

Topic area: Trade and Aid

Title: To what extent does free trade  
benefit developed and developing  
countries

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### Introduction

The report will be investigating to what extent does free trade benefit developed and developing countries. FTAs are agreements made between countries to facilitate international trade without tariffs. This is very important as this significantly reduces the cost of products. This is an important issue because most international trade is reliant on free trade agreements. To explore this issue in detail we will be studying free trade on a global scale and the role it plays in developing countries and around the world. While exploring this issue, we will be studying it from many different perspectives such as from developed countries, developing countries and the government

### Causes & Consequences

One cause we will be investigating is how corruption affects free trade. Many countries with FTAs have strong anti-corruption committees to root out corruption and also have anti-corruption provisions in their agreements. FTAs are supposed to reduce the costs of commercial trade however there are many unwritten challenges such as bribery, especially in developing countries. (Calder, 2020). Organisation for Economic Co-operation and Development has identified corruption as the largest barrier for free trade especially in low-income countries as it can damage global trade. (Calder, 2020) Corruption also increases prices as the cost increases with every bribe and informal payment along the way. "The OECD estimates informal payments and corruption add a "tax" of anywhere from five to ten per cent of the value of company sales in markets where corruption is normalized". (Calder, 2020) However many FTAs are now taking corruption into account. "Two weeks after the USMCA was signed last October, US Trade Representative Robert Lighthizer said the US would adopt a "new and innovative approach" to combating "practices that take advantage of the US economy in ways that don't promote market efficiencies." He specifically mentioned corruption" (Thomason, 2019) FTAs often require countries involved to implement strict anti-corruption laws preventing bribery and false documents. FTAs including anti-corruption regulations were rare however due to the anti-corruption provisions in the USMCA and TPP they are becoming more widespread. (Thomason, 2019) The prospect of free trade deals has added impetus to many countries to crack down on corruption and to implement new laws. The World Trade Organisation has increased their awareness of corruption and has been intensifying its fight against corruption within FTAs. The WTO has implemented such regulations in FTAs with Bali required all countries to commit to reducing bribery and corruption. ("Anti-Corruption Provisions in Free Trade Agreements", 2020)

Another cause we will be investigating is that FTAs boost economies and lift people out of poverty. Free trade leads to economic growth in the countries involved and can employ people thus bringing them out of poverty. Trade-in general is an integral part of bringing countries out of poverty and the development that comes with it can be a lifeline for many poor communities

in developing countries. "Before we had the new road, selling our products and sending our kids to school was very difficult," said one Laotian farmer. "Now cars from nearby villages can reach our village. And we can sell our goods" ("The Role of Trade in Ending Poverty", 2020). FTAs are crucial in making trade possible in these developing countries. Developing countries now constitute 48 per cent of world trade, up from 33 per cent in 2000, and the number of people living in extreme poverty has been cut in half since 1990, to just under one billion people. ("The Role of Trade in Ending Poverty", 2020) Developing countries are now participating more in trade as it is crucial in bringing poor people a brighter future. "For example, 30 years ago, South Korea was as poor as Ghana. Today, thanks to trade-led growth, it is as rich as Portugal." ("WTO | NEWS - Free trade helps reduce poverty, says new WTO secretariat study - Press 181", 2000)

Finally, we will be looking at how free trade increases competition and lowers prices for consumers. Free trade is supported strongly by the public as it sustains globalisation which keeps prices low for the consumer. FTAs bring about employment in developing countries, often bringing people out of poverty. "The Commerce Department, for example, has estimated that almost 11 million jobs depend on exports of U.S. goods and services in 2016, and foreign direct investment in the United States" (Lincicome, 2019) Free trade has enabled products to be manufactured cheaply overseas and to increase competition with local manufacturers. It also benefits the local economies of both countries. "A 2017 Peterson Institute paper calculated the payoff to the United States from expanded trade between 1950 and 2016 to be \$2.1 trillion, increasing U.S. GDP per capita and per household by around \$7,000 and \$18,000 — with benefits, again, disproportionately accruing to households in the bottom income decile." (Lincicome, 2019)

I feel that increasing competition and lowering prices is the most significant cause of free trade as it has a massive impact on the economies of both countries and also offers employment for impoverished people in developing countries such as in China where many jobs have been outsourced to. This ties into the other cause about lifting people out of poverty and this is an extremely important factor in reducing poverty. When compared with corruption it has a slight advantage as it affects more people and affects the economy more.

A consequence of free trade is it is very vulnerable to disruption during a crisis such as COVID 19. Free trade works perfectly when there are no hiccups in global trade. However, once there are any issues in the market the whole system can come crashing to a halt. COVID 19 has severely impacted global trade and has exposed the vulnerability of global trade. "The most recent estimates in the June 10 OECD Economic Outlook suggest an unprecedented collapse in the first half of 2020 – an almost 13% decline in global GDP" (Florian Horn, 2020) COVID 19 has exposed the issues with globalisation and many countries are pushing for essential supplies to be made domestically. This may have a significant effect on developing countries as they may have their FTAs suspended if products are to be made domestically. FTAs are being brought to a standstill as they are unable to operate using their normal framework due to COVID 19.

