EU TRADE BARRIERS KILL

A CNE report

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Introduction

Trade barriers imposed by the EU are more than just a technical issue. Lack of access to the European market - by far the richest in the world - slows development in the poorest countries of the world, condemns thousands of millions of people to poverty and kills many others. This paper quantifies, for the first time, the cost to Africa of EU protectionism.

Opening the European market to the products in which these countries have a comparative advantage would greatly accelerate economic growth in those countries. It would also be highly beneficial for consumers and business within the European Union.

The Challenge of Population Growth

At the beginning of the 21st century, perhaps the greatest challenge we face is world population growth. It took from the stone age to about 1800 for world population to reach one billion. By 1930 there were two billion people; there were three billion in 1960, four billion in 1974, five billion in 1987, and there are six billion today.[1] The rate of increase has been slowing since the 1960s. Nevertheless, the increase continues at 1.2 per cent per year - which means another 77 million people each year.[2] Even if growth were to slow during this new century, there looks still to be between nine and 12 billion by the end of it.

Such figures bring to mind the warnings of Thomas Malthus at the beginning of the 19th century. To summarise briefly - the most commonly available edition runs to 284 closely printed pages[3] - Malthus claimed that population tends to increase geometrically; that is, 2, 4, 8, 16, and so on. The quantity of land, however, is fixed, and the productivity of land can only be increased arithmetically - this is, something like, 2, 4, 6, 8, 10, 12 and so on. For a few generations, increasing population is consistent with rising living standards, as more

[1] Leading article, "Population peaks: the end of world growth in sight", *The Guardian*, London and Manchester, 2nd August 2001.

[2] Simon Tisdall, "Six key states are pushing world population to 9bn", *The Guardian*, London and Manchester, 1st March 2001.

[3] Thomas Malthus, *An Essay on the Principle of Population* (1800), "Everyman" edition, J.M. Dent and Sons Ltd, London, 1973.

people make it possible to work the best land more efficiently. Thereafter, land of progressively lower quality must be brought under cultivation until a territory is full. After this, stagnating output must be shared between more and more people, until average living standards fall back to the minimum required to sustain human numbers at that current level. In time, a chance combination of misfortunes - wars, famines, plagues, and such like - brings about a collapse of population. And then the cycle begins again.

Malthus published in 1798 and 1800. Despite gloomy warnings in the early decades of the 19th century, he was proved wrong in Britain, the country about which he wrote in most detail. In 1800, the population of Great Britain - excluding Ireland - was about eight million, most of whom lived in grinding poverty. By 2000, the population had risen to about 60 million. Yet far from this more than 700 per cent increase in numbers causing a lowering of living standards, today even the poorest unskilled worker is better clothed and better fed than all but the wealthiest in 1801, and has access to goods and services that could not have been imagined before. This country is hugely more populated than at any time in the past, and at the same time incomparably richer.

This has been the experience not just of Britain, but of every other developed country. Not surprisingly, by the 1950s Malthus had long been relegated to the list of semi-unknown thinkers in economic history - remembered for his development of the law of diminishing returns, which, stripped of its pessimistic message, had been incorporated into the structure of microeconomic production and distribution theory.

Since the 1960s, however, he has made a return to the centre of thought - not economic, but demographic and ecological. The current burst of population growth is in the poorest countries of the world. Over the past few generations, these have been given some of the fruits of western science and medical technology - and because they have acquired only part of the whole, it has been decidedly a mixed blessing. In Europe and America, modern science and technology grew slowly, and were accompanied by a long period of self-sustaining economic growth and by changing habits of marriage and reproduction. Clean water, cheap soap, good food, access to medical care - these came with expanding opportunities and falling birth rates. In most of Africa and South America and parts of Asia, they arrived suddenly - in economies with little potential for growth and with reproduction habits suited to keep populations stable in spite of high mortality rates.

By 2050, according to the United Nations Department of Economic and Social Affairs, the population of the developing world will have risen from 4.9 billion to between 8.2 billion and 11.9 billion.[4] In the 48 least developed countries, population is expected to triple. By 2050, 90 per cent of humanity will live in the developing world.

