



# Freeing Trade in Services

Tom G. Palmer

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I applaud my two predecessors, Mr. Waraow and Mr. Zumpfort in this discussion for such useful and detailed introductions to the complex set of issues involved in the current negotiations regarding the General Agreement on Trade in Services.

Dr. Shah, our moderator, suggested that, while Dr. Zumpfort would present a global perspective and Dr. Waraow would present an Indonesian perspective, I might offer an American perspective. As you will see, I intend to offer an Asian perspective.

Let's begin with some theoretical clarity.

Some people see some essential distinction between goods and services. They even think that only merchandise – heavy things you can lift, are economic goods, whereas services somehow don't count. Even Adam Smith thought that it was products that mattered, and that services did not add to wealth. That error was corrected by the great French economist J.-B. Say, who pointed out that services are the underlying source of value, for we value tangible goods only because of the services that they provide to us. Houses provide us the service of sheltering us, as well as of aesthetic appreciation, if they are beautiful; medicines provide us the service of curing our diseases; telephones provide us the service of communicating.

Unfortunately, that basic logic has not always penetrated into the minds of our politicians. An American secretary of labor once complained publicly that U.S. manufacturing exports were declining. Most of the journalists just wrote that down. But

one knew some economic facts and challenged him: “in fact, aren’t manufacturing outputs going up?,” he asked. “No,” said the politician. “They are declining.” The journalist pointed out that the value of exports had been going up year after year. “Ah,” said the politician, “I was measuring the quantity of exports by weight.” It was how heavy the things were that counted for him, not their value. But economic exchange is driven, not by how heavy things are, but by how valuable they are. Economic processes are about adding value to the world, not volume or weight.

As an aside, I should also add that some think that only certain kinds of value count. A former U.S. presidential candidate, Ross Perot, when debating his rivals, complained that Americans were importing computer chips from Taiwan and exporting .... potato chips! The shame of it. But Stanford economist Michael Boskin pointed out that a dollar’s worth of computer chips and a dollar’s worth of potato chips....is a dollar’s worth. It’s the value that counts. People in Taiwan make great computer chips and people in Idaho make great potato chips. They both gain from that trade. It’s not only high-tech manufacturing that adds value, as the New Zealanders have demonstrated by growing wealthy from exporting fruit, wine, lamb, and hobbit movies, not from exporting automobiles, aircraft, ships, or other heavy objects. Similarly, it is not how “high tech” something is that matters, but how much value it adds.

To turn to our topic of trade in services, an increasing amount of value is being added to the world by qualified radiologists in India, by bankers in west Africa, by insurance companies in South East Asia, and on and on. The trend to direct exchange of services, without heavy things being moved around, is an increasingly important part of the process of adding value to the world.

Intangible services are no less important than tangible goods. They add value to our lives. We might ask, for example, why, if a Canadian can escape the Canadian state-dominated medical system to go to India for good medical treatment, and then smuggle back good health into Canada inside of his own body and life, the Indian doctor can’t go

to Canada to produce that good health? (That touches on the strangeness of considering so-called Mode 4 provision of services under the GATS as especially problematic.)

Next, after that brief discussion of economic theory, I believe we should focus on a very simple strategy statement by former Estonian Prime Minister Mart Laar, the political leader who promoted a remarkable reform of that country's formerly dysfunctional institutions and helped to bring Estonia into the ranks of wealthy nations, with a per capita GDP in 2009 -- according to the World Bank -- of \$US19,451.

“First liberalize, then negotiate.”

The complex of World Trade Organization summits, negotiations, and processes, the General Agreement on Trade in Services, and such regional liberalization processes as the ASEAN Economic Community Blueprint, which anticipates gradual reduction of barriers to trade in services among the member states of the Association of Southeast Asian Nations, all have some promise for the realization of substantial gains from trade, and even for greater liberty and. But they are all also based on a faulty premise. That premise is not only erroneous; it is a very, very dangerous fallacy. It is the mercantilist premise that if Malaysia liberalizes trade with Indonesia, it is a favor that the Malaysian government does for the Indonesians, and that if Indonesia liberalizes trade with Malaysia, it is a favor that the Indonesian government does for the Malaysians. That is completely wrong.

