

FAIR INTERNATIONAL TRADE

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ii **PROJECT QUESTION 1**

It has been said that international trade is often controlled and manipulated by the rich and powerful industrialized countries. Do you agree with this statement? What and how in your opinion should international trade be conducted in order that it should be fair to all countries around the world.

Fair International Trade

Lim Siong Boon

1 Introduction to Free Trade, the Vision

The well being of the society we experience today had emerged through the historical years of international trading. Our individual unique strength has give rise to our comparative/absolute advantage for international trading to take place. An advance society has emerged through consolidating & distributing scare resources (currency, commodity, people/skill) efficiently and results in a better living condition that we can enjoy today. A wealth is created through trading.[1][3]

Our global living standard has improved rapidly over the past hundred over years. This miracle has been possible with the recent technological advancement (transportation, machine, communication, etc...) as well as our commitment to adopt a common international standard (language, banking, technology, trading/business, etc...). The natural barrier to international trading the world used to face are diminishing, giving rise to even more comfortable lifestyle, a freer trade has to offer.

Trade barrier restraint countries from practicing free trade, and hinders the benefit of enjoying competitive goods from other countries. It discourages efficiency that is achieved from specialization and restraint the economic growth for a better standard of living. These man-made barriers are usually the results of the country's government intervene. In our current real world, despite the obvious benefits of doing international trading, there are still barriers being introduced to our trade system.

This ambiguity gives rise to a possibility of trade manipulation behind the barrier policy for self gain. Eventually rising further questions regarding fairness within the societies, industries and countries. The followings discussion brings us back into the motive and advantages behind trade barrier policy, leading to the possibility of trade manipulation from protectionism policy.

2 A Passion behind Trade Barrier

There are various forms of barriers that are being intentionally practiced in today's trade. They are the results of government policies and can be in the form of tariff, quotas, regulatory, subsidies or exchange controls. Their existence is not desirable and often incur economic cost, however there is always some rational behind such a decision, for the good of the society in mind. The argument for such economic losses can be regarded as social expenses, offering protection to the society in various forms, which the benefits are subjective and often difficult to measure directly. [24]

In the most obvious aspects, trade barriers have created financial benefits directly to the protected industries. The higher cost involved, deterred the import of competitive goods from overseas, flooding into the domestic market. Industries survive as the result, and hopefully, holding back the threat from job retrenchment, as well as the lost of worthy trade and skills. This can prevent the market from further deterioration, which can probably collapse deeper into economy recession. There are also many other forms of terms like "Infant Industrial", "Anti-Dumping", "Strategic Trade Policy", "Subsidies", "Spillover effects", etc... which reason out, the necessities to protect the domestic industries.[9][11][16][22][24]

In the aspect of the country's economy, the government often intervene the market for economical growth. Government needs to manipulate the economy through money supply, exchange rate control, balance of trade or other policies, for economy stability. A lower currency exchange rate for example, can gain advantage for more export opportunity. Tax revenue from tariffs is also used as a mean to finance the government expenditure. For a large nation, it can be beneficent to maximize the profit from tariff collection as compare to non-collection, as suggest in the Optimum Tariff theory. Sometimes barrier can act as a means to redistribute wealth to a specific target group of people. Voluntary restraining imports and exports can also improve the balance of trade, aiming toward a fairer trade differences, which can also improve political relationship between the two countries.[20][24]

There are industries that require much care and shelter for the purpose of National Defense, Industries relating to food, fuel, raw material or military becomes sensitive and important in times of conflict, war or major disaster. Social defense may include health and safety issue, Trade barrier in issuing monopoly status, patent, standard & regulation or licenses are often economical inefficiency but it necessary for country's social defense. This will ensure survival of good important or quality industrial/skills. Adequate preparation for survival and defense is important. The country need to be more self reliance

and be less dependence on the other country, especially on the basic commodities needs.[10][12][22]

There is a minority concern in the environmental issue. The on-going issue, for example the global warming, extinction, deforestation, over-fishing, pollution, etc... is often disregarded and overrule by the free economic activities seeking for gain. Non-profiting factors concerning moral, quality, national needs and national culture do not make any economic sense and are often not accounted. Minority is sacrificed and being lump as social cost, in the world of globalization.[14][15][18][19][26]



Figure 2-a: Green Howard diesel rebate (15th May 2004)

3 Protectionism, the Dark Side

Trade barrier can be interpreted as the social expenses, meant for the domestic interest of the country. When a government's intention to protect the domestic industries from global competition, it is defined as protectionism.

The needs for protectionism policy definitely incur efficiency/materialistic losses, and it affects everybody in the society in one or another way. The group of people who gain from the policy will support it, while the rest are likely to prefer free trade.

The group who will object to protectionism would likely be the exporting countries, domestic consumers and producer. Cheap and huge goods supply from China becomes comparable after tariffs, and scare under quota policy. Exporting country had to face unfair competition against the domestic trade. This hindered their ability to earn foreign income, and limit their ability to trade for foreign imports. With less trade, their standard of living as well as the rate of economy growth would be restraint, and through promote retaliation between countries.

