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# BUSINESS



**TALKING BUSINESS**

*"Farmers have taken Coca-Cola as a symbol of the problems between France and the United States."*

*CYRIEC de SALABERRY,*
*Coca-Cola's spokesman in Paris*

# Why the trade agreement really matters

The New York Times

## Free trade lets each nation benefit by specializing in what it does best.

The end of the trade spat with Europe, if France can be persuaded to go along, is certainly good news for Americans who prefer to drink real Chablis with their oysters or who export soybeans. But in an era in which everything from cars to cheese already seems to come from another country, does the apparent breakthrough in negotiations on a grand world trade deal really matter?

The answer, say most, if not quite all, economists, is a resounding yes. International trade has been a great engine of prosperity for the last century and shows every promise of remaining one in the next. And while the gains from trade have become far trickier to analyze than the old textbooks make them out to be, the basic logic — more is better — has not changed.

In fact, say the experts, the likely alternative to moving forward is regressing to a world in which politicians rather than markets have the last word on what people buy and sell.

The gospel according to Econ 101 says free trade makes each party to a transaction better off because it allows each to specialize in what it does best. All the bananas Americans eat could probably be grown in Florida, but it is only common sense — and cheaper — to buy them from Costa Rica, and let the Costa Ricans spend the revenues on imported computers.

What the gospel sometimes brushes by is that trade creates losers as well as winners. If some hapless farmer actually planted a banana plantation in Florida he would not look forward to competing with fruit that practically jumps off the trees in Central America.

Generally, trade hurts those who must compete against resources, human and physical, that are relatively abundant abroad. For the United States, that largely means unskilled workers in manufacturing. Thus, while the overall gains from opening ports to all those cheap clothes and shoes and electronics from abroad have been enormous, apparel workers in Manhattan are less enthusiastic than, say, aeronautical engineers at the Boeing factory in Seattle.

For the first few decades after World War II, America dominated world trade policy and its exporters had the biggest say in what the country demanded from its trade partners. Hence the organization created to negotiate trade rules, the General Agreement on Tariffs and Trade, was used as a tool to open markets in the industrialized countries and keep them open. Tariffs, which historically served to protect home markets, are no longer a major impediment to trade in most manufactured goods.

But since the early 1970s the economics of trade have been changing, and the geopolitics have followed. It is no longer clear which country or even which companies have a natural edge in producing which goods. Intangible factors like technological savvy and organizational skills seem to matter more than where the cheapest labor or materials are.

So, too, do "non-tariff barriers," — rules as subtle as health regulations and red tape at the dock — that are often written by governments with an eye to favoring the home team.

This has weakened the old coalitions of exporters in the industrialized countries, who stood as one against protectionist interests.

Under the compromise announced Friday, the United States will settle for far less than the rapid demise of agricultural subsidies that it hoped to get. And other issues could still keep negotiators very busy for a while longer. As Jeffrey Schott, an economist at the Institute for International Economics in Washington puts it, European farm subsidies were "the glue, not the guts, of a much bigger package."