The Reasons for Opposing Free Trade from an Economic and Political Perspective

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Abstract: Over the past years, free trade has been widely accepted in various countries around the world. However, the global financial turmoil in 2008 has resulted in numerous questionings on the functions of capitalism and the operation of free markets (Shelburne, 2010). Nowadays, countries have not only begun to oppose free trade to varying degrees but also have taken corresponding trade protection measures. The arguments against free trade are closely related to economic and political positions. From an economic perspective, opponents of free trade argue that in the case of free trade, domestic emerging industries will be hit in fierce competition, which will lead to an increase in national unemployment. From a political perspective, the challenge for free trade is that, on the one hand, free trade is bound to aggravate trade frictions, thereby playing a negative role in international relations; on the other hand, free trade provides opportunities for piracy and intellectual property infringement against other countries. To have a thorough understanding of these arguments against free trade in the highly-globalised business context, this essay will critically explore the controversial role of free trade on participants based on the discussion of economic and political implications.

1. Introduction

Free trade refers to adhering to the principle of market opening in international trade activities. Through the elimination of trade discrimination and restrictions, the free flow of production factors such as goods, funds, labour, technology and information is achieved to maximise the economic benefits of commercial forms (Bhagwati & Irwin, 2002). Smith (1937) put forward the concept of absolute advantage in his economic research, which argues that a country is more efficient than any other country in producing a specific product, and it has unlimited power in providing the product. Countries should specialise in producing commodities of their ideals. Based on the statement of Obstfeld and Krugman (2003), David Ricardo perfected the comparative advantages and believed that the so-called advantages or disadvantages only existed in comparison. In the process of free trade, countries should choose products with comparative advantages for specialised production.

From the above findings on absolute and comparative advantages, it is not hard to find that the implementation of specialised production and the reduction of costs will benefit a country from free trade. Therefore, some researchers hold a supportive attitude towards free trade. In terms of product transactions, Fouda (2012) believes that the implementation of free trade can give full play to the advantages of specialisation. Based on the clear international division of labour in free trade, each country will specialise in the production of commodities with comparative advantages over its trading partners, thereby reducing production costs and expanding product sales. At the same time, when importing products, free trade can enable countries to obtain scarce goods or services through price comparison, so that countries can benefit from business free. In terms of resource allocation, the IMF Staff (2001) believes that free trade can enable resources to be professionally allocated worldwide and promote the economic development of countries. The implementation of the free trade policy has enabled the free flow and optimised allocation of capital, labour, and technology in the international community, which has played an essential role in attracting foreign investment, absorbing advanced technologies and management experience, and improving labour productivity and economic efficiency. However, Gilpin (2018) pointed out that global trade had led some non-competitive countries to engage in competition and maintain competitiveness by lowering wages,

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reducing labour benefits, and sacrificing the environment. The opposition against free trade can be further demonstrated from the economic and political perspectives.

2. Domestic Market

Domestic developing industries will suffer from fierce competition in free trade. When conducting open business, developing countries have lower levels of economic development than developed countries. Therefore, developing countries can't utilise comparative advantages to engage in cheap production labour when faced with substantial unfair competition in the international market. According to Melitz (2005), Alexander Hamilton and Friedrich List first proposed the theory of infant industry in the early 19th century, which was usually one of the main reasons for opposing free trade. The infant or growing industries are weak and susceptible to various market challenges and economic pressures. Even in their domestic markets, they often lack skilled labour force, efficient production processes and experienced management concepts. Therefore, it is not very easy for them to compete with international competitors with mature experience and technology.

Take China's automobile industry as an example. According to statistics by Sun and Jin (2000), after China's accession to the WTO, the import tariffs on complete vehicles before 2010 were reduced from 80% -100% to 20% -38%, and the import tariffs on parts and components fell to 10% -0. At the same time, restrictions on emerging joint ventures had been weakened, allowing overseas companies to provide financing for the automotive industry, and reducing restrictions on non-tariff barriers (import quotas, foreign exchange controls, local purchase laws). The sharp reduction in tariff levels caused a massive influx of foreign cars and had a significant impact on the domestic market. In terms of internal competition, more than a dozen auto multinational companies in Japan, the United States, Germany, France, Italy and other countries had exerted their monopoly advantages, internalisation advantages and location advantages to the extreme, with the production capacity of exceeding 70 million vehicles. Furthermore, at least 20% of the devices were idle. With the gradual cancellation of import licenses, the variety and quantity of imported cars in the automotive market would continue to increase. The price, range and type of imported cars would be more attractive to consumers, and China's auto industry may be crushed.

