IRR
South African Institute of Race Relations
The power of ideas

@LIBERTY
The policy bulletin of the IRR

No 3/2017 | May 2017 | Issue 32

FREE TRADE: A BLESSING REVILED

JOHN KANE-BERMAN

May 2017

Published by the South African Institute of Race Relations
2 Clamart Road, Richmond
Johannesburg, 2092 South Africa
P O Box 291722, Melville, Johannesburg, 2109 South Africa
Telephone: (011) 482–7221
© South African Institute of Race Relations 2017

ISSN: 2311-7591

Members of the Media are free to reprint or report information, either in whole or in part, contained in this publication on the strict understanding that the South African Institute of Race Relations is acknowledged. Otherwise no part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronical, mechanical, photocopy, recording, or otherwise, without the prior permission of the publisher.

While the IRR makes all reasonable efforts to publish accurate information and bona fide expression of opinion, it does not give any warranties as to the accuracy and completeness of the information provided. The use of such information by any party shall be entirely at such party's own risk and the IRR accepts no liability arising out of such use.

Cover design by InkDesign

Photograph: Pixabay, Elbe River, near Hamburg, Germany

Typesetter: Martin Matsokotere

TABLE OF CONTENTS

INTRODUCTION AND SYNOPSIS 5

PART ONE 7

CONTEXT 7

THE THEORY 7

HISTORICAL PERSPECTIVE 10

PART TWO 13

INSTITUTIONS AND ARCHITECTURE 13

Multilateral 13

Regional and bilateral 14

The case for multilateralism 16

The Trade Facilitation Agreement (TFA) 16

Global supply chains 16

PART THREE 18

ISSUES AND ARGUMENTS 18

Imperialists at war 18

Producers versus consumers 18

Investment and services 19

Infants and imports 19

Monopolies in disguise 20

Fair trade versus free trade 21

Reciprocity versus unilateralism 22

"Dumping" 22

Subsidies 22

Non-tariff barriers 23

Winners and losers 23

Scapegoat or sinner? 25

Rights and wrongs 26

Self-inflicted injuries 27

Cheap labour 28

No place like home 29

PART FOUR . . . 30
THE TRACK RECORD . . . 30
Global . . . 30
Food . . . 30
Tigers versus laggards . . . 31
Open and shut cases . . . 32
The case of India . . . 33
Economic diversification . . . 34
The package deal . . . 34

PART FIVE . . . 35
SOUTH AFRICA . . . 35
The bigger picture . . . 35
South African exports . . . 37
South Africa and the EU . . . 37
South Africa and the US . . . 37
Poultry . . . 37
Motor vehicles . . . 39
Clothing . . . 39
Steel . . . 40

PART SIX . . . 41
STATE OF PLAY . . . 41
Trends before Trump . . . 41
The Trump factor . . . 41
China and the US . . . 42
THE ROAD AHEAD . . . 43
Risks . . . 43
Context . . . 43
Unscrambling the omelette . . . 44
Self-help for rich countries . . . 45
Help and self-help for poor countries . . . 45
The ideal situation . . . 46

SOURCES . . . 46

INTRODUCTION AND SYNOPSIS

Once fiercely protectionist, the United States of America (US) spearheaded global trade liberalisation after the Second World War. Its new president, Donald Trump, has now cast doubt upon this role. He has withdrawn from the Trans-Pacific Partnership (TPP) with 11 other nations, threatened to impose tariffs against Chinese imports, and said he will renegotiate the North American Free Trade Agreement (NAFTA). Even though he has indicated that he favours signing a free-trade agreement with the United Kingdom (UK) as it leaves the European Union (EU), these other actions suggest that his term of office may be characterised by increasing restrictions on free trade, prompting other countries to retaliate or otherwise follow suit.

Yet some of the criticism levelled at Mr Trump is rather ironical because many of his critics are themselves hostile to the globalisation of the world economy, of which trade liberalisation itself has long been a major component. Many of those who excoriate Mr Trump actually agree with his protectionist views, except that they call their form of protection "fair trade", a feelgood term which Mr Trump has himself taken to using. The attacks on globalisation often also ignore the major reductions in poverty that have taken place as a result thereof, so much so that the end of global poverty might finally be within reach.

Mr Trump may himself be hostile to free trade, but his attacks on it are not the start of anything new. They are the continuation of a trend dating back several years. Even his rival, Hillary Clinton, who helped negotiate the TPP, promised that it would be repealed if she won the election. Nor are recent protectionist pressures anything new. Support for, and opposition to, free trade have ebbed and flowed throughout the modern democratic and industrial era (and of course earlier).

> *Like freedom of speech and other aspects of liberty, free trade needs vigilant defence against all those pressure groups on both Left and Right who would undermine it. This paper will accordingly reiterate the well-known arguments in favour of free trade – that is, the movement of goods (and services) across national borders free of tariffs and/or other barriers that result in higher prices.*

Ninety years ago, for example, the Austrian economist Ludwig von Mises (1881 to 1973), wrote that protectionist pressures were on the ascendancy "even in England, the mother country of free trade". Even earlier than that, Winston Churchill resigned from the Conservative Party to join the Liberals in 1904 when Joseph Chamberlain, a leading figure in the former party, launched a campaign for protection. And even earlier, the German chancellor Otto von Bismarck abandoned free trade in 1878, setting a bad example which many European powers then followed. Even worse, President Herbert Hoover in 1930 signed the Smoot-Hawley legislation, which provoked a trade war and led to a ruinous contraction in global commerce. Senator John McCain, one of today's leading Republican elder statesmen, suggested that Messrs Smoot and Hawley must now be "smiling" as President Trump speaks about imposing taxes on imports.

Like freedom of speech and other aspects of liberty, free trade needs vigilant defence against all those pressure groups on both Left and Right who would undermine it. This paper will accordingly reiterate the well-known arguments in favour of free trade – that is, the movement of goods (and services) across national borders free of tariffs and/or other barriers that result in higher prices which protect local producers against competition from imports that would otherwise be cheaper. It will then give a brief history of free trade in the modern era, noting some of the important milestones. This historical perspective shows that today's controversies are often echoes of those in earlier centuries, with China now supposedly harming the US in the same way that the US (and other countries) once threatened the UK. The historical perspective is also useful in reminding us that arguments which appear abstract are in the end about jobs and prices,

including the price of food. This means that they are the very stuff of political controversy, including that between Churchill and Chamberlain, in the first few years of the 20th century.

After using both theory and historical perspective to set the scene, the paper will describe some of the architecture of trade, including "global supply chains". It will then reiterate some of the arguments characterising debate and policy. Next the paper will examine the global track record, showing how trade has helped to promote growth and reduce poverty. The different experiences of leaders and laggards will be noted. Although the focus of the paper is not South Africa per se, some of the current arguments in this country will be discussed. The paper will then look at the global state of play both before and after the advent of Donald Trump, before going on to put forward policy proposals. These will have to take into account the fact that although the world as a whole benefits from free trade, many groups within countries are harmed by it, provoking backlashes such as that currently exploited by President Trump. Hence Lord Macaulay's remark that free trade is a blessing that is so often reviled.

> *The paper will describe some of the architecture of trade, including "global supply chains". It will also examine the global track record, showing how trade has helped to promote growth and reduce poverty. The different experiences of leaders and laggards will be noted. Although the focus of the paper is not South Africa per se, some of the current arguments in this country will be discussed.*

PART ONE

CONTEXT

The twelve-point plan for prosperity published by the Institute of Race Relations (IRR) three years ago had trade liberalisation as one of its recommendations. The process of South African trade liberalisation dates back some years, and was indeed inherited by the African National Congress (ANC) when it came to power in 1994, only a few weeks after the previous government had embraced the Marrakesh agreement establishing the World Trade Organisation (WTO). But protectionist pressures are growing, most visibly from chicken farmers and steel manufacturers, while the motor industry has long enjoyed substantial state protection. The government itself is committed to imposing local content requirements in procurement policy, which is also aimed at promoting black economic empowerment. This in turn is part of a wider move towards greater regulation and intervention in the economy and in economic ties with other countries.

THE THEORY

Writing in 2000, Thomas Sowell, senior fellow in the Hoover Institution at Stanford University, noted that there were three reasons countries gained from trading with one another. The first was "absolute advantage", the second "comparative advantage", and the third "economies of scale".

Absolute advantage is obvious. Cold countries import fruit grown in tropical climates because it grows there naturally, whereas producing it themselves would require expensive investment in greenhouses and other artificial means of creating a warmer climate. It would be too expensive for most people to buy. In this case, tropical countries have an absolute advantage over cold ones in that they can produce the fruit more cheaply. (They must of course be allowed to export not only the fruit but also products made from it, failing which they will have difficulty making the transition from agriculture to manufacturing.)

> *Thomas Sowell, senior fellow in the Hoover Institution at Stanford University, notes that there are three reasons countries gain from trading with one another. The first is "absolute advantage", the second "comparative advantage", and the third "economies of scale".*

Comparative advantage is less obvious. The former American president Bill Clinton once said that the hardest idea he ever had to get across to his electorate was the notion of comparative advantage - that every country could produce something that could be exported to mutual advantage, which is the foundation of international trade.

Crucially, comparative advantage means that countries can benefit from exporting goods even when they do not have an absolute advantage. The theory was first enunciated by David Ricardo, one of the foremost British classical economists, in a book published in 1817. Essentially it means that where two countries trade, they both gain even if one of them produces everything more cheaply than the other.

Start on a human scale. I may be a superb artist commanding high prices for my paintings. I may also type twice as fast as my secretary. Does it make sense then to dismiss her and do all my own typing? The answer is "no" because I can make much more money from selling my paintings than if I took time out from that to do my own typing. Rather spend all my working hours at my easel, and then use some of my earnings to pay my secretary, even if I could actually do the typing in half the time it takes her. I am doing what is most lucrative for me, and she also has a job. If I were to save on her salary I would be poorer because the time I now have to devote to typing is time I cannot spend producing paintings that command high prices. She of course would be jobless. Instead of being in a "win-win" situation, both of us would be worse off.

What works for me and my secretary also works as between countries. Borrowing arithmetic from Sowell, which he in turn borrowed from Ricardo, let us assume that Botswana can produce both shirts and shoes more efficiently than Swaziland. But let us further assume that Botswana produces shirts more efficiently than it produces shoes. Botswana thus produces 75 shirts per man hour, and Swaziland only 30. Botswana produces 25 pairs of shoes per man hour, but Swaziland only 20. ("Man hours" in this context means all the resources used in production.)

If each country were now to spend 500 man hours producing both shirts and shoes, Botswana would spend 300 hours producing 22 500 shirts and the other 200 hours producing 5 000 pairs of shoes. With the same allocation of time, Swaziland would produce 9 000 shirts and 4 000 pairs of shoes. Each country would be self-sufficient in both shirts and shoes. The combined total of both products from both countries would be 31 500 shirts and 9 000 pairs of shoes.

Let us now change the arrangements. Since Botswana produces shirts more efficiently than it produces shoes, it will specialise in what it does best and spend all 500 hours producing only shirts, which would yield a total of 37 500 shirts. Swaziland would spend all 500 hours producing only shoes, yielding a total of 10 000 pairs. The combined output of both countries in the same amount of time is 6 000 more shirts and 1 000 more pairs of shoes than if they each produced both shirts and shoes.

Neither country is self-sufficient any longer. Botswana produces no shoes of its own but imports all the shoes it needs from Swaziland. Swaziland manufactures no shirts, but it uses its earnings from the shoes it sells to Botswana to buy the shirts it needs from that country. Even though each country has still spent only 500 hours producing its output, each is more prosperous as a result of mutually advantageous trade between them. Without one iota of extra effort, there are more shirts and shoes to go round and to sell – 19% more shirts and 11% more pairs of shoes. Each country also has more money to spend on other goods than was previously the case. Also, each country uses earnings from its exports to pay for its imports.

> *Free trade extends the efficient division of labour across international boundaries. These boundaries are of course artificial. If I as a resident of Johannesburg can buy things freely from a producer in Limpopo, why not buy them from a producer in Zimbabwe, or from one across the Indian Ocean.*

Botswana's *absolute* advantage over Swaziland arises from the fact that it produces both shirts and shoes more efficiently. Swaziland's *comparative* advantage derives from the fact that Botswana produces shirts more efficiently than it does shoes. Botswana's decision to specialise in shirts has opened up a market for Swaziland, which can then specialise in shoes. Expand this experience across the globe, and all of the Botswanas and all of the Swazilands benefit as they trade with one another.

The same argument can be put differently. Let us assume that a dozen people are shipwrecked and end up on a remote island. Each person builds himself or herself a hut. They each then dig a well, go out looking for firewood, search the forests for berries and other things to eat, grow cotton to make into clothing, catch wild goats to provide milk, plant vegetable gardens, and so on. At the end of the day everyone collapses with exhaustion, until they decide to organise things better. One person takes responsibility for providing everyone else with water, another for gathering firewood, a third for making clothes, a fourth for growing vegetables, and so on. Labouring tasks are divided up. Even if the cleverest and fittest person in the group does everything more efficiently than everyone else, it would make no sense for that person to do everything.

The economic logic applying on the remote island applies equally to global production. Free trade, in other words, extends the efficient division of labour across international boundaries. These boundaries are of course artificial. If I as a resident of Johannesburg can buy things freely from a producer in Limpopo, there is no economic logic in telling me I may not buy them from a producer just across the river in Zimbabwe or from one at the other side of the Indian Ocean.

The third aspect of free trade is economies of scale. Sometimes a particular product requires such enormous investment in research and development, the manufacture of machinery, industrial training, and the like, that the price of the resulting product is beyond the reach of most purchasers. The only way to avoid this is to produce on a scale large enough to spread all these costs across thousands, or hundreds of thousands, or even millions of items, and so reduce the price. Mass production on the scale required necessitates large markets both in the country of manufacture and around the world. Without the free trade that provides access to such markets, mass production and lower prices might become impossible.

The US is a big enough market for domestic sales alone often to be large enough to provide the necessary economies of scale. But this is not the case for smaller countries such as South Korea and Taiwan, which rely on international trade to provide the larger markets they need. As we shall see below, the opening of the American market to their exports was a major factor in the economic success of the Asian "tigers".

In some cases, not even the US and the EU with their large populations will be large enough as markets. Let us take the example of the jumbo jet, requiring capital and technology that few countries have in sufficient quantities. The American Boeing and the European Airbus manufacturers survive only because they can look to markets among airlines in third countries. This enables unit costs to be lowered, making their aeroplanes affordable not only in third countries but in the US and Europe as well.

A fourth great advantage of free trade is that competition to attract customers forces down prices. This applies within countries, but if the potential range of suppliers is spread across the globe there are many more competitors among whom consumers can choose. This means of course that producers and/or suppliers must not conspire to eliminate competition among themselves and so inflate prices. It further means that new producers or suppliers must not be denied entry to markets by cartels or other barriers. If, for example, Swaziland were to succeed in producing shirts more cheaply than Botswana, it should not be prevented from exporting them to that country. The fact that there is a potential market in Botswana will indeed serve as an incentive to Swaziland to produce more efficiently.

> *The US is a big enough market for domestic sales alone often to be large enough to provide the necessary economies of scale. But this is not the case for smaller countries such as South Korea and Taiwan, which rely on international trade to provide the larger markets they need. The opening of the American market to their exports was a major factor in the economic success of the Asian "tigers".*

The point was put thus in 1903 by one of the classical economists, Alfred Marshall. He wrote that as a means of "increasing the alertness of England's industrial population in general, and her manufactures in particular," there was "no device to be compared in efficiency with the plan of keeping her markets open to the new products of other nations".

Where products require huge investment outlays, the number of competitors may be limited, as is the case with wide-bodied aircraft – although smaller aircraft are produced by a larger number of countries. Cheap air freight, of course, enables a far greater range of goods from around the world to reach consumers than was the case 40 or 50 years ago. The even cheaper conveyance by huge container ships built more recently augments that range of goods further. Cheaper and more efficient transport enables a given product to be put together out of components manufactured in "global supply chains" spread across numerous different countries around the world. A motor car finally assembled in East London for export to the US will contain parts manufactured all over the world. Salmon caught in Scotland may be frozen and shipped to China for filleting before being shipped right back to Scotland for sale.

