

# ***Free Trade and Global Recession***

**Various authors  
April 2, 2009**

## **Introduction**

Five selected papers on free trade are contained in this short compilation. The subject has to be re-asserted time and again as protectionist sentiments keep coming back, especially with the G20 Summit in London this week. Enjoy reading!

-- Nonoy Oplas  
Minimal Government Thinkers, Inc., Manila

## **(1) Free Trade Is the Best Policy**

by Freedom to Trade (F2T) Coalition  
March 2009

The specter of protectionism is rising. It is always a dangerous and foolish policy, but it is especially dangerous at a time of economic crisis, when it threatens to damage the world economy. Protectionism's peculiar premise is that national prosperity is increased when government grants monopoly power to domestic producers. As centuries of economic reasoning, historical experience, and empirical studies have repeatedly shown, that premise is dead wrong. Protectionism creates poverty, not prosperity. Protectionism doesn't even "protect" domestic jobs or industries; it destroys them, by harming export industries and industries that rely on imports to make their goods. Raising the local prices of steel by "protecting" local steel companies just raises the cost of producing cars and the many other goods made with steel. Protectionism is a fool's game.

But the fact that protectionism destroys wealth is not its worst consequence. Protectionism destroys peace. That is justification enough for all people of good will, all friends of civilization, to speak out loudly and forcefully against economic

nationalism, an ideology of conflict, based on ignorance and carried into practice by protectionism.

Two hundred and fifty years ago, Montesquieu observed that “Peace is the natural effect of trade. Two nations who differ with each other become reciprocally dependent; for if one has an interest in buying, the other has an interest in selling; and thus their union is founded on their mutual necessities.”

Trade’s most valuable product is peace. Trade promotes peace, in part, by uniting different peoples in a common culture of commerce – a daily process of learning others’ languages, social norms, laws, expectations, wants, and talents.

Trade promotes peace by encouraging people to build bonds of mutually beneficial cooperation. Just as trade unites the economic interests of Paris and Lyon, of Boston and Seattle, of Calcutta and Mumbai, trade also unites the economic interests of Paris and Portland, of Boston and Berlin, of Calcutta and Copenhagen – of the peoples of all nations who trade with other.

A great deal of rigorous empirical research supports the proposition that trade promotes peace.

Perhaps the most tragic example of what happens when that insight is ignored is World War II.

International trade collapsed by 70 percent between 1929 and 1932, in no small part because of America’s 1930 Smoot-Hawley tariff and the retaliatory tariffs of other nations. Economist Martin Wolf notes that “this collapse in trade was a huge spur to the search for autarky and Lebensraum, most of all for Germany and Japan.”

The most ghastly and deadly wars in human history soon followed.

By reducing war, trade saves lives.

Trade saves lives also by increasing prosperity and extending it to more and more people. The evidence that freer trade promotes prosperity is simply overwhelming. Prosperity enables ordinary men and women to lead longer and healthier lives.

And with longer, healthier lives lived more peacefully, people integrated into the global economy have more time to enjoy the vast array of cultural experiences brought to them by free trade. Culture is enriched by contributions from around the world, made possible by free trade in goods and in ideas.

Without a doubt, free trade increases material prosperity. But its greatest gift is not easily measured with money. That greatest gift is lives that are freer, fuller, and far less likely to be scalded or destroyed by the atrocities of war.

Accordingly, we the undersigned join together in a plea to the governments of all nations to resist the calls of the short-sighted and the greedy to raise higher the

barriers to trade. In addition, we call on them to tear down current protectionist barriers to free trade. To each government, we say: let your citizens enjoy not only the fruits of your own fields, factories, and genius, but also those of the entire globe. The rewards will be greater prosperity, richer lives, and enjoyment of the blessings of peace.

## **(2) Comments to the Petition**

by Nonoy Oplas  
March 19, 2009

A Filipino friend based in Europe reacted to the "Free Trade Petition" above. He wrote,

"I just read an interesting passage from John Maynard Keynes on his 'National Self-sufficiency', which could be interpreted as his proposition that 'de-globalisation' (or a certain degree of protectionism) or national self-sufficiency or nationalisation of finance - and not free trade actually promotes peace and development. Keynes wrote:

'I sympathize, therefore, with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel – these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national. Yet, at the same time, those who seek to disembarass a country of its entanglements should be very slow and wary. It should not be a matter of tearing up roots but of slowly training a plant to grow in a different direction.

'For these strong reasons, therefore, I am inclined to the belief that, after the transition is accomplished, a greater measure of national self-sufficiency and economic isolation among countries than existed in 1914 may tend to serve the cause of peace, rather than otherwise. At any rate, the age of economic internationalism was not particularly successful in avoiding war; and if its friends retort, that the imperfection of its success never gave it a fair chance, it is reasonable to point out that a greater success is scarcely probable in the coming years.' (Keynes 1933/1972).

