

Why free trade is more important than fair trade

[Economics](#), [Trade](#)



Introduction

In a globalized world, very few people would question the benefits of international free trade. Different countries can produce their own products having a comparative advantage, and then exchange with the products produced by other countries. However, in the process of international trade, there will always produce gainers and losers, and thus will always be people complaining about unfair trade. In the global context of the economic crisis, there is a call for further promoting trade liberalization; on other hand some people advocate promotion of fair trade. So, is the pursuit of fair trade more important Or, is the promotion of the free trade more important This essay will critically discuss the statement “ Free trade is more important than fair trade.”

1. 0 Definition

1. 1 Free Trade

Free trade is a form of international policy, which local government cannot try to interfere on the operation of foreign import goods, or export goods. (Hill, 2009) This form of international trade policy has been widely spread over the free trade zones nowadays. Since opening the over sea market for the country’s domestic absolute advantages products, it benefits both the trade partners from the long-term economic vision.

1. 2 Fair Trade

Eisenberg states that “ Fair trade refers to exchanges, the terms of which meet the demands of justice.” (2005) In fact, fair trade has not been defined universally ever.

FINE is a charity association, which consists of four divisions. The divisions are international fair trade networks, European Fair Trade Association, World Fair Trade Organization, Fair-trade Labeling Organizations International and Network of European World shops.

FINE indicates that fair trade partnership is based on dialogue, transparency and respect; member in this network looks for greater equity in international trade. (European Fair Trade Association, 2009) It contributes to help workers or producers in developing countries, especially in the southern hemisphere, provide a more equitable trading condition and promote sustainability.

Fair trade organizations are supported by consumers for supporting producers in undeveloped countries, and making the rules of international trade campaign more equitable. Fair Trade system has many types of goods growing more, which are coffee, cocoa, dried fruit, fruit juice, nuts, vegetable oil, quinine, rice, spices, sugar, tea and Red wine, etc. In order to selling fair trade goods, companies need to apply for licenses to use the fair trade mark.

2.0 The Importance of Free Trade

The free trade is a double sword. One side edge carries advantage; another edge carries disadvantage. Therefore, there will be always gainers and losers.

2.1 Gainers

The free trade has many benefits, which produce many different gainers in the global market. It prevents interference efficiently of local government on import and export trade; cancel various privileges of the domestic trade. So

the importers can gain many benefits from the free trade. Let's take a look at other gainers.

2. 2 Absolute advantage

According to Adam Smith's theory, countries can specialize in the production of goods for which they have an absolute advantage that including highly skilled labour, sufficient raw materials and then trade these for goods they produced less-efficiently from other countries. (Hill, 2009) This is a win-win situation, two countries exchanging goods from each other are both gainers.

2. 3 Effective use of raw materials

Free trade also brings great opportunities for effectively using raw materials. Some countries in the Middle East have rich resources of oil, but there will not be much benefit without trade. For instance, Qatar can gain much benefit from exchanging many goods and technologies with oil. On other hand, some developed countries, such as Japan have very few raw materials. They can gain much oil they need with exchanging technologies; otherwise they would be very poor.

2. 4 Lesser living cost and more products choice

The citizens are also big gainers from free trade. Free trade system can effectively stop selling products at high prices from local protectionism, which lead lower living cost. Free trade also leads to more products being available in the market. Consumers have more choices on the products in market for different prices and types. Charles W. L. Hill mentioned in the book International business that if a national market is small, there may not be enough demand to enable producers to realize economics of scale for

certain products. Accordingly, those products may not be produced, thereby limiting the variety of products available to consumers. (2009)

3. 2 Losers

Free trade brings great opportunities, also brings great competitions, especially for the developing countries. In the initial stage, many new industries in developing countries are not strong enough to survive from the competition of established industries in developed countries. The local government will introduce some measures in order to protecting local industry. Alexander Hamilton proposed it in 1772. According to the argument, there is a potential comparative advantage in manufacturing in many developing countries. for instance, China owns cheaper labour and raw material costs, and India has big population of highly skilled and knowledgeable employees who can communicate with frequent English. However, at the initial stage, most of their small to medium sized firms in industries are too weak to survive frombrutal competitions of established industries much earlier in international market. The reason is that they do not have strong background for financial subsidies and source which assist them get toehold in the start point. Moreover, it is common phenomenon that firms in those developing countries hardly reach the international standard for high-end products. The argument is if the new industries should necessarily be protected temporarily by incentives until they have become strong enough to competition in free international trade market.(Hill, 2009)For example, if China lets the automobile industries from Germany, Japan and other countries enter the domestic market without trade protection, and then China's own auto industries would collapse. So China

adopts the import tariffs on imported cars in order to protecting its automobile industry. When the local new industries become strong enough to global market competitiveness, the government should abolish the protective measures established before, otherwise the measures of protection would adversely affect global trade. In fact, canceling the original protection is not an easy; the negative impact of such measures is to produce local monopoly.

