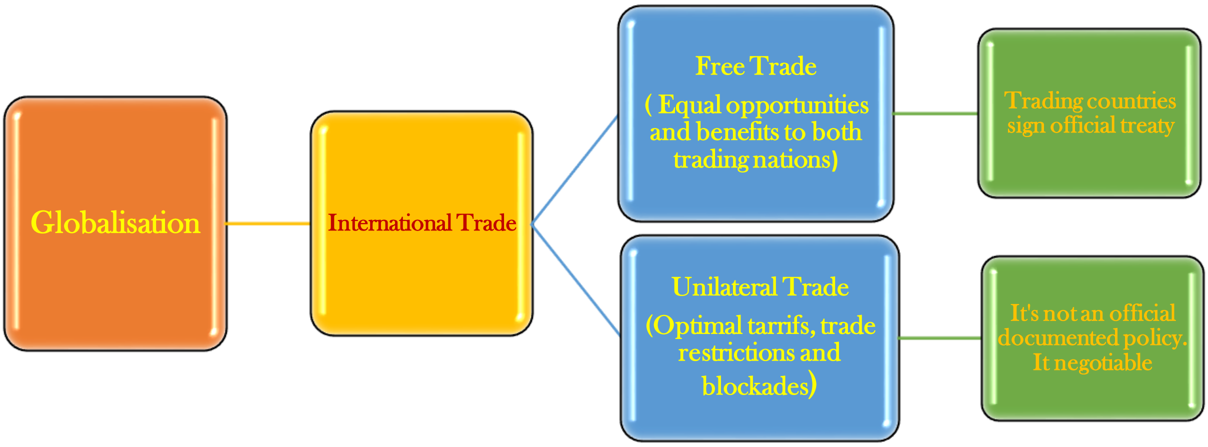
Does unilateral free trade serve a nation's economic interests?

Globalization has provided many opportunities worldwide, including educational, technological, and economic progress. [1] International trade is an excellent opportunity for exchanging goods and services globally. [2] Global free trade not allows consumers to access imported goods from other countries but also offers an opportunity to represent its domestic goods to the international market and prosper worldwide. [3] Another flip side of international trade is that it increases international competition and the risk of intellectual property theft, extra shipping charges, returning the purchased goods, and destroys localized jobs. [4] What if a unilateral trade is imposed on a country?



A unilateral trade agreement is an agreement that is enforced on a country or industry by another, and it focuses only on the profit of the country that imposes it.[5] It is implemented by restricting or minimizing imports and increasing taxes. Whereas free trade is an association between countries that encourages cross-border import and export at minimum or no government subsidies, quotas, and restrictions. [6] When two countries have their advantages and disadvantages of international trade, each of them has a right to utilize their commodities and skills to increase the production of their goods for reaping the highest profits. [7]

If a country imposes unfair trade regulations, then another will risk its own prosperity by accepting these regulations inviting the sufferings of national citizens. As a result, international trade has exposed the global nations to massive competition, and some nations emerged as the winner and tough competitors while some are exposed to the risk of foreign currency exchange barriers and unemployment. [8]

In 1974, Benjamin Franklin quoted that "no nation was ever ruined by trade, even seemingly the most disadvantageous." [9] Trade paves the ways to economic growth and strengthens the relationships among the nations by minimizing all sorts of cultural and regional barriers. A nation can develop its trade policy without the interference of another country. [10]It can lower its taxes, tariffs, and invest in the international market smartly, restrict and reform its border security and attract international capital. [11]