The growth of shopping on the Internet gives consumers access to a greater range of goods and to far more information about comparative prices than has ever been the case in history. Cheap transport and cheap communication open up opportunities for consumers everywhere that their grandparents – or even

their parents – could probably never have dreamt of. Nearly 200 years ago, falling transport costs made it possible to ship the world's most important bulk product, grain, from the New World to Europe. The invention of refrigeration greatly extended the range of foodstuffs that could be traded across the oceans.

To understand the harm that protection can do, let us go back to Botswana and Swaziland. We assume now that the Botswana authorities decide to produce shoes as well as shirts. They erect tariffs to keep out shoes manufactured in Swaziland, while Swaziland puts up tariffs to keep out Botswana's shirts. The net result, using the figures quoted above, is that total production of both shirts and shoes is lower. This means that the productive output of each country's 500 man hours is lower, with the result that incomes are lower, as is consumer spending power. If all countries put up tariffs, the whole world would be poorer.

Another consequence of protection is that manufacturers in both countries become complacent. They are protected against competition from imports, so they do not invest in new technology or in keeping their workforces up to the mark. They start taking their customers for granted and putting up prices. On one occasion when a car manufacturer in India went along to renew his application for protection, the official to whom he applied joked that everything in Indian cars made a noise except the hooter! As we shall see below, a World Bank report suggested that South African manufacturers had become complacent as a result of protection against imports.

HISTORICAL PERSPECTIVE

David Hume, Adam Smith, and David Ricardo were among the pioneers who helped to design the theoretical framework for free trade. It was, however, the campaign by British free-trade supporters for the repeal of the Corn Laws that heralded the start of reform in Europe, beginning in England. These laws imposed a tariff on grain, which benefited the large landowners who produced it by protecting them from cheaper imports, while the poor in the cities were left grappling with rising prices. Richard Cobden, one of the leading British campaigners, likened tariffs to the monopolies that Tudor and Stuart kings had granted 250 years earlier to the creatures of their courts for the exclusive sale of wine, leather, salt, and other things. These had been abolished. But now dukes and earls and other big landowners looked to Parliament to give them monopolies. The resulting Corn Laws were "an injustice to the labourers of this and every other country".

The Corn Law of 1815 forbade grain imports until their price reached a high level. Since cheaper imports were in practice forbidden, the poor were compelled to pay artificially high prices for their daily bread. By this time, the increasingly prosperous manufacturing class wanted cheap food for their hungry workforces, and began to challenge the landed aristocracy.

Poor harvests and war with France pushed the prices of grain (including wheat, maize, rye and barley) in England sky high. But with the end of the Napoleonic wars, British farmers demanded perpetuation of their windfall profits into peacetime. The result was the especially draconian Corn Law of 1815, which forbade grain imports until their price reached a high level, thereby reducing their competitiveness. With the Industrial Revolution, however, England's self-sufficiency in food production was rapidly disappearing. Since cheaper imports were in practice forbidden, the poor were compelled to pay artificially high prices for their daily bread. By this time, however, the increasingly prosperous manufacturing class wanted cheap food for their hungry workforces, and began to challenge the landed aristocracy.

Three factors helped to undermine protection and promote the cause of free trade. One was a national campaign against tariffs led by Richard Cobden and John Bright, two manufacturers in Manchester who founded the Anti-Corn Law League in 1840 and used the new penny post for mass mailings to mobilise opposition to tariffs. The second was devastation of the harvest in the winter of 1845, forcing the government to allow the import of American maize to avoid mass starvation, especially in Ireland, where the potato crop had failed.

The third was a courageous Conservative prime minister, Robert Peel, who changed his mind thanks to Cobden's arguments and put through repeal of the corn laws in 1846 even though this helped to end his political career. Essentially Cobden's argument was that cheap foreign corn provided the worker with cheap food which would be paid for by the export of manufactured goods, mass production of which gave the workers jobs. It was not long before numerous European countries had followed the British lead and slashed their own import tariffs. Tariffs on manufactured goods were also cut. Peel reduced import duties on 1 000 items of common consumption and abolished them altogether on another 600 items.

In a biography published in 2007, Douglas Hurd wrote that Peel "was convinced that the condition of England was best improved by lowering the prices which ordinary men and women paid for their food and other necessities". Providence might once again punish the land with hardships such as hard winters, but never again should the laws of man restrict the supply of food in the hour of scarcity.

The abolition of tariffs that Peel put through was unconditional – in other words, unilateral. He was more concerned with consumers than with producers, who he thought could look after themselves. The British market would be open to other countries irrespective of whether or not they reciprocated. In a speech in 1846 that Hurd described as "one of the founding documents of globalisation and free trade", Peel said that navigation had brought England within ten days of St Petersburg and would soon bring it within ten days of New York. "Is this country to shrink from competition? Is this country to adopt a retrograde policy?"

> *Conservative prime minister Robert Peel agreed that cheap foreign corn provided the worker with cheap food which would be paid for by the export of manufactured goods, mass production of which gave the workers jobs. Peel reduced import duties on 1 000 items of common consumption and abolished them altogether on another 600 items.*

Britain at that stage was the "workshop of the world" – its industrial might demonstrated beyond doubt at the Great Exhibition of 1851. As Hurd puts it, "The home market was growing, with the population. There were bound to be voices to argue that the main economic purpose of government should be to secure that market for the British producer by keeping out, for example, European or North American wheat and South American beef. But Peel saw that in the longer run the world market was infinitely more important; it was in Britain's interest to lower trade barriers and encourage others to do the same. Negotiated commercial treaties were fine but the case which Peel made for free trade in Britain did not depend on other countries' following our example. It was in the interests of the British consumer and of competitive manufacturers that British barriers should come down anyway.

"Peel was thus well ahead of many politicians and much public opinion today. The intricate bargaining processes of the European [Union] and the World Trade Organisation are politically inevitable. Public opinion still believes that barriers should only come down as part of a bargain; reciprocity rules."

Thanks to rapidly falling international shipping costs, an avalanche of inexpensive grain from North and South America, Australia, New Zealand, and the Ukraine overwhelmed English and continental farmers. But Peel's reforms were irreversible. Even Benjamin Disraeli, who led a revolt against him from within his own party, never tried to reintroduce protection when he became prime minister. The Liberal leader William Gladstone followed where the Conservative Peel had led. Even though industrialisation elsewhere behind tariff walls began to erode the British lead, Britain stuck to free trade throughout the Victorian era.

By 1913, England imported 80% of its wheat from abroad. However, as William Bernstein points out in *A Splendid Exchange – How Trade Shaped the World*, "no sane Englishman would have traded his nation's industrial present for its agricultural past". Joseph Chamberlain, a radical member of the Conservative Party, launched a crusade to confine free trade to the British Empire through a system of "imperial preference", while imposing tariffs, including food taxes, against the rest of the world. His efforts led to a major defeat of his party in the great Liberal landslide in the general election of 1906. Attempts in 1923 by a Conservative prime minister, Stanley Baldwin, to introduce tariffs to protect British industry and so combat unemploy-

ment were similarly defeated in a general election in 1923. As Hurd writes, “The doors of the British market were kept open and the whole world gained.”

Things were different on the Continent, however. France, which had also lowered tariffs in a treaty negotiated with Cobden himself in 1860, started re-imposing them in 1892, the major consequence of which was high food prices. Continental Europe’s backlash against free trade from the 1880s onwards would last until the middle of the 20th century. Bismarck reversed free-trade policy in 1878 and Germany launched an aggressive nationalist and protectionist policy, one consequence of which was the rivalry between imperial powers that played a role in Europe’s descent into the First World War in 1914. Trade wars then helped to prolong the global economic crisis of the Great Depression, which began in 1929. The depression in turn created the climate for the rise of totalitarianism in Europe and the Second World War, which broke out in 1939.

But one of the most serious blows against free trade was delivered when President Herbert Hoover signed legislation in 1930 sponsored by two congressmen, Senator Reed Smoot and Representative Willis Hawley. The American legislation raised average tariffs on dutiable goods to nearly 60%. This ignited a trade war in the form of retaliatory tariffs imposed by numerous other countries. Among these countries were the free-trading British, who convened a conference in Ottawa in 1932 that erected a protectionist wall around the British Empire. This included taxes on food produced outside the Empire. Between 1929 and 1932, according to Martin Wolf of the *Financial Times*, world trade fell by 70% in value and 25% in real terms.

> *One of the most serious blows against free trade was delivered when US President Herbert Hoover signed legislation in 1930 which raised average tariffs on dutiable goods to nearly 60%. This ignited a trade war in the form of retaliatory tariffs imposed by numerous other countries. In response, world trade fell by 70% in value and 25% in real terms.*

“By 1933,” according to William Bernstein, “the entire globe seemed headed for what economists call autarky – a condition in which nations achieve self-sufficiency in all products, no matter how inept they are at producing them”. The US had brought the world to the brink of collapse – and it would take another American, Cordell Hull, secretary of state to President Franklin D Roosevelt, to call a halt to the process, which had choked off international commerce. The US, having replaced the UK as the workshop of the world, now favoured the universal free trade that the British had advocated 100 years earlier but abandoned in Ottawa. The US was also determined to destroy the system of imperial preference the British had adopted. Now, 70 years later, it is the turn of the Chinese, having supplanted the US as the workshop of the world, to lecture the new American administration under Donald Trump about the virtues of free trade.

The long struggle to liberalise trade by dismantling tariffs began not long after the Smoot-Hawley disaster, one of whose consequences was that the American congress kept on giving in to demands for protection made by various sectional interests. Liberalisation’s first major landmark was the signature of the General Agreement on Tariffs and Trade (GATT) in Geneva in 1947. This began a process of tariff reductions which enabled world commerce to grow at 6.4% a year over the next half century. Between 1945 and 1998, the volume of world trade increased from 5.5% of world GDP to 17.2%. The successive “rounds” of negotiations inspired by GATT were taken over in 1995 by the World Trade Organisation (WTO), which was established by the Marrakesh agreement signed by 124 nations the year before. It has been described as the “legal backbone of world trade”. Their policies brought about a lowering of tariffs all over the world from an average of 40% to 4%. This was of enormous benefit to developing countries, because the richer countries opened their markets to them – although with major exceptions in the agricultural and apparel sectors.

PART TWO

INSTITUTIONS AND ARCHITECTURE

Given that it is still not free, but highly regulated, the structure of international trade is immensely complex. It is governed by a handful of major multilateral agreements and institutions, but also by hundreds of regional and bilateral agreements, which are, moreover, growing in number. Some of these focus on trade in goods and services, others have a wider ambit. Negotiations are tedious and time-consuming, and subject to domestic political pressures and economic conditions. Countries may be signatories to numerous different agreements. Although a backlash has been growing for some years, the actions and attitude of the Trump administration have thrown everything into disarray. There is a risk that the painstaking and largely successful process of liberalisation since the end of the Second World War will be reversed, although a number of countries are attempting to pick up some of the pieces. Other initiatives that may not be directly affected by the American attitude may well continue, although here too progress plods along at best.

Given the vast array of different agreements governing trade, the section below is not designed to be comprehensive but simply to give an account of some of the main agreements, including some of those currently under threat or being negotiated.

> *The structure of international trade is immensely complex. It is governed by a handful of major multilateral agreements and institutions, but also by hundreds of regional and bilateral agreements, which are growing in number. Some of these focus on trade in goods and services, others have a wider ambit.*

Multilateral

At the heart of GATT and the WTO is the idea that free trade and open markets are international public goods. The WTO operates according to the principle of "most-favoured-nation", which prohibits discrimination among WTO members. It is similar to the promise of a supermarket that if you can find a competitor with a lower price, it will match that price. So also, if country A gives favourable import terms to country B, it must extend the same terms to all other countries that are members of the WTO. In other words, the lowest tariff rate must be extended to all 164 member states.

The WTO covers all trade, including services, agriculture, and trade-related intellectual property. With the steady reduction in tariffs on manufactured goods to single digits, its focus has shifted to some of these trickier areas, with limited success. Following the failure of the round of negotiations that began in 2001 in Doha, the WTO has lowered its sights. At the time of writing this report, member countries were in the process of ratifying a trade facilitation agreement (TFA) designed to cut red tape and simplify customs procedures at borders. According to some estimates, cutting waiting times and otherwise speeding up trade could add between $1 trillion and $3.6 trillion to global exports. More on this below.

The WTO also provides mechanisms for settling disputes. According to Martin Wolf, it provides an "institutional response to a practical problem": "how to sustain a mutually beneficial liberal economy in a world of many sovereign states, of vastly different economic strength and sophistication, all of which are subject to protectionist pressures." Countries which believe that their trading partners are "dumping" goods on them can seek authority from the WTO to introduce "anti-dumping" duties. They may also introduce "countervailing" duties against subsidised imports. "Safeguard" duties may be imposed to give domestic industries time to adjust to surges in imports.

All these duties may be imposed over and above normal tariffs or customs duties. Irrespective of no-

menclature or supposed justification, duties or tariffs always inhibit trade. As we shall see below, however, tariffs imposed when goods cross borders are only one of the impediments to free trade. Non-tariff barriers can be even more difficult to surmount.

All along there have been two major exemptions from the tariff reductions envisaged by GATT – farmers and clothing manufacturers. They are represented by powerful lobbies in rich countries. The agricultural and clothing sectors are vitally important in poor countries, but their products are not always welcome in the rich world. Some rich countries impose higher tariffs against developing countries then they do against other rich countries. But developing countries also maintain high tariffs against one another, as we shall see below.

The Doha round was intended to focus on the needs of developing countries, one of whose main concerns is greater market access for their farmers. Agriculture is the mainstay of most developing nations, yet farmers in these countries cannot compete with the heavily subsidised farmers in the developed world, some of whom produce surpluses that drive down prices on world markets. These make it difficult for farmers in less efficient developing countries to survive.

One of the main reasons for the failure of the Doha round was the refusal of rich countries to cut farm subsidies, while a number of developing countries, led by India, resisted demands for easier access to their own markets. Although agriculture is only a small portion of the economy in, for example, the US and France, agricultural support from their governments is high. In 2002, according to the Organisation for Economic Cooperation and Development (OECD) it was just over $318 billion. This means that $0.31 in each dollar of revenue for the average farmer in the world's richest countries comes from government support. The EU grants aid to some poor countries but denies them access to the markets that would do the most to improve the lives of their citizens.

The Doha round was intended to focus on the needs of developing countries, one of whose main concerns is greater market access for their farmers. Agriculture is the mainstay of most developing nations, yet farmers in these countries cannot compete with the heavily subsidised farmers in the developed world, some of whom produce surpluses that drive down prices on world markets. These make it difficult for farmers in less efficient developing countries to survive.

Regional and bilateral

Despite the principle of global multilateralism incorporated by the WTO, many groups of countries have embarked upon regional trade agreements. One of these is the European Union, between whose 28 members (including for the moment the United Kingdom) there are no tariff barriers inhibiting trade in goods (although many other barriers inhibit free trade in services). Nearly 25 years ago Canada, the United States, and Mexico concluded the North American Free Trade Agreement (NAFTA), which provides for free trade between them in goods. The 2 000-page Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada was recently concluded after seven years of negotiations. The EU in fact has free-trade agreements with 53 third-world countries.

But the Trump administration has repudiated the Trans-Pacific Partnership (TPP), an agreement that was in the making between the US, Japan, and 10 other countries around the Pacific (though not China). The prime ministers of Australia, Singapore, and New Zealand are, however, discussing the possibility of proceeding with the TPP without the US, including the possibility that China might join. There could be all sorts of benefits: countries such as Vietnam might be able to export swimwear and other garments to Australia, which currently maintains a 9.5% tariff against such imports. The absence of the US will nevertheless leave a huge gap, as many of the other countries were willing to make numerous concessions in order to gain access to the vast American market. Japan, on the other hand, sees the TPP as a counterweight to

China's dominance in the region, and is busy garnering support to revive the deal.

