The Case for Unilateral Free Trade and its Benefits for a Nation's Economic Interests

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Abstract: ***Theoretically, the principles of international economics prescribe universal free trade, in keeping with the idea of comparative advantage and the benefit it brings to all parties involved in trade. However, this status of absolute free trade has never been achieved, and nor does it seem likely, at least in the near future. Multiple concerns, from the protection of domestic industries to fear of over-dependence on foreign goods, makes lawmakers in nearly every nation hesitant to eliminate barriers to trade. Another major deterrent is the phenomenon that very few are willing to take the first step towards abolishing trade barriers, in the fear that non-reciprocation from their trade partners could harm their domestic economy. This article explores some of the reasons that tend to deter countries from adopting unilateral free trade, and the reasons why adopting this policy would benefit a nation irrespective of the subsequent actions of its trade partners.***

Keywords: Unilateral Free Trade, Free Trade, International Economics, Trade Barriers, Trade Policy

1. Article

Renowned French economist Frederic Bastiat said, "trade protection accumulates upon a single point the good which it effects, while the evil inflicted is infused throughout the mass".

Just as no human can sustain oneself by remaining completely isolated from society, no country can fulfil its needs and the demands of its consumers solely by relying on its domestic production. International trade is intrinsic to the functioning of the global economy and the well-being of consumers worldwide. However, there are contrasting views regarding the extent to which increasing or decreasing the exchange of goods and services with other nations may help a nation's economy to thrive.
Many economists since the time of Adam Smith have upheld the view that nations should adopt free trade policies, i.e., the transaction of goods and services should be carried out in the absence of any kind of government intervention. Unilateral free trade is a policy followed by a nation under which it removes any barriers to trade (easing the pervasion of imports into the domestic market) irrespective of whether its trading partners reciprocate the easing of barriers or not. However, others argue that protectionist policies such as the imposition of tariffs and quotas are essential for safeguarding domestic markets and producers and preventing a nation from incurring a substantial balance of payments deficit.

Government policy makers usually make a host of arguments supporting the cause of protectionist measures. One common concern is that increasing imports would harm domestic industries and lead to a loss of domestic market share to cheaper foreign goods thereby increasing unemployment rates. This reason was used by nations to impose high tariffs on imports to protect jobs during the Great Depression. Soon, more and more countries adopted this policy and it caused global trade to drop by around 65% during the Depression. In reality, the entry of foreign goods in the domestic market will boost the nation's economy in the long term, while at the same time satisfying the needs of the consumers by increasing the choices provided to them.

In many cases, governments that erect barriers to trade do so to protect declining domestic industries who argue that if barriers are lifted, it will cause a loss of jobs for their workers. In fact, such policies only delay the inevitable collapse of such industries and lead to a misallocation of resources by causing consumers to pay higher prices to these firms. For example, the United States implemented a tariff on shoe imports in the 1930s, which continues to this date. This has not harmed shoe exporting countries to a great extent, but instead has significantly disadvantaged American shoe consumers. As in this example, the final costs of tariffs are generally borne mainly by the consumers of the goods. This decreases the amount of money they could spend on other goods, thus decreasing spending and harming the nation's net GDP (gross domestic product). If free trade were facilitated, it would encourage competition and compel domestic producers to increase their efficiency and produce at lower costs to try and retain their market share. In the long term, this would facilitate economic growth in the importing country as the productivity (output per unit input) would increase, thereby increasing the aggregate supply and GDP. This would gradually increase the demand for labour as well and create more employment opportunities in the country.

An interesting example for the case of unilateral free trade can be seen in the Corn Laws of Britain and their repeal in 1846. These laws were intended to constrict the flow of grain imports into the United Kingdom to protect British agriculture. This had caused grain prices in Britain to rise, starting in 1791. This gradually became unpopular with the middle class as they had to pay higher prices for food grains, which are necessary goods with relatively price inelastic demand. The "Anti-Corn Law League" was formed in 1839 to convince the government to ease the trade barriers, and the onset of the Irish Famine in 1845 due to the failure of the potato harvest (the staple diet of the Irish at the time) persuaded Prime Minister Robert Peel to repeal the Corn Laws. This helped to lower the food grain prices and make greater quantities available to British consumers. An argument against the validity of this example as a precedent is that Britain's industrial supremacy since the time of the Industrial Revolution protected the domestic industry from foreign competition at the time. However, the British agricultural industry did not enjoy any supremacy as such and the inflow of imports in fact helped to boost other industries such as manufacturing.

It is also argued that trade barriers to constrict the flow of imports are necessary to prevent dumping of foreign goods into a nation and to overcome or prevent a balance of payments deficit. For example, President Trump had alleged that China has been dumping large quantities of cheaper aluminium and steel into the United States, which prompted tariffs on steel and aluminium imports and subsequent retaliation from China, leading to a trade war. Another reason cited by the USA for imposing tariffs was that steel is vital to its national security, which concurs with a loophole in Article 21 of the World Trade Organisation charter. Although the WTO charter states that countries will not be compelled to "furnish any information" considered "contrary to its essential security interests", in some instances actions such as these tend to be based on concerns about foreign competition rather than concrete strategic concerns. The argument for prevention of dumping of goods is generally difficult to quantify but is often cited as a reason for trade barriers.

