

## ASK: NUS ECONOMISTS

# Ensuring a win-win situation in trade

By **TOMOO KIKUCHI**  
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### ■ *Is international trade a zero-sum game?*

THE world's net exports sum to zero in accounting terms. What this means is that the exports of some countries are the imports of other countries. Some countries run trade deficits while others run surpluses. So are deficit countries losers and surplus countries winners? Not necessarily so.

We "voluntarily" engage in trade, whether it is internationally or within a country, thus improving our living standards. We would struggle to meet our needs if we were alone on an island like Robinson Crusoe. Therefore, trade is typically not a zero-sum game but a win-win situation.

For example, Singapore exchanges machinery for food and crude materials and would not be able to sustain itself without trade. Meanwhile, other countries benefit from importing machinery from Singapore.

### ■ *Is free trade always beneficial to both the domestic and global economies?*

IF TRADE is a win-win game for all parties "voluntarily" involved in the domestic as well as global economy, how does free trade affect those who are not involved "voluntarily"?

International trade is typically between firms or governments. It affects us even if we are not directly or "voluntarily" involved. In such cases, international trade often produces winners and losers within a country.

For example, Singapore exports capital-intensive goods and imports labour-intensive goods. This may increase the wage rates in Singapore's capital-intensive sectors, but may adversely affect wages in the labour-intensive sectors competing with similar imports.

If firms and governments are taken to represent the interests

of their own employees or people, international trade must have the potential to benefit all countries involved. Every country should be able to redistribute income with policy interventions to compensate the losers so that everyone benefits from trade.

When a country runs a deficit over many years, it accumulates debt against other countries. This means the country imposes a liability on its own future generations against the future generations of other countries.

Hence, we must ensure that debt is sustainable, that the interests of future generations are taken into account – those who are not yet born are not involved "voluntarily". In short, policy interventions are required for trade to be beneficial for everyone today and tomorrow.

### ■ *Why do countries still adopt the view today that exchanges within the country are beneficial, while exchanges across countries are costly to justify protectionist measures? Isn't this a mercantilist view?*

THE roots of protectionism can certainly be found in mercantilist ideas – international trade is not good as we are surrounded by enemies, and we should not benefit the enemy. When we are not fighting wars, what is really at stake?

Free trade proponents point to overall gains from international trade: greater variety of products for consumers, efficiency gains through international allocation of production, and productive efficiency gains through innovation. In other words, international trade creates a larger marketplace where people have access to more cultures and products, rely on each other's strengths and exchange ideas with more people.

On the other hand, protectionists may argue that industries at an infant stage need to be protected before they are able to compete in the global marketplace, just as our children need to be

protected before they can stand on their own feet. The infant industry protection has proven to be particularly successful in East Asia, where some industries that were initially subsidised and protected moved on to become the most competitive industries in the world. In such cases, protectionist measures may indeed be justified.

Unfortunately, protectionist arguments are too often misused to protect specific interests. When international trade threatens people's jobs and profits directly, they lobby against it, catching the media's attention. Fanning anxiety and anti-foreign sentiment becomes a powerful political instrument. We are easily influenced by patriotic slogans and we do not realise that protectionism deteriorates the overall gains from trade.

For example, food, clothes, computers, iPhones and so on would be much more expensive without international outsourcing, but we usually do not perceive it as our gain. Politics tends to weigh specific interests more than the overall gains.

We all depend on each other. We should strive to create a common and fair playing ground where the rule of law is respected, opportunities are given to all and prosperity is shared.

Stay focused on overall gains. Do not forget the affected and those who are not yet born.

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