

**The world trade organisation has stated that everyone gains by a world increasingly organised around free trade. How far do you agree that the benefits of free trade and comparative advantage outweigh any negative aspects?**

Before any country removes barriers to trade on foreign imports it needs to be sure that foreign countries will remove barriers to trade on their own exports. With many dozens of trading countries it is very difficult to get removal of barriers to trade. Because of this the General Agreement on Tariffs and Trade (GATT) was set up. From there the World Trade Organisation took over. The World Trade Organisation (WTO) is the only global organisation dealing with the rules of trade between nations. The goal is to help producers of goods and services, exporters, and importers to promote and expand their business. It is a forum for countries to thrash out their differences on trade issues, negotiate trade partnerships and enhance their integration into the international trading system. As the WTO implies, its current role is to serve as the lubrication for the joints in the engine of globalisation; although just how effective and fair this lubrication may be, is still a point of great contention.

Free trade is trade without protectionist barriers between countries, such as tariffs and non-tariff barriers, quotas and regulations. Freer trade and technological change offer the same advantage, which is singularly to increase the range of choices open to the consumers. Furthermore, it has become increasingly accepted that the greatest advantage of free trade rests with the consumer, who can buy goods and services at a more competitive price, whether they are produced at home or abroad. However, although there is much to gain from free trade, both for industrialised countries and those with economies in transition, the advantages and opportunities from an organised trading system in its present operational form, is far from equitable and fair.

It is particularly disadvantageous for countries that are developing infant industries to enter into free trade arrangements that could potentially weaken their comparative and competitive advantage from these nascent industries. In this respect, when an economy wants to start up a particular industry such as steel making or car manufacturing it would be well advised to keep a more protectionist environment to nurture its industrial development. As the early stages of industrial development are relatively uncompetitive, an unprotected domestic market could be flooded with goods from foreign competitors. High barriers to entry can protect an industry during its early period of growth from imports from its competitors, to build its economies of scales and become strong enough to compete in the international market place. It is only at this stage of industrial development that a more liberal trading regime can be adopted.

Many economists argue that free trade rather than protectionism is the way to create jobs and prosperity. Their arguments rest on the assumption that inefficient industries that are heavily subsidised and protected lack the incentive to develop and enhance their competitiveness. As they have no incentive to become efficient and produce goods that consumers want to buy at the keenest prices. Such industries are unlikely ever to develop into strong industries capable of conquering export markets. Freer trade on the other hand; forces firms to become efficient and competitive or else they go bankrupt. If an industry can succeed in its domestic market against foreign

imports, then it stands a good chance of being a successful exporter. Thus, on this premise, competition brought about by free trade produces efficient industries and leads to employment generation and industrial growth.

Now to the advantages based around comparative advantage. David Ricardo, working in the early 19<sup>th</sup> century, realised that absolute advantage was a limited case of a more general theory. Consider table 1. It can be seen that Portugal can produce both wheat and wine more cheaply than England (i.e. it has an absolute advantage in both commodities). What David Ricardo saw was that it could still be mutually beneficial for both countries to specialise and trade.

*Table 1*

<b>Country</b>	<b>Wheat</b>	<b>Wine</b>
	<b>Cost per unit in man hours</b>	<b>Cost per unit in man hours</b>
England	15	30
Portugal	10	15

In Table 1, a unit of wine in England costs the same amount to produce as 2 units of wheat. Production of an extra unit of wine means foregoing production of 2 units of wheat (i.e. the opportunity cost of a unit of wine is 2 units of wheat). In Portugal, a unit of wine costs 1.5 units of wheat to produce (i.e. the opportunity cost of a unit of wine is 1.5 units of wheat in Portugal). Because relative or comparative costs differ, it will still be advantageous for both countries to trade even though Portugal has an absolute advantage in both commodities.

Portugal is relatively better at producing wine than wheat: so Portugal is said to have a comparative advantage in the production of wine. England is relatively better at producing wheat than wine: so England is said to have a comparative advantage in the production of wheat.

Table 2 shows how trade might be advantageous. Cost of production is set out in Table 1. England is assumed to have 270 man hours available for production. Before trade takes place it produces and consumes 8 units of wheat and 5 units of wine. Portugal has fewer labour resources with 180 man-hours of labour available for production. Before trade takes place it produces and consumes 9 units of wheat and 6 units of wine. Total production between the two economies is 17 units of wheat and 11 units of wine.

*Table 2*

<b>Country</b>	<b>Production</b>		<b>Production</b>	
	<b>Before Trade</b>		<b>After trade</b>	
	<b>Wheat</b>	<b>Wine</b>	<b>Wheat</b>	<b>Wine</b>
England	8	5	18	0
Portugal	9	6	0	12
Total	17	11	18	12

If both countries now specialise, Portugal producing only wine and England producing only wheat, total production is 18 units of wheat and 12 units of wine. Specialisation has enabled the world to increase production by 1 unit of wheat and 1 unit of wine.

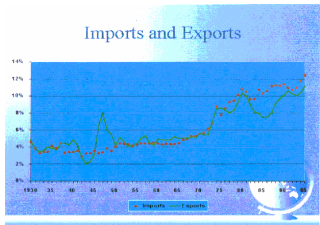
However, although specialisation and trade can benefit a country as a whole, it still causes hardship for some. For example, if England produced all of the wheat produce for both Portugal and England, this would mean cheaper wheat for UK consumers, but unemployment for wheat producers in Portugal. At the same time, if in Portugal they specialised in wine production, this would mean cheaper wine for consumers in England, but unemployment for English wine producers. Also the wine vineyards in England will go to waste, and the wheat farms in Portugal will go to waste.

Free trade encourages countries to specialise in the goods in which they have comparative advantage. Yet specialisation in one or two products can be dangerous in the modern world as the demand for goods and services is always changing and if a country relies on just one or two goods it risks a huge fall in its income, if demand for these goods decrease. Protectionism allows a country to keep a wider range of industries alive and so prevents the dangers of over-specialisation.

Another reason against free trade is dumping; this is when one country sells goods in another country below their cost of production. For example, a foreign country may produce jeans at £8 a pair, and sell them at £6 a pair, bearing the loss in order to get a foothold in the foreign market, it is trying to get established in, in doing so weakening the host countries producers. Once the UK producers are removed, foreign competitors might raise their prices again.

In conclusion, the benefits of free trade and comparative advantage are endless, it offers the potential for the reaping of net welfare gains, these arrive from comparative advantage opportunities, increasing competition, reaping economies of scale, increased returns to capital and labour, and the efficiency of the allocation of resources is improved. While the disadvantages mainly fall on the poorer countries the workers and the environment as so much of the enthusiasm about the benefits of globalisation focuses upon what is happening in Europe, North America, and Japan, plus certain extensions of that triad, but little is said about the rest of the world. The concern is whether or not there are truly globalising forces or whether it is merely a type of imperialism carried out by the wealthy. While the firm's only disadvantage would be competition. Also if analyse the advantages it all works on the premise of full employment and it really does not take in the consideration the problems raised by chronic unemployment, it also fails to analyse how the gains that arise from trade will be distributed. It assumes a purely competitive model of industry.

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