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Free Trade, Free Labor, Free Growth

By Kym Anderson and Bjørn Lomborg

ADELAIDE – Protectionist sentiment and fear of globalization are on the rise. In the United States, presidential candidates appeal to anxious voters by blaming the North American Free Trade Agreement (NAFTA) for the erosion of the country's manufacturing base. Liberal trade initiatives have run into trouble in Congress, while new trade barriers have been mooted for products flooding in from China.

Things are no better in Europe. France has dealt the Doha round of World Trade Organization (WTO) negotiations a blow by rejecting the outline deal on agriculture. European Commission President José Manuel Barroso believes that protectionist pressures are increasing.

When the Doha trade round was launched shortly after September 11, 2001, there was plenty of international goodwill. But disenchantment with globalization – and, in some regions, fear of immigration– has since set in. A recent Financial Times/Harris poll in the US, Germany, France, the United Kingdom, Italy, and Spain found people nearly three times more likely to say that globalization is negative than positive.

Free trade would lead to an overwhelming boost to welfare everywhere, but especially in the developing world. Grasping these benefits is potentially one of this generation's greatest challenges. Increased negative sentiment could have the worst possible result: not just Doha's failure, but also the *raising* of trade and immigration barriers.

These barriers remain largely because further liberalization would redistribute jobs, income, and wealth in ways that governments fear would reduce their chances of remaining in power – and their own wealth in countries where corruption is rife. The greatest hope is thus getting the Doha round back on track.

But there is a big difference between a low-quality result and one that is more comprehensive. If little more is achieved than phasing out farm export subsidies and a modest reduction in agricultural domestic support, our analysis shows that developing countries as a group would gain nothing, while high-income countries would gain just US$18 billion per year by 2015.

By contrast, if developing countries cut their tariffs by the same proportion as high-income countries, and services and investment were also liberalized, the global annual gains could climb as high as US$120 billion, with US$17 billion going to the world's poorest countries. Moreover, the long-term impact of free trade is huge. Recast as after calculating the net present value of the stream of future benefits, a realistic Doha outcome could increase global income by more than $3000 billion per year, $2500 billion of which would go to the developing world.

In addition, the experiences of successful reformers like Korea, China, India, and Chile suggest that trade liberalization immediately boosts annual economic growth rates by several percentage points for many years. Eliminating subsidies and trade barriers would mean that resources could be used more efficiently, so there would be more scope to reduce inequality and poverty, social tensions, environmental degradation, malnutrition, and disease.

There would, of course, be costs. Firms and workers would need to adjust as reform forces some industries to downsize or close and allows others to expand. In addition, there are social costs to consider. Yet the benefits of a successful Doha round are between 45 and 440 times higher than these costs. This is clearly an extremely sound investment.

An "alternative" to Doha, whereby other high-income countries would follow the European Union's offer of duty-free access to products from Least-Developed Countries (LDCs) and African, Caribbean, and Pacific (ACP) small countries, would involve only a tiny fraction of global gains from trade reform. Moreover, it may well hurt other poor countries – thereby worsening inequality – by encouraging resources to be allocated to activities that become uncompetitive following the next World Trade Organization agreement.

If trade liberalization in goods and services proves too politically difficult to achieve in this decade, the benefits of liberalizing international labor flows is worth contemplating – not least because otherwise illegal migration is likely to increase. Historical experience shows that migration is the fastest way to bring about a convergence in living standards.

We examined the costs and benefits of an expansion in international migration over a 25-year period, amounting to a 3% boost in host countries' labor forces by 2025. The costs would include one-off expenses to migrants: transport, obtaining visas and permits, and finding housing, schooling, and employment, as well as the emotional cost of separation from family. There are also one-off costs to host-country governments, such as processing applications and providing initial help with housing and welfare.

These costs have been estimated at between $14,000 and $42,000 per worker and family (shared equally by migrants and host governments). The global net benefit of the increased flow of migrants for 25 years is between $13 trillion and $39 trillion – close to the median estimated gains from the Doha round. The benefits are between 28 and 220 times higher than the costs.

Even if freeing up immigration multilaterally seems too difficult to include as part of a Doha round agreement, individual countries could do so unilaterally with the stroke of a pen.

The economic logic is compelling: removing trade and migration barriers would be an exceptionally wise investment. The real hurdle is getting this message across to politicians and voters.

Kym Anderson is Professor of Economics and Foundation Executive Director of the Centre for International Economic Studies (CIES) at the University of Adelaide in Australia while on leave as Lead Economist from the World Bank; Bjørn Lomborg is the organizer of Copenhagen Consensus, adjunct professor at the Copenhagen Business School, and author of Cool It *and* The Skeptical Environmentalist*.*