

### **The free trade fix – a reading reaction**

In this article, Tina Rosenberg is discussing globalization and the widespread statement among economist's that free trade is the solution to the problem with poverty. Her main point is that in the real world, it is not as simple as in the economic models. People are not curves that can easily be moved in a diagram. Free trade is not the solution to all problems in the world, but under the right circumstances, it is a very useful tool.

Rosenberg goes through different aspects of free trade and globalization. She addresses critic to some research and opinions but she doesn't take a stand against globalization. Instead of lining up arguments in favor of or against the globalization, she want us to discuss what have actually been the result from globalization and what we need to do improve the way it works. The blueprint of the free trade world needs somehow to be redrawn. She conclude her believes in nine rules - a prescription for the globalization. Mainly, she uses her experiences from South America to illustrate her findings and thoughts.

I agree with the main point that Rosenberg have. The poverty in the world is due to a lot of complex reasons. To believe that free trade will solve everything is to do a large simplification. Off course, even if globalization as a whole is a good thing, it has downsides as well as upsides. In the very long run, it might be true that globalization makes anyone better off. But in reality, a lot of people will suffer from the consequences of free trade. And as Rosenberg states, it is not the persons working too many hours for a really low wage that suffers the most, it is the people that did not even got a job or a wage.

Rosenberg is also discussing about causation. As also mentioned in the text book, correlation does not automatically mean causation. I agree with her that in some countries, growth is a consequence of free trade while in other countries, the opposite is true.

For developing countries, I think that more open borders become a must of because of pressure from the industrialized countries. One exception from this is China. China is now such a big player in the global economy that they do not need to care that much about what others think. This is not the only way that China differ from the rest of the world. Rosenberg often takes China as an example of a closed economy that with high growth. Yet, I think it does not make so much sense to compare China with "normal" sized countries. I think it is very hard to do any conclusions about China through analyses of other countries.

The more interesting is Rosenberg's analysis of different countries in South America. Why do some succeed while others don't? Rosenberg clearly argues that the IMF rules do not create growth. They are made up by the rich countries and to suit their interests. She seems to be right in this discussion. But still, free trade creates growth under the right circumstances.

What I like to add to this discussion is the aspect of timing. The current phase in development is very important for the outcome of free trade, I believe. As Rosenberg also mention, a country that has almost zero growth, do not benefit from globalization. To be able to benefit from trade, you have to have something that you can trade, something that you produce better or cheaper than others. I actually think that some countries have so poor government and ineffective production that they lack resources to get a comparative advantage in anything. In the long run, an open economy will help these poor countries to increase efficiency. But, in the short run, the price the small farmers have to pay will be too high. Starving will not create effectiveness, as Rosenberg illustrate with an example about Mexican corn farmers.

At the other end of the ladder are the very rich and developed countries. Probably, they will not benefit from free trade; at least there will be a lot of people in these countries that actually will get worse off.

My conclusion is that free trade creates growth, but maybe not in such a large extent. On the contrary, free trade is a very useful tool for allocating the already existing resources. Some countries can grow very fast, but then others have to grow slower. If the poorest countries should be able to grow and get a GDP/capita close to that in the rich countries, then someone has to pay the price. That someone is in the best case the richest countries. One way for them to share their resources is through globalization, for example through create a global labor market with possibilities for short-term migration. As Rosenberg points out, if it is something that poor countries have in abundance, it is people.

So, will the invisible hand of the market be able to solve the problems with poverty in the world, if we just let it govern without quotas and subsidies? Yes, probably in the long run. But on the way to get there, a lot of people will starve, suffer and even die. The idea of globalization is an illusion, even though a good one. For the world to become a better place, the forces of globalization need to be shaped and assisted by more hands than the invisible one.