Free Trade vs Fair Trade

Winners and Losers

Why trade?

- Specialization and economies of scale in production lead to greater quantity of production in all trading countries and thus increased incomes and higher standard of living (economic welfare)
- International trade and international economic interdependence may reduce tensions and promote peace among nations of the world

NAFTA

- Free trade
  - Elimination of tariff, gradual in some cases
  - Exceptions
- Free capital movements/investment

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Rationales

Stability

Economic prosperities for all parties

Will reduce illegal immigration

Concerns

- Economic Disparities
- Environmental concerns
- Labor concerns
- Inequalities

Why free trade may not be fair:

- Limited potentials for trade in the developing world
- Winners and losers in both developed and developing countries
- The mismatches
    - Tastes
    - Regulations
    - Standards
    - Cultures
    - Economic and social institutions
    - Etc.

Has NAFTA been successful?

- Economic growth
- Income inequality and poverty reduction
- Economic stability
- Immigration
- Has NAFTA resulted in real "free trade?"
  - Some non-tariff barriers have survived
    - The corn and tomato story
    - The maquiladoras
    - The emergence of China

Perils of Free Trade

- Transitional job losses (unemployment)
- Lower incomes for some
- Loss of tariff income for some countries
- Infant industries at risk: A need for protection
  - Imperfect capital markets

  (Note: Some criticize protection of infant industries.)
- Level playing field?
  - From developed countries perspective
  - From developing countries perspective
  - Dumping laws
- There may be more losers and winners despite economic growth in some countries

Where are we now?

- From GATT rounds (ending with the Uruguay Round) to WTO 1994
- The rule of law in international trade
  - Still the powerful have more clout
- Trade liberalization has favored the rich
  - Still developing countries pay more tariffs than industrial rich
  - Patent laws
  - Capital liberalization vs labor liberalization
- Politics and the influence of special interests
- The development rounds: From Doha (2001) to Cancun (2003) and Hong Kong (2005): not much accomplished

What to do?

- Treating developing countries differently
- Developed countries should do something about their agriculture subsidies
- Remove escalating tariffs from processed agricultural goods
- Liberalize unskilled-labor-intensive services
- Liberalize labor migration
- Reduction of non-tariff barriers
- Safeguards and dumping duties

Fair Trade for Developing Countries

- The “most favored nation” principle should not be used as a bargaining tool by developed countries
- Extended market access; the European example
- Give them a break on subsidies
- Let them protect their new promising industries

Agriculture

- The industrial world should stop or significantly reduce its agricultural subsidies, especially on those crops in which the developing countries may have a comparative advantage—e.g. cotton
- Concentration of subsidies in the US
- Fair market prices are would help efficient producers while the impact of slightly higher prices on consumers will be minimal

Tariff Policies

- Do not punish developing countries for attempting to increase the value added of there exports by processing them: escalating tariffs; e.g., oranges vs. orange juice
- The effective protection of processing could be much greater than the nominal tariff rate on a processed product
- Do not abuse "safeguards" and "dumping" duties; there is need for an international tribunal to rule on trade violations

Non-Tariff Barriers

- Technical barriers: safety, standards, etc.
- Rules of origin
- Tendencies toward bilateral trade agreements; such agreements should be restricted: It may be in the interest of large (powerful) countries to try to enter into trade agreement with individual countries – e.g., Chile Morocco, Peru

Unskilled Labor and Immigration

- Developed countries should open up their markets to low-skilled services of developing countries: trucking, shipping, etc.
- The rich countries' capital chases the cheap labor in developing countries. Why not liberalize the movement of low-skilled labor as well so that such labor can go the countries where the is a shortage of such labor

Institutional Reforms

- Who makes the rules of international trade?
- Who sets the agenda?
- Who enforces the rules and how?
- How are disagreements are resolved?
- Transparency and openness in processes
- Enforcement mechanisms are not effective when used by developing countries; solution: trading “enforcement rights”