I think your ranks or 'the big names' themselves should come back debating the ideas of Keynes, especially that this crisis moment when 'we all seem to be Keynesian now' as the Financial Times put it a few months ago."

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It's good that Keynes recognized the internationality or globalized character, of knowledge, science, travel, etc. I think if he were alive today, he will also recognize the globalized character (hence, must not be "caged" in any national boundary) of sports, culture, music, adventure, online networking (facebook, friendster,...).

So why would he propose to "cage" goods to national territories and not be

internationally exchanged and traded freely? Is it wrong for my HP laptop, your (probably Nokia) cellular phone, someone's Ford expedition or Toyota Avanza, other people's gadgets, appliances, cars, shoes, salmon, Australian beef, etc. to be traded internationally? I cannot see any point why it is wrong.

Protectionism is dictatorship. The protectionists are dictating us to whom we can sell, to whom we can buy, at how much quantity, at what price and tax rates, when we can buy or sell, etc.

Under free trade, there is zero restriction, zero coercion.

A Finnish cell phone manufacturer can offer us their best models, but we can say "No, we're not buying from you, we prefer Korean or Japanese cellphones, or we want Taiwanese or Chinese copycats..."

A carindera (streetside foodshops) owner can say "it's good to patronize onions and vegetables from the Cordilleras (mountain provinces in northern Philippines), but my customers are ordinary folks and jobless people who want the cheapest food possible, and imported onions and vegetables from Taiwan or Vietnam are a lot cheaper than those coming from the Cordilleras..."

A free trader ideologue (like me) can theorize from that carindera owner's statement that "free trade of onions and veggies will help enable the poorest of the urban poor in the Philippines to deal with the current global economic turmoil and high unemployment. "

Talking about "free trade = peace", maybe the best examples will be Hong Kong and North Korea. HK being the epitome of free trade in Asia, has zero external threat of war (even if one will remove the "China's army" factor). The biggest banks, the biggest clothing and apparel manufacturers and distributors, the biggest hotel chains, the biggest food chains, etc. of the US, Europe, Japan, Canada, Korea, etc. have offices in HK. Any country that dare invade and attack HK will face the most modern fighter planes and armies of those countries mentioned.

In contrast, North Korea, autarkic except limited trade with neighboring China and S. Korea, is suspected by many countries around the world, in Asia especially, of possibly starting a war, or inviting a war, partly because of the absence of free flow of goods and services across its borders, absence of the internationality of the wwweb and the information it brings, etc.

"We're all Keynesians now" were uttered by people who love more government, more borrowings and taxes, more intervention and regulations, more politicians and bureaucrats. I dont think the owners of yahoo, google, facebook, linux, etc. would ever desire and hope for such kind of a business environment. And yet these are among the companies that make lots of money with almost zero government subsidy and "support".

### **(3) Protectionism: alluring but deadly**

by **Daniel Ikenson \***

March 2009

The global economic meltdown has prompted fears of resurgent protectionism and some governments have already raised tariffs and other trade barriers. But, despite the occasional dalliance with protectionism, treaties and good sense prevent a more serious romance.

Amid pledges of restraint from the big economies, India recently raised tariffs and placed other restrictions on some imported steel products. Ecuador raised tariffs by 5 to 20 per cent on 940 products. Argentina's restrictions include auto parts, textiles, televisions and shoes. And the Indonesian government is requiring civil servants to purchase only domestic products.

Similar actions have taken place in other countries and surely there will be more in the months ahead. But the risk of protectionism escalating to the point that it noticeably reduces global trade further is remote.

With the proliferation of international production, investment and joint ventures, the "Us versus Them" characterization of global competition no longer applies. It is now a competition between global supply chains to produce and deliver products made with parts and labour from many countries. The successful supply chains are those with the fewest constraints--physical and administrative, including trade barriers.

According to recent estimates from the International Food Policy Research Institute, a US think-tank, if all World Trade Organization members raised all tariffs to their maximum allowable rates, the average global tariff would double and trade would decline by 7.7 per cent over five years, from the 5.5 per cent growth this decade. But, to put 7.7 per cent in historical context, the value of global trade plummeted by 66 per cent between 1929 and 1934, in the wake of the protectionist plague following the US Smoot-Hawley Tariff Act in 1930.

In the 1930s there were no global rules, no sources of adjudication or remediation, and no generally accepted limits to unilateral actions by governments. And there were far fewer domestic constituencies of any political consequence protesting against protectionism in the '30s.

Now we have trade rules that work reasonably well and a vastly different global economy that makes import restrictions much more expensive to the country imposing those restrictions. Most WTO members apply tariff rates well below their required or "bound" rates, a good indication that governments have little interest in the protectionist past.

