

THE FIGHT FOR FREE TRADE

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Over the past seven decades, the benefits of free trade have been recognized by growing numbers of individuals, businesses, and countries throughout the world. The creation of the General Agreement on Tariffs and Trade in 1947, establishment of the World Trade Organization in 1995, and negotiation of scores of preferential trade agreements have eased the flow of goods and services between individuals and firms, have added value to local economies, and have contributed enormously to the growth of the global economy.

Today, however, many people are questioning the benefits of trade and calling for protectionist trade policies as the way to address almost any perceived flaw within the global economy. In such an environment, the need to defend the freedom to trade could not be more important or more urgent.

THE ECONOMIC CASE FOR FREE TRADE

The trade freedom rankings in the *Index of Economic Freedom* correlate strongly with overall indicators of prosperity and human development.

As shown in Chart X, countries with greater trade freedom have higher—and often much higher—income per capita. The individuals within these countries enjoy greater food security, healthier environments, increased political stability, and higher levels of social progress.

Despite these manifest benefits, governments impose a wide variety of regulations and restrictions on trade that distort or limit opportunities for businesses and consumers. Policies like tariffs and quotas that restrict imports and even policies like subsidies that are meant to support exports all disrupt the natural flow of trade. Such policies arbitrarily increase costs, reduce efficiency, and can stifle the research and investment that are essential for growth and development.

FIGHTING A RETURN TO PROTECTIONISM

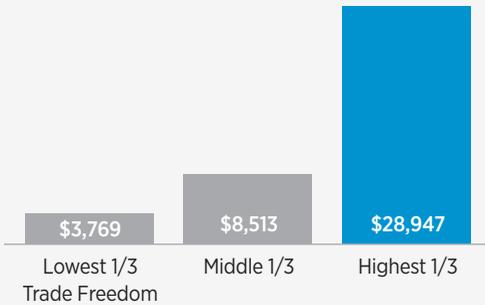
Unfortunately, protectionist pressures seem to be increasing. The United States, although historically in favor of trade, has imposed tariffs on more than 14 percent of its total imports over the past several years,¹ making trade less free and causing its average applied tariff rate to increase by 73 percent.² Countries like France are now imposing non-tariff trade barriers on e-commerce businesses. And developing countries like India continue to maintain high levels of tariffs on agricultural imports in an attempt to protect domestic industries and farmers.

Recently, however, there have been efforts to protect the efficient global trading system that has developed over the past several decades. At the end of 2018, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPPTP), which includes seven Asian countries and two in South America as

NATIONS WITH MORE TRADE FREEDOM ALSO HAVE ...

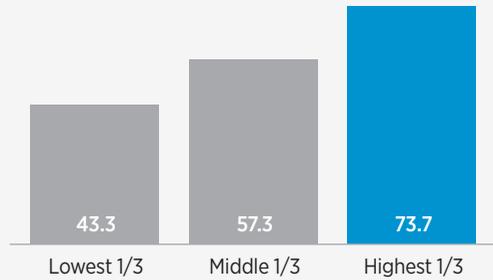
... Higher Average National Income

Average National Income



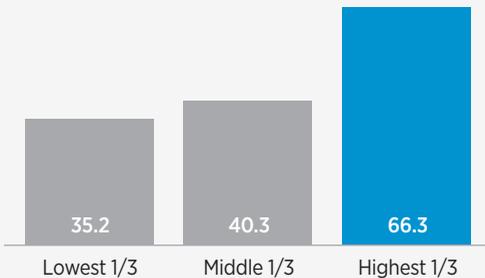
... More Food Security

Higher scores indicate more food security



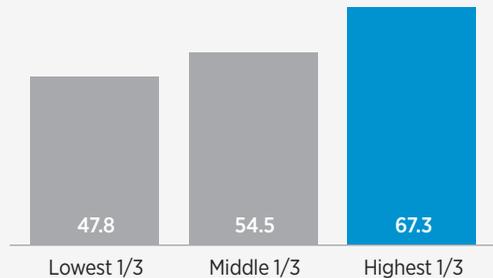
... More Political Stability and Less Violence and Terrorism

Higher scores indicate more political stability and less politically motivated violence and terrorism



... Healthier Environments and Less Polluted Ecosystems

Higher scores indicate better environmental protection



SOURCES: Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>, and:

- World Bank, "GNI per Capita, Atlas Method (Current US\$)," <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD> (accessed September 30, 2019). Figures are based on 179 countries that are in both indexes/datasets.
- The Economist Intelligence Unit, "Global Food Security Index 2018," <http://foodsecurityindex.eiu.com/Resources> (accessed September 30, 2019). Figures are based on 114 countries that are in both indexes.
- World Bank, Worldwide Governance Indicators, "Political Stability and Absence of Violence," 2018, <http://info.worldbank.org/governance/wgi/#reports> (accessed September 30, 2019). Figures are based on 182 countries that are in both data sets.
- Yale University, "2018 Environmental Performance Index," <https://epi.envirocenter.yale.edu/epi-topline> (accessed September 30, 2019). Figures are based on the 176 countries that are in both indexes.

Chart 1 heritage.org

well as Canada and Mexico, entered into force.³ Just a few months later, the European Union and Japan finalized an economic partnership agreement. And in the summer of 2019, the European Union signed a trade agreement with the Mercosur states of Argentina, Brazil, Paraguay, and Uruguay.

Equally notable, some African countries have also been advancing a free trade agenda. Of the 55 African Union states, 54 signed the African Continental Free Trade Agreement (AfCFTA), and 27 countries have ratified the agreement. In addition, a number of other bilateral trade agreements have been formalized

that extend the benefits to trade beyond the most favored nation requirements of the World Trade Organization.

The lesson would seem to be clear: While some countries may fall victim to the blandishments of protectionism, the world can continue to trade without them. Moreover, the 25 years' worth of authoritative data compiled and analyzed in the *Index of Economic Freedom* makes it equally clear that freer trade, not protectionism, is the way to prosperity.

PROTECTING OUR TRADE FREEDOMS

The following essays examine the intricacies of the global trading system. The authors provide insights into the threats facing the system, the complexities of its management, and its constantly evolving nature.

- Paul D. Ryan of the Association of Global Automakers discusses the intricacies of global supply chains from the perspective of the North American automotive industry;
- Simon Lester from the Cato Institute discusses one of the most important institutions of the global trading system, the World Trade Organization, the WTO's role in promoting free trade, and the future of the organization;
- Gabriella Beaumont-Smith of The Heritage Foundation discusses the increasing role of digital trade and how it can be enhanced or hindered by government intervention; and
- Dr. Takashi Terada from Doshisha University in Tokyo, Japan, discusses the future of trade agreements and the complexity involved in making new trade deals.

Debates about trade are likely to continue in the years ahead, and those who love freedom will be called upon to defend the openness of our international system and the rights of individuals to engage in commerce wherever and with whomever. The freedom to trade is the foundation of economic advancement, and the expansion of global markets has proven to be a powerful engine for growth and a key factor in the worldwide fight against poverty. Governments that curtail trade freedom in order to insulate their producers from international competition ultimately condemn both those producers and their citizens as a whole to second-class economic status. The goal of the *Index of Economic Freedom*, by contrast, is to identify policies that can allow any country to rise into the top ranks of freedom and prosperity. This special focus section on the freedom to trade is intended to advance that goal.

ENDNOTES

1. Chad P. Bown and Eva (Yiwen) Zhang, "Measuring Trump's 2018 Trade Protection: Five Takeaways," Peterson Institute for International Economics, Trade and Investment Policy Watch, February 15, 2019, <https://www.piie.com/blogs/trade-investment-policy-watch/measuring-trumps-2018-trade-protection-five-takeaways> (accessed September 14, 2019).
2. Authors' calculations based on *Economic Report of the President Together with The Annual Report of the Council of Economic Advisers*, The White House, March 2019, p. 496, <https://www.whitehouse.gov/wp-content/uploads/2019/03/ERP-2019.pdf> (accessed December 2, 2019).
3. The 11 signatory nations include (in addition to Canada and Mexico) Japan, Vietnam, Brunei, Malaysia, Singapore, Australia, New Zealand, Chile, and Peru. President Trump withdrew the United States from the agreement in January 2017. See James McBride and Andrew Chatzky, "What Is the Trans-Pacific Partnership?" Council on Foreign Relations *Backgrounder*, last updated January 4, 2019, <https://www.cfr.org/backgrounder/what-trans-pacific-partnership-tpp> (accessed September 15, 2019).