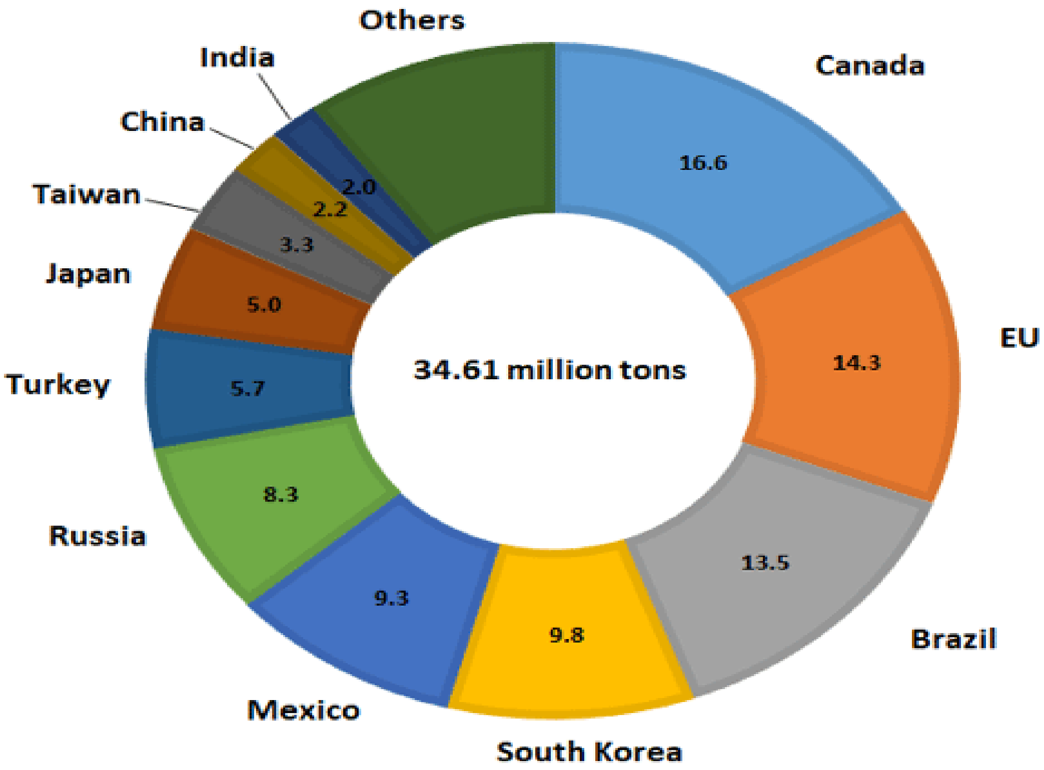
The policies chosen by the nations for international trading can turn out to be prosperous for its citizens, local producers, employers, and farmers. On the contrary, it may also lead to the disaster of its own economy. James Mill stated in Elements of political economy that a country's benefit is derived from the imported goods and not from the exports as it is citizens already have access to its exported commodities. If a country exchanges goods with another country, then it may receive those commodities which are not locally available. [12]

However, foreign capital can bring unexpected challenges and risks. [13]According to the economist like Douglass Irwin, free trade is an ideal approach to international trade. [14] At first glance, free trade policy appears to be fair and beneficial, but it also exposes the domestic labour to international competition. [15] Two countries intend to exchange goods, skills, techniques, and progress economically and intellectually. However, these close relationships increase competition and lead to many other issues such as price fall of domestic goods and force the domestic production to increase the efficiency matching the foreign standards.

In contrast, unilateral trade policy may seem reasonable and safest option to protect the national economy, jobs, and improve efficiency in the global market. It enables a country to control the imports and exports from another country by implementing high tariffs, high duty and shipping prices, and restrictions on imports of certain products. [16] Furthermore, it favours only one country's economic wellbeing degrading another country's rights to equal benefits and decisions. In simple words, one country reaps all the benefits of international trade and protects the domestic labour, production and increases its efficiency while another compromise on its economy, production, labour, and efficiency.

Recent studies suggest that the current unilateral trade policies of the US and China's economic system is impacting the global trading system. [17] President Donald Trump spoke on free trade that "What we will no longer do is enter into large agreements that tie our hands, surrender our sovereignty, and make meaningful enforcement practically impossible." According to Trump, free trade binds a country's decision-making process to control the import, exports, and economic progress. No matter free trade offers enormous benefits and opportunities to the consumers, but it also binds the national governments from reaping the desired profits for its domestic production, subjecting them to competitions. [18]

Figure 1: Share of U.S. Steel Imports by Country/Region (2017) (%)



Source: Global Trade Atlas, USITC Data Web

Nations join together for mutual trade and welfare as it will reduce the barriers. A nation protects its domestic jobs, and another nation suffers from export costs. Global businesses suffer, likewise weakening each other's economy. If a nation increases its optimal tariffs, it only tends to bother about its own welfare subsiding another country's welfare. [19] It increases the cost of foreign taxes and reduces the profits of a domestic country. If a domestic nation is affected by the highest tariffs, then they may also retaliate and tend to elevate their tariffs, which in turn may suppress another nation, and the chain of protectionism continues to harm each other, leading to a hidden trade war. [20]

Suppose a foreign country imposes unilateral trade and restricts the imports from the domestic country but exports its goods within the domestic country. The domestic country has to pay for the imports in foreign currency, but how is that possible? As a foreign country has restricted imports from the domestic country. Having no choice but exporting its commodities to another country with the same currency that would accept their imports can be a solution. [21] It may sound easy, but what if another country also restricts the imports or increases the optimum tariffs? It will disrupt the economy of the domestic country as it may struggle with foreign currency exchange and may risk its production and economy to the massive loss and sufferings.