Domestic consumer would also be less well off with the restriction from obtaining competitive imports from overseas. Domestic producer who consume goods for their production suffer as well. The higher cost incur in their production has lower its comparative advantages and therefore becomes less attractive to export its product as compare to

the rest of the countries. The overall effect in reducing the import, reduce the country's export as well. They will be better off without protectionism, and therefore this group of population will favor more towards free trade.[8][11][12][13][24]

The positive intention of protecting certain industry becomes the collapse of the other, and possibly a chain reaction leading to an economic recession. From the view in this aspect, protectionism maybe necessary to avoid short term damage, but they should be temporary to allow the industrial to adapt to the emerging globalization trend, and should be remove as soon as possible to prevent destruction in long run.

Most benefits will be directly enjoyed by the protected industries as well as other complement/supporting trade. The act of protectionism is essentially the shifting of losses from an inefficient industrial, to the society as a burden. Protected trade stand to gain while, consumer, domestic producer, and the industry from the rest of the country have to suffer the burden. It is clear that the inefficient industrial should not be protected at all.[11][23][25]

Looking at the points listed above, there are actually a bigger/wider population losing as the result of protectionism, as compared to a free trade policy. The economic burden arise from protectionism is therefore shared by a larger population, and therefore the impact felt will be more gentle. Considering the burden that the protected

industries had to carried, it will be of greater impact if the free trade policy were to be implemented.[13][24]

Although protectionism policy will affects everybody, individual that is not directly or seriously affected, may not sensitive enough to be aware of the situation. Forming a cohesive group to defend for their interest would not be easy. Therefore the drive against protectionism can be a lot weaker. This is unlike the protected industries, where they are of a smaller, well defined group, affected by the free trade policy. Suffering a greater impact from the disadvantage policy, they likely to be motivated, forming a stronger interest group to push for protectionism. A politician with the consideration to gain election support, would be wise, to offer protection to the expressive minority. This kind of influence could be stronger if the protected industries are big and powerful.[13]

Regarding the impact of trade policy in a democratic society, there are reports which brought out the likelihood for politician to push for specific trade policy in exchange for campaign contribution and electoral support. These points suggest that active participates, has the greater influence to the policy outcome. In another words, democracy can lead to protectionism.[13]

Concerning the issue of corruption, bribe payments can help gain access to officials and influence policy outcomes, which goal is not aligned with the objectives of the nation welfare. There is no doubt, a

possibility that big industrial that has strong interest group and rich finance is able to influence the policy, to their advantage.[13]

Corporations that dominate trade would have certain amount of influence with the government; indirect could affect policy from WTO (World Trade Organization). The chance of such influence can be even higher if the government and industrial relationship is close and involves direct benefits. Sometimes a trade committee is formed from various trade and industry, with the aim to resolve trade issue. Their final decision will definitely affect them in some way. It will be sensible for the representative to push for protection agenda which will be of advantage to them.



Figure 3-a: Free trade spoilt feast (19th July 2003)

On the other hand, smaller nation are less likely to support for protectionism. The impact on their economic will be smaller, and would be better off removing barriers, to gain more benefits for their welfares. Further more, smaller nation fears retribution from powerful nation, limiting market access for their export. Small country like Singapore, is likely to benefit more with free international trading, gaining efficiency through specialization.[13]

There is no direct evident gathered, to any manipulation event taking place. Nevertheless, international trade control and manipulation is possible, through the distorted trade policy, driven by the rich and powerful industrialized countries.



Figure 3-b: Free trade agriculture subsidies WTO protest (16th Nov 2002)

4 Conclusion: Free Trade, Barrier & Protectionism, Fair Trade in Disguise

The dream of a free international trading seems very sensible and an appropriate approach to manage our world. This favorable concept has motivated me to look deeper and further into the existence of the various barriers we still have today. The barriers arise from protectionism are resulted from policies created by man, leading to the possibility source of manipulation and control.

There will always be certain degree of influencing to any policy decision. The possibility of controlling and manipulating the international trade increase if the policy influences are from a population consist of rich industrial and large interest group or relates closely to the policy maker. The end results might turns out to be more beneficent to a particular industrial, at the expenses of the society internationally. There will certainly be some degree of unfair for individual when deciding policy for a bigger group.

Barrier and Free Trade are both conflicting ideas, contributing to the society with their own advantages and perceptions. There are evident that protectionism should be removed or remains, which is difficult to be compared in an economic sense. Each and every country is unique in a way of its own, and faces different domestic situation. After probing into various reasons and consideration, I believe that a country's freedom to decide on their trading policies, without any

forms of retribution or threat, is in fact the results of fair international trading. Despite the rights of freedom, country should also be sensitive to the building of international relationship, practicing reciprocal trading, striving toward a balance of trade, with a good will in mind.

When a nation policy is collectively contribute from the nation, large and powerful interest group tense to have more influence to outcome of the policy. In this aspect, the active group wins, and the passive will have the tendency to lose out. It will not be possible to be fair to every individual or trade, however given a rational government, the policy will always mean good in mind for the national.

The shift towards free international trading, would be quite aspiring toward our materialistic gain, while trade barriers with good intention in mind, helps withhold our society well-being. There is no absolute way of conducting a fair international trade. It is a matter of how we strive for the kind of lifestyle we want to live, and allowing the economy to strike its balance.



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Figure 4-a: Gap between rich and poor