

Is free trade
possible?



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' Free trade is neither possible nor desirable.' Do you agree with this Statement?

Roger Scruton makes the claim free trade is neither possible nor desirable in *A Political Philosophy* and takes a conservative political viewpoint in defence of national sovereignty (2006). Taking the statement within the realm of international political economy it draws in the debate of the role of the World Trade Organisation (WTO) in advancing free trade as its aim, the economic debate between those who advocate free trade from Adam Smith and David Ricardo and their modern advocates and those who oppose it including Joseph Stiglitz and an analysis of the power relations that entail in free trade negotiations as well as the consequences answering first whether it is possible and secondly its degree of desirability. Free trade in a majority of production areas and scenarios is possible but its desirability is the key debate, the domestic consequences for both developing and developed states can distort national economies in a globalised world. It is a complex issue that is largely approached through the WTO. Free trade has an impact on developmentalism for industrialising countries and is connected to hegemonic theories of world governance to uphold the system. Free trade is a possible concept for a globalised world but it is largely undesirable when considering the human impact of market forces.

Krasner argues that a hegemon is required for a global system of free trade to be viable, the essential principle is that the distribution of power amongst states dictates the international economic system. He highlighted the role of Britain during the 19th century and the US post World War One and marked <https://assignbuster.com/is-free-trade-possible/>

the decline in power of the US up to the 1970s being the precursor to the end of a liberal international free trade system. According to Krasner only an open hegemon has the sufficient power to provide the public goods and any other system is inherently unstable (Krasner & Webb, 1989, pp. 183-184). But in the contemporary international political economy with the rise of China economically and militarily alongside the supremacy of the US there are infact increases to the global liberalisation movement (Chestnut & Johnston, 2009, pp. 252-253). Hegemonic stability theory has a place in contemporary international political economy but it is not overriding.

The realist hegemonic stability theory is very rigid for a free trade international system and empirical evidence shows it is true that a hegemon can meet the public goods cost without jeopardising its own state security it isn't necessarily the only situation where free trade stemming from state power can flourish as we can see with the rising bipolar international system including China. Krasner's theory concentrates on the Cold War era and how far the US was willing to open world trade at its own expense in order to have an advantage over the Soviet Union in absolute power (Krasner & Webb, 1989, p. 196). The state power relationship that Krasner offers for open trade in the global system is very convincing in terms of state security and his realist perspective of the international political economy is as a part of international relations rather than separate. It shows that contrary to Scruton's statement that free trade is possible within a system whereby public goods are met by a state or states are able to meet the demand without risk to their own security.

But a more technical approach taken by Richard Baldwin on regionalism and its problems show that international trade is inhibited by the numerous regional rules and argues that a multilateralisation of the existing systems will be required for a truly global free trade system (Baldwin, 2006, p. 1451). Two of the issues he analyses are the current asymmetric negotiations whereby nations and interest groups seek to minimise losses rather than maximise gains and race to the bottom tax competition unilateral negotiations as an alternative to regionalism and multilateralism which leads to fragmentation in the supply chain (Ibid, 2006, pp. 1469-1471). A good example of asymmetric negotiations can be seen between the US and China on tyres in 2009. The Interest groups of labour including United Steel and Allied Industrial and Service Workers International Union pushed US negotiations to introduce tariffs on Chinese imports of tyres on the premise of saving US jobs and manufacturing (i. e. minimising losses). The result of US imposition of tariffs argued by Ilkensen is a cost to the consumer of \$600-700 million annually which results in a cost of \$300, 000 annually per job saved (Ilkensen, 2009).

This follows Baldwin's argument that unilateral and asymmetric trade negotiations lead to strength in interest groups and poor outcomes. It is also an example of Barry Eichengreen's perspective on the role interest groups have on limiting policy of free trade with reference to the Smoot-Hawley tariffs of the 1930s, the movement towards protectionism by domestic pressure groups (Eichengreen, 2003, p. 59). the strength of institutions beyond the state in affecting the outcomes of trade negotiations are able to prevent the possibility of free trade in the international political economy as

this example and Eichengreen highlight. Further to this the position of Richard Baldwin on the strength of regionalism in forcing such action as well as inhibiting the prospect of global international free trade by having a multitude of incompatible rules and aims. The possibility of free trade is disputed; the broad theory of Krasner would indicate that it is possible but the specifics of unilateral trade and regionalism show the limits of global free trade.

Turning to whether free trade is desirable concentrates on the WTO and the effects of free trade. The comparative advantage of Smith and Ricardo according to Ilkensen applies in the supply chain of the globalised modern political economy because it is how countries ascend or descend the chain, liberalisation of trade restrictions allows producers to serve the global supply chain in specific areas of comparative advantage. He uses the example of the Ipod with highly skilled engineers in California and low wage manual workers in China maintain low costs so that consumer prices are not high and members of the labour force can be freed to work in other sectors (Ilkensen, 2009, pp. 10-15).