Put in global terms, the quantity of usable land has not greatly increased in the past hundred years. Forests have been cut down in some places, and desert reclaimed in others. But much of the land gained has been either poor or usable only in the short term. The figure has been roughly constant at 39 million square miles[5]. Dividing this by the population of 1930 gives 12 acres per head, by the population of 1974 eight acres per head, and by today's population just four acres per head. By 2050, we may be down to three acres per head.

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[4] Simon Tisdall, "Six key states are pushing world population to 9bn", *The Guardian*, London and Manchester, 1st March 2001.

[5] Bill Evans, "People and poverty", *The Morning Star*, London, 15th January 2002.

People need much more than is covered by their footprints. They need somewhere to live and work, and somewhere on which food can be grown for them. Even the most basic civilisation needs a mass of fields, roads, factories, offices and shops. A wealthy civilisation like ours needs parks and other recreation areas. Might it be, it is worth asking, that the growth in numbers will indeed start to exceed the capacity of the planet? In which case, when will the Malthusian nightmare of average living standards falling to subsistence level, and of population growth being first checked then reversed by famine, disease and war, come true?

In some parts of the world, this already seems to be happening. Income per head in Sub-Saharan Africa as a whole has been declining in recent years. It fell to $474 in 2000 from $552 per head in 1991[6]. Look at Malawi. The climate is good, the country at peace. Yet its three million people are on the edge of starvation. According to the Demographic and Health Survey 2000, published by the Malawian National Statistics Office, severe malnourishment affects 26 per cent of under- fives in rural areas and 13 per cent in urban areas - the result of years of food shortages.[7] Jeremy Laurance adds:

> Hunger, disease and poverty exact an annual cull of the population in Malawi. The difference this year is that the cull has started early, in May and June, which should be a time of plenty. At Mulanje mission hospital in the south, 900 children were seen in the malnutrition clinic in May, a record for that month, when the numbers should be falling.[8]

Other famines in Africa - in Biafra, in Ethiopia, in Sudan - have usually been a result of extremely bitter civil wars. The simple cause of hunger in Malawi is that growth of between two and five per cent a year has taken the population beyond the limits of a pre-industrial economy. The hungry are, to use the grim phrase of Malthus, those "for whom no place has been set at the feast of Nature's bounty".

In other poor countries, people may not yet be starving, but the growth of numbers has raised an immense surplus population for which there is no work on the land. Billions are leaving the land to settle in cities. In 1950, New York was the only city in the world with more than 10 million people. Today, there are 20 such cities, nearly all in the developing world. Again in 1950, two thirds of humanity lived in the countryside. By 2015, more than half will live in the cities.[9] Between now and then, African cities will grow by 100 million people, and Asian by 340 million. Because of shortages of capital and institutional deficiencies, these cities are home to some of the highest structural unemployment rates in the world. As a result, they are filled with crime, filth and disease. As Nairobi grew, for example, municipal waste collection rates fell from 90 per cent in 1978 to 33 per cent in 1998. People live in vast shanty towns without running water or drainage.[10]

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[6] "Making Monterrey work for Africa", M2 Communications Ltd, London, 10th April 2002.

[7] Jeremy Laurance, "Malawi should be a land of plenty, so why are three million people facing starvation?", *The Independent*, London, 8th July 2002.

[8] *Ibid*

[9] Cheery Norton, "Half the world heads for life in the big city", *The Sunday Times*, London, 3rd September 2001.

[10] "The brown revolution", *The Economist*, London (US edition), 11th May 2002.

Resource shortages are widespread. Throughout the developing world, there are increasing shortages of water. The amount available per head has fallen to about a third of its 1950 level, according to the United Nations Department of Economic and Social Affairs.[11] Today, there are 508 million people living in countries with insufficient water, according to the International Water Management Institute. By 2025, there will three billion people living in such countries.[12]

But we are not just talking about poverty and reduced life expectancy. In a world which now has the technology to produce enough food for everyone to enjoy a good basic diet, people are still dying from starvation.