The second consequence of free trade is the environmental and climate damage it can cause. FTAs mostly involve developing countries which often have weak or no environmental regulations. Manufacturing in these countries can have a severe impact on the local environment, if they were manufacturing domestically they would have to comply with much stricter regulations. The GDAE reports the issue first arose in 1991 when Mexico challenged a U.S. law that prohibited imports of tuna caught using methods that also killed a large number of dolphins. A dispute panel for the General Agreement on Tariffs and Trade, the forerunner to the WTO, ruled in Mexico's favour, deciding the United States could not protect dolphins outside its territorial limits. (Chmielewski, 2020) Environmentalists fear free trade also fosters a weakening of national environmental standards if trade agreements prevent the imposition of those standards on imported goods. (Chmielewski, 2020) Free trade supporters claim that better techniques can shift to the manufacturing countries to protect the environment however this is rarely the case. Free trade boosts outsourcing which requires transportation which has a high carbon footprint. The International Energy Agency (IEA) has estimated that, in 2004, transport was responsible for 23 per cent of world energy-related greenhouse gas emissions. ("WTO | Trade and environment - The impact of trade opening on climate change", 2020)

The final consequence is the domestic unemployment caused by Free trade. Businesses in developing countries are moving their manufacturing hubs to countries which have cheaper labour costs. Between 1994 and 2010, the U.S. trade deficits with Mexico totalled \$97.2 billion. In the same period, 682,900 U.S. jobs went to Mexico. (Amadeo, 2020) Consumers can have a wider variety of products or services at a cheaper price as outsourcing "save companies some 30 per cent to 70 per cent in costs, analysts say." (Otterman, 2020) FTAs support outsourcing as they try to move manufacturing to countries where it is cheaper to produce. Many FTAs were supposed to benefit employment domestically however many have had the opposite effect. "They [the Bush administration] have delivered a double blow to America's workers, 3 million jobs destroyed on their watch, and now they want to export more of our jobs overseas," said Senator John F. Kerry of Massachusetts, the leading Democratic presidential contender Importing goods means that jobs are lost to other countries. Many industries have moved away from the USA totally and are only manufactured overseas. "The 2 million manufacturing jobs that are estimated to have moved offshore since 1983". (Otterman, 2020) Loss of jobs is one of the negative effects of free trade and with there being a growing number of highly skilled people in developing countries who are willing to work for much less many companies do not have any incentive to manufacture domestically.

I feel that domestic unemployment is the most significant consequence as FTAs are supposed to improve the quality of life for people however many people become unemployed due to outsourcing. When compared with environmental damage it has a far much larger effect on people's lives.

#### Courses of Action

There are many solutions to improve free trade to make it even more beneficial to both countries

and the people in them.

One crucial solution is increasing regulations when passing FTAs. There should be provisions that protect workers in developing countries and there should be stricter labour laws within FTAs. The US has passed some new trade deals which include tougher labour laws in developing countries. ("US House passes North American trade deal; labour rules to get tougher", 2020) FTAs are supposed to create jobs and promote economic prosperity however they often do not have safeguards for workers rights. Additional regulations should be included in FTAs to ensure that the rules are enforced and workers have more rights. These labour laws can be difficult to implement, however, if implemented correctly had a widespread impact.

Finally, an important solution is investing in technical and vocational education and training. (Sisko, 2020) This can provide education to children to move from primary and secondary industry jobs to tertiary industry jobs. The Higa Ubeho project in Rwanda has provided vocational training courses in manual labour jobs and public works. This project backed by USAID has assisted over 75,000 vulnerable households and created educational support to 56,763 children. (2020) It has also provided over 6,500 youths with vocational programs. However, this sort of program is expensive and challenging to implement on a large scale but it will have a large impact.

#### **Source Reliability**

Amadeo's article "Free trade agreements with their pros and cons" (2020) is a reliable source because it was updated recently and shows the date of updating. It also shows the author's name and some information about her as well as being reviewed by a third party. However, it is from a not very well known source. It is a useful source as it includes many different perspectives and information about FTAs. The article by the World Bank is less reliable as it does not include the date of publication or the name of the author. However, it is from a reputable international organisation. It is quite a useful source as it contains unbiased information from a global organisation.

#### **Conclusion**

I feel that this topic doesn't affect me much as I haven't been influenced by FTAs or global trade. However, it has given me a much better understanding of how international trade works and the difficulties it faces. I feel that after completing this research project I appreciate all the work behind FTAs that make products I consume available. I have learnt how to conduct research from different sources and perspectives and how to look at the positives and negatives.

In conclusion, Free trade overall benefits developing and developed countries as the economies of both countries are improved. However, FTAs have difficulties and can face adversities in their situations. Free Trade benefits workers in developing countries and also brings millions of people out of poverty. If Free Trade included more provisions for workers and for education it would make the FTAs benefit both countries even more.

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