His argument rejects the idea of international trade being a zero sum game that is assumed by the critics of free trade, his emphasis is on productivity to create growth. The central argument is that all consumers benefit from free trade and the emphasis of the entire argument should shift from producers to consumers (Ibid 2009 pp. 10-15). Ilkensen's analysis of a global supply chain also rejects the premise of a global north/south divide and he argues that there is not national competition but global cooperation (Ibid, p. 4). Similarly, the mutual reduction of tariffs ends the prisoner's dilemma that

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ends in a Nash equilibrium that satisfies neither party and as argued by Subramanian the developed nations in the WTO system have reduced their tariffs the most while allowing the rest to maintain protection of 2/3 of their imports (2007, pp. 152-154). Ilkensen's argument ignores many aspects of international political economy and purely concentrates on the economics of the process of free trade. The rejection of the orthodoxy on primacy of producers over consumers is a very market based approach that concludes it is positive for all involved and a desirable outcome of trade negotiations particularly when you highlight that developed nations are seen to give greater concessions.

The WTO is an advanced and technical, monitoring and compliance mechanism for managing trade relations where tackling asymmetric power is the key to its existence where every member is given equal standing and access to the Dispute Settlement Understanding (Lanoszka, 2009, pp 47-51). Contrasting the view of Ilkensen are the criticisms placed against the WTO. Sarah Joseph highlights the dependency theory of Singer-Prebisch where free trade deepens the international division of labour that does not work in long term development because it entrenches positions of nations within the core industrialised west, the semi-periphery and periphery of developing nations (2013, p. 8). This marxist interpretation of the international political economic system emphasises the asymmetric trade negotiations forced upon developing nations by the WTO to ensure the west's supremacy in terms of international relations and economics. She argues that with it being in the developed world's interest to ensure a lack of diversity in the economies of the developing nations to create an underclass of labour that

relies on manufactured imports and foreign direct investment (Ibid, p. 9). She accuses the WTO of serving goods and services of big business rather than individuals; in particular that of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) for creating worldwide patents on drugs which therefore prevents their mass use across developing nations to tackle health issues (Ibid, pp. 285-287). Joseph's critical analysis of the effect of the WTO in pushing for free trade highlights the dominance of the west in maintaining the status quo and not creating the development it promises. In this the problems of free trade show that it is not universally desirable as an economic system.

Similarly Joseph Stiglitz attacks the system of free trade for preventing development in the poorest nations by forcing them to state infrastructure and industry. Stiglitz agrees with Scruton's argument that liberalisation and international economics need to be sensitive to national economies in order to ensure growth and progress; he argues that free trade is about efficiency nations rather than growth, comparative advantage assumes full employment, stability in developing countries' and uses the example of Southeast Asia where high investment in physical and human activity acted as catalysts for growth (Stiglitz & Charlton, 2007, p. 15-25). For developing countries protection of infant industries is more often than not optimal because foreign investment is dependent on selling at a loss until productivity rises which will not happen and in terms of state building the easiest form of revenue is import tariffs and the priorities of a developing economy are not in efficiency but growth (Ibid, 2007, pp. 32-29). The argument of Stiglitz takes a different perspective on the aims of developing

nations from efficiency to growth in their own context; developing nations have very different needs to those that are developed in terms of human development. He highlights the fact that free trade only benefits developed nations that force liberalisation on other nations through the WTO (Ibid, 2007).

A further argument against free trade can be found in the environmental lobby that sees potentially global economic expansion as ‘inimical to the goal of preserving a clean, healthy, and sustainable global commons’ (Grossman & Krueger, 1991, p. 2). The analysis of the report by Grossman and Krueger was specifically regarding the NAFTA trade agreement and the environmental impact on Mexico. Specifically it highlights the problem with Mexico being a relatively poorly developed nation that should industrialisation occur due to liberalisation then pollution will grow under an undeveloped regulatory framework (Ibid, pp. 3-4). But the Kuznets curve refutes the basic assumption of the report that economic growth leads to exponential environmental degradation by concluding that the greater the GDP per capita the lower the overall pollution in the long term (Stern, et al., 1996, p. 1159). Free trade has initial environmental degradation but the long term forecasts of the Kuznets curve negate the argument against free trade as a desirable system of international economics.

The possibility of free trade is a debated topic and though the technical approach of Baldwin argues that global free trade isn’t a possibility with the complexities of regionalism the overarching argument of Krasner that a hegemon, or as argued more recently a number of nations, providing public goods to fulfill the global demand without incurring too great a cost is a

convincing argument in the contemporary international political economy that free trade is possible. But the key debate is whether free trade is desirable in a global context. Taking international economics as a global supply chain then Ilkensen's argument that the comparative advantage of each country placed within this chain then free trade is necessary to lead to the most efficient forms of growth and all benefit. But the arguments of Stiglitz, Charlton and Joseph emphasize the underlying principle that global trade is a zero-sum system that embeds the current and historical inequalities between the global north and south. To conclude on whether free trade is desirable is dependent on whether the aim is growth or efficiency; growth that it is unfair to developing nations, efficiency that it benefits all. It is too complex a subject to conclude either way in this essay whether it is desirable.

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