China for its part is pushing for a regional pact called the Free Trade Area of the Asia-Pacific (FTAAP). Close to completion is the Regional Comprehensive Economic Partnership (RCEP), which includes China, India, Japan, and 10 other South-East Asian and Pacific nations. China and South Korea were present at a meeting in Chile in March 2017 to discuss how to proceed with Asia-Pacific trade in the wake of the American repudiation of TPP. The Asia-Pacific region alone is covered by 147 free-trade deals, up from 82 to a decade ago.

At the time of writing this report it seemed unlikely that a new Transatlantic Trade and Investment Partnership (TTIP), which is designed to lower investment and regulatory barriers between the US and the EU, would be signed; it has run into major opposition, including opposition from both Left and Right in Europe.

China and Australia signed a bilateral free-trade agreement in 2014 which opened up Chinese markets to Australian farm exporters and the services sector, while easing curbs on Chinese investment in resource-rich Australia. This was described by the Reuters news agency as the best-ever agreement between China and a Western country.

The US has 14 bilateral and regional free-trade agreements, and Mexico has an extensive network of such agreements. American and other foreign car manufacturers can make cars and parts in Mexico for sale duty-free not only throughout North America but also into Europe and Japan. South Korea, Japan, and China have also recently negotiated bilateral trade agreements with third parties.

> *The US has 14 bilateral and regional free-trade agreements, and Mexico has an extensive network of such agreements. American and other foreign car manufacturers can make cars and parts in Mexico for sale duty-free not only throughout North America but also into Europe and Japan. South Korea, Japan, and China have also recently negotiated bilateral trade agreements with third parties.*

South America has a number of regional trade agreements, among them Mercosur, a would-be customs union which embraces Argentina, Brazil, Paraguay and Uruguay. Other countries, among them Chile, Colombia, Mexico, and Peru, are grouped in the Pacific Alliance. According to *The Economist*, Latin American politicians have talked "incessantly" about regional integration for the past half-century but have struggled to make it happen.

Some 40 sub-Saharan African countries are parties to an agreement with the US under the African Growth and Opportunity Act (AGOA) passed by that country. As we shall see below, the major beneficiary is South Africa. Africa as a whole is moving at a snail's pace to establish a continental free-trade area. The initial deadline for establishing this was 2000, but efforts were renewed at a meeting in Johannesburg in 2015. Following talks between representatives of 54 members of the African Union in Addis Ababa in November 2016, a new deadline of October 2017 has been set to launch a process that is likely to take decades. Intra-African trade is the lowest of any region. According to some analysts, regional agreements elsewhere might worsen the position of African countries because of the erosion of preferences currently enjoyed or because of new preferences given to others.

A total of 79 developing countries from Africa, the Caribbean, and the Pacific (APC) are preparing to negotiate a new agreement with the EU. This will follow the so-called Cotonou Agreement signed in Cotonou in Benin in 2000. That agreement in turn replaced the Lomé Convention signed in Togo in 1975. It provided for most ACP agricultural and mineral exports to enter the EU free of duty, with preferential access based on a quota system for products such as sugar and beef that were in competition with European agriculture. Under Cotonou, least developed countries would continue to enjoy duty-free access, but reciprocity would apply to other countries: they would continue to enjoy duty-free access to the EU but they would in turn have to provide EU products with duty-free access.

The case for multilateralism

The difficulties attendant on global multilateral free-trade deals have helped encourage more regional and bilateral deals. Many of them have increased the number of goods traded duty-free between their signatories. However, they usually entail barriers against outsiders, who may find themselves worse off than before. But the signatory countries may also be worse off if these barriers exclude cheaper goods. Regional and/or bilateral trade agreements may thus further undermine momentum towards global free trade. One example of this is the EU, whose "single market" established in 1986 embraces only member countries, while others, among them poorer countries, face barriers, especially in agricultural goods and products made from such goods.

The Trade Facilitation Agreement (TFA)

Brokered by the WTO and the United Nations Conference on Trade and Development (Unctad), and signed in 2013, the Trade Facilitation Agreement (TFA) was coming into operation early in 2017 as it secured the necessary ratification of two thirds of WTO members. *The Economist* said it was a beacon of hope on the trade landscape, having been unanimously agreed to between rich and poor countries. In essence it hacked at the "thicket of regulatory trade barriers". This red tape was stickiest in poor countries, including sub-Saharan Africa, where exporters had to endure nearly 200 hours of inspections, regulations and paperwork, against only 15 in rich countries. The TFA was adopted only after plans for multilateral agreements on areas such as intellectual property and trade in services had been abandoned after running into enormous difficulties.

One analyst suggested that among the beneficiaries would be small businesses and merchants who would benefit from removal of the "wall" of obstacles that confronted them at borders. In addition to expediting freight movement by cutting red tape and harmonising customs, the agreement provided for technical assistance to poor countries. According to some estimates, implementation could add up to 80% in cross-border sales by small and medium-sized enterprises.

> *The Trade Facilitation Agreement (TFA) started coming into operation early in 2017. In essence, it hacks at a "thicket of regulatory trade barriers". Such red tape is stickiest in poor countries, including sub-Saharan Africa, where exporters have to endure nearly 200 hours of inspections, regulations and paperwork, against only 15 in rich countries.*

Pat Corbin, South African director of the International Chamber of Commerce, says that the TFA "is a vital new and insightful means of boosting trade, wealth creation, and job opportunities worldwide. It promises what Africa needs most: the expediting of the movement, release, and clearance of goods including those in transit." African countries had been fighting a losing battle for years to beef up trade among themselves, because they came up against the brick walls of bureaucracy, high transport costs, deal-busting tariffs, and inefficiencies in delivery. The TFA addressed these obstacles and more. As we shall see below, however, South Africa has been slow to embrace the TFA.

"Global supply chains"

Although they are not themselves formal trading institutions, global supply chains are a major part of the architecture of investment and trade made possible by the Internet and cheap transport. Previously, manufacturers designed new products and obtained supplies for their production in a single factory or city. Now production is spread across the globe. Workers in both rich and poor countries are part of the process. According to one authority, Richard Baldwin, "Globally competitive firms knit together national competitive advantages to make things in the most cost-effective locations. Firms and nations that eschew this new school of mix-and-match competitive advantage struggle to compete with those that have embraced it."

According to *The Economist*, "a smartphone might be designed and engineered in California and assembled in China, using components made or designed in half a dozen Asian or European countries, using metals from Africa." For this to work, however, goods must cross borders without incurring tariffs each time they do so. As the magazine pointed out, multinational companies that needed to move components back and forth freely between different member states had set up supply chains taking advantage of the fact that trade between members of the EU was free of tariffs. The same applies to other regions where goods can cross borders free of tariffs.

Incorporation of poor countries in global supply chains is a relatively recent phenomenon, and one which has benefited them enormously. They now face a backlash from workers in rich countries who blame them for the loss of their own jobs. Poor countries also face demands to comply with minimum labour or environmental standards laid down by richer nations.

Peter Draper, a South African trade specialist, wrote that "intermediate inputs" represented more than half of the imports of countries in the Organisation for Economic Co-operation and Development (OECD) and 75% of the imports of large developing economies such as China and Brazil. Imported components also made up a significant chunk of exported products, while products at different stages of value added could be imported and re-exported multiple times. Although trade agreements laid down "Byzantine" rules to determine "country of origin", goods in fact were now from "everywhere".

As we shall see below, incorporation of poor countries in global supply chains is a relatively recent phenomenon, and one which has benefited them enormously. They now face a backlash from workers in rich countries who blame them for the loss of their own jobs. Poor countries also face demands to comply with minimum labour or environmental standards laid down by richer nations.

PART THREE

ISSUES AND ARGUMENTS

Imperialists at war

As we have seen, his passionate commitment to free trade was the issue on which Winston Churchill broke with the Conservative Party to join the Liberal Party in 1904. His views were diametrically opposed to those of another great imperialist, Joseph Chamberlain, many years his senior – and a man suspected of conspiring with Lord Milner to bring about the Boer War. Their arguments have echoed down the down the years, and are summarised here because they bring out some of the conflicting issues that were at stake then and are still at stake today.

Chamberlain blamed "free imports" for the destruction of British agriculture and other industries. He ridiculed the notion that workers rendered jobless by foreign competition could easily find alternative jobs: "It is an admirable theory: it satisfies everything but an empty stomach." Using the slogan "tariff reform means work for all", he founded a tariff reform league to propagate his policy of imperial preference: duty-free entrance of goods from South Africa and other parts of the British Empire into the UK, but tariffs against goods from everywhere else. The key problem in England, he said, was unemployment. However, as Denis Judd points out in a study of Joseph Chamberlain, not even bouts of unemployment "destroyed the working man's belief that free trade ensured cheap food." Chamberlain's campaign split his party and resulted in the Liberal landslide in 1906.

> *Churchill argued that efficient, competitive, dynamic enterprises which thrived under free trade were a better source of employment than sclerotic industries dependent on protection. Free trade and cheap food, he said, had allowed the English people to advance from the depths of poverty and distress to the first position among the nations of the world.*

Churchill agreed that protection from competition benefited the working class, because they were producers. However, he said, free trade was also to their advantage as workers were all consumers who would benefit from cheap food. Tariffs, he argued, "warped and restricted the growth of the industries of the nations that adopted them". Efficient, competitive, dynamic enterprises which thrived under free trade were a better source of employment than sclerotic industries dependent on protection. The answer to "tariff reform means work for all" was "hands off the people's food". Free trade and cheap food, he argued, had allowed the English people to advance from the depths of poverty and distress to the first position among the nations of the world. The end of free trade, he predicted, presciently, would cause the parliamentary lobbies "to be crowded with the touts of protected industries".

Producers versus consumers

The producers-versus-consumers debate goes back much further than Chamberlain and Churchill. Adam Smith, intellectual father of the market economy and of free trade, wrote in 1776 in *An Enquiry into the Nature and Causes of the Wealth of Nations* that "in every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell cheapest". This was so obvious that it seemed unnecessary to try and prove it. However, it was in the interest of merchants and manufacturers to secure monopolies for themselves in the home market. Hence all the duties and other restrictions imposed upon imports that might compete with their monopolies. The result was mercantile systems in which the interests of consumers were sacrificed to those of producers.

It is easy to see why this so often happens. Producers often have the wherewithal to combine and run campaigns to promote and protect their interests. French farmers resisting relaxation of their privileges habitually use tractors to block the streets of Paris. Washington DC is full of professional lobbyists representing farmers and others seeking protection. The motor industry in South Africa is wealthy enough to finance major studies and campaigns to ensure the continuation of its support from the state. Consumers are much less well organised, if they are organised at all. South Africa's trade union movement speaks for its members mainly as producers rather than as consumers. As we shall see below, trade unions and poultry farmers have a common interest in protecting South African jobs against cheaper chicken imports. Consumers of cheaper imported chicken are to be found all over the country but they are too dispersed and too poor to have any voice of their own. They rely instead on the importers of cheaper chicken to speak for them indirectly.

Some years ago a leading South African retailer, Whitey Basson, chief executive of Shoprite, criticised the South African manufacturing sector for its lack of innovation and competitiveness. Manufacturers complained that they could not compete with imports because of their high input costs, so they beseeched the government to impose higher duties on imports. However, he said, "the retailer owes the people of this country the opportunity to buy what they need at the lowest prices – 50 million people cannot be held to ransom by manufacturers that are unable to compete effectively in a world market".

Investment and services

For free trade to have its greatest impact, governments must allow not only the free flow of goods but also the free flow of capital. They must allow companies to export capital to establish subsidiaries beyond their borders. But they must also allow foreign investors to move in and set up or purchase factories. As noted above, a key part of globalisation has been the establishment by multinational companies of subsidiaries in numerous different countries to manufacture component parts of finished products, making use of the particular advantages of each locality. If the various component parts – or intermediate goods – can flow freely across borders, consumers benefit from lower prices.

> *For free trade to have its greatest impact, governments must allow not only the free flow of goods but also the free flow of capital. They must allow companies to export capital to establish subsidiaries beyond their borders. But they must also allow foreign investors to move in and set up or purchase factories.*

The free flow of investment should apply to services as well as to goods. *The Economis*t thus showed recently how European airline passengers got better services than their American counterparts. This was because there was more competition in Europe, where the EU allowed airlines with non-EU owners of up to 49% to fly anywhere within the bloc. The US, by contrast, capped foreign ownership at 25%. The biggest four carriers in the US controlled 80% of the market, while the comparative figure in Europe for the four biggest carriers was 45%. As a result, airfares per seat mile were higher in America than in Europe. One consequence was that North American airlines posted profits of $22.40 per passenger in 2016, whereas in Europe the figure was $7.84. This is an excellent example of how competition across borders in services can redistribute income from shareholders to consumers.

Infants and imports

According to Daniel Griswold of the Cato Institute, the United Nations Conference on Trade and Development (Unctad) once favoured import substitution as a means of promoting industrialisation. This meant closing a country's economy by raising tariffs and then substituting domestically produced goods for what had previously been imported. The argument was that "infant industries" should be protected because they would not otherwise survive the rigours of competition from producers in more advanced economies. As the infants matured and became more competitive the protective barriers could be lowered and eliminated.

However, the countries which adopted these policies found that the protected industries failed to mature and proved to be inefficient and uncompetitive in global markets. Protection succeeded only in creating inefficient domestic producers, low-quality but high-cost goods for consumers, and rent seeking. Moreover, the infants never seem to grow up. Some of the industries continuing to demand protection today, not only in South Africa but elsewhere, have been in operation for decades. They include clothing, among the first industries to be established at the time of the Industrial Revolution, and steel manufacture, also an industry extremely long in the tooth.

Another problem, as described back in 1886 by Henry George, an American best-selling economist and social reformer, was deciding which industries should be encouraged. Whenever protection was granted, it did not stop until every domestic industry of any political strength was given some encouragement. Protection often went to industries that could only be maintained in that way, so diverting labour and capital from where it could be used more profitably.

Johan Norberg, a prominent Swedish economist, argued that it was sheer superstition to believe that politicians knew better than the market and investors which enterprises could become competitive in the long run. Tariffs gave permanent protection to inefficient companies. Because they were not exposed to competition they were under no pressure to improve efficiency and so lower the prices of their goods. The result was that the elite got rich and the masses were forced to pay more for necessities because they could not get them from anywhere else. Foreign competition, on the other hand, forced domestic firms to be as good and cheap as possible, leaving consumers free to choose goods and services from the seller making the best offer. Protection, in other words, redistributes income from consumers to shareholders, whereas free trade does the opposite, as shown by the above comparison between European and American airlines. In countries where particular goods are produced by only a few companies, protection reinforces oligopolies, whereas free trade undermines them.

> *Johan Norberg, a prominent Swedish economist, argues that it is sheer superstition to believe that politicians know better than the market and investors which enterprises can become competitive in the long run. Tariffs give permanent protection to inefficient companies. Because they are not exposed to competition, they are under no pressure to improve efficiency and so lower the prices of their goods. The result is that the elite get rich and the masses are forced to pay more for necessities.*

Norberg noted that many Western policy experts in the 1960s expected North Korea, a closed economy, to outperform export-orientated South Korea. Promoting self-sufficiency by import substitution was believed to be better than making oneself dependent on world trade. As we shall see below, developing countries in South America, which practised import substitution, performed much worse than their counterparts in East Asia, which focused on trade.

Monopolies in disguise

More than two centuries ago, the great free-market economist Adam Smith took the view that protected domestic markets were aimed at increasing national wealth by "beggaring" one's neighbours. This was a function of "the wretched spirit of monopoly" which had afflicted mercantile and manufacturing activity throughout history and was now reshaping the history of the world. This, he argued, would foster the growth of the great exclusive trading companies that were opening Asia to European commerce and were taking over the governance of countries such as Bengal. "The government of an exclusive company of merchants," he said, "is perhaps the worst of all governments for any country." He added that people of the same trade seldom met together without conspiring to "raise prices".

