

Why free trade is  
both realistic and  
desirable in the real  
world



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This paper is going to answer the question “ Why free trade is both realistic and desirable in the real world?” and explain why I might be pessimistic about the prospects for global growth and development. In each issue, I support my opinions by firm arguments in real world as well as in academic

## **The content**

### **2. 1 The concepts**

First of all, I would like to mentions about the main concepts that I am going to discuss about.

Free trade is trade in which goods, services can move across countries without any barriers, i. e. tariffs, quotas or other restrictions. (Todaro & Stephen, 2009). Or Free trade is a system in which goods, capital and labor flow freely between nations (What is free trade, WiseGeek [online], 2011).

Free Trade has four main features:

No taxes (tariffs) or other non-tariff barriers for producers to trade in goods and services

Traders have free access to markets and market information

The free movement of goods, services, labor and capital between and within countries

No firms could distort the markets through relying on the monopoly power from the governments

(Free trade, Wikipedia [online], 2011)

Next, according to Nafziger (2006), Economic Growth refers to increases in production or incomes or income per capita in a country. And “ Economic development refers to economic growth accompanied by changes in output distribution and economic structure” (Nafziger, 2006: 15). Therefore, growth is a necessary factor but not sufficient for development

## **2. 2 Free Trade is realistic and desirable**

In this section, I am going to argue for the view that free trade is both realistic and desirable in the real world.

First, about the view that free trade is realistic, I have six strong arguments to support that idea.

The first argument is about the lost in tariff revenues. Free trade means no revenues in tariffs; however, the governments should reform their tax systems to make them become more efficiently and effectively through putting taxes on right objects with appropriate rates. That can compensate the lost in tariff revenues and even increase the tax revenues.

The transportation and the communication are very convenient; people can travel faster, and they can communicate together from a distance. Thus, the workers are no longer afraid of traveling. Additionally, the developing countries are reducing regulations in labor market to attract specialists and high skilled labor from advanced nations. Thus, the mobility of labor markets is increasing.

The decentralization is a current trend in the world, and it helps countries can reach free trade by eliminating the monopoly. That will increase the

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transparency in economies and trade regimes in countries, so no firms can rely on monopoly from the governments to distort the markets. In reality, decentralization is almost reached in countries such as: US, Germany; and it is progressing in developing countries such as, i. e. Brazil, Mexico, Bolivia and Eastern European countries.

Next, there are many organizations that support and facilitate free trade such as World Trade Organization (WTO), North American Free Trade Agreement (NAFTA), and European Union. In Vietnam in 2006, the leaders of the 21 members of the Asia Pacific Economic Cooperation (APEC) launched a process to negotiate and establish the largest single of trade liberalization in the world which is called Free Trade Area of the Asia Pacific (FTAAP). That free-trade zone will account for 44% of global trade, and more than a half of the global gross domestic product. (Bergsten, 2007) and (Article Bliss [online], 2011)

In developed countries, the protectionists assert that free trade will make the unemployment severe by moving jobs from their countries to developing nations. But the governments can solve that problem by improving the social safety and welfare to compensate displaced workers and help them have jobs in high advanced industries that the developed countries specialize in.

Finally, the developing countries can produce assistance in technology, finance and information system to help them adapt free trade easier and help domestic firms compete with foreign ones more efficiently.

Second, I can say that free trade is desirable because free trade produce many benefits and advantages in the real world. Thus, many countries really desire free trade.

The first significant role of free trade is that it is an important stimulator of economic growth. The free trade has proved its role through the success in economic growth in East and South East Asia countries (Todaro & Stephen, 2009). For instance, Taiwan, which have the export-focus strategy, has average economic growth rate about 8% over more than four decades and grew nearly 10% annually in the 1965-80 period. It also has achieved its goals in education, health care and poverty alleviation successfully (Smith, 2003).

Next, the international trade has a significant role in GDP in developing countries.

### **Figure 1: Exports of goods and services (% of GDP)**

Source: Derived from World Bank, World Development Indicators, <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS>, 15 March 2011

According to the figure, the exports accounts for about near a half of GDP in developing countries from 2005 to 2009. Free trade promotes the exports from developing countries, so it has a very important role in developing countries.

Free trade increases the competitions in the world, because it helps foreign companies can trade as efficiently and effectively as domestic ones.

Therefore, it will make the prices for goods and services cheaper through

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promoting competitions. Moreover, free trade also encourages innovation, since companies need to produce innovative products and solutions to obtain market share (Toye, 2004).

