

**Free Trade**

**VS**

**Protectionism**

# Free Trade:

- Free and unfettered trade between countries, unhindered by steep tariffs, and where goods can pass over borders unmolested by any restrictions.
- According to the World Bank global trade in goods (merchandise) amounted to roughly 18 trillion US \$ (2017 US \$) in exports and 16 trillion in imports in 2017. The sum of these two divided by World GDP, which in 2017 stood at around 81 trillion US \$ gives a figure of around 42.0% trade share of GDP. If services are included it amounts to 54.3%.
- In comparison in 1960 world trade stood at 629 billion US \$ (in 1995 US \$) only. This means that the world now is trading more goods in absolute \$ values than ever before.

# 1

## Economic Theories

- Ricardian Theory
  - The comparative advantage: A country has a comparative advantage in the production of a good if it can produce that good at a lower opportunity cost relative to another country. Free trade is advantageous as it allows nations to specialize in production that requires relatively fewer factor inputs.
  - Even if one country has absolute advantage of production of both goods, both countries can still benefit from trade if they specialize

# 1

## Economic Theories

- Heckscher-Ohlin theory
  - Explains why different countries specialize in different goods.
  - Countries will tend to export goods that require more inputs from a production factor they have in abundance and vice versa import goods that require more input from a production factor that is scarce.
  - This all promote productivity and efficiency - bringing the market to its equilibrium point or a world price,, minimizing deadweight loss

# 1

## Economic Theories

- Specialization allows countries to gain increasing returns to scale
- Global output increases, prices decrease
- Free trade drives economic growth:
  - Free trade decreases imported-input costs, decreasing a companies production costs and therefore promoting and leading to economic growth
  - Because of specialization, finished goods can be assembled in countries with cheaper labor, thus US-based manufacturing and service providers will have a competitive edge in the world.

# 2

## Welfare Gains

- Welfare gain -> for consumers and businesses
  - Cheaper imported goods
  - Higher diversity
  - Improved quality
  - Prevents domestic monopolies -> decreasing consumer exploitation
- Tariffs increase costs of intermediate goods
  - US-China 85% of goods are used in production of finished goods

# 3

## Free Trade Agreements

### Free Trade Agreements

- Increase Trade between countries
- Promote International peace and stability
- Increase economic growth
- Foster dynamic business climate
- Decrease government spending
- Promote FDI
- Expansion of Technology
- Examples
  - Trans-Pacific Partnership (TPP)
  - Transatlantic Trade and Investment Partnership (TTIP)
  - USMCA (NAFTA)

# Rebuttal #1

## Trade Deficit

1.  $(Y-C-T) + (T-G) - I = (X-M) = NX = \text{current account}$
2. Growth Rate Comparison → sustainable trade deficit



Rebuttal #2

International  
Relations

**Trade War →**

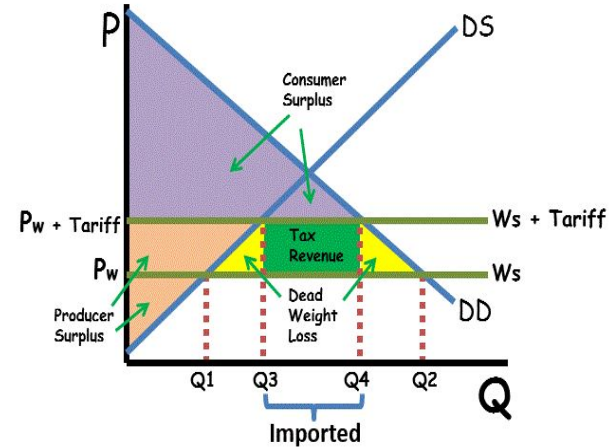
**Cold War**

# Rebuttal #3

## Inefficiencies of protectionisms

### Tariff/Quota/ administrative barriers

## Tariff



## Quota

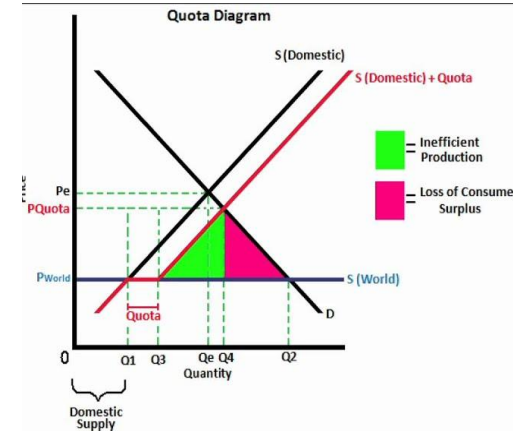


Diagram 1: <https://www.reviewecon.com/trade-tariffs>

Diagram 2: <https://www.youtube.com/watch?v=lw17x991M6I>

# Rebuttal #4

Protectionism may  
damage industry  
prospects on a  
global level

Losing its global value

1. the huge capacity for specialization,
2. economies of scale,
3. technology sharing

For example, infant industry in Brazil in 1980

# Rebuttal #5

## Infant Industry

- In the short run, it works.
- But it is very destructive in the long term. It makes the country and its industries less competitive in [international trade](#). In the long term, trade protectionism weakens the industry. Without competition, companies within the industry have no need to innovate. Eventually, the domestic product will decline in quality.

# Summary (Rebuttal)

1. Trade deficit is not a huge problem, and does not mean the economy is under threat. There are more factors we need to consider.
2. Deteriorating international relations should be minded. Cold war could harm both countries politically, socially, and economically .
3. Inefficiencies caused by protectionisms are unnecessary side effects that could be avoided if free trade is encouraged.

# References

Bryan, B. (2018). *One word keeps coming up in Trump's tariffs — and it should frighten American workers and businesses*. [online] Business Insider. Available at: <https://www.businessinsider.com/trump-tariffs-trade-war-prices-go-up-2018-4> [Accessed 2 Mar. 2019].

Ustr.gov. (2019). *North American Free Trade Agreement (NAFTA)*. [online] Available at: <https://ustr.gov/trade-agreements/free-trade-agreements/north-american-free-trade-agreement-nafta> [Accessed 1 Mar. 2019].

World Bank. *Trade (% of GDP)*. Available at: <https://data.worldbank.org/indicator/ne.trd.gnfs.zs>

# Tasks Division

- The entire team brainstormed the main arguments together. Sherry and Hannah were in charge of elaborating on the main arguments and building slides for the main arguments.
- The entire team discussed about the potential arguments of the con side and came up with counter arguments. Abigale and Hay Mok did further research on the counter arguments and found supporting materials for them.
- In terms of the debate, Sherry and Hannah were responsible for stating our definition of free trade and three main arguments. Abigale and Hay Mok were primarily responsible for the rebuttal. In the end, Sherry and Abigale summarized our arguments and counter arguments.