Much more recently, Norberg wrote that "capitalists often have the biggest interest of all in legally protected monopolies and exclusive privileges." Introducing a market economy and free trade was one way of "taking these things away from them".

Fair trade versus free trade

Given that protection has historically done so much damage, it has earned for itself a bad name. "Fair trade" is a phrase which sounds much nicer, but it boils down to the same thing. Donald Trump has started to talk of his commitment to trade which is "fair" as well as free. This is a contradiction in terms; even though tariffs or other restrictions may be introduced in the name of "fairness" rather than, say, protecting infant industries or rich French farmers, the result is the same: barriers which reduce competition and put up prices.

Ironically, President Trump, along with others who wish to restrict trade, among them the French politician Marine le Pen, are in the same camp here as the anti-globalisation lobbyists who used violence to disrupt the WTO trade talks in Seattle in 1999. Also in that camp are the estimated 250 000 people who joined a demonstration in Berlin in October 2015 against the proposed Transatlantic Trade and Investment Partnership between the US and the EU. They included trade unionists, political parties, environmental lobbyists, and anti-globalisation groups, among them several major Christian charities. This confirms that the risks to free trade can come from Left as well as from Right.

Otto Lambsdorff, former German federal economics minister and president of the classically liberal Friedrich Naumann Foundation for Liberty, observed in 2008 that protectionism in developed countries was now concealed in the cloak of something new – including stringent health and safety guidelines, enforcement of social standards, or anti-dumping rules (see below). He argued that classical human rights needed to be promoted as universal standards, but warned against using "social rights" as barriers to economic development.

> *Given that protection has historically done so much damage, it has earned for itself a bad name. "Fair trade" is a phrase which sounds much nicer, but it boils down to the same thing. Tariffs or other restrictions introduced in the name of "fairness" also put up prices.*

Writing in 1998, Chris Patten, a one-time minister in Margaret Thatcher's government who was the last British governor of Hong Kong, condemned the "callousness" of people in Europe "who seek to justify protectionist policies against emerging nations in Asia or Africa or South America on the grounds that, as these emerging nations do not have the same level of welfare and social protection as the rich countries of Europe, their competition is somehow unfair." This, he said, "amounts to the absurd and callous proposition that to be poor is sometimes to have an unfair trade advantage; it seeks to make our own economic lead unassailably permanent."

A similar point was made by Ernesto Zedillo, president of Mexico, at a meeting of the World Economic Forum in Davos in January 2000. All those tied together by "globaphobia" shared a demand for protection. "No one would claim that access to free trade and investment is sufficient to achieve sustained development and overcome poverty. Much more is needed. However, in every case where a poor nation has significantly overcome poverty, this has been achieved while engaging in production for export, and opening itself to the influx of foreign goods, investment, and technology; that is, by participating in globalisation… Proponents of global labour standards point to the low wages and other labour conditions of workers in trade-orientated activities in developing countries. They ignore the fact that frequently the alternative for these workers is extreme rural poverty or a marginal occupation in the urban informal sector where hardly any labour rights can be made effective."

In *The Bottom Billion*, a study published in 2007 which examined some of the problems of some 50 failing states, Paul Collier said that one of the objectives of the fair-trade campaign was to get higher prices for some of the bottom billion's current exports, such as coffee. This, however, discouraged coffee producers in such countries from diversifying. They received charitable transfers in the form of the price premium paid on fair-trade coffee in rich countries as long as they stayed producing crops which locked them into poverty, instead of diversifying beyond the range of narrow commodities.

Reciprocity versus unilateralism

Reciprocity sounds like the fair and right thing to do. Win-win all round. "I will open my borders to your goods if you open yours to mine." But it is nevertheless illogical. As Norberg points out, why should our own population be subject to more tariffs and prohibitions merely because other countries do it to theirs? Saying "I am not going to allow myself to choose from a wide range of good cheap products unless you do the same" is a "sacrifice, not a cunning reprisal". Opening one's borders to allow free entry of foreign goods improves competition and lowers prices and therefore benefits consumers. But it also improves the competitiveness of your exports. As noted above, the globalisation of production means that many imported goods nowadays are not final products but "intermediate" goods for incorporation into manufactured goods for export. Allow the intermediate goods into your country free of tariffs and you can lower the price when you export the final product.

According to Jagdish Bhagwati, the leading Indian free-trade economist, part of the "superlative" economic performance of the four East Asian tigers is that they "unilaterally liberalised their trade regimes during the 1950s."

"Dumping"

Few words are used more frequently in newspaper articles about trade than "dumping". The very word is enough to conjure up hostility. Leftover and "waste" bits of chicken, we are routinely told, are being "dumped" in South Africa by American and European producers. There are two issues here. One is to identify dumping. The other is to determine whether it is such a bad thing anyway.

> *Reciprocity sounds like the fair and right thing to do. Win-win all round. "I will open my borders to your goods if you open yours to mine." But it is nevertheless illogical. As Norberg points out, to say "I am not going to allow myself to choose from a wide range of good cheap products unless you do the same" is a "sacrifice, not a cunning reprisal".*

The WTO permits countries to impose "anti-dumping" duties when countries export goods at below production costs or below the prices in their own domestic markets – although calculation is not straightforward. Also, anti-dumping measures are open to widespread abuse as domestic producers seek protection against imports, mobilising public opinion with allegations that the imports are "dumped". Depending on their susceptibility to these domestic lobbies, and their willingness to cheat on their commitments to trade liberalisation, governments can re-introduce protection by the back door in the form of anti-dumping tariffs or other restrictions. The temptation to do so may indeed have been enhanced by the steady reduction in trade barriers presided over by the WTO.

Norberg argues that "anti-dumping" measures are designed to protect consumers from cheaper imported products and are therefore harmful. New domestic firms are permitted to cut prices to penetrate new markets. Why not foreign ones?

Subsidies

Related to dumping is the question of government subsidies, to counteract which the WTO may authorise importing countries to impose "countervailing" duties. It is again not always easy to identify exactly how they work. Some may be direct, others indirect. Governments may subsidise inputs rather than final products. Various countries subsidise some of their industries despite WTO rules. This, wrote Norberg in 2003, is a form of corporate welfare. But he then argues that consumers abroad should be grateful for this because taxpayers in one country may be subsidising cheap steel in another. We should therefore regard subsidised exports not as threats, but as gifts, although somewhat misguided gifts. *The Economist* echoes this view. In an article published in January 2017 about American and European tariffs on subsidised Chinese steel,

it wondered “whether an ample supply of cheap steel courtesy of a foreign government is really so terrible: it benefits American firms that consume steel – and they earn bigger profits and employ more people as a result.”

In similar vein, the *Financial Times* had argued in November 2016 that there was no doubt that Chinese subsidies, which had led to overcapacity in steel production, were pushing down the global price of steel. But proposed tariffs would not benefit the EU: “If EU countries want to build infrastructure or develop world-beating manufacturing firms, they will benefit from a [lower] domestic steel price.”

The same of course would apply to the US, which has failed to upgrade its infrastructure – something President Trump has promised to remedy. Cheaper steel would also reduce the costs of the South African government’s large infrastructure programme.

Non-tariff barriers

As duties have themselves come down thanks to the painstaking and time-consuming negotiations conducted down the years via GATT and the WTO, other restrictions have sometimes been implemented in their stead. These include introducing such measures as phytosanitary standards and health requirements, not to mention environmental and other demands. The more governments have the power under international rules to introduce non-tariff barriers, the more they will be susceptible to lobbyists demanding these. Governments of course may themselves also simply cheat or find other ways of circumventing rules to which they have committed themselves. Often these are cases of tit for tat. Once vexed by imports of French skis, the Japanese said that Japanese snow was different. The French retaliated by threatening to exclude Japanese motorcycles on the grounds that French roads were different.

> *As duties have themselves come down thanks to the painstaking and time-consuming negotiations conducted down the years via GATT and the WTO, other restrictions have sometimes been implemented in their stead. These include introducing such measures as phytosanitary standards and health requirements, not to mention environmental and other demands.*

According to the Citrus Growers’ Association in South Africa, many countries use phytosanitary regulations as a technical barrier to trade. The association says that the EU, the Philippines, and Vietnam are among the countries that have used such regulations (which are designed to protect local fauna) to exclude South African citrus exports.

Bringing down non-tariff barriers to global commerce includes getting rid of regulations that discriminate against foreign companies and removing privileges for state-owned enterprises. It also means slashing red tape, which can inhibit trade even more than tariffs. As noted above, the Trade Facilitation Agreement currently coming into operation is designed to tackle non-tariff barriers. Vigilance is also required against the reintroduction of barriers in the guise of environmental rules on such things as carbon emissions and/or labour standards.

Some years ago Thompson Ayodele, director of the Initiative for Public Policy Analysis in Nigeria, warned against large European vegetable oil producers who were teaming up with environmental lobbyists to impose restrictions on the import of palm oil from poorer countries. They were doing so on the grounds that production of these oils necessitated the clearing of forests and therefore caused environmental damage.

Winners and losers

The process of globalisation – including the free flow of both investment and trade across national borders – has had enormous benefits for the people of the world. By far the most important of these gains is the substantial reduction in the number of poverty-stricken people, of which more detail below. In addition, consumers have a far greater range of cheap goods within their grasp.

For example, even though 31% of households in South Africa are still classified as poor, 96% of households own cellular telephones. All the technology and investment in this new industry took place somewhere else, at somebody else's expense, but even some of the poorest South Africans benefit from the mass production and importing of this revolutionary means of communication. The same could be said of thousands of other products, not least antiretroviral medication produced elsewhere. Shops are full of cheap clothing and other goods produced more cheaply than they could be in this country. Imports have helped to keep down the price of chicken, which has become a major part of the diet of hundreds of thousands of families. Globalisation of the assembly of motor vehicles has also had benefits for South Africa in that more and more vehicles are assembled here, more than half of them for export. This benefit has, however, come at the cost of subsidies borne by taxpayers and higher prices paid by motorists.

Others who have benefited are the hundreds of millions of people in China, India, and other developing countries whose living standards have risen as a result of employment in factories able to export to richer countries. Norberg points out that globalisation a hundred years ago primarily meant that the West would collect raw materials from developing countries and bring them home for processing and re-export. Dispatch of a spare part could take months. Today, thanks to the advent of the global supply chain described above, a factory almost anywhere on earth can dispatch and receive deliveries to and from any destination within a week and a half. Even the very core of production can be located to poor countries if they have comparative advantages in the sector concerned. As Norberg notes, exports of industrial goods from the developing countries have thus risen rapidly in the past 30 years. Whereas at the beginning of the 1970s the developing countries accounted for only 7% of global exports of manufactured goods, today they provide more than 25%.

> *Labour-intensive industries have moved from richer to poorer countries in search of production at lower cost. This is seen as evidence of the ruthlessness of capital. But that capital investment has enabled a greater and greater proportion of the world's population to begin climbing out of poverty even at a time when the global population has been growing.*

The principle of comparative advantage applies not only to manufacturing but also to services. These, thanks to the Internet and satellite communication, can be performed in countries such as India, where local inhabitants can be hired to manage payrolls, invoicing, ticket reservations, and customer services for European and American corporations. India's colonial heritage of the English language gives that country a competitive advantage in attracting this business.

There is no shortage of critics who have pointed out that labour-intensive industries have moved from richer to poorer countries in search of production at lower cost. They first moved to Japan because wages were low there. When Japanese wages rose they moved to South Korea and Taiwan. When wages there, rose they moved to China. Then they moved to Malaysia and Thailand. Now they are moving to Vietnam.

Critics dismiss this as no more than further evidence of the ruthlessness of capital. But that capital investment – and the transfer of technology and know-how that goes with it – also enables poor countries to move from agricultural to industrial production, and so begin the process of modernisation and urbanisation. This has enabled a greater and greater proportion of the world's population to begin climbing out of poverty even at a time when the global population has been growing. The opening of consumer markets in rich countries, and the transfer of some of their manufacturing to poor countries, has done infinitely more to reduce global poverty than all the rich countries' aid programmes ever could.

There are of course losers. But these are not the people in poor countries, however low their wages might be. The biggest losers are people in richer countries, whose jobs have in effect been shifted to the poor countries. Martin Wolf pointed out in 2004 that the working people of high-income countries had historically benefited from their countries' monopolies in manufacturing. Now, however, they were in competition with unskilled people around the world.

As noted above in the account of the relocation of the workshop of the world from the UK to the US and then to China and now away from China, there is nothing new about this. Nor is there anything new in the fact that the replacement of older by newer technology results in job losses for some. The new phenomenon is that the process of trade liberalisation that has been very much part of the post-war liberal global order is threatened by a backlash, of which the new American president is the most recent, though by no means the only, manifestation.

Although protection against imports may in theory be designed to preserve local jobs, it in fact destroys other local jobs. American tariffs imposed against European and Japanese steelmakers in 2002 were estimated to have cost 200 000 jobs in industries relying on cheaper steel – more than the 145 000 Americans employed in steelmaking today. Referring to proposals by the Trump administration to impose tariffs, an American newspaper in Salt Lake City reported in May 2017 that when jobs were saved they were highly visible – and elected officials benefited from the gratitude of those granted protection in the name of "fairness". However, "the jobs lost down the road do not disappear until long after and are much easier in the short term for politicians to ignore. Even though these opportunity costs are much harder to quantify, the economic devastation they catalyse is no less real."

Scapegoat or sinner?

Writing as long ago as 2010, Kenneth Rogoff, professor of economics and public policy at Harvard, said that countries such as India, Brazil, and China were exploiting WTO rules which allowed for long phase-in periods for opening up their domestic markets to imports from developed countries, even as they enjoyed full access to rich-country markets. Lacklustre enforcement of intellectual property rights worsened the problem, hammering US exports of software and entertainment. Professor Rogoff commented that it was "remarkable how, so far, the US remained steadfast in its support for free trade." But these countries needed to help the US expand its exports. Otherwise, he warned, "simmering trade friction could suddenly throw globalisation into reverse".

> *Although protection against imports may in theory be designed to preserve local jobs, it in fact destroys other local jobs. American tariffs imposed against European and Japanese steelmakers in 2002 were estimated to have cost 200 000 jobs in industries relying on cheaper steel – more than the 145 000 Americans employed in steelmaking today.*

According to a study reported by the Bloomberg news agency in March 2015, trade with China has hurt American workers much more than previously thought. They had been expected to adjust to the shock of Chinese imports as successfully as they had done in the 1980s and 1990s to Japanese and European competition. Instead, large swathes of the US workforce were permanently without good jobs or even without jobs at all.

A special report on the state of the world economy published by *The Economist* in October last year reached similar conclusions. China's integration into global trade and its accession to the WTO caused more lasting damage than expected to some workers in the rich world. The sheer size of China and the speed at which it had conquered rich-world markets for low-cost manufacturing were unique. In 1991 China accounted for only 2% of all manufacturing exports worldwide, but by 2013 the proportion had risen to around 20%.

Among the consequences had been greater wage inequality, the failure of wage rises to keep pace with inflation, and declines in labour market participation. Workers displaced by surges in imports from China tended to be concentrated in pockets of distress where alternative jobs were hard to come by.

Popular opposition to these developments had caused senior politicians in France and Germany to turn against the proposed Transatlantic Trade and Investment Partnership (TTIP). Apart from areas with big

increases in migrant populations, British support for leaving the EU was strong in areas where much British manufacturing used to take place. Mr Trump, the magazine said, had won the Republican Party's nomination earlier in the year with the support of blue-collar men in America's South and in its "rustbelt".

However, reported *The Economist*, the US's growing inability to bounce back from losing manufacturing jobs predated the rise of China as an exporting power. In the mid-1960s, nearly all men between the ages 25 and 54 were either in work or looking for a job, but the proportion had dropped in each recession since then, failing to catch up when the economy subsequently picked up. There was also growing divergence between the wages of men with university degrees and those without. This was almost certainly due to a fall in the demand for less skilled men. This in turn was linked to a long-term decline in manufacturing, whose share of the jobs market peaked in the days when almost all prime-age men worked. The decline had started before China's emergence as a major exporting power. Germany, Britain, and Canada had all done a better job than the US at keeping prime-age men in work. Moreover, while members of the OECD spent an average of 0.6% of GDP per year on "active labour market policies" to ease the transition to new types of work, the US spent only 0.1%.