Next, Free trade is an important means to achieve the development. Free trade increase national incomes and force nations to adjust and improve their infrastructure, policies, laws and society system to adapt free trade. Thus, free trade is powerful instrument to achieve the goals of development such as: stability, freedom, and quality of life (i. e. education, happiness and health). For example: based on the export of garment industry, Bangladesh's poverty reduction in 1990s was quite dramatic and it promote the process of achieving development goals in Bangladesh (Goldin & Reinert, 2006)

Next, there is the witness of the success of export promotion strategy and the limitation or failure of import substitution strategy in reality. Meanwhile, export-oriented countries such as: Hong Kong, South Korea, Taiwan and Singapore have got rapid rate of economic growth; Latin America promoted import substitution policies in the 1960s, but they were not successful, and such policies have been replaced by export-led strategies. Import substitution produces some disadvantages such as: inefficient domestic industries, the deficit in the balance of payment because the value of import inputs is higher than the value of export outputs. As the estimation, the import substitution waste about 10% of national income of developing countries. (Salvatore, 2011).

Next, the benefits from free trade agreements such as WTO and NAFTA can explain why free trade is desirable in reality. First, WTO integrates countries

in the world to the international system, and motivates them to protect and expand that system. WTO ensures that countries could not selectively open their market, and promotes economic relations between countries (Business Roundtable [online], 2006, cited in 2011). Next, NAFTA help Mexico became attractive place for workers from Central America, where wages were only about an eighth as high as those in Mexico by 2002. That makes other Latin American countries seem eager to join in a free trade agreement as soon as possible (Smith, 2003).

The classic academic theories support free trade such as absolute advantage theory, comparative advantage theory and relative factor endowments theory. These theory argue that the nations will increase welfare when they specialize in their advantages, endowment factors and conduct free trade together (Salvatore, 2011)

### **The prospect for global growth and development is pessimistic**

As I mention above, free trade is realistic and desirable in the real world; however, I have seven firm arguments to support my pessimistic view about the prospects for global growth and development

The first argument is that all resources in the world are fixed in quantity and they are being fully employed (Todaro & Smith, 2009: 606). The manufactures require a huge demand on raw material, fuels especially fossil fuels (e. g. coal, oil) which are non-renewable. When the quantity of these fuels decrease and become exhausted, their prices will increase so that the manufacture faces the stagnation. The price of oil (USD) increase constantly

from 12. 28 in 1998 to 100. 12 in 201, and it is expected to increase more in the future (Source: Derived from OPEC, OPEC Basket Price, 2011), that will impact the global growth as well as the development.

Next, the inequalities are increasing between and within countries (Todaro & Smith, 2009: 589). The disparity between rich countries and poor countries as well as the inequalities within countries is increasing. The inequalities will increase the conflict in economic, political and social benefits between people in different classes, religions and country. That will make the development and global growth more and more unsustainable.

The environment problems become more severe; especially, the environmental degradation and global warming are increasing rapidly. It will affect all nations in the world, especially poor countries whose productions depend on climate and environment so much. However, the rich countries such as U. S, Japan, Russia and China have not acted sufficiently to prevent or reduce the global warming and environmental degradation because it will impact their productions. When the environmental life is degraded, the development as well as the global growth will be hindered and maybe worse.

Many countries are still in deep poverty and they are being depended on agricultural and primary-product export. There are more than 1 billion people live on less than 1\$ per day and the number of people live in poverty has doubled in the last two decades in Africa. In addition, 70% people live in rural in developing countries depend on agricultural and primary product exports, whose incomes are very unstable and risky. That will make the growth and



development in developing countries fluctuant (Todaro & Smith, 2009) and (Salvatore, 2011)

There is a trend of new protectionism in advanced nations (i. e. North America and Euro) against the exports from developing countries. They are trying to protect their domestic producers, workers and farmers from the lower cost products in developing countries. That will obstruct the free trade in the world as well as the welfare gain from exports in developing countries. For example, even though 8 liberalization round have occurred over 50 years, the trade barriers still remains in agricultural products and textile industry.

Next, the population in the world is rising. That will impact and make the problems of poverty, environment and food more and more severe, especially in poor and developing countries. That is a significant factor, which will hinder and obstruct the global growth and development.

## **Figure 2: Population Growth ( annual %)**

Source: Derived from World Bank, World Development Indicators, <http://data.worldbank.org/indicator/SP.POP.GROW>, 20 March 2011

Finally, due to the World Financial and Economic Crisis in 2008 and 2009, the advanced nations faced deep recession and the developing countries face low rate of growth. Many countries such as U. S, U. K, Japan and China... have to spend billions dollar to rescue their economies. The world's GDP growth rate slows down by 2% for 2008 and 2009 (Source: Derived from World Bank, World Development Indicators, 2011). In addition, the government will tighten their financial market through regulations. It will <https://assignbuster.com/why-free-trade-is-both-realistic-and-desirable-in-the-real-world/>

affect the manufacture, business and investment because they need money to expand and develop.

## **The conclusion**

To sum up, the economies in the world can reach free trade; and because of free trade's advantages and benefits, it is desired by countries in the world. I assert that free trade is realistic and desirable in the real world. However, there are many serious problems that are impacting and will obstruct the global growth and development in the world. Thus, I have a pessimistic view about global growth and development.