3.0 The Importance of Fair Trade

Fair trade is a strategy for sustainable development of economic and poverty reduction in the world. Its goal is to create opportunities for producers from economically disadvantaged countries. It does not only provide fair payments to the producers, but also consider the equal pay according to the principle of equality between the sexes. If the partners of fair traders need payment in advanced in order to surviving in the special situation, fair traders have to ensure matching their demands. Fair traders also need to take responsibilities for avoiding potential health and safety problems for producers. If children are involved in the working environment, fair trader will ensure matching safety and education requirements for them. In the 1960, the largest distribution of the fair trade is to help the countries banned from main global trade market by political issues, to find markets for their products. (Fair Trade Labeling Organizations International, 2009)

Nicolas Eberhart in 2005 had the Bolivian case study concerning fair trade coffee as a member of the French non-governmental organizations Agronomes ET Veterinaires sans frontieres. It proved that the fair trade did

not only have a positive impact on the local price of coffee in Yungas, but also have the economic benefit to all coffee producers. Meanwhile, fair trade organization could enhance their production and their political influence.

(Ebrehart, 2005)

The econometric analysis led by Becchetti and Costantion verificated effects of fair trade on farmers of Kenya. The researchers observed a group of farmers with fair trade certification, and another group of farmers without fair trade certification for Comparison. After a period of time, Becchetti and Costantion found that fair trade could improve the living quality of famers, reduce child mortality, improve householdfoodintake, and increase the price of their crops and so on, in either monetary or non-monetary value.

Unfortunately, in the methodology, this research had errors for the sample of crops, the relative contribution of fair trade and the choice of the control group. (Becchetti, Costantino, 2006)

4. 0 Free Trade vs. Fair Trade

Jeffrey Eisenberg states that free trade refers to an international trading policy that aims at openness. (2005) Free trade is a form of international policy, which local government cannot try to interfere on the operation of foreign import goods, or export goods. (Hill, 2009)

The Oxfam charity and some economists believe that the foreign suppliers in trade should be paid a fair price, such as the cocoa beans for making chocolate should be bought by higher than market price. This may be the most influential demand for fair trade today. (BHAGWATI, 2010) However, “ fair price (wage)” has been questioned by Jeffrey Eisenberg. Would the price

be fair if it was higher. The price can get higher for few workers capturing the jobs; or the price can get lower in order to providing more job opportunities for more workers get paid. Which way is fairer? (Eisenberg, 2005)

Ngaire Woods recommends using the protectionism as a part of the preferential system properly in order to helping backward industries in undeveloped countries. In personal opinion, there is possibility that the preferential system or protectionism can make negative impacts on the trade, if they cannot be implemented well.

Fair trade is the expression of justice with human emotion. Free trade regard voluntariness as the chief component of justice. (Eisenberg, 2005) Although fair trade is positive activity on many respects, solely advocating fair trade and ignoring the benefit of free trade is really not necessary. Most believe that both free trade and fair trade at least have one thing in common.

Worldwide they are concerning justice, poverty alleviation and prosperity. Free trade and fair trade should stopping opposing each other. Fair trade can be an efficient measure of supervision in order to improving free trade system. Because of there are still many gaps and loopholes in free trade system. For instance, the international rules are generated by trade negotiations, primarily for the rich countries, while the market is closed for the main export products in poorer countries, such as agriculture. (Woods, 2005)

So, is the pursuit of fair trade more important? Or, is the promotion of the free trade more important? Answer is free trade is more important than fair trade for global economic development.

Conclusion

Free trade is a form of international policy, which local government cannot try to interfere on the operation of foreign import goods, or export goods. (Hill, 2009) The free trade has many benefits, such as producing lesser living cost and more products choice; bringing opportunity for exchanging with absolute advantage and effective use of raw materials. Fair trade is a strategy for sustainable development of economic and poverty reduction in the world. Its goal is to create opportunities for producers from economically disadvantaged countries.

For global economic development, free trade is more important. However, fair trade and free trade have one thing in common, which concern with global justice, poverty alleviation and global prosperity. Moreover, fair trade can be an efficient measure of supervision in order to improving free trade system.

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