Also, said the paper, the US had signed 15 free-trade agreements since 1985 covering 20 countries. Exports to these countries had grown very much faster than overall American exports. In addition, exporting firms paid a wage premium over non-exporting ones of between 13% and 18%. This suggested that free-trade deals have not been the disaster for the US that was being claimed.

> *The US has signed 15 free-trade agreements since 1985 covering 20 countries. Exports to these countries has grown very much faster than overall American exports. In addition, exporting firms pay a wage premium over non-exporting ones of between 13% and 18%. This suggests that free-trade deals have not been the disaster for the US that is being claimed.*

Although Mr Trump has blamed trade for job losses, Tumisho Grater, an economic strategist at Novare Actuaries and Consultants, a South African advisory service, notes that technology has had a greater impact than trade on job losses among undereducated and low-skilled workers. The major target hitherto had been the global manufacturing sector. However, the impact was now spreading to the service sector. She cited the arrival of Uber in South Africa as an example. "The only defence against the chronic displacement of labour is upskilling a country's workforce," Ms Grater writes. More on this below.

Rights and wrongs

Larry Summers, a one-time secretary of the treasury in the US, said that "quite simply, rapid market-led growth is the most potent weapon against poverty that mankind has ever known". Mike Moore, a one-time prime minister of New Zealand, who served as director general of the WTO between 1999 and 2002, said that giving poor countries better access to rich-country markets was a "moral as well as economic imperative". If countries were to move out of poverty, markets had to be open for them. As we shall see in more detail below, the track record shows that the opening of markets has indeed been a powerful weapon against poverty.

Nevertheless, some rich countries still maintain barriers against the exports of poor countries, particularly exports of clothing and agricultural products. Such barriers include both quotas and tariffs. To make matters worse, many rich countries subsidise agricultural surpluses which are then dumped on world markets, making it extremely difficult for poorer countries to develop their own agriculture. These subsidies are worth far more than the aid given to developing countries.

To make matters even worse, where developing countries which turn agricultural goods into manufactured goods then try to export these goods, they face barriers designed to protect manufacturers in rich countries. Raw coffee and cocoa are thus allowed into rich countries, which do not grow these crops, but

goods made from such crops in poor countries face prohibitive tariffs designed to keep them out of rich countries. The rich country then benefits from exporting finished products made from agricultural goods imported in raw form from poor countries.

One example is given by Toby Orr, director of Trade Out of Poverty, a British lobby group led by a number of parliamentarians. He wrote in November last year that the EU placed a 7.5% charge on roasted coffee imports. This stunted African manufacturing while protecting German coffee producers, who earned $3.8 billion from coffee re-exports. Silk fabrics made in Rwanda faced heavy import duties into the UK, but the UK could do nothing about these as its import duties were set in Brussels, not London. Noting that rich countries maintained higher tariffs on clothing than they did on raw cotton, Norberg said that this type of protectionism was a deliberate means of undermining the very type of industry in which developing countries had comparative advantages.

In a study of globalisation published in 2004, Martin Wolf noted that agriculture was of trivial importance to rich countries in terms of employment, trade, and contribution to GDP. Yet it was of vital importance to poor countries, where most poor people were involved in agriculture. He described the protectionist practices and policies imposed against poor countries as "obscene".

According to both Griswold and Norberg, advanced countries imposed tariffs on imports from poor countries that were on average four times as high as tariffs on imports from other advanced countries. Griswold reported the World Bank as having stated that the annual cost imposed on poor countries by rich-country trade barriers was more than double the amount the rich countries donated in foreign aid.

Wolf pointed out that subsidised food dumped into poor countries turned them into net food importers. Although, as indicated above, countries normally benefit from subsidised goods dumped in them through lower prices, there may be a case for prohibiting such dumping where it destroys the possibility that very poor countries will be able to develop their own agriculture or other labour-intensive industries, such as clothing.

> *Paul Collier wrote in* The Bottom Billion *that protectionism has been the strategy of bottom-billion governments for 40 years. But their own individual domestic markets are "tiny and stagnant", so focusing on them has got them nowhere. High tariffs have introduced a "high-cost parasitic industry" whose profits depend on lobbying. The result of decades of protectionism is also stagnant productivity.*

Self-inflicted injuries

In a book entitled *In Defence of Globalisation*, published in 2004, Jagdish Bhagwati showed that average industrial protection in poor countries was still significantly higher than in rich ones. These tariffs applied even in agriculture, while poor countries also subsidised such things as water and electricity. In the preceding decade, however, many poor countries had "begun to see the folly of their own protectionism". Many had unilaterally begun to lower their tariffs. Among these was Chile, which thereafter had very low tariffs. India had also "massively reduced protection", but still had some of the highest tariffs in the world.

Paul Collier wrote in *The Bottom Billion* that protectionism had been the strategy of bottom-billion governments for 40 years. But their own individual domestic markets were "tiny and stagnant", with the result that focusing on them had got them nowhere. High tariffs had introduced a "high-cost parasitic industry" whose profits depended on lobbying – something against which Churchill warned more than 100 years ago, as we saw above. The result of decades of protectionism was stagnant productivity. Moreover, in some of these poor countries, being a customs officer was one of the best jobs you could get, as it enabled you to extract bribes.

According to Norberg, some 40% of exports from developing countries went to other developing countries, whose tariffs against one another were two and a half times as high as rich countries' tariffs against

them. More than 70% of the customs duties that people in developing countries paid were levied by other developing countries. Poor countries, he argued, would therefore benefit more from their own liberalisation than from rich-country liberalisation. An OECD official said in 2011 that although “south-south” trade was growing rapidly, trade barriers among developing countries were still up to seven times as high as those imposed by the developed world.

Thanks to high trade barriers throughout the continent, Africa has the lowest proportion of intraregional trade worldwide: only 25% of total exports take place within Africa, compared with 50% in Asia and 70% in the EU. There is also a growing trend within Africa to support locally made products at the expense of foreign ones. This is done by using import and foreign exchange restrictions. The East African Community recently stated its intention to foster the local production of drugs and to erect high tariff walls to protect local producers against imports. But the result, as various analysts have pointed out, would be higher prices, lower quality, and the creation of economic oligarchies, some of whom would use “nefarious tools” to lock up their market share. This would be particularly indefensible when the pharmaceutical manufacturing business was so capital intensive that very few jobs would be created.

As is the case elsewhere, African trade also suffers from non-tariff barriers. Some years ago a World Bank specialist pointed out that a truck serving supermarkets across borders in southern Africa might need to carry up to 1 600 documents in the form of permits, licences, and the like. The African Development Bank has said that imports could take three times as long as in Europe. Large proportions of transporters in East Africa admitted to paying bribes to cross borders. In 1990, according to *The Economist*, African countries accounted for 9% of the developing world’s manufacturing output. By 2014 that share had slumped to 4%. “As the world’s labour-intensive jobs left the rich world for countries with lower wages, Africa lost out to Asia because of bad governance, political instability, and poor infrastructure.”

> *Thanks to high trade barriers throughout the continent, Africa has the lowest proportion of intraregional trade worldwide: only 25% of total exports take place within Africa, compared with 50% in Asia and 70% in the EU. There is also a growing trend within Africa to support locally made products at the expense of foreign ones.*

Cheap labour

In a book entitled *Why Growth Matters* published in 2013, Jagdish Bhagwati and Arvind Panagariya point out that labour is normally cheap in economies with widespread poverty. Such economies therefore have “a comparative advantage in producing labour-intensive goods”. These economies should specialise in producing and exporting such goods. Growing demand for labour would then begin to cut into surplus or underemployed labour, pushing up wages and causing declines in poverty. South Korea and Taiwan, they said, offered ample empirical evidence in support of this argument. From the second half of the 1950s they pulled workers from agriculture in the hinterland into labour-intensive manufacturing in ever larger volumes, resulting in steadily rising wages.

The two writers go on to argue that, with wages in China reaching levels at which it is likely to be forced out of employment intensive sectors, India would be well-positioned to become the world’s manufacturing hub – provided it reformed its labour laws. Failure to do so would enable a large number of smaller countries, such as Vietnam and Bangladesh, to seize the opportunity instead. These countries allowed firms to hire and fire workers under reasonable conditions and to maintain a balance between the rights of workers and those of employers. As a result, large firms in sectors such as apparel could be found in both countries, which had seen significantly faster growth in that sector and done extremely well on the export front.

Abundant low-wage labour does not necessarily translate into lower labour costs in production, however. Moses Obinyeluaku, chief economist at the International Trade Administration Commission of South Africa (ITAC), wrote in February 2017 that Africa’s abundant labour and low wages made it potentially competitive in the export of labour-intensive manufactured goods. However, labour productivity was low relative to China and other East Asian countries. Wages in Ethiopia and Tanzania, for example, for producing polo

shirts and wooden chairs were much lower than those in China, but output was much lower too. An increase in trade openness was a growth opportunity for a country only if local resources could be deployed in adequate quantities to produce goods for export markets.

Martyn Davies, a director at Deloitte responsible for emerging markets and Africa, wrote in April 2017 that rising cost pressures in China's light industrial manufacturing sector would cause manufacturing capacity to be relocated to lower-cost foreign economies, among them "new Vietnams" among African countries. East Africa, and in particular Ethiopia and Kenya, could play this role, "seizing the opportunity to generate a 19th-century-style industrial revolution". To take advantage of this potential seismic economic shift, these countries would require suitably qualified workforces.

Cheaper labour is available not only in Third World countries, but also in Eastern Europe. During the recent presidential election in France, one of the candidates, Marine le Pen, threatened to impose a 35% tax on imports from the Whirlpool Corporation (which manufactures dishwashers and the like) after that company said it would shut its factory in Amiens and move to Poland, where labour was cheaper. "We can no longer accept this massive de-industrialisation," she said. But the winning candidate, now President Emmanuel Macron, said that "the causes of de-industrialisation are to be found at home and not in globalisation". He added that he would shake up France's rigid labour market, making it easier for companies to hire and fire workers. He would also cut corporate taxes and invest in research and development to make manufacturers more competitive. But he also sounded like Donald Trump when he spoke of a "Buy-European" programme and vowed to make "the protection of European industry" central to "re-inventing" the European Union.

No place like home

As this exchange between the two French presidential candidates indicates, there is little consensus about the causes of "deindustrialisation", let alone what should be done about it. From a policy point of view, imposing tariffs or taxes may have the attraction of a "quick-fix" solution. By contrast, liberalising labour markets and other reforms is invariably much more time-consuming and politically much more tricky.

> *Two years ago, an American manufacturer of bicycles who had moved production to China 23 years previously moved it back to the US. He said that he would soon be able to produce bicycles with only 12 employees per shift, most of whom would be looking at computer screens. The same operation in China would need 60 people.*

At the same time, it should be remembered that capitalism is a dynamic process. While cheaper labour in China, for example, may entice American companies to shift some of their manufacturing there, other factors might in due course attract it back to the US.

Two years ago, an American manufacturer of bicycles who had moved production to China 23 years previously moved it back to the US. He said that he would soon be able to produce bicycles with only 12 employees per shift, most of whom would be looking at computer screens. The same operation in China would need 60 people. According to Reuters, decisions of this kind could be attributable to the rising popularity of trade protectionism. However, the agency said, "perhaps even more influential is business's push towards automation, digitisation, robotics, and innovations such as 3-D printing that undermine low-wage countries' biggest comparative advantage." Reuters quoted data from Reshoring Initiative, an advisory group, which shows that 250 000 manufacturing jobs had returned to the US between 2010 and 2015.

Hung Tran, managing director of the Institute for International Finance, said that "reshoring" was bad news for emerging economies. The model which had worked for many countries, especially in Asia, would not provide the same opportunities as before. Reuters suggested that "reshoring" would not deliver the benefits that President Trump anticipated if American firms had to bring jobs back to the US, because the new high-tech plants would probably create far fewer jobs than expected.

PART FOUR

THE TRACK RECORD

Global

According to the World Bank, 42% of the world's population was extremely poor in 1981. Since then the number of people in absolute poverty has dropped by about one billion while the number of people no longer classified as poor has increased by four billion. By last year, according to the bank, the proportion of the world's population living in extreme poverty had dropped to just above 9%. If economies grow as fast in the next ten years as in the last ten, that proportion will drop to 4% by 2030.

What these figures mean is that the end of global poverty could be in sight. In fact the World Bank's objective of seeing extreme poverty reduced to below 15% of the world's population by 2015 was achieved ahead of time. According to the United Nations Development Programme (UNDP), world poverty has fallen more in the last 50 years than in the preceding 500. In 1820, according to Norberg, 85% of the world's population lived on the equivalent of a dollar a day. Poverty then was the norm. Now it is the exception. The major reductions have occurred in China and India, although poverty rates have also dropped sharply in countries that include Vietnam and Uganda, which liberalised domestic and trade policies. The poverty rate in China has dropped from 88% in 1981 to 2% today – a quite astonishing achievement.

> *In 1820, some 85% of the world's population lived on the equivalent of a dollar a day. Poverty then was the norm. Now it is the exception. The major reductions have occurred in India and in China, where the poverty rate has dropped from 88% in 1981 to 2% today – an astonishing achievement.*

However, sub-Saharan Africa as a whole has been far less successful in seeing poverty reduced. The sub-continent's absolute poverty rate has dropped from 56% to 43%, but the number of destitute people has increased thanks to a population growth rate of 2.5% a year, against 1% for Asia. Sub-Saharan Africa now accounts for about half of all the world's extremely poor people, the absolute number of extremely poor Africans having grown from 284 million in 1990 to 388 million in 2015.

According to the International Monetary Fund (IMF), GDP per head at purchasing power parity has doubled in sub-Saharan Africa since 2000, whereas in emerging Asia it has almost quadrupled. If low growth is one problem, another, according to *The Economist*, is that many African governments are "flimsy, incompetent, authoritarian, or rapacious". Africa is home to 36 of the world's "fragile" states.

Jagdish Bhagwati quotes the findings of a colleague at Columbia University, Xavier Sala-i-Martin, based on a study of poverty data from 97 countries between 1970 and 1998: "The last three decades saw a reversal of roles between Africa and Asia: in the 1970s, 11% of the world's poor were in Africa and 76% in Asia. By 1998, Africa hosted 66% of the poor and Asia's share had declined to 15%. Clearly this reversal was caused by their very different aggregate growth performances. Poverty reduced remarkably in Asia because Asian countries grew. Poverty increased dramatically in Africa because African countries did not grow."

Of course, the measure of poverty (subsisting on less than $1.90 a day in 2011 prices) is very low. But the fact that so many people have risen above it is still cause for satisfaction. At the same time it is a warning that progress must not be allowed to stall.

Food

One of the advantages of trade is that it enables food to cross borders and so to reduce the risks of shortages or worse. Countries need not worry about producing food where it is expensive to do so because they

can import it from elsewhere where it can be produced more cheaply and efficiently. In a study published by the Cato Institute in 2007, Indur Goklany, a science and technology analyst at the American Department of the Interior, showed that between 1950 and 2002 the global population grew by more than 150% and per capita incomes by more than 190%, both of which increased the demand for food. Yet the real price of food commodities declined by 75%, thanks to "greater agricultural productivity and international trade". As a result, average daily food supply per capita increased globally by 24% between 1961 and 2002. The increase in developing countries was even larger, at 38%.

Between 1969 and 2002 chronic undernourishment in developing countries has dropped from 37% of their populations to 17%, despite population growth. Even in China and India, both of which were once said to be at risk of further famines, food supply per capita is well above subsistence levels. In sub-Saharan Africa, however, although the undernourished share of the population dropped in that same period from 36% to 33%, the absolute numbers increased from 125 million to 204 million.