Today there are burgeoning domestic constituencies in numerous countries who favor lower tariffs because their livelihoods depend on access to imported raw materials, components, and capital equipment. When governments raise trade barriers, they deter foreign investment and reduce the appeal of their countries as locations for research, production, or assembly operations in the supply chain.

That dynamic is easier to appreciate when one considers that 55 per cent of all US import value in 2007 consisted of raw materials, intermediate goods and capital equipment--the kinds of products the construction and manufacturing sectors purchase. Put in this light, it is more obvious that tariffs raise the costs of production, which undermines economic growth--or, as in the current case, economic recovery.

Mexico, for example, understands this. In January it started cutting rates on about 70 per cent of its tariff schedule. Those 8,000 items comprising 20 different industrial sectors accounted for about half of all Mexican import value in 2007. The objectives are to reduce business operating costs, attract and retain foreign investment, raise productivity and give consumers more, better and cheaper goods and services.

Mexico is not alone. In February, Brazil suspended tariffs entirely on some capital goods and reduced duties to two per cent on a wide variety of machinery and capital equipment, including communications and IT.

ASEAN leaders too, at the summit that ended on 1 March, reaffirmed their determination to ensure the free flow of goods, services and investment and to refrain from new trade barriers.

Some analysts worry less about border barriers and more about camouflaged protectionism that favours "domestic champions," discourages competition or encourages "buying local." It's not Thirties-style, tit-for-tat trade wars that they fear but Seventies-style government intervention that will limit choices, stymie competition, and strangle growth.

That kind of protectionism is already in evidence and, because it is more opaque, is more prone to abuse. But, like tariffs, those kinds of policies are unsustainable because they will undermine trade, investment and economic growth.

Governments that stimulate trade and competition offer their people the greatest opportunity to recover in our global economy. The ASEAN declaration is a good start. Now ASEAN governments must show they mean what they say.

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## **(4) Making Depression Great**

**By Thompson Ayodele \***

April 1, 2009

[http://www.koreatimes.co.kr/www/news/opinion/2009/04/137\\_42365.html](http://www.koreatimes.co.kr/www/news/opinion/2009/04/137_42365.html)

The world economy is in severe recession. Trade is deteriorating every day. Political pressures demand import restrictions to protect employment. This is what makes a depression great.

The G20 meets in London on Thursday in an attempt to kick-start the world economy. Of course, expectations are high because the stakes are high.

U.N. Secretary General Ban Ki-moon hopes the G20, the group of top industrialized and developing economies, will commit itself "to sustaining an international stimulus package, on top of their own national stimulus packages" or "the economic crisis may soon be compounded by an equally severe crisis of global instability."

However, unless there is a new direction in global trade, the summit will be just another talking shop.

Everyone claims to recognize trade as the best way out of this recession, but usually on their own terms: Several developed and developing countries have already raised barriers on imports.

Last November, the G20 leaders signed a pledge against protectionism, yet in the second half of 2008, 17 out of the G20 implemented 47 measures that restrict trade, the World Bank says.

These measures will push the world economy further into prolonged contraction.

If all countries go the same way, the global rate of import duty would double and ultimately shrink global trade by 7.7 percent, according to the International Food Policy Research Institute in Washington, D.C.

Already, exports from Chile, South Korea and Taiwan have dropped by about 20 percent, and those from Africa by over 30 percent.

Free trade delivers all-round gains, but protectionists claim to be acting in the national interest and strengthening the state by collecting import taxes.

Although this can show apparent short-term success, protectionism is quickly hijacked by vested interests and cronies while increasing prices for everyone, reducing choice and inviting retaliation from other nations, as Africa has demonstrated so disastrously for decades.

Apostles of import restrictions, such as the pressure group Oxfam, claim they increase

exports, minimize imports and yield a trade surplus. They also favor the protection of infant industries, claiming they will create industrialization, because they believe that one nation can only gain at the expense of other nations. In real life, trade requires a willing buyer and a willing seller who both want the transaction.

Many African countries have used these protectionist arguments since independence. Most of their fledgling industries became a drain on the national purse because they were inefficient and expensive — we Nigerians are still paying for our vainglorious cement factories.

The sad reality is that protectionism doesn't even protect domestic jobs or industries. It destroys them by harming efficient competition and companies that rely on imported components.

This is why most sub-Saharan Africans are still poor while others have lifted themselves out of poverty in the last 50 years.

But other countries are joining in. Tariff increases comprise only about half of the restrictions introduced so far in the G20. The U.S. government is propping up its auto industry, keeping out efficient competitors and making cars more expensive for Americans.

China is considering subsidies and higher export rebates for its steel. India has banned Chinese toys, China has banned Irish pork, and the EU has new export subsidies for butter, cheese and milk powder. In Britain, jingoists, unions and the Prime Minister call for "British jobs for British workers."