Famine and wars cause just 10 per cent of starvation deaths, although these tend to be the ones we hear about most often. The majority of starvation deaths are caused by chronic malnutrition in countries that are at peace and without unusual shortages.[13]

In 1994, it was estimated that more than 800 million people in the world went hungry.[14] According to Oxfam in July 2002, every day, 24,000 people die from hunger and other causes related to hunger.[15] That is just over two people per second. In developing countries, 6 million children die each year, mostly from causes related to hunger.[16]

Economic Growth as the Answer

Of course, this does not need to be. More people does not just mean more mouths and more sexual organs. It also means more minds and more hands with which to make the world a better place for everyone. The reason why Malthus and his followers were so wrong about Britain was that rising population was accompanied by an even faster rise in the amounts of physical and human capital. Population density in modern Britain gives just one acre per head. Not only is this enough to support an immense population by past standards, we do not even use much of this land for direct production.

Nor is the success story limited to Britain and the developed world. It can be seen elsewhere. It is actually quite easy to make a country prosperous. It needs only security of life and property, and markets in which property rights can be valued and traded. Those countries that have done this since the 1950s have seen average living standards rise to near or equal those of Europe and America. A generation ago, Malaysia, Singapore, Thailand, and South Korea were poor countries. As recently as the early 1980s, their incomes per head ranged from $700

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[11] "United Nations issues wall chart on population, environment and development", M2 Presswire, London, 5th April 2002.

[12] Steve Connor, "Stockholm conference", *The Independent*, London, 14th August 2001. See also Brian Denny, "UN warns of resource catastrophe", *The Morning Star*, London, 8th November 2001.

[13] See http://www.at-peace.org/world_hunger/world_hunger.shtml

[14] See http://www.fao.org/NEWS/FACTFILE/IMG/FF9808-e.pdf

[15] See http://www.oxfamamerica.org/advocacy/art751.html

[16] See http://www.bread.org/

to $7,000. Today, they range from £2,000 to more than $21,000. Since 1992, in spite of many problems inherited from the past, Chinese average income has risen from $300 to $800[17], with an average economic growth rate of 9 per cent in the 1980s and 90s.[18] Even India, one of the great sinks of world poverty in the 1960s and 70s, is on the road to prosperity. The country nearly suffered financial collapse in 1991. Its government reacted by cutting 40 years of bureaucratic control in just seven hours. Since then, literacy has improved from 52 per cent to 65 per cent. 110 million people have raised themselves from poverty. The economy is comfortably growing faster than population. There is a vast new middle class of 250 million people. India is fast becoming one of the leading exporters of computer software and services.[19]

The great failure is sub-Saharan Africa. Though progress has been made over the past decade, it has not been fast enough for economic growth to outpace population growth. During the nine years to 1999, the number of those living on less than $1 a day - this being the standard definition of extreme poverty - increased by 23 per cent, to 300 million. This number is expected to rise to 345 million by 2015.[20]

Trade as the Engine of Economic Growth

One strategy for increasing the rate of economic growth in a country is to allow trade with the rest of the world. This brings about greater specialisation than would otherwise be possible. Sectors in which a country has no comparative advantage shrink as a proportion of national output, being replaced by cheaper or better imports. This releases resources for those sectors in which there is an advantage. Because the world market is larger than the domestic, production can be expanded, thereby enabling economies of scale.

This has been the case for the developed world over the past 50 years, where exports of manufacturing, agricultural and mining output have risen consistently faster than output. Since 1981 for example, the volume of world trade has grown at an average of six per cent a year - twice as fast as world output.[21]

It is difficult to provide specific and detailed empirical support to the claim that foreign trade assists economic development. Those countries that open their economies to the world also have liberal domestic economic policies, and these, as we have already argued, contribute greatly to development. Separating out the respective components of growth is a subtle exercise. However, the broad consensus of opinion among researchers is that there is enough of a connection between trade and development to suggest a causal connection. According to David Dollar and Aart Kraay, writing for the International Monetary Fund,

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[17] From an address by United Nations Deputy Secretary-General Louise Frechette at Yale University, "A New Consensus on Development? Moving on from Monterrey", delivered in New Haven, Connecticut, on 3rd April 2002. Published by M2 Communications Ltd, London.

[18] The Bracken Column, *The Financial times*, London, 1st May 2002.

[19] Randeep Ramesh, "Lion of India", *The Guardian*, London and Manchester, 11th June 2002.

[20] The Bracken Column, *The Financial Times*, London, 1st May 2002.

[21] *Global Trade, Liberalization and the Developing Countries*, Issues Brief published by the International Monetary Fund, November 2001 - available at www.imf.org.