A further argument in favour of free trade is that it reduces the amount of land needed to produce food. Food can be produced where this can be done most efficiently using the latest technology, enabling countries less suitable for food production to avoid ploughing up land. They import instead. Goklany shows that, between 1700 and 2002, global cropland increased by 481% and population by 918%. Cropland per capita, estimated at 0.43 hectares in 1700, has dropped to 0.25 hectares today, its lowest ever. Yet despite massive population growth over this period, the world has never been better fed. This is partly because of large increases in agricultural productivity in rich countries. Their food production has outstripped their increasing demand for food, so enabling surpluses to be transferred – through either trade or aid – to developing countries.

> *In the view of* The Economist, *globalisation and modernisation of agriculture have contributed to a "stunning" reduction in hunger. Between 1990 and 2015, the proportion of children under five who were malnourished fell from 25% to 14%. Between 1990 and 2012, the proportion of their income that poor people worldwide had to spend on food fell from 79% to 54%.*

In the view of *The Economist*, globalisation and modernisation of agriculture have contributed to a "stunning" reduction in hunger. Between 1990 and 2015, the proportion of children under five who were malnourished fell from 25% to 14%. Between 1990 and 2012, the proportion of their income that poor people worldwide had to spend on food fell from 79% to 54%.

Unfortunately, none of this means that famine is a thing of the past. According to a "famine early warning systems network" run by the US government, 70 million people around the world are likely to need food assistance this year. South Sudan, Nigeria, Somalia, and Yemen are at risk of experiencing famine, while 20 million people in these countries are at risk of starvation. The reason is that all four countries are at war. The problem is not any global food shortage, but conflict and politics which prevent the distribution of food to the poor even in cases of crisis and emergency.

Moreover, according to *The Economist*, poor countries that include China, Indonesia, and the Philippines protect local farmers by setting minimum prices for home-grown rice, while also restricting imports in various ways. The result is that domestic prices can be 50%-100% above international prices – "a fiercely regressive tax on the hungry". Richer countries such as Japan and South Korea also impose high tariffs on imported rice, with the result that the price in both countries is three times the world average.

Tigers versus laggards

The closing decades of the 20th century and the opening years of the 21st have seen the newly industrialised countries of Asia (South Korea, Hong Kong, Singapore, and Taiwan) move from the periphery of the world economy to first-world levels of development. According to Griswold, they moved from typical Third World poverty in the 1950s to per capita incomes by 2004 which rivalled those of the wealthiest Western

nations. According to Chris Patten, writing in 1998, real incomes per head in these countries went up sevenfold over the preceding 30 years, while their share of world trade quadrupled. In 1965, their average income per head was 13% that of the US, but by 1990 it was already 26%.

What happened in these East Asian "tigers", and also in other countries in the region that likewise saw increases in living standards? The boom in Asia, Patten said, was the result of liberal economics that opened the world's markets to Asia's goods. Technology quickened the rate at which they could take advantage of that opening. The tigers pursued aggressive exporting strategies, while the doors to American and European markets were opened through multilateral trade agreements and the elimination of exchange controls. "The foundations for Asia's prosperity are to be found on the counters of the department stores of Europe and America and on the warehouse shelves of their factories." China opened its doors to the global economy in the late 1970s, after which it grew at around 10% for nearly 20 years.

African countries, Patten added, had the same opportunities as the East Asians. In the 1950s, many of them had more or less the same income level as Asian countries such as South Korea. Some, such as Congo, were far richer than East Asia in natural resources. One of the great African success stories is Mauritius. In 1961 a committee headed by an economist (who later won a Nobel prize) judged its future as hopeless. But Mauritius took advantage of opportunities for the export of labour-intensive goods, initially clothing. In 1961 it had a population of around 700 000 living in poverty, but by 2004 it had a GDP per head at purchasing power parity of close to $10 000.

The boom in Asia was the result of liberal economics that opened the world's markets to Asia's goods. Technology quickened the rate at which they could take advantage of that opening. The tigers pursued aggressive exporting strategies, while the doors to American and European markets were opened through multilateral trade agreements and the elimination of exchange controls.

However, part of the success of the Asian tigers lay in opening their markets to imports. South Korea, for example, is the world's ninth largest importer. Opening markets up to imports helps to promote domestic competition among manufacturers, resulting in more competitive export prices. Insufficient domestic competition, as Hilary Joffe of *BusinessDay* pointed out two years ago, is bad for exports because protected firms do not have enough incentive to export. Vietnam is one of the countries that has benefited from opening up to the world. Unlike countries which have adopted local-content rules, it barred officials from forcing foreigners to buy inputs domestically. One result is that foreign firms have flocked to Vietnam and now make about two thirds of its exports. Since 1990 the country has notched up the world's second-fastest growth rate per person, beaten only by China. It has been described as Asia's "next tiger".

If most of Africa did not exploit its opportunities, nor did South America. While East Asia opened itself to the rest of the world, Latin America turned inwards. According to Norberg, politicians in Argentina, Brazil, and Chile were among those who fell for inward industrialisation theories advocated by Marxist academics and others. In the 1950s they imposed quotas and tariffs. Domestic industries raised output quickly and generated high growth, but high prices made them uncompetitive. Economies became more politicised as protectionist lobbies campaigned for benefits. Big industrialists got richer behind high tariff walls, while poor consumers paid exorbitant prices in shops. A car in the 1960s cost three times as much in Chile as it did on the world market. Latin American industry became more and more antiquated in relation to the rest of the world. It was not until after liberalisation and free-trade reforms, inaugurated towards the end of the 1980s, that some of these countries got back on their feet and were able to raise their growth rates.

Open and shut cases

As indicated above, the reduction in global poverty has coincided with trade liberalisation and faster growth. A report published by the Cato Institute in 2013 said that poverty rates had started to collapse towards the end of the 20th century. The main reason was that growth in developing countries accelerated from an annual rate of 4.3% between 1960 and 2000 (a period of 40 years) to 6% in 2000 to 2010 (10 years).

The question is whether trade liberalisation actually fosters growth. Norberg quotes two Harvard economists (Jeffrey Sachs and Andrew Warner) who examined the trade policies of 117 countries between 1970 and 1981. While they could not find a correlation between improved education and growth, they found a statistically significant connection between free trade and growth.

Growth in free-trade countries was between three and six times higher than in protectionist countries. Open developing countries had an average annual growth rate of 4.5% in those two decades, while closed developing countries experienced only 0.69%. Open industrialised countries had an annual growth rate of 2.29%, while closed ones experienced only 0.74%. Looking at a longer period, Norberg reports that open economies had faster growth rates than closed ones every year between 1970 and 1989, a pattern that became even clearer in the 1990s. During that decade, per capita GDP fell by an average of 1.1% in closed developing countries, but grew by 5% in developing countries which opened their markets. Norberg stresses that these achievements were not simply a matter of how much they earned from exports, but of how much they earned by keeping their own markets open.

In a study published in 2004, Griswold quotes a World Bank 2001 study of the preceding 20 years which grouped less-developed countries into "globalisers" and "non-globalisers". The former, which cut tariffs substantially, saw annual economic growth rates accelerate from an average of 1% in the 1960s to 5% in the 1990s. The non-globalising poor countries cut their tariffs at only half the rate of the others and saw collective growth rates fall from 3% to 1% over the same period. This study also found that globalisers not only grew faster than non-globalisers, they also grew faster than did rich countries "Thus", the World Bank study said, "the globalisers are catching up with the rich countries while the non-globalisers fall further and further behind".

Open economies had faster growth rates than closed ones every year between 1970 and 1989, a pattern that became even clearer in the 1990s. During that decade, per capita GDP fell by an average of 1.1% in closed developing countries, but grew by 5% in developing countries which opened their markets.

As Griswold reports, the World Bank study found that the only countries in which there has been large-scale poverty reduction in the 1990s are those that have become more open to foreign trade and investment. In the two decades since 1980, the study could not find a single example of a poor country that had closed its markets, and at the same time had closed its income gap with rich countries. Even Oxfam said in 2002, that "History makes a mockery of the claim that trade cannot work for the poor. Participation in world trade has figured prominently in many of the most successful cases of poverty reduction – and, compared with aid, has far more potential to benefit the poor".

The case of India

According to Bhagwati and Panagariya, using data from the Reserve Bank of India, the average annual growth rate in GDP per head in that country remained well below 2% for a period of almost 40 years from 1951 to 1988. It rose to an average of 3.8% between 1988 and 2003, and then to 6.6% between 2003 and 2012. They argue that the higher growth rates were the result of a series of liberalising reforms prompted by a balance-of-payments crisis in 1991. According to another analyst, Ruchir Sharma, the then finance minister, Manmohan Singh, lowered import tariffs from an average of 85% to 25% and opened stock markets to foreign investors. He also started to cut the red tape of the "licence Raj".

Thanks to trade liberalisation, the trade-to-GDP ratio rose from 17% in 1990-1991 to more than 50% as 2010 approached. Liberalisation of the foreign investment regime saw foreign investment rise from $100 million to more than $60 billion over more or less the same period. According to India's planning commission, the proportion of the population living below the poverty line fell from 44.5% in 1983 to 27.5% in

2004-2005, even though the population rose by 374 million over that same period.

Martin Wolf wrote in March 2017 that after China's even more dramatic rise, India was the second most important economic success story of the era of globalisation. Citing a survey by the country's finance ministry, he said this was partly the result of the move from socialism to open trade and more open capital markets.

Economic diversification

One of the major problems in Africa has been a lack of diversification of countries' economies and their export baskets. According to Martyn Davies of Deloitte, commodity exports still account for 80% of total merchandise exports from Africa and make up 70% or more of export earnings from three quarters of African countries. However, a handful of countries, among them Madagascar, Senegal, Morocco, and several in East Africa, have avoided overdependence on a single export either through good fortune or strategic policy implementation. East African countries, among them Ethiopia, Kenya, Rwanda, Tanzania, and Uganda, have actively promoted export diversification. One particularly important ingredient of their success has been infrastructure development, including transport, power, communications, and technology. Another has been productivity growth supported by investment in human capital, talent, and skills. Also important are political stability, good governance, and pragmatic pro-business policies.

> *Free trade should not be seen in isolation. Also important are the lowering of non-tariff barriers, speedier and cheaper clearance through customs, currency convertibility, free movement of capital, and fewer restrictions on immigration. No less vital are security of property rights, the rule of law, enforceability of contracts, and freedom to enter markets.*

The South African finance minister, Malusi Gigaba, said in May 2017 that the consequences of poor infrastructure had been "devastating" for Africa. Intra-African trade, he said, was "shockingly low" at approximately 11% of the continent's total trade. By contrast, intra-Asian and North American trade was at 40% in both instances, while the figure for Europe was 60%.

The package deal

Although this paper has focused on free trade, trade should not be seen in isolation. Allowing goods and services to move across borders more freely is part of a wider process of economic liberalisation that includes the lowering of non-tariff barriers, speedier and cheaper clearance through customs, currency convertibility, free movement of capital, and fewer restrictions on immigration. These are not the only components of economic freedom, which requires security of property rights, the rule of law, enforceability of contracts, and freedom to enter markets. These in turn necessitate appropriate institutions, especially an independent judiciary. Innovation, entrepreneurship, liberalised labour markets, sound education systems, access to credit, sound banking systems, sound money, administrative efficiency and transparency, good infrastructure, and probity of government are other important ingredients of economic success, for these enable businesses to establish themselves and to trade and prosper.

PART FIVE

SOUTH AFRICA

The bigger picture

Since 1996 South Africa has extensively reduced its applied average tariff rate, from 14.8% in that year to 6.26% in 2015. Reductions elsewhere over the same period are as follows: China from 22% to 7.55%, the US from 4.11% to 2.79%, the UK from 3.9% to 2.06%, the EU from 3.9% to 2.06%, Brazil from 15.1% to 13.7%, Chile from 11% to 1.17%, Mauritius from 32.7% to 1.43%, and Russia from 11.2% to 4.85%. India has reduced tariffs from 28.9% in 1997 to 10.1% in 2013.

In 2008, a report for the government by the International Panel on Growth chaired by Ricardo Hausmann said that South Africa's exports had showed "remarkably little dynamism". In the 44 years between 1960 and 2014, their real value grew by only 34%, compared with 169% in Argentina, 238% in Australia, 1 887% in Botswana. 385% in Brazil, 387% in Canada, 390% in Chile, 730% in Israel, 1 192% in Italy, 4 392% in Malaysia, 1 277% in Mexico, and 120% in New Zealand.

According to a report by the World Bank in 2014, South Africa has between 20 000 and 21 000 exporters selling nearly 5 000 different products. However, apart from minerals and metals, and a few "super-exporters", most exporters are "minnows" who operate on a small scale and only occasionally. "New high-value products have not emerged on the scale needed." The bank said that, apart from alleviating infrastructure bottlenecks and promoting deeper regional integration, South Africa should seek to spur export growth by boosting domestic competition. Added the bank:

> *South Africa has between 20 000 and 21 000 exporters selling nearly 5 000 different products. However, apart from minerals and metals, and a few "super-exporters", most exporters are "minnows" who operate on a small scale and only occasionally. "New high-value products have not emerged on the scale needed," according to a report by the World Bank.*

"By opening local markets to domestic and foreign entry, South Africa would enable new productive firms to enter and place downward pressure on high mark-ups. This would lower input costs and tip incentives in favour of exporting by reducing excess returns in domestic markets. Competition would also stimulate investment in innovation and, over time, condition the market to ensure that firms entering competitive global markets have reached the productivity threshold to support their survival and growth."

South Africa seems, however, to be moving in the opposite direction. The country has initiated more than 200 anti-dumping investigations, most of which have resulted in the imposition of duties. South Africa also withdrew from the WTO's general agreement on trade in services after it realised that its proposed requirement that private security companies relinquish 51% of their South African subsidiaries to local ownership would not pass scrutiny there.

Between 1994 and 2009, South Africa signed bilateral investment treaties with 49 other countries, among them China. However, following arbitration claims brought against South Africa under its treaties with a number of European countries, the government unilaterally terminated 13 of these treaties, all of them with European countries. At the end of 2015 President Zuma signed a new Protection of Investment Act which gives foreign investors in the country far less protection than the treaties did.

The minister of trade and industry, Rob Davies, said in April 2017 that South Africa (and some other developing countries) had been "persuaded or cajoled to cut tariffs and open up markets to an extent

that, with the benefit of hindsight, moved too rapidly beyond our capacities as developing countries". The "apartheid regime" had wrongly classified South Africa as a developed country, so that "we were the victims of a historical injustice that required us to cut industrial tariffs deeper and faster than many peer developing countries". South Africa was now using various policy tools "to nurture, support, and protect emerging industries" that had been "prioritised". Tariff policy had to be informed by industrial policy, and trade liberalisation had to be done gradually and selectively to support industrial development, including localisation.

The manufacturing sector of course is generally only too eager to push for local procurement on the grounds that it keeps "jobs and growth" within the country. "Transformation" is pressed into service in this regard. Philippa Rodseth, executive director of the Manufacturing Circle, has thus said that "if the suppliers are black-owned firms", local procurement contributes to "transformation".

South Africa's policies are self-contradictory. The economic development minister, Ebrahim Patel, stated some years ago that the government wanted to strengthen industrial competitiveness across the board but also to "reclaim" its domestic market and expand its capacity for exports. However, "reclaiming" the domestic market undermines competition if it means restricting imports. Restricting imports also puts up the prices of exports.

Dr Davies and Mr Patel, it would appear, have failed to learn from the failures of similar policies in South America in particular. Their increased demands for localisation are not a case of more gradual trade liberalisation, but rather an attempt to reverse it. Although these ministers are under pressure from various lobbyists to introduce protective measures, demands for localisation also originate from within their own departments.

Although Europe and the US account for virtually all foreign direct investment in South Africa, China accounts for the single largest share of merchandise trade. Cheap Chinese imports have hurt a number of South Africa's major industries, especially clothing, although of course consumers have benefited from lower prices.