It is not a concession to others to remove restrictions on one's own ability to purchase freely. As the nineteenth century German economist and member of parliament John Prince Smith argued, “The removal of import tariffs is an economic concession which we grant primarily to ourselves and not merely to foreign countries.”

The current premise of trade liberalization processes could be illustrated by a simple example. Two men face each other. Each has his hands squeezed tightly around a neck. But you notice that....it is his own neck! Each, while trying to breathe against the

constricting pressure of his own hands, says to the other, “I will do you a favor. I will stop hurting myself...but only on the condition that you stop hurting yourself!”

Protectionism of all sorts doesn't protect the people of a country; it only protects narrow, special interests at the expense of the people. (As an aside, that is why I object to the very word “protectionism.” A better and more neutral term would be trade restrictionism.)

But can a unilateral approach work? Yes. It worked for Estonia when Mart Laar promoted it, prior to Estonia's joining the European Union. It worked in Georgia. The republic of Georgia unilaterally eliminated tariffs and restrictions on almost all goods and services, including elimination of visas. The results have been very good, indeed. And it has worked for Asia. As Razeen Sally of the London School of Economics pointed out in his recent book “Trade Policy, New Century: The WTO, FTAs, and Asia Rising,” the great liberalizations of the past were mainly unilateral. It is a myth that multilateralism is necessary for liberalization. It simply is not true. The free trade movements of the 19<sup>th</sup> century were mainly unilateralist, and they worked well, until the intellectual tide turned against liberty and peace at the end of the 19<sup>th</sup> century and the start of the 20<sup>th</sup> and Europe turned again toward mercantilism and conflict. The revival of trade liberalization after the disaster of the two World Wars, themselves to a significant extent the results of mercantilist trade restrictionism, was substantially unilateral. Multilateralism helped, but the trade liberalization of recent years was more the result of unilateral decisions than of multilateral processes. As Sally notes,

“first the north-east and south-east asian tigers, and then China and India, have done most of their trade-and-FDI liberalisation unilaterally, not through bilateral, regional or multi- lateral negotiations.”

Unilateralism has been especially important in Asia. Indeed, to quote Sally again,

“China’s external liberalisation now matters most, for it is the biggest the world has ever seen, with the biggest spillover effect in Asia. Most of this was done unilaterally, before WTO accession. China’s WTO commitments, and its pragmatic, businesslike participation in the WTO since accession, are more the consequence than the cause of its sweeping unilateral reforms. Indeed, China is in many ways today what Britain was in the second half of the nineteenth century: the unilateral engine of freer trade.”

If there is an “Asian way,” let it be the one that has worked for Asians – unilateral freeing of trade, in goods and services – and let Asia shine its light to the rest of the world. It has already done so, with enormous positive benefits. The Asian model of unilateral trade liberalization works in Asia, and if it works for Asia – as it has, it will work for Africa, for Europe, for Eurasia, and for the Americas.

This brings us to the role of the public, of civil society, of think tanks, of student groups, and others in promoting trade liberalization. Public protests for complex WTO processes are very unlikely to have an impact. Who would go? The issues are so complex and Byzantine that only small numbers understand them and, unfortunately, protected special interests who want to continue harming consumers are likely to dominate. But people can understand the case for unilateral liberalization. Free trade buys more goods. It makes a country richer, regardless of what other countries do. It is a cause that can enlist the support of the idealistic and the practical. Indeed, we should be practical idealists on this and on other issues. Liberty is morally good, right, and just. That is our idealism. It is the source of our passion. It improves our lives, and especially the lives of the poorest among us. It is the cause of justice. It is the cause of peace. And it is eminently practical. It can be done. It should be done. And it will be done, but only if we dedicate ourselves to unilateral freedom of trade. Greater public pressure on governments to liberalize will arise when more people understand both the justice and the benefits of freedom of trade, in goods and in services.

A future of free trade, prosperity, and peace requires a well argued, morally confident, clearly stated case for unilateral liberalization of trade in goods and services, including the right of people to offer their services by moving themselves to where those services add more value. The consequences of success are great and the mercantilism and wars of the last century offer powerful testimony to consequences of failure.