> [p]er capita GDP growth in the post-1980 globalizers accelerated from 1.4 percent a year in the 1960s and 2.9 percent a year in the 1970s to 3.5 percent in the 1980s and 5.0 percent in the 1990s.... This acceleration in growth is even more remarkable given that the rich countries saw steady declines in growth from a high of 4.7 percent in the 1960s to 2.2 percent in the 1990s. Also, the nonglobalizing developing countries did much worse than the globalizers, with the former's annual growth rates falling from highs of 3.3 percent during the 1970s to only 1.4 percent during the 1990s. This rapid growth among the globalizers is not simply due to the strong performances of China and India in the 1980s and 1990s—18 out of the 24 globalizers experienced increases in growth, many of them quite substantial.[22]

It is widely acknowledged that it was trade which enabled the "Asian Tiger" countries - Japan, Hong Kong, South Korea, etc - to develop as manufacturing economies. Opening their economies to the rest of the world allowed them to attract the investment in physical and human capital that brought them comparative advantages in the manufacture of a widening range of products.

It could be the same story for the very poorest countries now. For one thing they tend to have advantages in agricultural or textile production. For example**,** if Africa could increase its share of world trade by just one per cent, it would earn an additional £49 billion a year.[23] This would be enough to lift 128 million people out of extreme poverty.[24] If the poorest countries as a whole could increase their share of world exports by five per cent, that would generate £248 billion or $350 billion, raising millions more out of extreme poverty.[25]

European Protectionism

For the most part, however, this option is not available. Four main countries or trading blocs - the European Union, the United States, Japan and Canada - account for 75 per cent of world output. They are the obvious destinations for exports from the poorest countries. Yet while these countries talk endlessly about the liberalisation of world trade, they have been ruthless in keeping their domestic markets closed to agricultural and textile exports from the poorest

[22] David Dollar and Aart Kraay, "Trade, Growth, and Poverty", Finance & Development (a quarterly magazine of the IMF), September 2001, Volume 38, Number 3. See also: Thomas Rutherford and David Tarr, "Trade Liberalization and Endogamous Growth in a Small Open Economy: An Ilustrative Model", paper presented at the conference Trade and Technology Transfer: The Evidence with Implications for Developing Countries, Milan, April 1997; IMF, *World Economic Outlook*, May 1997 **-** available at www.imf.org; T.N. Srinivasan and Jagdish Bagwati, "Outward Orientation and Development: Are the Revisionists Right?", Yale University Economic Growth Center Discussion Paper No. 806, 1999; Jeffrey Frankel and David Romer, "Does Trade Cause Growth?", *American Economic Review*, June 1999.

[23] Daniel Yergin (author and executive producer of *Commanding Heights: The Battle for the World Economy*), "Globalisation **-** it pays off", *The Sunday Times*, London, 24th April 2002.

[24] "Poor nations "cheated out of £69 billion", *The Scotsman*, Edinburgh, 11th April 2002. The article quotes figures supplied by the charity Oxfam.

[25] Simon Bain, "Bringing down the barriers", *The Herald*, Glasgow, 11th April 2002. This article also quotes Oxfam figures.

countries. According to the International Monetary Fund,

> In industrial countries, protection of manufacturing is generally low, but it remains high on many labor-intensive products produced by developing countries. For example, the United States, which has an *average* import tariff of only 5 percent, has tariff peaks on almost 300 individual products. These are largely on textiles and clothing, which account for 90 percent of the $1 billion annually in U.S. imports from the poorest countries - a figure that is held down by import quotas as well as tariffs. Other labor-intensive manufactures are also disproportionately subject to tariff peaks and tariff escalation, which inhibit the diversification of exports towards higher value-added products.[26]

The United Nations Conference on Trade and Development (UNCTAD) agrees. According to spokesman Richard Kozul-Wright,

> Most middle-income developing countries persist in labour-intensive manufactures because their producers are finding it difficult to upgrade and diversify.[27]

The worst of the rich protectionists, however – by far - is the European Union. It has roundly condemned the American steel tariffs imposed earlier this year. Martin Bartenstein, the Austrian Economics Minister, says, for example:

> There is no other reason than to protect an old steel industry in parts of the US which in the opinion of any steel expert in the world is simply not competitive any more.[28]

There are few clearer examples of ‘do as I say, not as I do’. The European Union as a whole does not apply this logic to its own uncompetitive sectors. In its April 2002 report, *Rigged Rules and Double Standards*, the leading aid charity Oxfam placed the EU first in its league of hypocritical free traders. It elaborates these charges in a further report.[29]

The EU runs two sets of protectionist policies that could be almost designed to wreck the trading chances of those of the poorest countries that have comparative advantages in food and textiles.

