	Abolition of all trade barriers by 2015. (Static)	$355bn (LDC $184bn)
Dee and Hanslow (2000)	100% decrease in Agriculture and Manufacturing (Static)	$133bn
Francois, van Meijl and van Tongeren (2003)	Full liberalisation of goods and services (Static)	$367bn (LDC $113bn)
Brown et al (2002)	33 percent cut in tariffs on goods. (Static)	$163bn (LDC $50bn)
World Bank (2004)	Agriculture and manufacturing cut. (Dynamic)	$518bn (LDC $349bn)
World Bank (2002)	Full liberalisation of goods trade. (Dynamic)	$832bn (LDC $539bn)
OECD (2003)	100% reduction by OECD, and reduction by non-OECD to 5% max. (Dynamic)	$1212bn (LDC $459bn)
OEF (2005)	100% reduction in global goods trade restrictions. (Static and Dynamic)	$1,200bn

Note: LDC: Less Developed Country

> *globalizers are catching up with rich countries while the non-globalizers fall further and further behind.*
>
> *… The increase in growth rates that accompanies expanded trade … on average translates into proportionate increases in income of the poor. Thus,* absolute poverty *in the globalizing developing economies has fallen sharply in the past 20 years. The evidence from individual cases and from cross-country analysis supports the view that open trade regimes lead to faster growth and poverty reduction in poor countries."*[17]

Such results should not come as a surprise. However, there remain commentators who oppose trade liberalisation on the spurious grounds that it harms the poor. Of course, there are inevitably complexities associated with any policy change and there are certainly instances of countries simultaneously liberalising trade and engaging in domestic policy changes that harm the poor. But to give such examples as the reason for opposing trade liberalisation is to be entirely disingenuous.

Looking forward, Oxford Economic Forecasting (OEF) estimates that the increase in World GDP from a removal of all tariffs on goods could by $1200bn per year. OEF estimates that 10.7 per cent of the static gains accruing to African countries, 7.8 per cent to India and 18.6 per cent to China. Translating into dynamic gains is more difficult, but it seems reasonable to suppose that the poorest people in the world could benefit to the tune of $100 per person per year, perhaps more. In a decade, this could mean average incomes of the poorest rising by over $1000 per capita – potentially eliminating poverty.

Given that trade liberalisation would clearly be so beneficial for people in poorer countries, why don't more nations liberalise unilaterally? The main reason seems to be the continuing power of the elite in those nations, who utilise trade restrictions as a means to garnish their income. The beneficiaries of protectionism – who would be the losers from liberalisation – such as the owners of companies that operate behind protectionist tariffs, are willing to pay political leaders large sums to maintain the status quo. It takes both an enlightened attitude and moral rectitude to withstand such pressures – qualities that are sadly lacking in most political leaders.

In the first fifty years after World War II, there was a strong political commitment to negotiate the removal of protectionist tariffs. These negotiations effectively reversed the 'beggar-thy-neighbour' policies of the 1930s and enabled nations to bargain out their vested interests. However, as the number and heterogeneity of parties involved in multilateral negotiations has increased, so the difficulty of reaching wide-ranging changes has increased. This naturally suggests two things. First, that multilateral negotiations should be less wide-ranging; they should focus on the highest-priority issues, such as the removal of barriers to trade in agriculture, goods and services, and should avoid being diverted into issues such as competition policy (a favourite of dirigiste Europeans, which has at least for now been removed from the Doha round) or disclosure of origin of biological material that may have formed the basis for a patented invention (I kid you not: this is an issue that some countries are seriously considering pushing in negotiations).

Second, nations should seriously consider removing trade barriers unilaterally. It would be a mistake to think that such liberalisation removes bargaining chips; after all, the threat of reintroducing tariffs remains. Indeed, the bargaining power of nations that have liberalised unilaterally may be stronger because vested interests – in the form of foreign exporters benefiting from expanded markets for their products – will have been created and will lobby their governments to keep trade open.

In some contexts there is a moral imperative to remove trade restrictions. For example, tariffs and quotas on trade in agricultural goods between poor countries increase the cost of food to the poor and exacerbate the risk of starvation and malnutrition. Tariffs, taxes and regulations drive up the cost of medicines and medical devices, making these less affordable. Meanwhile, restrictions on trade in goods that would lead to clean water and clean energy help perpetuate the use of contaminated water and dirty fuels, which together result in around 4 million deaths per year – most of them women and young children.

