

Let the UK be a voice for free trade

Most economists and most western governments agree that the more you free trade the more prosperous the participating countries will be. It is clearly true in theory. If Country A removes tariffs or other barriers to importing better and cheaper items it will be better off by the amount it saves on the imports, whether the other side similarly liberates or not. If both sides remove barriers then clearly both will be better off, as each will concentrate on what they are best at, lifting the buying power and living standards in both countries.

Today the theory of free trade and international specialisation is under threat, both from Mr Trump who thinks tariffs and a trade war might be good for the USA, and from China, the EU and others who impose tariffs and non tariff barriers against trade whilst claiming to believe in free trade. It is the huge German/EU surplus on its US trade, and the Chinese surplus with the USA that has triggered Mr Trump's interest in the first place. He argues that there is an excessive imbalance because China and the EU do not play fair. He points to cheap currencies, state subsidy of overcapacity and below cost prices for some Chinese goods, and the EU tariff of 10% on all imported cars as part of his case. He says he wants to rework NAFTA and explore bilateral trade deals that are fair to the USA and to the other party. He thinks a bad trade deal is damaging to US interests, undermining jobs and incomes at home as the US comes to rely on cheap imports and foreign exchange borrowings to pay for them. He points to high levels of protectionism on agricultural produce in the EU and the NAFTA area.

A trade war will make losers of all involved. What country A gains on domestic production by pricing out imports it loses on exports to Country B who retaliates, and loses out from the higher price level in its own country squeezing real incomes. With a steel tariff on imports into the US, for every steel job at home that helps, several steel using jobs at home are weakened.

At this juncture the UK stands close to the point where it is an independent country again capable of pursuing its own free trade policy globally through its membership of the WTO and its worldwide network of diplomatic and business contacts. This is a good time to make the case for freer world trade and to lead negotiations at the WTO to put new life into removing tariffs and other barriers. They are still universally high on agriculture, and a wider issue with many emerging market countries that retain high levels of protection in ways that are unhelpful to themselves.