First, there are the trade restrictions. Though the EU has a low industrial tariff of five per cent, its agricultural tariffs are far higher. These average 20 per cent, but rise to a peak of 250 per cent on certain products. For example, the tariff on Bolivian chickens is 46 per cent, and

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[26] International Monetary Fund, November 2001, *op. cit.*

[27] Heather Stewart, “Poor miss out as rich nations cream off their trade”, *The Guardian*, Manchester and London, 30th April 2002.

[28] Simon Bain, “Bringing down the barriers”, *The Herald*, Glasgow, 11th April 2002.

[29] *Europe’s Double Standards: How the EU Should Reform its Trade Policies with the Developing World*, Oxfam Briefing Paper 22, April 2002 - available at www.oxam.org.

on Bolivian orange juice 34 per cent.[30] On textiles, there are strict quotas on most important lines. These have been reduced or removed in the case of fairly unimportant products such as parachutes and umbrellas. But the European market remains barely open to the majority of low cost textiles from the developing world.

The European Union does grant preferential access to some developing countries, but these concessions tend to grant access to those products in which the exporting countries do not have any substantial advantage. For example, India and Pakistan are not given preferential access for their leather goods and textiles. Also:

> The sheer complexity of the EU's tariff regime may be considered to be a barrier in itself, particularly for those poor countries with weak market intelligence: there may be nine or more different rates that apply to the same product, depending on where it was produced.[31]

Added to open trade barriers are the complex rules of origin applied to imports from the developing world. These stipulate how much of a product must be made from local inputs to qualify for the preferential tariffs. According to a report published by the Centre for European Policy Studies, only a third of imports from developing countries eligible for preferential access are able to meet the strict criteria to comply with the rules of origin.[32] The authors explain the probable intentions here:

> It is rules of origin, such as those discussed above, which underlie the analyses of Krueger (1995) and Krishna and Krueger (1995) who demonstrate how rules of origin can act as 'hidden protectionism' and induce a switch in demand in free trade partners from low-cost external inputs to higher-cost partner inputs to ensure that final products actually receive duty free access. With the apparent aim of preventing trade deflection, rules of origin can be used to protect a domestic industry from unwanted competition based in the partner, even in conditions where trade deflection is unlikely (Falvey and Reed (1998)). Note that in this situation the EU is unlikely to exert pressure on the trade partner for the general liberalisation of tariffs against other trading partners. James (1993) argues that as the degree of protection offered by the common external tariff in the EC has diminished increasingly restrictive rules of origin have become commonplace.[33]

Even if an exporter from the developing world is able to comply with these regulations, there are then the further regulations on health and safety. These have a protectionist effect, and that again may be their intention. For example, one regulation requires that milk should be taken from cows by machinery and not by hand. This effectively shuts out all Indian milk products, which would otherwise, admittedly, enter only at prohibitive tariffs of between 76

[30] *Ibid*, p.12.

[31] *Ibid*, p.13.

[32] Paul Brenton and Miriam Manchin, *Making EU Trade Preferences Work: The Role of Rules of Origin*, Working Document No. 183, Centre for European Policy Studies, March 2002, p.7 - available at www.ceps.be.

[33] *Ibid*, p.14.

and 144 per cent..[34] Again, complex rules on aflotoxins cost sub-Saharan Africa $1.3 billion every year in lost exports of cereals, dried fruits and nuts per European life allegedly saved thereby.[35]

But even if an exporter from the developing world finds ways round these barriers, there is then the threat of so-called anti-dumping regulations. These are threatened when an exporter is claimed to be selling in the European market at below cost of production. But, according to Oxfam,

> the fact that a high proportion of the investigations do not lead to the imposition of duties suggests that the measures are used largely for harassment. EU action against imports of Indian bed-linen illustrates the problem. From 1997, anti-dumping duties as high as 25 per cent prevented the company Anglo-French Textiles, among others, from selling bed-linen to the UK. As a result, the company's turnover fell by more than 60 per cent, causing the loss of 1,000 jobs. In 2001, the WTO ruled that the anti-dumping measures had been unjustified....[36]

These rules reduce trade between the EU and the developing world. They also filter out exports of value-added products from the developing world. In February 2002, for example, Tony Blair visited a cocoa farm in Ghana. This is a collective enterprise set up by the Comic Relief charity. It is a great success. The cocoa is good and has a ready market in Europe - which has no cocoa sector of its own and so does not penalise imports.