Last year Geordin Hill-Lewis MP, spokesman on trade and industry for the Democratic Alliance (DA), said the WTO had noted an increase in protectionist measures by its members. Mr Hill-Lewis said that governments knew they could not get away with overt protectionism, so they were placing other bureaucratic obstacles in the way of trade. He voiced the suspicion that a sharp drop in efficiency at South Africa's National Regulator for Compulsory Specifications might be "a deliberate attempt by the Department of Trade and Industry to frustrate imports". Importers needed letters of authority before they could bring products into South Africa, but long delays in the issuing of these compelled importers to pay for storage at ports of entry. Some of them had to lay off staff as they had no goods to sell. The regulator promised to speed things up.

Pat Corbin, South African director of the International Chamber of Commerce, said in March 2017 that he was puzzled as to why South Africa had not "grasped the opportunity" presented by the WTO/Unctad Trade Facilitation Agreement described above. The agreement requires member states to form committees that include business and labour as well as government to implement it. However, South Africa has evidently refused to do this, preferring an "internal" forum that excludes these other parties.

Although Europe and the US account for virtually all foreign direct investment in South Africa, China accounts for the single largest share of merchandise trade. Cheap Chinese imports have hurt a number of major industries, especially clothing, although of course consumers have benefited from lower prices. In recent years, however, it is our trade with the US that has been a major source of dispute. The section below is not designed as a comprehensive account of these disputes or of our trade. Instead it simply highlights certain issues, among them problems surrounding alleged dumping, the subsidies that help some export industries to survive, the effect of minimum wage requirements on the viability of labour-intensive industries, and the conflict of interest between major domestic producers and the consumers of cheaper imports.

South African exports

If South African exports are analysed by their major continental destinations, Asia and Africa each account for about 29%, Europe for 23%, and the Americas for around 10%.

South Africa and the EU

In his state-of-the-nation address in February 2017, President Jacob Zuma said that about 99% of all South African products would have preferential market access to the EU in terms of an economic partnership agreement with the EU that came into force in September 2016. Some 96% of the products would enter the EU market without being subject to customs duty or quantitative restrictions. However, key exports such as wine and fruit are subject to quotas.

South Africa and the US

More than 40 sub-Saharan African countries enjoy duty-free and quota-free access into the US for some 7 000 lines of goods under the African Growth and Opportunity Act (AGOA). Dating back to 2000 and originally due to expire in 2015, AGOA was recently extended to 2025. The single largest beneficiary of this unilateral trade concession to Africa is South Africa. By far the largest beneficiary among South African manufacturers is the foreign-owned South African motor manufacturing industry. Other major beneficiaries include the citrus industry. According to studies cited by South Africa's Department of Trade and Industry (DTI), AGOA has created some 62 000 jobs in South Africa, and 120 000 in the US. These include jobs providing servicing and spares to motor vehicles exported to the US from South Africa.

More than 40 sub-Saharan African countries enjoy duty-free and quota-free access into the US for some 7 000 lines of goods under the African Growth and Opportunity Act (AGOA). The single largest beneficiary of this unilateral trade concession is South Africa. By far the largest beneficiary among South African manufacturers is the foreign-owned South African motor manufacturing industry.

The American Chamber of Commerce in South Africa (Amcham) claims that AGOA has helped to turn South Africa's auto industry from a sector in decline into an international exporter. Amcham also says that AGOA has helped to rescue the South African citrus industry. South Africa's access to the American market is a privilege: although the rest of Africa is classified as developing, we are a much more developed country. Whether South Africa takes full advantage of the opportunities provided by the US is not clear, as it appears that we are unable to get our production levels up high enough.

As we shall see, Americans have been angered for more than a decade by anti-dumping duties imposed by South Africa against exports of parts of chickens into South Africa. In 2015 President Barack Obama's administration gave South Africa an ultimatum to allow American chicken imports into the country on the same basis as those from elsewhere, failing which South African agricultural products would lose their tariff-free access to the US. The agreement was, however, renewed when South Africa relented and American chicken started flowing into the country early in 2016.

Poultry

Both South African consumers on the one hand, and American and Europeans on the other, benefit from their different tastes in chicken. Americans (and others) prefer the white meat in the form of chicken breasts, while South Africans, especially poor ones, prefer brown meat, usually legs and other parts with bones in that American and European consumers do not eat. Thanks to exports to South Africa, no chicken goes to waste, enabling producers to recover costs from the entire chicken instead of having to throw parts of it away. Chicken has become a major source of protein for poorer South Africans. Thanks in part to imports, its price has not risen as much as that of red meat.

The old nursery rhyme accurately sums up the mutual benefits:

Jack Spratt could eat no fat

His wife could eat no lean

And so betwixt the two of them

They licked the platter clean.

Ever since 2001, South Africa has maintained an anti-dumping duty on American bone-in chicken, much to the anger of American poultry farmers and congressmen from poultry-producing states. The US was particularly irritated that South Africa allowed chicken to come in from other countries that did not grant South Africa duty-free access for its exports, unlike the US. There were threats that some of South Africa's privileges under AGOA might not be renewed unless South Africa lifted its restrictions.

Eventually, at a meeting in Paris in June 2015, South Africa agreed to allow in 65 000 tonnes of bone-in chicken from the US. Even these exports were, however, in practice blocked by other measures, including health measures. It was not until early in 2016 that further pressure from the US allowed chicken imports into South Africa. The Americans claim they were not arguing for privileged access, but merely for their chicken to be imported into South Africa on the same basis as chicken from the EU and elsewhere. Unlike this other chicken, American imports were subject to an anti-dumping duty of R9.80 per kilogram over and above the 37% import duties applicable to other countries. At the time of writing this report, a temporary "safeguard" duty of 13.9% had been imposed on bone-in-chicken imports from the EU.

> *South African poultry producers argue that American chicken is "dumped" in South Africa, that jobs are being lost, and that eventually the domestic chicken industry will be destroyed. But importers say that there is no reason why South African consumers should have to pay more for their chicken to keep an inefficient industry in existence.*

These chicken wars (which are far from over) highlight a number of issues. One is the power of lobbies. South Africa's extensive benefits under AGOA were at risk thanks to the powerful lobbying of South African poultry producers. This was counteracted by lobbying on behalf of American poultry producers. The second issue is the conflict of interest between South African poultry producers on the one hand, and South African importers of poultry and other meat on the other. The former argue that American chicken is "dumped" in South Africa, that jobs are being lost, and that eventually the domestic chicken industry will be destroyed. The latter argue that imports amount to only a small proportion of total consumption, and that there is no reason why South African consumers should have to pay more for their chicken to keep an inefficient industry in existence. The dispute between the chicken farmers and the importers has been conducted in part via numerous articles and letters in newspapers. This has enabled consumers and everyone else to follow the various arguments – usually acrimonious (and therefore all the more entertaining than most newspaper articles about trade).

The third issue is the absence of any powerful public voice for chicken consumers. They benefited here mainly because the meat importers fought for their right to import cheaper parts of chickens. Some critics, however, claimed that if imports eventually destroyed local industry chicken producers, the importers would then be in a position to raise their prices.

A fourth issue relates to "dumping". According to several commentators, the South African poultry industry's claims that Americans were dumping chicken into South Africa were invalid. Normally dumping occurs when exports are sold below the domestic price. However, since Americans did not favour bone-in chicken, American exporters were able to obtain higher prices from exports than in their domestic market, so that dumping was not taking place. South African "fair-trade" lobbyists argue that European producers sell chicken at far below production costs, and that they are therefore dumping it in South Africa. The EU

– South Africa's biggest trading partner – denies this. It also points out that its exports to South Africa in 2016 were less than 10% of overall poultry consumption, so that European imports could not be "the main cause of the problems in the industry". These also included significant local cost increases as a result of drought, it said.

According to Sovereign Food Investments, a major South African poultry producer, imports in 2016 were equivalent to 29% of total South African poultry production. Announcing that it expected to report losses when it released its end-of-year financial results, the company called on the government to implement higher tariffs on imported chicken. This would effectively mean a redistribution of income from chicken consumers to the company's shareholders. Shoprite Checkers argued that the local industry needed to grow its export markets and that it was pricing fresh chicken too high. Arguably, penetrating export markets would be a better way of preserving jobs in the industry than relying on more protection. Another major retail chain, the Spar group, said that maize shortages, the cost of electricity, and inconsistent water supplies were among the challenges local poultry producers faced. Last year the company imported 14% of its poultry products. According to Pick n Pay, another major retailer, most imported products were sold at independent outlets and on the informal market. This information was provided in May 2017 to a parliamentary committee where, according to *BusinessDay*, various companies were required "to account for their chicken-purchasing policies".

Motor vehicles

The biggest beneficiaries of AGOA are the wholly-owned subsidiaries in South Africa of foreign-owned motor manufacturing companies. In 2015 almost 54% of South Africa's total vehicle production of 616 000 units was exported to countries all over the world, including the US, where these vehicles enjoy duty-free entry under AGOA, as long as 60% of their value is sourced from South Africa. The industry also benefits from substantial government support, including the ability to recoup 30% of the costs of local investment and a 25% duty on imports.

> *In 2015 almost 54% of South Africa's total vehicle production of 616 000 units was exported to countries all over the world, including the US, where these vehicles enjoy duty-free entry under AGOA, as long as 60% of their value is sourced from South Africa.*

David Furlonger, a journalist specialising in the motor industry, said that government support had attracted nearly R50 billion in foreign investment in recent years. When Ford announced an investment of an additional R2.4 billion in 2016, the minister of trade and industry, Rob Davies, said that it could recoup R699 million of this. When Mercedes wanted to introduce new manufacturing facilities some years ago for C-class cars, the South African subsidiary was awarded the tender because of the "incentive packages in place", according to Trevor Manuel, a former finance minister. Volkswagen said that if government support went away, "it would be the immediate end of the motor industry in South Africa".

Although the motor manufacturing industry employs large numbers of people both directly and indirectly in Pretoria, Durban, Port Elizabeth, East London and elsewhere, critics argue that government support and protection for the industry result in higher taxes to finance the assistance. Motorists also pay higher prices for cars thanks to the tariffs on imports. While the South African government keeps on extending its support for the motor industry, its Australian counterpart recently stopped supporting that country's motor industry, which then closed down.

Clothing

According to Johan Fourie, associate professor of economics at the University of Stellenbosch, South Africa's clothing and textile industry has received government support since the 1930s. Hence South Africans still pay "exorbitant import tariffs on clothes." Yet the local clothing industry has found itself unable to compete with Chinese imports. Part of the problem is that the government, trade unions, and larger

manufacturing companies have compelled smaller companies to pay wage rates that render the South African industry uncompetitive – not only against Chinese imports, but also vis-a-vis potential exports to the US. A number of companies that were competing successfully with Chinese imports were forced to close because they undercut the wage rates paid by their larger competitors. In March 2017 an official of the KwaZulu-Natal provincial government said the province would soon approach the DTI to protect jobs in the textile sector.

Simon Freemantle, an economist at the Standard Bank specialising in Africa, said some years ago that across the continent families could now afford new Chinese clothes. Hence they no longer had to make do with Western hand-me-downs. This is clearly a huge benefit to millions of people.

> *Steel imported into South Africa enjoys a 10% import tariff. South African steel producers are nevertheless stepping up their efforts to protect the local industry from cheap Chinese imports. But the downstream industry takes a different view, saying the additional "safeguard" duties being requested would be a "devastating" blow. The sustainability of 10 000 manufacturers would be at risk, along with hundreds of thousands of jobs, if the benefits of cheaper steel were removed.*

Steel

Steel imported into South Africa enjoys a 10% import tariff. However, South African steel producers are stepping up their efforts to protect the local industry from cheap Chinese imports. In February 2017 Wim de Klerk, CEO of the largest producer, ArcelorMittal South Africa (Amsa), said, "We have seen the poultry sector take a collective stand and we should do so as well. We will work tirelessly with unions, government, and the downstream industry to protect the sector from imports." Anti-dumping duties, along with "safeguard duties" to offset surges in imports, would apply on top of normal customs duties. At the end of April, South Africa filed an application with the WTO for safeguard duties on certain steel products to take effect from July for a period of three years – 12% in the first year, 10% in the second and 8% in the third.

The downstream industry, however, takes a different view of cheap imports. In October 2016 Gerhard Papenfus, chief executive of the National Employers' Association of South Africa, wrote an open letter to Dr Davies in which he said that the additional "safeguard" duties being requested by Amsa would be a "devastating" blow for the downstream industry. This, he added, had already been severely prejudiced by the "slow poisoning effect" of the 10% duties imposed a year ago. The sustainability of 10 000 manufacturers would be at risk, along with hundreds of thousands of jobs, if the benefits of cheaper steel were removed.

PART SIX

STATE OF PLAY

Trends before Trump

According to an analysis by Bob Davis and Jon Hilsenrath, published in the *Wall Street Journal* in March 2017, nine years after the financial crisis global trade is barely growing when compared with overall economic output. “Among the hottest trends in the industry last year,” said the article, “was the dismantling of giant container ships for scrap metal – 862 in all – along the beaching yards of Pakistan, Bangladesh, and India.” Since 2009 nearly 7 000 protectionist measures have been acted worldwide, almost half of them aimed at China.

Between 2008 and 2014, some 13 countries became more open to global capital flows, but 31 became less so. Merchandise trade as a proportion of GDP grew from 17% in 1960 to 50% in 2008, but this growth trend has been reversed and the proportion in 2015 was 45%. Whereas multinational companies built global supply chains from the 1990s onwards – “webs of supercharged trade” – they have now begun to localise production and import fewer components. General Electric, for example, having expanded its global footprint since the 1980s, is now building up manufacturing capacity in China and India and other big markets to supply customers there, rather than counting on exports and global links. Pacific Resources International, which owns eight factories in Beijing, is “waiting to see how the politics shake up” before building any Chinese plants aimed at the export market.

> *Nine years after the financial crisis, global trade is barely growing when compared with overall economic output. “Among the hottest trends [in 2016] was the dismantling of giant container ships for scrap metal – 862 in all – along the beaching yards of Pakistan, Bangladesh, and India.” Since 2009 nearly 7 000 protectionist measures have been enacted worldwide, almost half of them aimed at China.*

Few of its advocates “fully grasped globalisation’s downsides in a modern economy”, according to Davis and Hilsenrath. “Tying together disparate nations economically also expanded the labour pool globally, pitting workers in wealthy nations against poorly-paid ones in developing nations. This greatly boosted the fortunes of the world’s poor but also created a backlash in the US and Europe. At the same time, the freeing of financial flows led to debilitating financial excesses that ended in crisis... In wealthy nations the big hope is that a reversal in globalisation will lift wages of unskilled workers by reducing competition from low-wage nations. That has not been the case so far.”

The Trump factor

President Trump said in March 2017 that the US had been treated “very, very unfairly by many countries over the years and that this had to stop”. When finance ministers in the so-called Group of 20 industrialised and developing countries met in Germany in the same month, they adopted a pledge to promote fairness in economic growth. However, at the behest of the Americans, they failed to adopt a proposed commitment to “resist all forms of protectionism”. Towards the end of April, the International Monetary Fund (IMF) dropped a sharp condemnation of trade protectionism from a statement at the close of its meetings in Washington. This was no doubt also at the behest of the new American administration.

According to the *Wall Street Journal*, many American officials fear that the Trump White House could trigger a trade war. It could also adopt unilateral actions that undermine the rules-based multilateral order, including submission to the authority of the WTO.

What Mr Trump will actually do is not clear. His intentions appear to shift almost weekly. He also seems to want things both ways. On the one hand he has recently appointed a new undersecretary for trade and foreign agricultural affairs with instructions to expand exports of food, fibre, and fuel. This is seen as "imperative" in view of the fact that subsidised American farmers produce much more than the country can consume. "You grow it and we'll sell it," said the new appointee in May 2017.

