



Significance of Free Trade: Continued Trade Negotiations will Allow for New Progress

—Distinguish between internationalization and people, goods, and money

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< Key Points >

- Avoid discussions about the internationalization of people, goods, and money in the same light.
- The stronger the movement towards trade liberalization becomes, the larger the backlash grows.
- History shows that protectionism does not provide desirable results.

“We looked for an overseas labor source, but those who arrived were people,” said a Swiss writer commenting on the effects of the foreign work force. When considering labor power only as a production factor, it appears logical to seek cheap overseas labor. But this will involve a variety of human factors, such as families, religions, cultures, and crimes, creating a number of difficult issues.

With statements made by U.S. Presidential candidate Donald Trump and the United Kingdom’s referendum decision to leave the European Union (EU), voices that oppose the development of globalization have been growing louder. However, close examinations of these trends show that one of the main reasons for such opposition is related to the movement of people beyond national borders, such as immigrants and refugees.

Globalization means the movement of a variety of matters, including people, goods, money, companies, and information over national borders. However, if it is defined this way, any discussions will become too vague. The liberalization of trade, the transactions of goods, and the growth activities of global currency are totally different phenomena in terms of economics.

Even among academics that are dyed-in-the-wool free trade advocates, a number of them believe that certain types of restrictions over the movement of global currency are necessary. Moreover, when discussions about the pros and cons of the movement of people take place, a central topic at present, the conversations start to involve a variety of discussion points that are on



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a different level from discussions about trade liberalization.

On the other hand, when discussions about the pros and cons of Economic Partnership Agreements (EPA), such as the Trans-Pacific Partnership (TPP), take place, they tend to place the internationalization of people, goods, money, and other matters in the same light. As a result, discussions about EPA that should really focus on trade liberalization and the internationalization of goods often start to involve vague arguments about whether to support globalization.

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To make it possible to hold level-headed discussions, instead of throwing around the magical term *globalization*, it is necessary to hold accurate discussions separately about each issue, including trade liberalization, the internationalization of financing, and the movement of people. The most important part in discussions about EPA, such as the TPP, is doubtlessly issues related to trade liberalization.

Liberalizing trade is far more reasonable than imposing regulations on it. One can say that this is the established academic viewpoint.

Adam Smith wrote the *Wealth of Nations* as a book to critique mercantilism, an example of protectionism at that time. From this context, the structure of the modern free trade theories, the benefits of the division of labor, the comparative advantages, and consumer sovereignty have developed. Meanwhile, John Stuart devised a theory of justifying developing economies to protect their own industries and Friedrich List held a theory of protecting infant industries. Although such theories demanded certain justifications, they never became strong enough to overthrow the theory of free trade.

The strategic trade policy theory that came to light on the back of the trade friction in the 1980s also failed to become powerful enough to overturn the justification of trade liberalization. At that time, a researcher said, “As a result of trade friction and other developments, various types of a new protectionism are brought out one after another. However, even in this situation, the sophistication of trade theory is progressing to prove that trade liberalization is still better than protectionism.”

Summarizing the theoretical basis for the argument that trade liberalization is better, including new points that did not exist at the time of Adam Smith, it is possible to point out a number of arguments. If I were to show all these arguments, I would have to write a large book. For time being, I have listed all of the benefits of trade liberalization that I can recall in the table.

Merits of trade liberalization
● Materials, such as oil and iron ore, that cannot be procured domestically are able to be secured.
● Emerging economies must take advantage of the impact of trade to emerge from poverty.
● A comparative advantage streamlines production.
● Exports to overseas countries are necessary to make the most of economies of scale.
● Imports of capital goods have the effect of the proliferation of technologies.
● Competition between imported goods facilitates the metabolism in the industry (Melitz impacts).
● Less expensive products become available for purchase with the expansion of imported products
● Economic growth is facilitated by making the most of the international division of labor.
● Pressure from the international competition keeps the monopoly and oligopoly in check in the domestic market.

Just as there are a wide range of arguments that intend to justify trade liberalization, there are also a variety of opinions about protectionism, calling for trade restrictions. Let me introduce several of the arguments of people who participated in the anti-globalization movement that became popular on a global scale from the latter half of the 1990s.

People in labor unions in developed economies claimed, “Inflows of cheap products threaten our job security.” Others said, “Multinational companies are exploiting workers in developing economies,” and “Globalization is destroying the environment.” Certain people stated, “Globalization hinders the sovereignty and the value of nations.” A residual group of socialists said, “In the first place, the global economy is the market economy that has grotesquely spread to a global scale.” In fact, there were so many arguments that people have not changed and they still are arguing.

The more strongly the globalization progresses, the easier it becomes for many people to assemble under the golden banner of anti-globalism.

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The trade liberalization theory and the protective trade theory are in a relationship of black and white or action and reaction. If the movement towards trade liberalization is strengthened, the voices against such a movement also become louder. People tend to prefer the status quo and become cautious about new movements. This preference is also pointed out in behavioral economics and other studies. Often the majority of protectionism arguments sound almost like claims against changes in the current situation.

If the movement towards trade liberalization is strengthened, as a reaction to such a movement, the voices of protectionism will also become louder. A good example for this is when discussions on the liberalization of rice were held at the Uruguay Round in the General Agreement on Tariffs and Trade (GATT) in the 1980s and the 1990s, the Diet was united and unanimously agreed that even one grain of rice would never be allowed to be imported into Japan. As TPP negotiations further progress, the louder voices against TPP also grow. Politicians are unable to ignore such voices.

If voices against trade liberalization become stronger, it will be possible for world trends to change significantly. Our past experiences show the possibility of the occurrence of such a change and the trends of protectionism have never brought about desirable results to the people.

It is a well known fact that the adoption of protectionism policies, such as the block economy, made the turmoil of the global economy even worse during the Great Depression in the 1930s. As a reflection of such a development, the GATT was established after the end of the World War II. It was a predecessor to the present World Trade Organization (WTO).

Under the GATT trade liberalization, developed economies, such as Japan and Germany, managed to receive the benefits of high-speed growth. However, the majority of developing economies that did not originally participate in trade liberalization were completely unable to receive the benefits of growth. This is to say, protectionism policies smothered the potential for economic growth. Countries that first realized this folly were those in Asia, such as South Korea and Taiwan. Learning from the success of these countries, a number of developing economies gradually started to adopt trade liberalization, stimulating their growth.

However, as trade liberalization has progressed, protectionism has also become stronger as a reaction. The trade friction with the United States and Europe that Japan has suffered since the 1970s has taught us that protectionism brings about institutional distortions. The United Kingdom has decided to leave the EU, and if this develops into restrictions on trades and direct investments, the United Kingdom is likely to suffer from large scale losses.

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How can we promote trade liberalization while curtailing protectionism? What is necessary to achieve it? Unfortunately, there are no unorthodox measures or magical solutions. All we can do is to continue to make efforts to promote trade liberalization by adopting orthodox methods. A political scholar said, “Trade negotiations are like riding a bicycle.” In other words, we will fall down if we stop pedaling.

It is important to continue to hold negotiations to promote liberalization all the time. The significance of the TPP negotiations is not only the negotiations themselves, but also the fact that the negotiations are expected to facilitate agricultural reforms and stimulate other negotiations, including EPA with the EU, the China-Japan-South Korea Free Trade Agreement (FTA), and the Regional Comprehensive Economic Partnership (RCEP).

If the TPP is stifled by U.S. politics, the development of other negotiations will also be affected. Should this happen, we will continue our efforts to promote liberalization and find other opportunities through the WTO or other EPA. There is no other way that we can move forward.

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