It could be a greater success, than it is, however, The cocoa is used to manufacture a brand of chocolate bar called Dubbles. These are not manufactured locally, but in Germany. The reason: tariffs would raise the price of Dubbles by 10p a bar if manufactured outside the European Union.[37] As with all primary products, the world price of cocoa is highly volatile, rising and falling according to how much is produced. The price of manufactured confectionary is highly stable.

In this respect, the EU is thus effectively taking a choice joint of meat, chewing off all that is tasty and nourishing, and tossing the bone to a malnourished dog - and then preening itself on how generous and caring it is.

Second is the agricultural subsidy handed out by the EU under the rules of the Common Agricultural Policy. This amounts to $41 billion a year, or $14,000 per European Union farmer (though half the spending goes to the biggest 17 per cent of farming enterprises).[38] The CAP subsidy affects agricultural producers in the developing world in three main ways:

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[34] Oxfam, *op. cit.*, pp.11, 13.

[35] Tsunehiro Otsuki, John S. Wilson and Mirvat Sewadeh, *A Race to the Top: A Case Study of Food Safety Standards and African Exports*, World bank Working Paper No. 2563, Washington DC, 2001.

[36] Oxfam, *op. cit.*, p.14.

[37] Tom Baldwin, "Blair asks Europe to aid Africa markets", *The Times*, London, 9th February 2002.

[38] Oxfam, *op. cit.*, p.10.

1. It completes the effect of tariffs and other barriers in shutting them out of a market in which they would otherwise have a comparative advantage. For example, the EU spends €2.7 billion each year on subsidising European farmers to grow sugar beet, while it maintains high tariff barriers against sugar imports from the developing world.[39]

2. It generates immense surpluses of foodstuffs that cannot be sold within the EU at the prevailing intervention prices. Much of these surpluses are exported at very low prices that undercut those charged by the unsubsidised producers of the developing world. A prime case of this is sugar sales in the Middle East. Countries like Sudan are crowded out of the sugar market in Egypt and Saudi Arabia.

3. Some of the surpluses are exported at subsidised prices to developing countries, thereby crowding out domestic producers. In Jamaica, some 3,000 dairy farmers are being driven out of business by imported milk powder from the EU. 5,500 metric tons are sent there each year at a cost to the European taxpayers of $3m. Many of the farmers are women.[40]

Politicians and opinion formers in the developing world know exactly where the problem of poverty lies. According to Yoweri Museveni, President of Uganda, world hunger is not caused by of lack of technology, or of any other event that can be dismissed in the rich world as insoluble. Speaking at the United Nations World Food Summit, held last year in Rome, he said:

> Let us stop beating about the bush. The most fundamental problems are not the weather, are not lack of improved seeds. The main causes of food shortage in the world are really three: wars, protectionism in agricultural products in Europe, the USA, China, India and Japan, and protectionism in value-added products on the part of the same countries.[41]

The Human Cost of Protectionism

24,000 people die every day from starvation, or from causes directly related to malnutrition. Let us make a reasonable assumption, erring on the side of caution - that 20,000 of these people do not die from the purely local causes of civil war and crop failure.

In a world of potential abundance that could be made actual by more open trading rules, the European Union accounts for a third of trade protection. Thus – given the earlier assumption - 6,600 people die every day in the world because of the trading rules of the EU. That is 275 people every hour of the day.

In other words, one person dies every 13 seconds somewhere in the world – mainly in Africa - because the European Union does not act on trade as it talks.

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[39] International Monetary Fund, November 2001, *op. cit.*

[40] Oxfam, *op. cit.*, p.10.

[41] Quoted by Julius Mucunguzi, "African heads attack EU, US over farm subsidies", *The Monitor*, Kampala, 13th June 2002.