The world has recently witnessed the trade-war between the US and China. [22] Today, these are the two dominant economic superpowers of the world. [23]Both of these nations increase tariffs on imported products from other trading partner countries; as a result, consumers are forced to pay the highest prices while purchasing and importing goods from other countries. In 2019, the US initiated the trade war against China by imposing the highest tariffs of around US$360 billion on Chinese commodities. However, this strategy backfired as China has also exchanged a blow of US$110 Billion increased on US imported goods. [24]

Unilateral free trade policy provides many benefits of free trade while protecting the national economy. [25] In this policy, the government of a country reduces taxes, tariffs, and restrictions on imports. It is not an official agreement, and it works on the mutual understanding and negotiation of two countries. [26]

However, President Donald Trump tried hard and attempted to disrupt international trade, but the wheel of time has taken its turn, and the world is witnessing a massive global crisis. [27] The widespread of coronavirus has disrupted the peace, health, and economy of the world. The world as a whole is struggling and living through this pandemic. This crisis has provided an opportunity to help each other. The world supply chains are suffering from the shortage of necessary life-saving equipment and medicines. [28]

Meanwhile, this pandemic has given a wake-up call to the governments and employers to rethink the trade relationships with other countries. Governments of worldwide took measures to overcome this pandemic by restricting the immigration, mobilization of people globally. [29] Supply chains are disrupted, and the Economists were recalling the Great Depression of the 1930s and the financial crisis of 2008-09 comparing it with the current pandemic crisis. The World Trade Organisation (WTO) estimates the global trade to decrease from 13% to 32% in 2020. [30]

Furthermore, some countries considered banning the exporting medical aids from conserving it for its own citizen's life in response to the pandemic. World Trade Centre stressed on making the medical essential accessible globally as this could adversely affect the less developed nations relying on the imports and could not produce the goods for consumption. [31]

Amid this crisis, the World Bank has issued guidelines addressing the global trading policies in response to the pandemic. It emphasized reducing the trade restrictions on essential commodities such as medicines, food, and medical equipment, eliminating the application and license process. It also stresses on maintaining jobs and foreign exchange profits and partake in the recovery of the world economy. [32] Heeding to these guidelines is the necessities of the time if the countries squander this opportunity for protecting the only self economy, then it may bring a lot more adversities.

Britain is the only country among 17 countries of the European Union that does not use euros currency and maintains free trade from all these countries, paying all the taxes for being a member of the EU.[33] Britain is not a member of the European Monetary Union (EMU), and Europe imposes biased regulations of price hike over Britain, allowing it to trade freely only within the British market. [34] Europe intends to push Britain entirely out of the European Union. Nobody can dispute the fact that these regulations are unconstitutional. Furthermore, many countries who are the members of EMU are in debt, and this crisis will continue until these countries leave EMU and reinstate and manage their own currencies against 'euro' and restore the competition. [35]

Patrick Burke, in his book "No harm," explains that "it is a requirement of justice that governments allow buyers and sellers the freedom to make whatever agreements they wish, so long as they do not harm others." [36] He states that physical harm is the real harm, and conditions like warfare increase the risk of physical harm destroying the assets of a nation. [37]

Barricades are one of those barriers that put a nation to the risk of actual harm by destroying their access to international markets confining their import and export of goods. [38] This kind of discrimination may not harm the domestic country, as it will remain in a similar state before the restrictions unless it allows import from the protectionist country. Instead, the country which discriminates other country and imposes restrictions on it is goods then that country is subjected to pay higher rates to access the same goods from other countries. [39]

The same case followed in China as well as it exported its goods at lower costs subjecting its citizens to sufferings due to high optimal tariffs of the United States.[40] The domestic countries should not allow trade and import from protectionist countries that prohibit the imports of domestic countries. [41] If a domestic country encourages the imports of such countries, then their currency may circulate in the global market and may be stuck in the foreign banks if they do not find the countries which accept their goods to exchange the currency(equal and similar to protectionist country). [42]

The flourished countries always allow international trade on the grounds of mutual agreement and profits instead of government policies. China has emerged as a growing global economic power during the pandemic. [43] China was the first nation that reported the COVID-9 cases. Its foreign investments, supply chains, the capital flow has been increasing rapidly. These international trade controversies kept on arising even before this pandemic crisis due to the unilateral policies imposed by the protectionist countries. [44]

After this crisis, the countries across the world are more likely to reboot their trading and manufacturing industries and conserve their domestic commodities. [45] It would be beneficial for the future as it will strengthen the supply chains and help to overcome the circumstances like pandemic and scarcity of essential commodities. Nations may prefer conservative policies of global trade. [46]

The international unilateral trade policy will serve a nation's economic interest as long as it focuses on building its trade policies considering its domestic production and balancing the healthy trading policies with other countries. [47] It should never accept any unfair trade policies that can damage its own productivity and economy. [48] It can be achieved by easing the restrictions on imports, tariffs, and service taxes as it will cater to the prosperity of the two without challenging and harming its economic efficiency. [49] Unilateral free trade is an excellent way of exchanging goods and services across the world to maintain harmony and equality among the countries. [50] It may also serve to minimize barriers among countries, resolving many disputes.

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