

1.6 TRADE: FREE TRADE v. PROTECTIONISM

The Citizens' Assembly is looking at what kind of trade arrangement the UK should seek with the EU. The debates can get quite detailed and confusing. But there is also a big question of principle: is free trade a good thing at all?

FREE TRADE v. PROTECTIONISM: OVERVIEW

One view says that we should make it as easy as possible for goods and services to move between countries. This approach is based on the argument that more trade makes us wealthier and is therefore a good thing. It is known as *free trade*.

Another approach says that we should restrict trade. We might do this to protect certain jobs. We might think that we need certain industries – such as food production or steel-making – just in case things go wrong in the wider world. We might want to restrict imports from countries with lower labour or environmental standards so they can't undercut our industries. This approach is known as *protectionism*.

Many economists agree that some restrictions on trade are desirable, but that we should be careful, as such restrictions can make us poorer overall. For example, limits on agricultural imports may be good for British farmers, but they also increase food prices.

The following sections set out some of the arguments in more detail.

ARGUMENTS FOR FREE TRADE

There are several key arguments in favour of free trade:

- Free trade increases the size of the economy as a whole. It allows goods and services to be produced more efficiently. That's because it encourages goods or services to be produced where natural resources, infrastructure, or skills and expertise are best suited to them. It increases productivity, which can lead to higher wages in the long term. There is widespread agreement that rising global trade in recent decades has increased economic growth.
- Free trade is good for consumers. It reduces prices by eliminating tariffs and increasing competition. Greater competition is also likely to improve quality and choice. Some things, such as tropical fruit, would not be available in the UK without trade.
- Reducing non-tariff barriers can remove red tape, thus reducing the cost of trading. If companies that trade in several countries have to work with only one set of regulations, their costs of 'compliance' come down. In principle, this will make goods and services cheaper.
- In contrast, protectionism can result in destructive trade wars that increase costs and uncertainty as each side attempts to protect its own economy. Protectionist rules can tend to favour big business and vested interests, as they have the resources to lobby most effectively.

ARGUMENTS FOR PROTECTIONISM

While free trade increases the size of the economy as a whole, it isn't always good for everyone:

- As more countries experience industrial development, traditional domestic industries can decline. In the UK, for example, the shipbuilding industry has declined in the face of international competition since the 1950s and currently steel production faces increasing competition. Protectionism can help preserve jobs in these sectors, or at least slow the process of change.
- Protectionism can also help build up new industries. In sectors with high start-up costs, new firms might find it difficult to compete if there is not support from government in the form of tariffs or subsidies. Once they have become competitive, such barriers can be removed.
- Protectionism can be used to safeguard 'strategic' industries such as energy, water, steel, armaments and food. For example, 'food security' may be seen as important so that we can feed ourselves if something terrible happens to disrupt the system of world trade.
- Some people worry that free trade deals can lead to a lowering of standards. Such deals might require us to let in goods and services even though they don't meet our standards, which might then be cheaper than those made by domestic industries. For example, some people have been worried recently that a free trade deal with the US might let in imports of chlorine-washed chicken. There might also be pressure to reduce our standards for workers' rights or environmental protection so that our companies can compete with companies in countries that have lower standards.