

Douglas A. Irvin (ed.). *Free Trade under Fire*. Princeton, NJ: Princeton University Press. 2005. 294 pages. Price not given.

“Free trade, one of the greatest blessings which a government can confer on a people, is in almost in every country unpopular”.

[Thomas Babington Macaulay (1824)]

International trade around the world is growing rapidly and it is very effective in improving the living standards of a nation, but still free trade faces many critics. They complain that free trade causes harmful economic adjustments, for example increase in unemployment through the closing of factories etc. The critic further object that the World Trade Organisation serves the interests of international corporations, undercuts domestic environment regulations, and erodes America’s sovereignty. Why has global trade become so controversial? Does free trade deserve its bad reputations? These are the questions which inspired the writer to work against these problems. In “Free Trade under Fire”, the author discusses the misconceptions that litter the debate over trade and gives the reader a clear understanding of the issues involved. The aim of this book is to determine the effect of economic, political and legal factors on the trade policy of the United State.

Chapter 1 in this book “The United State in a New Global Economy” explores the basic facts about international trade and the economy of the United States. World trade has expanded rapidly in recent years, and it provides the context in which to consider the question of trade policies. The reasons for the increase in world trade are discussed in this chapter. This chapter also highlights the opinion of the public regarding the concept of globalisation. Public does not like globalisation due to the fear of job destruction.

Chapter 2 “The Case for Free Trade: Old Theories, New Evidence” tests the old economic theories of free trade by using recent empirical evidence. The analysis goes in a favour of these theories. The author used the theories of Adam Smith and David Ricardo in his analysis and described the gains from trade in a systematic way. The old economists had stressed that the higher income which resulted from improved resource allocation is the main advantages of free trade. But the recent studies showed that free trade is not only useful in the best allocation of resources but also increases the productivity of these resources. Welfare gains have also ignored in the old studies, but now it is shown that free trade also has a substantial impact on the welfare of the public. Productivity gains, welfare gains, and the impact of free trade on environment are the main issues which are discussed in this chapter.

Chapter 3 “Protectionism: Economic Costs, Political Benefits?” discusses the opposite side of free trade. This chapter describes the economic costs of trade restrictions and also examines why, despite these costs, protectionism is mostly preferred and politically attractive. Trade barriers are generally misguided or costly in result. To restrict trade the most common method used are tariffs and quotas. The economic cost of protectionism is calculated in two different ways i.e. direct cost and indirect cost. Import barriers are used to redistribute the income from the consumer to the producer, but do so inefficiently with the net economic loss as the costs to consumers are much greater than the benefit to the producers. Protectionism also distorts prices and economic incentives. This distortion creates the problem of deadweight loss. The indirect costs occur in the

form of import restrictions, reduction in export and lower employment in downstream industries. At the end of the chapter, the author also discusses such situation in which protection may be justified in theory, even if governments are often ill equipped to take advantages of those situations.

Chapter 4 “Trade, Jobs, and Displaced Workers” focuses on those issues which are the major hurdles in globalisation and favours restricted trade. The main argument against free trade is cheap imports destroyed the jobs. If imports are increased, it harms the worker, reduces the wages, and also creates unemployment in the economy. Now the question is that either these objection are true or false. Douglas Irvin discusses these issues by using empirical data and addresses the relationship between trade and employment and examines government policies to assist displaced workers. Another objection which is tackled in this chapter is that imports replace the good, high wage jobs with bad and low wage jobs. But the truth turned out to be the opposite. The author also discusses the causes of trade deficit.

Chapter 5 “Relief from Foreign Competition: Antidumping and the Escape Clause” describes the implication of antidumping laws and its solution in favour of free trade. Some times import restrictions are used as tool to provide relief to industry suffering from unfair foreign competition. So the most commonly used instrument for stopping this is antidumping laws. The author took the example of the U.S. economy in which antidumping laws are defined and empirically checked whether these laws provide a remedy for unfair trade or are merely a convenient mechanism for protecting an industry from imports. He also looks at the escape clause procedure which can provide industry a temporary relief. This chapter also discusses the cases for providing domestic industries like textiles and steel etc. with temporary relief from imports so that they can adjust to the competition and become more competitive.

Chapter 6 “Developing Countries and Open Markets” discusses the usefulness of free trade for developing countries under special circumstances. The author looks at different scenarios which show what type of policies are beneficial for poor countries and are used to promote the economic development. This chapter analyses the policies of developing countries and then makes a case whether free trade policies are useful or not. Recent studies show that developing countries can be benefited from these policies, once they remove corruption, civil conflict, and other institutional diseases. Another main issue which is discussed in this chapter is how the policies of developed countries, such as agricultural subsidies, import barriers on labour-intensive manufactured goods, and requirements that labour standards be a condition for trade can harm the developing countries. At the end of this chapter, the author also highlights the impact of antitrade policies designed by the developing countries.

Chapter 7 “The World Trading System: The WTO and New Battlegrounds” focuses on the current controversies about the multilateral trading system, particularly the World Trade Organisation (WTO) and the General Agreement on Tariffs and Trade (GATT). The chapter starts with a discussion on Great Depression of 1929 and the emergence of GATT. By using data on world exports and world production, the author concludes that GATT can take the credit for a good deal of growth in world trade. This chapter also analyses the role of WTO as an institution which was established for promoting the world trade. After its establishment, it came under the criticism of non-

governmental organisations, which attacked it by showing that it is an antidemocratic institution which abolishes the rules and regulations of the country by imposing its own laws. In short this chapter discusses the WTO's rules, disputes settlements, leading trade case, environmental cases such as "Reformulated Gasoline Case", "The Tuna-Dolphin Case" and "The Shrimp Turtle Case" and also the impact of regional trade arrangements such as North American Free Trade Agreement (NAFTA). Douglas Irvin draws many lessons from these environmental cases.

This book aims to remove the misconceptions about the WTO and tries to improve our understanding of the issues of trade policy that confront us. Irvin highlights the misconceptions about the implementation of free trade and gives many suggestions for a better understanding. "Free Trade under Fire" provides all the facts and figures that help in formulating results about the effectiveness of the free world trade. Irvin is very effective in explaining the consequences of protectionism, as well as its impact on the US economy. He presents a useful analysis regarding the expansion of free trade and employment, and also takes into account the objections regarding wages and living standards. He concludes that wages and living standards are the function of productivity, as an increase in productivity leads to a rise in the wages and living standards.

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