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## How Free Trade Might Be the World's Best Option

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British Prime Minister David Cameron has rightly put [free trade](#) on the top of the G8 agenda. It is possibly one of the best ways we could help the world foster economic prosperity and development.

Cameron [writes](#) that comprehensive free trade "could boost the income of the whole world by more than \$1 trillion." As it turns out, this is likely a serious understatement.

The classic argument for free trade points out that specialization and exchange benefits everyone, because goods are produced by the countries that specialize in those goods and produce them most efficiently. The standard World Bank models show that realistic free trade, even just by the end of this decade would increase global GDP by several hundred billion dollars per year, with perhaps \$50 billion accruing to the developing countries. Towards the end of the century, the annual benefit will likely exceed Cameron's \$1 trillion annually, with half going to the developing world.

But a growing number of academic studies now show that the free trade story goes much further than simple specialization. History shows that open economies grow faster. Good examples include Korea from 1965, Chile from 1974 and India from 1991, which all saw their growth rates increase significantly after liberalization. Even modestly freer trade helps domestic markets become more efficient and get supply chains better integrated. At the same time trade transfers knowledge, which spurs innovation. Free trade means we don't all have to reinvent the wheel over and over again.

This is perhaps best captured in a recent state-of-the-art literature review by Professor Kym Anderson for the Copenhagen Consensus think tank. Anderson, one of the World Bank's lead modelers, shows that the long-run benefits from even a modestly successful Doha free trade round would be vast. The annual GDP compared to no extra free trade would in 2020 be about [\\$5 trillion larger](#), with \$3 trillion going to the developing world. Towards the end of the century, slightly higher growth rates will have accumulated to benefits exceeding \$100 trillion annually, with most going to the developing world. By then, benefits would add about [20 percent](#) annually to developing world GDP.

It is hard to imagine any other policy that the leaders of G8 could advocate that would generate more prosperity and development in the world. Recall the UK's last G8 summit where Tony Blair promised to fight global warming. Even if the G8 leaders had been successful -- which they predictably were not -- economic models show that they could perhaps have avoided a fraction of one percent of GDP damages towards the end of the century. An outcome orders of magnitude less beneficial, much less achievable and likely with an astonishingly higher price tag.

While the benefits of global free trade seem so starkly obvious to the world, it is also clear that vested interests, especially in agriculture, fight for their privileges. About [40 percent](#) of government expenditure on global subsidies goes to agriculture. Despite farmers comprising a very small proportion of the population in developed countries, agricultural interests seem to have a stranglehold over OECD governments to keep their [\\$252 billion](#) in annual support.

Protecting inefficient agriculture from competition may seem politically convenient but it has huge costs. It means higher food prices which harms consumers. And it ignores one of the most amazing opportunities to grow the developing world and ensure development.

Yet, there are many reasons we need to get farmers and others off subsidies. Even with austerity, the EU's Common Agricultural Policy makes up the biggest share of the EU budget, costing [363 billion euro](#) between 2014 and 2020. The upcoming U.S. farm bill might waste \$950 billion over the next decade.[viii] Here, the G8 should take the creative and courageous steps necessary. For example, it could compensate entrenched interests for their losses over the next decade or two, while it phases out subsidies and other trade distortions. This cost would run to another [\\$50 billion per year](#) globally, but would be a miniscule price to pay for the benefits yielded by free trade -- for every dollar spent, the world would see much more than a hundred dollars of long-term growth benefits.

Kick-starting the global free trade agenda would be an ambitious and monumental legacy for the G8, paving the way for negotiations between the EU and USA, and for the WTO meeting in Bali at the end of 2013. The vast majority of the world's people would benefit today and tomorrow from free trade. We have the opportunity to help the world's poor, and help ourselves, if we can just muster the courage.

*Björn Lomborg is the author of The Skeptical Environmentalist and Cool It, director of the Copenhagen Consensus Center, and adjunct professor at Copenhagen Business School. Lomborg's new book How to Spend \$75 Billion to Make the World a Better Place was published on June 1.*