Furthermore, the balance of payments of a country consists of current, capital, and financial accounts. Supposing an influx of imports leads to a significant current account deficit (relating to the balance of goods and services trading), the removal of barriers would promote inflow of funds and investment thus compensating the current account deficit by a capital or financial account surplus. Additionally, in the case of a floating exchange rate, a large current account deficit could cause the nation's currency to lose value. This may seem unfavourable at first glance, but it would make imports more expensive and less appealing to domestic consumers while at the same time making exports cheaper and more appealing to foreign consumers thus helping to balance the deficit by increasing the net exports.

An important argument favouring the promotion of free trade is the concept of comparative advantage, which means that some countries can produce certain goods at lower opportunity costs because they are better equipped at the production of such goods and services. For example, Saudi Arabia has large reserves of oil and oil processing plants whereas Germany is a technologically and industrially developed nation with a strong manufacturing base. If these two countries focus on producing goods which they can yield higher quantity as well as quality in, then the net output will be higher, and their mutual requirements can be satisfied by exchanging these goods through free trade. This would help in expanding the economies of both countries.

Despite a common view that free trade is possible only when both the trading partners involved in the exchange of goods remove trade barriers, trade liberalisation policies can be taken unilaterally as well. Unilateral free trade provides most of the benefits of bilateral or multilateral free trade to the nation which adopts it. Under the GATT and subsequently the WTO, multiple trade agreements have indeed been signed but these require a great deal of negotiation and diplomatic talks to finalise. In the end, they tend to result in liberalisation only to a minimal extent and are usually wrought with elaborate terms and conditions for "special" cases.

Unilateral free trade is ultimately beneficial for the country and can be adopted irrespective of the policies of its trading partners. A nation which adopts free trade policies will experience an increase in trading. The inflow of theoretically cheaper goods would increase the amount consumers can spend elsewhere and would expand the nation's GDP.

Some trade policy makers voice concerns that unilateral trade would cause a nation to lose any leverage that it might need to negotiate trade agreements. However, two-thirds of all trade barrier reductions in the twenty years between 1983 and 2003 were unilateral actions, and a wide host of free trade agreements were signed during this period. Hong Kong, which is one of the most economically vibrant regions in the world, follows unilateral free trade but does have trade deals as well. Ninety-nine percent of imports entering Singapore are not subject to any barriers, but the country is still part of 23 free trade agreements.

Easing trade barriers is also important from an ethical standpoint. Although this is not a strictly economical factor, the protectionist policies adopted by developed countries tend to deprive firms in developing countries open access to large markets. Developed countries should ideally take the lead in adopting unilateral free trade to promote global economic growth, especially in developing economies, so that the fruits of development are more evenly spread across the globe.

However, there are some legitimate exceptions in which adopting absolute free trade may not be the optimal solution. For example, if unilateral free trade is allowed for high energy fissionable materials such as plutonium or destructive weapons, it could lead to severe security issues and put nations at incredible risk. To some extent, protectionism in developing economies and LDCs (least developed countries) aimed at facilitating the growth of infant industries may be justified as these industries would grow in an economic environment lacking many of the amenities and resources present to industries in developed and industrialised nations. But it is important to ensure that once such industries cross a certain stage and can compete with foreign competitors, their protectionism benefits are withdrawn instead of being continued indefinitely as tends to be the usual case.

In recent years, because of increased free trade, China had become a major supplier of raw materials for pharmaceutical companies in Europe and the USA. Many of the plants and factories in China which manufacture these materials are located in and around the Wuhan region. With the outbreak of the coronavirus starting from Wuhan in early 2020, manufacturing was brought to a halt and the pharmaceutical supply chain was severely disrupted and that too at a time when a deadly pandemic had broken out. This made many European countries as well as the USA realise that they could not be dependent on imports for vital areas such as safety and healthcare. So, they decided to gradually shift more and more pharmaceutical manufacturing to domestic industries. In cases such as these, some amount of trade policies ensuring that a country is not dependent on imports for vital industries may be necessary because any unforeseen circumstance or degradation of diplomatic ties could compromise a nation's self-sustaining capabilities.

In conclusion, although some level of trade barriers may be favourable in a few special cases, in most situations unilateral free trade is economically beneficial for the country which implements it. Economists from John Stuart Mill to David Ricardo have supported the idea of not only free trade but unilateral free trade, where the gains greatly outweigh the costs. To allay concerns of detrimental impacts on domestic industries, the trade liberalisation policies could be gradually implemented, giving time to domestic firms to react and adjust to the changes. Milton Friedman made the following statements in his book 'Capitalism and Freedom', while arguing for unilateral free trade as the foremost path to freedom and increased prosperity: "Our tariffs hurt us as well as other countries. We would be benefited by dispensing with our tariffs even if other countries did not. We would of course be benefited even more if they reduce theirs but our benefiting does not require that they reduce tariffs."

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