

Free trade isn't always 'fair' trade

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As Far as free trade is concerned, the president's speech in Davos changed nothing.

President Donald Trump was the recipient of some rare and positive coverage for his recent speech at the World Economic Forum in Davos, Switzerland. While this is not the first time the president has delivered a moderate talk (by his own standards) and received positive reviews, when the bar is set so low, it isn't difficult to leap over it.

With the exception of his comments on the media, the president was tame. He didn't attack other countries with his usual astringent words. He didn't ridicule any of his foreign counterparts. He didn't threaten a go-it-alone approach to world economic affairs. And he didn't allude to his predecessor's accomplishments on trade as some of the worst deals ever signed.

However, setting the bar of expectations really low and having the president successfully vault over it cannot be equated with meeting acceptable standards, especially on an international stage, which he has been so vehemently attacking for the past two years with protectionist and nationalist rhetoric.

In fact, one simply needs to observe the words of the president from a steeper incline to conclude that he really didn't alter his anti-trade stance one bit, let alone moderate it.

“We support free trade, but it needs to be fair and it needs to be reciprocal,” Trump said in his speech before repeating the same perspective again later. While what he said seemed perfectly acceptable to a casual observer, to free trade supporters it was the antithesis of what America has fought for, stood for and worked for during the past three quarters of a century.

To protectionist nationalists, free trade is only good if it is “fair,” and “fair” means “reciprocal” trade. In other words, it is selling the same dollar of goods and services to a country as one would buy from them (a net zero trade balance). This perspective is a branch of the classic outcome-based approach to controlling, managing and regulating the economy by the government.

However, free trade theory concludes the proper role of government is to set rules that lower as many physical, financial and regulatory barriers to the free movement of goods and services as possible, thereby allowing the private sector on both sides to determine what’s best. This is the approach America has been pursuing since the end of World War II, where the government ensures fairness with rules and allows the chips of competitiveness to fall where they may, no matter how much more one country sends to another in comparison to what they receive.

To protectionist nationalists, trade deficits are bad and require government intervention and regulation to resolve. To free traders, trade deficits are signs of a country’s openness in allowing its citizenry the freedom to choose and of a competitive, strong and selective economy that is healthy enough that its demands cannot be met by domestic production alone.

To Trump and his team, the only good trade deals are those that result in equal trade, and all others are bad and unfair. So-called equal trade agreements will require a significant amount of government interference in the markets, and a massive and restrictive regulatory infrastructure.

The United States has had a trade surplus in services since the early 1970s, which is running close to \$250 billion per year today. If our trading partners were to take the same “fair and reciprocal” approach to trade as Trump would like to, that would require a significant multilateral governmental intervention (through, for example, regulation) to scale back U.S. exports in services at a cost of millions of domestic jobs and billions of dollars in inwards investments annually.

What the global economy needs today are fewer barriers and regulations to trade, not more. Demanding that, in effect, Americans buy \$22 billion more tulips from the Netherlands that we don't want, or requiring our banks to forgo billions of dollars of transactions with the Dutch simply because we have a trade surplus with that country is not the answer.

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