These are questionable, if not unreasonable, figures. But what is unquestionable is that the developing world would develop faster given access to markets in the rich world, and that the EU has deliberately hindered access to its own markets, Free trade with the European Union would lift countless millions of these people from wretchedness to comfort - or at least to hope of comfort in the future.

When an earthquake or a famine strikes a region of the developing world, our sympathies are moved, and we donate large sums of private and public money for the alleviation of misery. But places like sub-Saharan Africa are experiencing a quiet disaster every day because, in large measure, of trade barriers.

In the next 15 years, the number of those living on no more than $1 a day will rise by 15 million. Much of this, no doubt, is the result of domestic misgovernment, and of natural misfortunes that are the fault of no one. But look at those Ghanaian farmers, condemned to growing cocoa and shut out of the more profitable confectionary market. Look at those Jamaican dairy farmers, and those Bolivian poultry farmers. If they are poor, they are partly kept poor by the trading rules made and strictly enforced by the EU.

If we want the 90 per cent of humanity who by the middle of this century will live outside the rich world to enjoy anything like the living standards we take for granted, it is not enough for us to drop a few coins into a collecting box every time the media reminds us of their suffering. We need to buy from them. We need to open our markets. We need to make sure that, year on year, they have the same chance that we gave the Japanese and other poor manufacturing countries, to attract foreign investment into their most productive sectors, by giving those investors an open market to sell what is produced. Do we want a 2050 in which every household in the world has a refrigerator? Or do we want a world in which we can sit back in our own continuing comfort and congratulate Malthus on having been right all along?

The Benefits of a Humane Trade Policy

One of the problems of getting a more decent trading policy from the EU is that it is nearly always demanded in the name of humanity. The assumption on all sides is that allowing free trade will help the developing world at the expense of the rest. European policy makers are asked to do something out of the goodness of their hearts, even though it will to some extent hurt. In this sense, calls for free trade are rather like begging for alms, where the donor receives nothing in return except a vague feeling of having done something righteous. This is not, however, the best way to get anything out of people who - though perhaps charitable themselves - see themselves as the agents of the peoples of the EU, and are surrounded by dozens of persuasive and well-funded interest groups all pushing for not less but more protectionism.

The approach makes no sense in terms of public relations. It also makes no sense in economic terms. The developing world would, as we have shown, benefit greatly from free trade with the EU. But so would the EU. Trade negotiations should not be seen - as they universally are outside the economics profession - as a zero sum game, in which each side comes to the table aiming to get the maximum outlet for its own exports while opening its own markets for the minimum possible number of imports. They are instead an opportunity for both sides to benefit equally, if in different ways.

The guiding fallacy of modern trade negotiations was summarised by the American Congress in the 19th century:

> Every additional yard of [cotton] good thus brought into our market will displace a yard of American-made goods.... [A] large part of the money that is paid to American employees will be aid to the foreign laborers.[42]

Abraham Lincoln is said to have been blunter still:

> If I buy a coat from England for $10, I have the coat and the English have the $10. If I buy a coat from America for $10, I have the coat, and Americans have the $10.[43]

This is an absurd fallacy, albeit one to which many supposedly intelligent people still adhere today. To stay with the Lincoln claim, buying a coat from England does not take any money out of the United States. $10 is turned into the current value in pounds, which are then spent in Manchester. The $10 is only accepted on the foreign exchange because there is someone with pounds who wants dollars with which to buy something from the United States, or who wants to invest in the United States. Trade across frontiers does not drain money from a country. It simply transfers money within the country, which is then spent or invested in that country. It will be used to expand a sector in which the country has a comparative advantage, and will raise incomes within that country and throughout the world as a whole.

A more rational view of foreign trade was taken by Adam Smith in the 18th century:

> It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for.
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> What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage.[44]

John Stuart Mill, writing in the 19th century, took the attack on the fallacy still further. The whole value of foreign trade, he said, lies in the imports. Exports in themselves are a pure loss. A business acquires land, labour and capital, and uses scarce resources; it produces

[42] House Report 234, minority, to accompany HR 4864, 53rd Congress, 2nd session, 19th December 1893, pp.53,57.

[43] Anecdotal saying, source unknown.

