

In a world worried about climate change, banks crashing and a global trade slowdown the Free Trade case might seem to some to be a side issue.

Not to us. We regard Free Trade as fundamental. Moreover we see present circumstances as an opportunity for Great Britain to provide a service to the entire world by opting to resume our position as the world's leading Free Trade nation.

That is a role for which the UK is uniquely suited by geography, by time frame, and by the existing established markets, financial and others. Also an advantage in this situation is the independence of sterling from both the dollar and the euro.

But to grasp the full significance of the Free Trade case it is necessary to understand three fundamentals. One is that it is trade that creates wealth. Unless a commodity can be traded it is worthless. The next fundamental is that an open market place, one where all nations can dispose of their surpluses at any time, is essential to the smooth functioning of global trade. The third point is that Free Trade can lower costs. That strengthens the currency by putting increased value behind it.

We well understand that many narrowly look on trade as a specialist activity, one quite separate from the rest of business life, such as the much greater turnover in foreign exchange and the money markets. But the reality is that without the underlying trade in goods the other activities would not exist.

We can also understand how those who look at the relative size of UK state sector spending (near £600bn) and the relatively small amount raised in tax revenue from tariff revenue (about 1% of the first figure) are puzzled by the importance we place on Free Trade. They miss the point that Free Trade values extend beyond tariffs on imports. They include opposition to all distortion of the market by government (whether by subsidy or over-regulation which often favours the incumbent producers).

Of course protectionism in all its forms appeals to our natural instincts. Whereas acceptance of Free Trade standards calls for a higher intellectual approach, and one that is less selfish. In fact it was through his studies of the principles of justice that Hayek (Nobel prize winner author of “The Road to Serfdom”) first came to understand and explain how and why the free market was preferable to the planned economy. At the time that he wrote that work (1944) not only was the planned economy the model for both Fascist and Communist dictators but also most intellectuals on the Allied side regarded the “government knows best” model as the only credible one for the future.

Hayek saw that their belief was based on intellectual error – most notably their failure to recognise that the planned economies that did then exist only survived thanks to free markets elsewhere. Were such planned economies to exist on a world-wide basis he forecast that millions would quickly be reduced to starvation. He summed up his conclusion in five words: “False prices misdirect human effort.”

That the political instinct to suppress or ignore the lessons of the market place still exists is shown by the response so far (“print more money to get us out of the debt hole into which we have fallen”). By contrast adopting the Free Trade stance would mark the starting point for a shift from our present high fixed-cost economy (one in which much of the population is heavily dependent on Welfare benefits in one form or another) towards a low-cost economy which will foster attitudes of independence, family support and encourage entrepreneurial activity to replace state-dependent activity in every sphere.

Naturally such a change cannot happen overnight. Also it would involve restoring control of our destiny from the EU in Brussels to Westminster.

Finally there is the problem that while many will pay lip-service to Free Trade they fail to understand that multilateral free trade deals (which inevitably advantage some and disadvantage others) are not the same as the adoption of a unilateral Free Trade approach by the UK without regard to what tariffs others may wish to impose.

The long delay in implementing the Doha agreement makes it clear that the rule-based multilateralism for which the World Trade Organisation has striven for so long is now a fading dream. And

even if Doha were to be implemented the estimates are that it would add no more than 0.1 % to world GDP.

This multilateral approach to trade is now rapidly being seen as a blind alley with a wall called Protectionism being built at its end. But if one nation can offer all a truly open market place then that will ensure that at least there is a wall in the door.

That is why, with the global economy now poised on the brink of what might develop from a slow-down into a shut-down, we see it as urgent to promote the Free Trade argument as a new strategy, a new paradigm, a positive start on how to tackle the credit-collapse gorgon now threatening to turn trade to stone.

This year (2009) the UK will assume the chair of the G20 meetings of world leaders and finance ministers. It is already known that as a matter of priority the G20 intends to consider reshaping Bretton Woods 1940s era institutions such as the IMF and also the World Bank. These are now recognised to be outdated in today's conditions. Yet in spite of the undoubted skills and best efforts of British officials at these G20 meeting we doubt that agreement can be reached. So here is an opportunity for Great Britain to lead the world by example with a statement of intent to commit to Free Trade values.

The moral case for a G20 member to adopt such a lead in the interests of the near 200 nations that now make up the world is unanswerable.

CHINA: One little reported shift in China's economic policy is the emphasis now being put on developing Free Trade Zones. The latest of these opened on November 20 in Hainan Province on the Yanpu Peninsula about 40km from the provincial capital of Haikou. It is intended to serve the South East Asia nations (Asean region) and brings to 4 the number of such zones that China has. China is also negotiating preferential trade agreements. New Zealand was the first developed country to negotiate such an agreement. It was agreed in April 2008 after 15 rounds of negotiation spanning three years. This trend can be partly attributed to Milton Friedman who was a frequent visitor to China. His views came to be highly regarded by many there.