On the other hand, Mr Trump complains about imports from China, Mexico, and elsewhere. He has thus ordered a probe into whether steel imports pose a national security threat. However, a Washington attorney who works on cases involving trade, commented that for every American steelworker there were 60 workers in steel-using industries. "You needed competitive steel prices for those industries to be competitive and to export." During his election campaign in 2015, Mr Trump described the North American Fair Trade Agreement (NAFTA) as a "disaster". At the end of April 2016 he reiterated that it had been "catastrophic" for the US in allowing companies to wipe out manufacturing jobs by moving factories to Mexico to take advantage of low-wage labour. He would not terminate NAFTA "at this time" after the Canadian prime minister and the Mexican president had agreed to swift re-negotiations. Mr Trump has said he wants any new agreement with Canada and Mexico to be called the North American Free and Fair Trade Agreement.

Jac Laubscher, an economist at Sanlam, wrote in February 2017 that Mr Trump's "fixation with the re-industrialisation of America" was not well considered at a time when the contribution of manufacturing to economic activity was declining globally. If the US were to force American companies to withdraw from global supply chains they would be the losers in the global competitive race. What the US might gain in import replacement might well be exceeded by losses on the export side.

Tension between China and the US predates Mr Trump's accession to power. The Obama administration initiated 99 anti-dumping and countervailing duty investigations against China. Trade between China and the US is nevertheless the world's largest bilateral trading relationship. Damage to it could inflict major collateral damage on the global economy.

Mr Trump might also be living in the past and failing to read the lessons of history. According to an article in *The Globalist* in January 2017, he seemed determined to apply a policy of import substitution even though its validity had been disproved many times (as recorded above). Nor were low-wage costs and currency manipulation any longer the reasons for China's success. That country was benefiting from building national infrastructure and logistics that surpassed many rich countries, among them the US, which had for decades underinvested in the public sector. China, along with other emerging market nations, was also beginning to reap the fruit of investment in education and research. While the economic liberalisation of the 1980s and 1990s transformed China's Pearl River Delta into that country's leading manufacturing and export hub, it is now becoming one of the world's most innovative clusters. The American technology giant Apple is among those building a research and development centre there.

In any event, as noted above, foreign competition, whether from supposedly "dumped" goods or "unfairly" low wages, may not be a major factor in job losses in richer countries. Domestic competition, automation, and technological change as old industries disappear and new ones form may be far more important.

China and the US

Tension between China and the US predates Mr Trump's accession to power. The Obama administration initiated 99 anti-dumping and countervailing duty investigations against China. Trade between China and the US is nevertheless the world's largest bilateral trading relationship. Damage to it could inflict major collateral damage to the global economy. The Chinese president, Xi Jinping, said at the beginning of the year during meetings of the World Economic Forum in Davos that "pursuing protectionism is like locking oneself in a

dark room". This was in marked contrast to the threats Mr Trump had made during his election campaign to impose tariffs and taxes against Mexican and Chinese imports. However, although it has been a member of the WTO for 15 years, China remains resistant to foreign investment in many sectors – something about which other countries, including Germany, have also complained. China has been accused of doing little to remove regulatory and market barriers favouring Chinese companies. Referring to the Chinese president's remarks in Davos, the EU in fact said that they had raised expectations: "We obviously hope that China will implement domestically what it is preaching globally."

Mr Trump and Mr Xi held a bilateral meeting in the US in April, after which the *Wall Street Journal* reported that instead of brandishing big sticks at China, American officials conceded that a better approach would be to target areas where China failed to grant Americans the market access that Chinese enjoyed in the US. If, for example, China declared Internet industries off limits to foreign investors, Chinese companies would be prevented from buying similar American firms. The newspaper said that, after benefiting from access to Western markets, China in the past decade had begun to harass or close its door to foreign companies. America's "political tolerance for such mercantilist behaviour [was] waning." On 11th May, however, the American secretary for commerce, Wilbur Ross, announced a 10-point plan giving American companies greater access to the Chinese market. These include beef producers, natural gas exporters, and electronic payment firms such as Visa and MasterCard. In return the US promised that it would remove obstacles to the importation of Chinese poultry meat. It would also welcome direct investment by Chinese entrepreneurs. As with so many trade agreements, however, the devil is in the detail so it is not yet clear what the practical implications of this deal will be. China, for its part, resents America's decision to deny it "market-economy" status, which allows higher duties to be placed on Chinese imports.

> *Instead of brandishing big sticks at China, American officials have conceded that a better approach is to target areas where China has failed to grant Americans the market access that Chinese enjoys in the US. If, for example, China declares Internet industries off limits to foreign investors, Chinese companies will be prevented from buying similar American firms.*

THE ROAD AHEAD

Risks

The WTO said that in April 2017 that global trade was likely to grow this year by 2.4%, against 1.3% last year. However, if restrictions on imports were imposed, the rate of growth in global trade could drop to 1.8%. The International Monetary Fund said at the same time that the emergence of protectionist pressures could undermine global growth.

Context

It is vital to recognise that no matter how much technology may be employed, all human progress depends on human ingenuity. The day when robots can be assembled by computers in factories without any humans in them, cannot be far off – if indeed it has not already arrived. But somebody had to conceive of the idea of a computer or a robot in the first place, and that had to be a human brain and a human imagination. Machines that enabled Allied eavesdroppers to listen in on German and Japanese radio and teleprinter traffic contributed to the Allied victory in the Second World War. But somebody had to conceive of these possibilities in the first place. These were geniuses such as Alan Turing, Bill Tutte, and others.

Every time some new technology comes into operation, we are told that employment of humans will somehow become redundant. But there are more people in the world than ever before, more labour-saving technology than ever before, and more jobs than ever before, along with higher living standards than ever before.

Unscrambling the omelette

Global production systems have become so integrated that erecting trade barriers between the different producing countries would be tantamount to trying to unscramble an omelette. According to *The Economist*, some four fifths of all trade across the world takes place along supply chains within, or organised by, multinational firms. Imposing tariffs on imports of intermediate goods from, say, Mexico would raise the price of American exports. The magazine also said that around 40% of the value of Mexico's exports of final goods to America was made up of imports from the US itself. Cross-border supply chains had made American firms more competitive.

Thanks in part to the elimination of tariffs between Mexico and the US, trade between the two countries has almost doubled as a proportion of their combined GDP. Real income per head in Mexico has doubled since NAFTA was signed in 1994. This means not only that Mexicans buy more American goods, but also that they have less incentive to migrate to the US. Some analysts take the view that American industries are so dependent on components from Mexico that it is not certain that the US would emerge as the victor in a trade war with that country. Mexican tariffs on imports of American agricultural goods are close to zero, and American farmers' three biggest export markets are Canada, Mexico, and China.

President Trump, as already noted, has called NAFTA possibly the worst trade deal ever. He has threatened to impose punitive tariffs not only against Mexico but also against China, which accounts for almost half of the US's trade deficit in goods. He has described the American free-trade deal with South Korea as "horrible". According to Wilbur Ross, "we are in a trade war". Claiming that the US has the lowest trade barriers in the world as well as the largest trade deficit in the world, Mr Ross said in March 2017 that this was why President Trump had directed his department to report back within 90 days on US trade patterns. This would enable him to "take measured and rational action to correct any anomalies".

> *It is impossible to predict how far the new American administration will go in restricting trade, or how countries against which barriers are erected may retaliate. It is, however, clear that a reversal of the progress made towards liberalising world trade since the Second World War would be disastrous. It would slow global growth. It would reduce efficiency and lower productivity. It would do particular damage to the poorest consumers. It would also retard the process of lifting the bottom billion out of poverty.*

It is impossible to predict how far the new American administration will go in restricting trade, or how countries against which barriers are erected may retaliate. It should, however, be clear from this paper that a reversal of the progress made towards liberalising world trade since the Second World War would be disastrous.

It would slow global growth. It would reduce efficiency and lower productivity. It would do particular damage to the poorest consumers, since they spend a greater proportion of their income on imported goods (presumably because richer people spend more on services, most of which are not imported). A trade war would also retard the process of lifting the bottom billion out of poverty.

Nevertheless, attempts are being made to unscramble the omelette. As the *Wall Street Journal* article quoted a few pages back indicates, some of the multinational corporations that previously established global supply chains are beginning to localise at least some of their production. Whereas previously General Electric had planned to supply locomotives to India out of a global production site in the US, it signed a deal in 2015 to build the locomotives in India. If local content rules require firms to build factories in different countries, says one multinational, "we may be forced to build more factories than makes economic sense".

Self-help for rich countries

Instead of blaming poor countries for manipulating their currencies or underpaying their workers, rich countries should heed some of the lessons of the past. One is that import substitution has largely failed. Another is that underinvestment in one's own infrastructure and education puts one at a disadvantage when trading with emerging markets that have done the opposite.

Finding ways to help the "losers" – those whose jobs are lost or jeopardised because of cheaper imports – would be a far better solution than restricting trade. Such help could include liberalising labour markets to make it easier for people who lose jobs in one sector to find them elsewhere. It would also include more effort (in the US in particular) to assist retrenched workers to acquire new skills. Another form of assistance would be to make it easier for people to move: where particular areas fall into decline as a result of competition, people previously employed there should be able to move more easily to other areas. Restrictive practices such as occupational licences should be reduced to a minimum, as they make it difficult for people to embark upon new careers. Countries such as Germany as well as China, which run enormous trade surpluses, could import more. Countries with low inflation rates could also be bolder in cutting taxes and otherwise stimulating demand to boost rates of economic growth and therefore the absorption of unemployed people into jobs. Various countries – among them the US, Germany, South Africa, and other African states – could step up spending on necessary infrastructure.

Help and self-help for poor countries

As noted above, some of the world's poor countries, especially in Africa, are among their own worst enemies. This is because they maintain high tariff walls against one another. Eliminating these, along with cutting all the non-tariff barriers referred to above, would help stimulate trade and growth between them. They can take such action without waiting for the rich countries. The case for doing so becomes even more compelling given that it will be some time before the pool of cheap labour in places such as Vietnam and Bangladesh runs dry, enabling African countries to attract the Chinese and other investment necessary to turn them into the next workshop of the world. For example, whereas textile workers in China now earn $700 a month, those in Vietnam earn $108. Just as production has shifted from China to Vietnam, it will in due course shift out of Vietnam as wages there rise. But to attract the necessary investment, Africa will have to be a great deal more successful in tackling corruption, low productivity, poor governance, and all the other impediments to growth and investment. South Africa, of course, needs to do the same.

> *Some of the world's poor countries, especially in Africa, are among their own worst enemies. This is because they maintain high tariff walls against one another. Eliminating these, along with cutting all non-tariff barriers, would help stimulate trade and growth between them. African states can also take such action without waiting for the rich countries.*

Even if all trade barriers between African countries were lifted, the resulting "single market" would still be puny, however. These states need access to other markets. This means that all tariff and non-tariff barriers impeding exports from poor to rich countries need to be lifted. They must be able to export not only primary goods but also the manufactured goods which are often subject to even higher tariffs than raw materials. Manufacturers in poor countries should be compelled to become more competitive by having protection removed from them.

Paul Collier points out that, when Asia broke into new markets, it did not have to compete with anyone. Poor countries in Africa and elsewhere should accordingly be given temporary protection, but only from Asia. He therefore argues that where rich-country tariffs are still in place against Asian exports, such tariffs should be removed from the exports of the poorest countries but temporarily left in place against Asia to give the poorest countries the opportunity to break into new markets. Rules of origin should be simplified so that agreements such as AGOA can yield greater advantages to poor countries. AGOA should also be extended for a longer period to create the certainty that new investors need before they will commit capital.

Nor should the poorest countries be subjected to first-world environmental standards that serve as barriers to their exports. The same applies to labour standards which remove the advantage that poor countries might enjoy through abundant supplies of cheap labour.

The ideal situation

The ideal situation would be completely free trade based on the assumption that the whole world is a single market. In other words, no tariffs or duties or substitute barriers when goods and services cross borders. As we have seen, from a theoretical point of view free trade maximises productivity and makes for the most efficient division of labour across the globe. The track record shows that the lowering of trade barriers has helped to lift millions out of poverty. Free trade maximises competition and consumer choice, and helps to keep down prices. It promotes innovation and economic growth. It eliminates the risks that producers will capture control of bureaucrats in order to obtain protection. It eliminates the power of customs officials to extract bribes. It redistributes income from shareholders to consumers. It also transfers power from business monopolies to consumers. It transfers power from government offices to the marketplace. Above all, it promotes higher and higher standards of living for more and more people.

SOURCES

- William Bernstein: *A Splendid Exchange – How Trade Shaped the World*, Atlantic Books, London, 2008
- Jagdish Bhagwati: *In Defence of Globalisation*, Oxford University Press, New York, 2004
- Jagdish Bhagwati & Arvind Panagariya: *Why Growth Matters – How Economic Growth in India Reduced Poverty and the Lessons for other Developing Countries*, Public Affairs, New York, 2013
- Violet Bonham Carter: *Winston Churchill as I Knew Him*, Eyre and Spottiswoode and Collins, London, 1965
- Cato Institute: *Into the Abyss – Is a US-China Trade War Inevitable?* 6th February 2017
- Peter Clarke: "Churchill's Economic Ideas" in Robert Blake and Wm. Roger Louis (editors): *Churchill*, Oxford University Press, Oxford, 1993
- Paul Collier: *The Bottom Billion – Why the Poorest Countries are Failing and What Can be Done about It*, Oxford University Press, New York, 2007
- Sara Fitzgerald Cooper: "Free Trade Now – The Case for a Global Free Trade Association" in Marc A Miles (editor): *The Road to Prosperity – The 21st-century Approach to Economic Development*, Heritage Books, Washington DC, 2004
- Detmar Doering (editor): *Readings in Free Trade*, Liberal Verlag, Berlin, 2007
- Fraser Institute: *Economic Freedom of the World*, *2016 Annual Report*, September 2016
- Indur M. Goklany: *The Improving State of the World – Why We are Living Longer, Healthier, More Comfortable Lives on a Cleaner Planet*, Cato Institute, Washington DC, 2007
- Douglas Hurd: *Robert Peel – A Biography*, Phoenix, London, 2007
- Lawrence James: *Churchill and Empire - Portrait of an Imperialist*, Phoenix, London, 2014
- Denis Judd: *Radical Joe – A Life of Joseph Chamberlain*, Hamish Hamilton, London, 1977
- John Kane-Berman: *South Africa - A 12-point Plan for Prosperity*, IRR, 13 February 2014
- Otto Lambsdorff: *Action Needed to Counter the Bleak Prospects for a Great Blessing*, *Fast Facts*, SAIRR, March 2008
- David Landes: *The Wealth and Poverty of Nations*, Abacus, London, 1999
- Johan Norberg: *Globalisation and the Poor*, Liberal Institute of the Friedrich Naumann Foundation, Potsdam, 2003
- Johan Norberg: *In Defence of Global Capitalism*, Cato Institute, Washington DC, 2003
- Chris Patten: *East and West*, Macmillan, London, 1998
- Nicholas Philippson: *Adam Smith – An Enlightened Life*, Yale University Press, New Haven and London, 2010
- E. Royston Pike: *Britain's Prime Ministers – From Walpole to Wilson*, Odhams Books, Middlesex, 1968
- Ruchir Sharma: *Breakout Nations – In Pursuit of the Next Economic Miracles*, Allen Lane, London, 2012
- Thomas Sowell: *Basic Economics – A Citizen's Guide to the Economy*, Basic Books, 2000
- Richard Toye: *Churchill's Empire - The World that Made Him and the World He Made*, Pan Books, London, 2011
- K. William Watson: "Anti-dumping fowls out: US-South Africa Chicken Dispute Highlights the Need for Global Reform", in Cato Institute, *Free Trade Bulletin* Number 62, 19 October 2015
- Martin Wolf: *Why Globalisation Works – The Case for the Global Market Economy*, Yale University Press, New Haven and London, 2004
- Wolf-Dieter Zumpfort: *The Crisis of the WTO*, Liberal Institute, Potsdam, 2007
- Good Governance Africa: *Africa in Fact*, February 2013
- The Economist: *The World Economy – An Open and Shut Case* (Special Report), 1 October 2016; *The Pearl River Delta – Jewel in the Crown*, 8 April 2017
- Local and foreign newspapers

@Liberty is a free publication of the IRR which readers are welcome to distribute as widely as they choose.