

Free trade and the retreat from globalisation

I accept the theory of free trade, that all nations would be richer if they traded freely with each other. Successive rounds of GATT followed by the work of the WTO have boosted world economic activity a bit.

I also agree that for any individual country in theory it could be better off if it went for unilateral free trade, on the grounds that it would benefit from cheaper imports, though would not gain extra opportunity for its exports. I do not however recommend such a policy because it does assume that other countries would not exploit the perceived weakness of a country welcoming more imports without demanding something in return. Were other countries to accept the freedom to sell to that country and at the same time exploit it by making imports from it more difficult it might harm the country making the unilateral offer. It can also lead to strategic weakness by being import dependent on countries that may later become hostile or unhelpful. Trade theory assumes rational economic actions by others, when they may act in a harmful economic way for other reasons.

I am a free trader who believes in offering to remove tariffs and barriers in return for similar offers from trading partners. Today we must recognise that there are strong winds of economic nationalism. President Trump called out China for her trade and IP practises. He moved to ban certain Chinese trade in goods in technologically sensitive areas, and imposed tariffs in an attempt to stem the tide of imports. President Biden is continuing with the same policy albeit with a different choice of diplomatic language. He is reinforcing the idea of making more things in America to replace imports. China retains higher tariffs than the west, controls inward investors through joint ventures and restricts access to some markets.

There have always been cultural and administrative restrictions on free trade and investment in countries claiming to believe in open markets and the free movement of capital. Some UK companies have found it very difficult to invest and work in France and Germany despite being members of the single market for many years. UK retailers for example, reckoned to be world leaders in our early days in the EEC/EU, were unable to build profitable chains of shops on the continent. There have also always been aggressive strategies pursued by some countries to grab market share for their companies and put others at a disadvantage. We have just seen some of this over vaccine production and supply within the EU.

Given the avowed America First, EU first and China first policies being pursued currently, the UK needs to do more work on import substitution and domestic capacity. There is a fixation with marginal changes to export volumes and opportunities, and too little study of how we can become more independent in timber, energy, fish, temperate food, and much else besides. The recent expansion of vaccine production here at home has been a great strength and shows what can be done when there is a concerted effort to use

our new freedoms to good effect.