[44] Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, 1776, Chapter 2.

things that are of value; and then it sends them out of the country to be consumed by foreigners. If in exchange, it received only gold and silver or banknotes, these would do nothing to increase the real income of the country. Exports are only worthwhile when the money thereby gained is used to spend or invest in foreign countries - this latter being beneficial so far as it enables future imports without the disagreeable necessity of exports. He says:

> [T]he only direct advantage of foreign commerce consists in the imports. A country obtains things which it could not have produced at all, or which it must have produced at greater expense of capital and labour than the cost o the things which it exports to pay for them.[45]

Of course, protectionism does benefit particular interests within a country; and the main interest supposed to benefit from European protectionism is agriculture. But this is an argument that needs little demolition. European farming is generally in a bad state. In every continental member state, there has been a rapid fall in the number of farmers since the 1950s. In Britain, farming is in a catastrophic decline. Even before the BSE scare and the devastation of the 2001 foot and mouth epidemic, farming incomes had been falling for a generation. Indeed, in Britain, where most farming land is rented, high prices and subsidies have given farmers only a short term increase in profits, which have then been eaten away by higher rents.

EU agricultural policies hurt farmers in the developing world. They hurt consumers in Europe by raising the price of food. They hurt non-agricultural produces in Europe by diverting income that would otherwise not be spent on food. They encourage environmentally damaging farming practises. They do not materially assist the majority of European farmers. The main beneficiaries are a few big agri-business combines, and the politicians and bureaucrats who supervise the whole system. This was seen clearly by Adam Smith:

> That it was the spirit of monopoly which originally both invented and propagated this doctrine [of trade protection] cannot be doubted; and they who first taught it were by no means such fools as they who believed it. 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 it cheapest. The proposition is so very manifest that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people. As it is the interest of the freemen of a corporation to hinder the rest of the inhabitants from employing any workmen but themselves, so it is the interest of the merchants and manufacturers of every country to secure to themselves the monopoly of the home market.[46]

Further Benefits of Free Trade

[45] John Stuart Mill, *Principles of Political Economy with Some of their Applications to Social Philosophy*, 1848, Chapter XVII, part 4.

[46] Smith, *op. cit.*, chapter 3, part 2.

There are further benefits to be had from allowing free trade with the developing world. Briefly stated, these are:

- It will reduce the pressure of migration from the developing world to the rich world. There are currently 50 million refugees in the world, many of them trying to find asylum in Europe and America.[47] These people are mostly fleeing evils that are the effect of low economic growth in their home countries. Higher barriers to immigration are unlikely to stem the flow into countries that are seen as lands of opportunity. The Rhine and Danube frontiers of the Roman Empire and the Great Wall of China were failures at preventing the movement of peoples. Our modern equivalents will have no more success. The only answer is to try keeping the migrants at home, by providing them with jobs and worthwhile life chances. Free trade will help with this.

- It will reduce damage to the environment. Economic growth in itself is not a threat to the environment. The richest countries are generally the least polluted, because there is demand and money for cleaner production processes. In general, the really nasty pollution of this century is likely to come from the developing world, where there is no money to fund more environmentally friendly systems of production.

- It will reduce the water shortages that now plague much of the developing world. Egypt and Sudan, Turkey and its neighbours, and many other countries, are permanently in bad relations with each other because of water extraction from the rivers that flow through them. The Nile and Euphrates do not deliver enough water for everyone, and so there is endless temptation to take more upstream regardless of who suffers downstream. At the same time, these countries have extended sea coasts, and the technology exists to provide all the water anybody could want by desalination of se water. All that is missing is the money to finance these plants. Let free trade raise incomes in these countries, and the money will be there.

- It will reduce population growth. It is a commonplace that educated women have few children than uneducated. Either they have enough learning to want better rom life than producing another baby every 11 months, or they have jobs and careers that put them off having children. The main barrier to universal female education is lack of finance. Free trade will provide the finance.

Conclusion

For the European Union to open its markets to the poorest countries of the world is the moral, humane thing to do. It is also directly of benefit to the true interests of European consumers and producers, and the interests of everyone across the planet. It is not a question of giving something away, but of helping create a plenty in which all will share.

[47] Steve Connor, “When millions walk the planet”, *The Independent*, London, 26th October 2001.

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