

Fair trade v. free trade essay

Economics



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FAIR TRADE AND FREE TRADE: Introduction: According to David Ricardo Trade offers countries the possibility to specialize in the lines of production which it has comparative advantage, therefore a country can produce that which it has comparative advantage and import that which it does not produce, trade aids in economic development whereby a country will earn from its exports and also import inputs that are used in the production process, therefore countries gain through trade.[1]Trade policies such as tariffs and quotas are put in place by countries, tariffs are used by countries to protect infant industries and also as a source of government revenue, quotas are quantitative restrictions which do not necessarily raise government revenue but they are used to protect infant industries and also to reduce the balance of payment. Regional integration is a process to eliminate the economic borders between countries, regional integration is a state of fair trade between two or more countries, and therefore countries integrate to offer each other fair trade through reduction of tariffs and quotas on imports from member countries of the integration, the most common regional integration include:[2]PTA- referred to as preferential trading agreement, in this type of integration countries impose low tariffs on goods imported from member countries than the rest of the world. FTA- referred to as free trade area, this is a zero tariff integration whereby member countries impose zero tariffs on goods imported from member countries, and however there exist transshipment rules that prevent imports being channeled via low tariff countries.

CU - referred to as common union, it is similar to an FTA but with a common external tariffs by member countries. UTL- unitary trade liberation, this is a

non discriminatory reduction in trade barriers where goods imported are imposed zero tariffs. CM-common market, in this integration there exist a free movement of factors of production e. g. Capital and labor. CEI- completes economic integration; in this case of integration countries become one economic or political unit.[3] Benefits of trade: According to Jacob(1950) integration improves the welfare of countries through trade creation and trade diversion, trade creation is welfare improving while trade diversion is welfare worsening, trade creation occurs when the integration leads to a switching of imports from a high cost source to a low cost source, trade diversion on the other hand means that countries are forced to import from its trade partners leading to increase in the cost of imports that were previously imported at low costs.

[4] Free trade: The above integration types both offer countries the opportunity to experience free and fair trade, however there is a difference between free and fair trade, free trade means zero restriction of imports where there are no tariffs or quotas imposed on goods imported among countries of the member countries, fair trade on the other hand means that the integrations or trade agreements offer countries.[5] Fair trade: Fair trade is an organized social movement which promotes standards for international labor, environmentalism, and social policy in areas related to production of Fair trade labeled and unlabelled goods. The movement focuses in particular on exports from developing countries to developed countries. Fair trade is an organized social movement which promotes standards for international labor, environmentalism, and social policy in areas related to production of Fair trade labeled and unlabelled goods. The movement focuses in particular

on exports from developing countries to developed countries, Fair trade is an attempt to improve the economic and social welfare of marginalized producers to a position of economic stability and sustainability, its main objective is to help the developing countries to achieve greater economic sustainability and also to improve the social welfare of those countries that experience high poverty levels.[6]PRINCIPLES OF FAIR TRADE: Fair trade is based on the following principles

Payment of a fair price: This principle depicts that the prices for commodities for the goods imported from developing countries should be through dialogue, this means that the price offered to these countries should cover the production costs and also should be socially just and environmentally sound. Opportunity creation: This principle is based on the efforts to create more opportunities for these disadvantaged countries; this is because fair trade is aimed at alleviating poverty and achieving sustainable development in the developing countries. Environmental protection: Fair trade encourages environmental protection whereby it advocates for better methods of production that do not degrade the environment. Improving working conditions: It advocates for better working conditions for the producer countries where working conditions should be safe and healthy to the producers. Gender equality: It ensures that women are properly valued and rewarded; therefore it empowers women in their productive work and ensures that they adequately rewarded. Transparency and accountability: This principle depicts transparency and accountability of commercial relations among the developed and the developing countries.[7]Fair trade in the US, Europe, other countries: Fair trade was initiated in the north markets in the 1940's by religious groups and non governmental organizations, the most common fair trade organizations

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include the fair trade labeling organization (FLO) which was formed in 1997, this is the largest fair trade labeling body that inspects producers in more than 50 countries in Asia, Latin America and Africa. The other most common body is the international fair trade association (IFAT) which was formed in 1989 by producers and export companies; today it has over 300 member organizations in over 30 countries.[8] Fair trade therefore offers the developing countries the opportunity to experience economic development which results to poverty alleviation, promotes gender equality, campaigns for a better environment and also for better working conditions, the difference between fair trade and free trade is that free trade only involves the elimination of tariffs and quotas while fair trade has more than the elimination of tariffs. Conclusion: Free trade means the elimination of all tariffs and quotas on imports, in history countries have negotiated with other countries to promote trade through the formation of organizations that offer zero tariffs to member countries, according to David Ricardo and Adam Smith who advocated for free trade, trade will result to gains in both countries that exercise free trade even without the free movement of factors of production, Fair trade on the other hand is an organized social movement which promotes standards for international labor. Fair trade offers developing countries the opportunity to develop economically and also to improve the social welfare of producers, its aim is to alleviate poverty and also to help the developing countries to have economic sustainability, free trade does not offer the advantages associated with fair trade. Reference: Wikipedia the free encyclopedia (2007) trade and trade organizations, retrieved on 22nd April, available at <http://en.wikipedia.org/wiki/Trade> The free trade and globalization (2007) retrieved on 22nd April, available at <http://www.https://assignbuster.com/fair-trade-v-free-trade-essay/>

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