3. International Market

Unemployment in the globalised economic environment is another reason for the opposition of free trade (Palley, 2008). With the deepening development of economic globalisation and the continuous integration of the world market system, an increasing number of enterprises outsource their products (Ristovska & Ristovska, 2014). Enterprises utilise specialised production resources in overseas markets from raw materials to artificial processing to achieve economies of scale, reduce costs, improve efficiency, give full play to their core competitiveness, and enhance their ability to cope with the environment. However, from a micro perspective, one of the central bodies of the economy and society is that in a complete market economy system, due to the existence of competition, enterprises will strive to maximise profits, and they do not care about domestic or overseas labour (Grinspun & Cameron, 1993). To achieve the goal of profit maximisation, enterprises will reduce costs as much as possible, and low values will force enterprises to pursue cheaper labour. They will outsource products to developing countries at reasonable labour wages, but the domestic employment space will be squeezed (Bottini et al., 2007). From a macro perspective, product outsourcing reduces demand in the local labour market, which may cause the oversupply of the local labour market and the decrease in labour price. The decline in domestic employment and wages will impact its labour market, and the unemployment rate is on the rise.

Offshore outsourcing is one of the most commonly used outsourcing methods in American companies. The company outsources its business to relevant foreign professional manufacturers, which are mainly located in developing countries with low wages, such as India, China, and Eastern European countries. However, according to McManes (2009), the U.S. Institute of Electrical

Engineering believes that offshore outsourcing is bringing unprecedented unemployment to electronic engineering and other information industries in the United States. The registered unemployment rate of the electrical and electronic engineering industry in the United States reached 6.2%, with an increase of 47.6% from 4.2% in 2002. In 2003, the unemployment rate for computer experts and system analysts reached a record high of 5.2%.

The opposition to free trade is reflected not only in economic terms but also in political terms. The open business makes countries more prone to trade frictions and may even threaten international relations and global patterns (Schott, 2004). In the production of low-end products, developing countries have demographic dividends, while the high labour costs of developed countries have forced companies to flow into developing countries. However, with the development of productivity in developing countries, they are no longer limited to low value-added products, but gradually turning to high value-added products (Rodrik, 2018). Therefore, an increasing number of high-tech products in emerging markets are competing with developed economies, making the comparative advantages of developed economies gradually disappear (Tolentino, 2017). Some developed countries are often worried that the strength and rise of other states will threaten their status. Therefore, the terms of trade will be added to the formulation of trade policies (IMF Staff, 2001). Some countries hope to restrain the development of other countries by formulating relevant trade policies, which aggravates the trade friction among countries (Tasca, 2013).

For example, the Japan-US trade friction started in the mid-1950s and lasted for more than half a century (Abe, 2017). The Japan-US trade frictions not only involve the most fabulous products, but also cover the significant industries or products in various periods of Japanese economic development, and it has lasted for a long time (Tasca, 2013). For example, Japan-US textile trade friction has been on and off for 16 years, Japan-US semiconductor trade friction has lasted for 26 years, and Japan-US telecommunication product trade friction has lasted for 28 years. After the mid- 1990s, large-scale trade confrontations have subsided in the context of Japan's economic depression in the last 20 years.

Free trade increases opportunities for piracy and intellectual property violations to spread in different countries (Nasheri, 2004). With the liberalisation of trade, production technology and scientific knowledge have also spread across different countries (Tradeinservices Net, 2018). With the continuous expansion of the scope of intellectual property, the transfer of its ownership and use rights has become an essential part of international trade. Transaction activities such as technology transfer, patent and trademark use right transfer, and copyright licensing have become increasingly important in international business. As the scope of free trade expands, people tend to choose cheaper commodities. However, inventions and innovations of technologies and products are always accompanied by extensive research and development costs. Since enterprises will consider related costs when pricing the products, the price will be relatively higher. In the context of increasing product circulation channels and faster transaction speeds, innovative products with the high cost and high price have been rejected.

In contrast, low-cost and low-price piracy has expanded product sales and realised corporate profits in a competitive market through plagiarism (Viswanathan, 2015). Meanwhile, many governments, especially those in developing countries, often fail to take the issue of intellectual property seriously. Without the protection of patent law, innovation and new technologies are often plagiarised, forcing companies that generate these new technologies to compete with lower-priced counterfeit products. According to the statistics of Frontier Economics (2017), the scale of counterfeiting and piracy is enormous worldwide. In 2013, the trade volume of counterfeit and inferior commodities at home and abroad amounted to the U.S. $ 710-917 billion. In 2015, the global cost of digital piracy in movies, music and software was $ 213 billion. The economic activities of replacing legal copyright or intellectual property rights through counterfeiting and piracy have had a significant impact on the employment market. It is estimated that the global net unemployment in 2013 was between 2 and 2.6 million, and net unemployment is expected to be 4.2 to 5.4 million by 2022.

4. Conclusions

The issue of free trade remains controversial. Different scholars and stakeholders view free trade from different standpoints. Although barriers to international trade and capital flows have significantly been removed in the past 30 years, foreign goods, services and capital markets have not yet reached the level of economic globalisation. Since the world has not fully realised the benefits of complete economic integration, global free trade still has a long way to go.

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