Philosophically, mercantilism died with the publication of Adam Smith's *Wealth of Nations* in 1776. Sadly, in policy circles it has been resurrected over and over by all manner of vested interests and their friends in the ideological world of 'public interest' advocacy. The fact is that free trade frees people: it enables all to improve their lives and has the potential to eliminate poverty. Let us hope that we can persuade our governments to stop their oppressive trade policies and give us all the freedom to trade.

Notes

1. Adam Smith (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations*.

2. Charles N. Steele (2002) "The Soviet Experiment: Lessons for Development", in Julian Morris, *Sustainable Development: Promoting Progress or Perpetuating Poverty*, London: Profile Books.

3. Richard Stone (1999) "Coming to Grips With the Aral Sea's Grim Legacy" *Science* Vol. 284. no. 5411, pp. 30–33

4. See e.g. Fabiano Pegurier and Gilberto Salgado (2002): "Unsustainable Development, Latin Style," in Morris (op cit.).

5. George Ayittey (2002): "Why Africa is Poor," in Julian Morris (ed.): *Sustainable Development: Promoting progress or perpetuating poverty*, London: Profile Books

6. Peter Cain (1999): "British Free Trade, 1850–1914: Economics and Policy," *Recent Findings in Research in Economic and Social History*, Autumn

7. Between 1846 and 1880, net customs revenues as a percentage of net import values fell from 25.3 per cent to 6.1 per cent in the UK and from 17.3 per cent to 6,6 per cent in France (*ibid.*).

8. Angus Maddison (2001): *The World Economy: A Millennial Perspective*, Paris: OECD, p. 22.

9. *ibid*.

10. Michael 't Sas-Rolfes (1998) *Does Cites Work? Four Case Studies*. IEA Environment Briefing No. 4. London: Institute of Economic Affairs.

11. Barry Bearak (1999): "An Icon Falls On Hard Times; In India, the Ambassador Car Fights to Survive Competition," *New York Times*, March 4.

12. Anne O. Krueger (2005) "Tis Not Too Late to Seek a Newer World: What Globalization Offers the Poor," Address to Oxford Union, Monday, May 9, available at: http://www.imf.org/external/np/speeches/2005/050905.htm

13. Nick Crafts and Anthony Venables (2002) "Globalization in History: A Geographical Perspective," in Michael Bordo, Alan Taylor and Jeffrey Williamson (eds), *Globalization in Historical Perspective*, Washington DC: National Bureau of Economic Research. See in particular table 7.1 on p. 329.

14. http://www.ciolek.com/PAPERS/trade-routes-enc2005.html

15. Table derived from "Trade Liberalisation and CAP Reform in the EU" A Report for Open Europe by Oxford Economic Forecasting, October 2005.

16. Ganesh Seshan (2005) "The impact of trade liberalization on household welfare in a developing country with imperfect labor markets," Mimeo: University of Virginia, November.

17. David Dollar and Aart Kraay (2004): "Trade, Growth, and Poverty," *The Economic Journal*, Vol. 114:493, pp. F22–F49(1).

Just Trade
The Moral Imperative of Eliminating Barriers to Trade
by Julian Morris

Voluntary exchange between individuals is inherently good. Each and every trade directly enhances the welfare of both participants. Cumulatively, such trades drive entrepreneurial processes that lead to more, better and cheaper products being available, and increase productivity. In combination, these result in sustained development, leading to continuous improvements in human welfare.

Restrictions on trade are thus immoral and undermine sustainable development: they raise the costs of goods, harming especially the poorest, and they act as barriers to employment and entrepreneurship.

Poorer nations that have liberalised their trade in the past two decades have achieved substantially higher rates of growth, and real reductions in absolute poverty, than countries that have not liberalised and globalised.

The removal of all tariffs and quotas on goods and services could increase World GDP by over 1 trillion dollars annually. The impact on Africa and Asia would be particularly dramatic: Approximately 10 per cent of the static gains would accrue to Africa, over 18 per cent to China and nearly 8 per cent to India, which could translate into dynamic gains of over $100 per person per year in those countries. In a decade, this could mean average incomes of the poorest rising by $1000 per capita or more – potentially eliminating absolute poverty.

There will inevitably be winners and losers in any liberalisation process, but there will be many more winners than losers. Moreover, the main winners will be the poor, who will benefit from lower cost goods, greater opportunities for employment and greater freedoms as entrepreneurs. The main losers will be the members of the elite in both rich and poor countries, who have been the main beneficiaries of trade restrictions.

For liberalisation genuinely to benefit the poor, however, the governments of poor countries must liberalise their trade.

International Policy Network