Many countries will quietly take less obvious protectionist measures such as health and safety, technical, licensing and certification requirements.

This is "do-it-yourself economics," devoid of economic analysis or real-world evidence. As always, the poor suffer most.

Between 1986 and 2007, tariffs on goods fell worldwide, from 26 percent to 8.8 percent, boosting the world economy with global trade. It also became more inclusive: Developing countries nearly doubled their share of world exports since 2000 to 37 percent in 2007.

A rise in protectionism would stifle internal and international recovery. It's economic folly for politicians to opt for trade barriers when jobs and wages are at risk.

G20 countries must follow their own free trade recommendations and persuade all their trading partners to do the same — singly or collectively. Free trade has worked before, and it works now. But it will work even better if we let it.

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## **(5) Free trade and world peace**

by Nonoy Oplas

April 2, 2009

[http://www.thelobbyist.biz/column\\_detail.php?id\\_article=1105&id\\_category=25](http://www.thelobbyist.biz/column_detail.php?id_article=1105&id_category=25)

Today, leaders of the world's largest economies, both rich and developing, will meet in London to "save" the world economy in general, and their respective economies in particular.

The G20 summit is a high profile meeting; there are lots of demands and expectations, lots of lobby interests to be resolved and pleased. Among such groups are the protectionists and anti-free trade interests.

This group reasons out that since the economy is bad and lots of jobs have been lost and are threatened to be lost further, consumers should patronize locally-made products and services. The group further posits that governments should reduce, if not prevent, huge importation of competing goods and services made from other countries. This way, local jobs will be preserved and/or created, and the economy will recover.

There is one huge fault in this kind of reasoning: It does not recognize that people trade with each other voluntarily because they realize there are "net gains" for them. By choosing the best quality product (raw material or final consumer item) at the lowest price possible, a consumer benefits. By having huge number of potential buyers, a producer continuously improves on his product or service to please consumers who want the "best product at the lowest price possible".

The International Policy Network and the Atlas Global Initiative teamed up to launch the Freedom to Trade Coalition (F2T) and the Free Trade Petition to pressure G20 leaders not to give in to strong protectionist moves in their respective countries and regions.

When the Petition was launched in London yesterday, it has attracted more than 2,000 signatories from many countries around the world. The Petition categorically declares the following, among others:

*"Trade's most valuable product is peace. Trade promotes peace, in part, by uniting different peoples in a common culture of commerce – a daily process of learning others' languages, social norms, laws, expectations, wants, and talents.*

*Trade promotes peace by encouraging people to build bonds of mutually beneficial cooperation. Trade unites the economic interests of the peoples of all nations who trade with each other.*

*A great deal of rigorous empirical research supports perhaps the most tragic example*

*of what happens when the proposition that "trade promotes peace" insight is ignored is World War II.*

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*The most ghastly and deadly wars in human history soon followed."*

A number of leaders of member-institutes of the F2T Coalition – including this writer – believe that for free trade to succeed, it should be done unilaterally. Problems arise when people accept the idea that countries should first restrict trade, and then negotiate for some alleged reciprocal benefits, because this legitimizes the role of the State in trade. Countries and governments do not trade with each other; people do. So governments have no legitimate role in restricting or negotiating trade.

Unilateral free trade means that business and political leaders of an economy simply declare, "We want more choices of goods and services from anywhere. Come bring them here, zero (or near-zero) tariff, zero or near-zero non-tariff barriers, and very little bureaucracy (trade facilitation)." Hong Kong does that. North Korea and Myanmar do not do that.

Meanwhile, the US President, the British Prime Minister, and other G20 leaders are busy convincing each other and the public that the world needs now more deficit spending, more borrowings, and more government debts, to "save" the world economy. Huge debts of the past were not enough; they need even bigger debts and bail-outs.

But some European leaders prefer equally threatening moves like the creation of a new global financial regulation framework or mechanism. One such mechanism is large-scale harassment of so-called "tax havens". The US, EU, Japan, and other rich countries that are on the "more-debts-more-bail-outs" train know perfectly that they are heading to the "more-and-higher-taxes" direction, to pay past and present debts. Hence, economies that offer some "tax relief" to global corporations should be pounced. Everyone should pay the high cost of "saving" the global economy, now and in the future.

At the end of the day, people around the world only need free trade, bigger choices of which products and services they will buy or not buy, of which type of employment arrangement they can accept or reject, and of which technology they will need or ignore. People do not need more deficit spending and more debts by governments. They do not need more financial and economic regulations. They do not need more aid or government-to-government transfer of taxpayers' money.

People need greater control of their own lives. They need global peace to allow them to pursue their professions, to pursue their business and consumer interests, with the least taxation, regulation and intervention by governments and bureaucrats possible.