

## Critical Need for Open Trade

Public sentiment in many countries has been turning against the concept of open trade. Such a development is bad both for the apple industry and for any society that wants to promote economic growth.

The apple industry case for open trade is relatively simple. Currently, the major apple producing countries produce about 60 million metric tons of apples each year. (Minor producing countries supply an additional 10 million metric tons plus.) They are not able to consume all those apples domestically. They must find export markets for almost 8 million metric tons of fresh apples. With world production rising and domestic consumption flat, the supplies for export are likely to continue to grow.

Without those export sales, prices would drop dramatically. In countries like France, Italy and the United States, with large domestic markets, if there were no exports, prices would fall below breakeven levels for most growers. In countries like Chile and New Zealand, that are heavily dependent on export markets, without exports most apples would be essentially worthless, and most apple orchards would be converted to other uses. The world apple industry needs expanding trade opportunities just to stand still.

### The Case For and Against Trade

The case against open trade is easy to make. Opponents would argue that outsiders, if given free rein to sell their goods and services in our "backyard", would undercut our prices, take away our markets, reduce our employment, and hurt our incomes.

The case for open trade requires a more sophisticated, and less obvious, view of how economies really work. It differentiates between absolute advantage and comparative advantage. For example, Italy may have an absolute advantage over Switzerland in producing both apples and cheese. However, if Italy has a greater comparative advantage in producing apples than in producing cheese, Italy will benefit from specializing in apple production and Switzerland from specializing in cheese production, and from trading their surplus of apples and cheese with each other.

Through specialization and trade, both Italy and Switzerland can get more of both apples and cheese from the same limited resources. When applied to the hundreds of thousands of items that modern economies enjoy, the boost to welfare from trade can be, and has been, staggering. Trade enhances economic growth. Far from reducing the welfare of societies, trade also helps to fund much of the public goods, such as roads, schools, pensions, etc., that enrich life in modern societies.

### Comparative Advantage Not Static

While comparative advantage may often be rooted in relatively permanent factors such as soil or climate, there are many ways in which districts or countries can alter their comparative advantage in any industry. Indeed, under modern conditions, comparative advantage is continually changing. This can occur with the introduction of new products (for example, the Pink Lady in apples), new technologies (such as the introduction of controlled atmosphere storage or hail netting), changing costs (such as rising fuel costs), changing markets (such as a growing middle class in developing countries), or changing social preferences (such as the trend to "Buy Local").

Progressive inventors, firms, districts and nations are constantly seeking ways in which they can improve their comparative advantage. Both they, and society in general, benefit when those efforts succeed.

### Why Trade Always Elicits Opposition

The brief descriptions above also show why trade always elicits opposition. Clearly, the apple producers in Switzerland and the cheese producers in Italy will be unhappy to lose market share despite the overall increase in national welfare. They can be expected to use whatever political clout they have to raise barriers to imports while retaining access to exports. Domestic politicians, with their eye on the next election, will usually lend a sympathetic ear to the complaints of voters. Trade invariably triggers this schizophrenic attitude.

Another surefire response is a claim that the terms of trade are somehow "unfair." Not alone, it is claimed, are foreigners taking away our markets, jobs and incomes, but they are using unfair means to do so. They are being subsidized by their governments, or selling below cost, or dumping their surpluses on our markets. Most citizens are predisposed to believe that foreigners are intrinsically unfair, so the appeal of protectionism is always strong.

### **Other Reasons to Dislike Trade**

Other reasons for disliking trade have gained more prominence in recent years. A major one is fear of the globalization to which trade is contributing, and the accompanying desire to return to a simpler, more isolated world. Another concern is about how trade is contributing to climate change as ever larger volumes of goods are hauled around the world using non-renewable energy and spitting out greenhouse gases. Many trade unions and environmental groups oppose freeing trade with countries that do not conform to desired labor or environmental laws. More recently, the global recession has brought renewed focus on the jobs lost in the short term to imports.

### **Trade is Good**

Trade plays an indispensable role in human society. It is the delivery vehicle for competition, the force that drives individuals and firms to improve. Incumbents in a market get complacent if there is no fresh competition. Outsiders trying to break into a market know that they must be able to deliver quality, value or price that is superior to that of the current players. To succeed, they have to increase the efficiency of their operations.

In turn, if the newcomer gains a foothold, the incumbent firms must either respond by increasing their efficiency or see their business gradually erode. The overall efficiency of the sector increases. Less resources are used in producing and acquiring the product. Resources are freed up for other uses, and consumers and society benefit.

### **Trade Needs a Sponsor**

Given the many parochial interests that can make short-term gains from blocking trade, trade needs a powerful sponsor that can take the longer-term view of its ultimate benefits. The Constitution of the United States in 1787 gave the federal government authority over interstate commerce, essentially preventing individual states from discriminating against products from other states, and effectively leading to the largest single-country free trade area in the world. In contrast, other countries with a similar continental scale, such as China, India and Brazil, only recently began to dismantle trade barriers between their constituent states or provinces.

The architects of the European Union, established by the Treaty of Rome in 1957, recognized the benefits of free trade among member countries. The EU has now extended the benefits of free trade to 27 countries and over half a billion people in Europe.

In the past, empires from the Roman Empire of the time of Christ to the British Empire that survived into the twentieth century, have sponsored freer trade among unrelated countries within the imperial borders. However, they had little incentive to open up trade between rival empires. It was not until the last century that the first multilateral sponsor of free trade emerged. The General Agreement on Tariffs and Trade (GATT), open to all willing countries, was established in 1947 primarily under the leadership of the United States. For the next half century, that leadership was supported by the other two major powers, the European Union and Japan.

However, as numerous previous articles in the World Apple Report have pointed out, no single country any more has the power or influence to frame world institutions or world opinion. The future sponsor of world trade will have to be a multilateral organization that allows for the input of many different major countries at various stages of development, and facing many different political and philosophical challenges.

### **Business Leadership Needed**

However, there is one single, common force in all societies that has the power and the motivation to build bonds across international boundaries. That force is the business community. Business is the segment of most societies that has most to gain from freer trade and most to lose from greater protectionism. Among businesses, none stand

to gain more than agricultural businesses, and among agricultural businesses, few have more to gain than the apple industry.

If the present impasse in trade negotiations is to be broken, and if a new, multilateral sponsor of freer trade is to emerge, general business, agribusiness and the apple business will have to take the lead in making the case for trade, not just because it would help their bottom line, but because it is such a critical ingredient in a progressive society.

**We Repeat. Trade is Good**

Trade is not a zero-sum game where if one party gains another must inevitably lose. In the long run, all parties gain from trade. Trade leads to the most efficient use of a nation's resources, enhances economic growth and helps fund the public goods that modern societies enjoy. However, unless those of us who appreciate the benefits of trade are willing to let our voices be heard, the naysayers will continue to sabotage expanded trade.

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