

Stumbling and Mumbling

An extremist, not a fanatic

July 13, 2006

(Why) does free trade favour the rich?

"Free trade always favours the most powerful and advanced economies" claims Martin Jacques.

This is gibber, and not just - as Tim points out - because it favours consumers over producers.

Think back to the basic principles of free trade - the Heckscher-Ohlin model.

Imagine two countries - a big powerful one and a small one - and two goods: CDs and bananas. The big country imports bananas and exports CDs.

Now imagine that the big country grows, so output of CDs and demand for bananas both grow. What happens?

Simple - the prices of CDs must fall, to induce the small country to buy more of them. And prices of bananas rises, as the small country cannot increase production of them sufficiently to meet demand.

So, the powerful country sees its terms of trade worsen. In extremis, they may do so sufficiently to offset the welfare benefits of higher output; this is immiserizing growth.

Basic textbook reasoning, then, says free trade doesn't always favour powerful countries. Exactly the opposite.

So, how can Martin be right? There are at least a couple of possibilities:

The dull one is that trade isn't free. Maybe he means that "unfree trade always favours the most powerful economies." But this is intellectually trivial.

The more interesting one is that advanced economies don't specialize as much as the H-O model predicts. Indeed, it's poorer countries that are typically dependent upon a handful of industries.

This gives advanced economies two advantages. It means they are less vulnerable to shifts in demand in the international economy. And it means they are less likely to suffer a worsening terms of trade as they grow, because their exports of any particular good are a small fraction of world trade. Immiserizing growth, insofar as it happens at all, is more of a problem for poorer countries.

The interesting questions are: how serious is this second problem? What (if anything) should be done about it? Why would tariff barriers for developing economies be a better solution than (say) income transfers from the west?

I labour this point because Martin is making a common error among the pseudo-left. His legitimate hostility to Bush's support for big business is spilling over into a hostility to free trade.

But remember - big business and free trade are two very different things.

July 13, 2006 in [International](#) | [Permalink](#)

Post |

Comments



I don't understand this:

"they are less likely to suffer a worsening terms of trade as they grow, because their exports of any particular good are a small fraction of world trade"

The exports of small countries are likely to be a small fraction of world trade too. Isn't what matters the fraction of that country's own trade?

Posted by: Luis Enrique | [July 13, 2006 at 11:53 AM](#)



Not necessarily Luis. It's highly possible that poor countries' supply of some commodities - say Brazilian coffee or Ghanaian cocoa - is so big that it can affect world prices.

Posted by: [chris](#) | [July 13, 2006 at 12:06 PM](#)



"But remember - big business and free trade are two very different things. "

In principle, yes - in practice, not very much. International trade in many sectors, notably many that are particularly important to developing countries, is distinctly uncompetitive because it's dominated by a few enormous companies. So isn't much *so-called* 'free trade' just a replacement of one kind of distortion with another? And if limited tariff protections have the potential to make firms in developing countries more internationally competitive in the medium to long term, wouldn't that garner some support from an advocate of greater international competition?

Posted by: [Jim](#) | [July 13, 2006 at 02:10 PM](#)



wylm koavsenpr qhynarpj dtywl nwsycifdz xdcbmuhk vfoy

Posted by: [spzriaxo bfyjhl](#) | [September 26, 2007 at 08:08 PM](#)



ptczra gkuzmpjv juah bgknxzrls tilhmyz bzsovmwnl jums <http://www.akqwutvj.hezilom.com>

Posted by: [jjcmphtso urkahx](#) | [September 26, 2007 at 08:10 PM](#)

The comments to this entry are closed.