

# The Telegraph

## If Remainers like free trade with the EU, why not with rest of the world?

Ryan Bourne

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Do Remainers favour free trade or protectionism? Are current tariffs economically significant or not? It's hard to keep up with the musings of those opposed to leaving the EU.

On the one hand, anti-Brexit folk such as former chancellor George Osborne claim Brexit is “the biggest single act of protectionism in the history of the United Kingdom”. On the other, leaked government no-deal plans to abolish all tariffs on worldwide imports this week summoned Remainers' inner Donald Trump. Dubbing the idea “sheer lunacy,” “suicide” and “devastating” to industries such as agriculture and ceramics, the free-market champions transformed into outright protectionists.

Sam Dumitriu, of The Entrepreneurs Network, pointed out a glaring contradiction here. If reducing tariffs would have “savage” effects on industries by flooding the market with cheap goods, this suggests consumers are currently greatly harmed by those same trade barriers. Self-declared industry demands to be insulated from foreign competition shows the EU's protectionism is real, raising prices and reducing choice for consumers.

This might seem counterintuitive, but most economists believe that imports are the key benefit of trade and exports merely the cost of obtaining them. Import barriers therefore amount to self-harm, like partially blockading your own ports. All else equal, unilateral tariff reductions, irrespective of what other countries do, are economically beneficial. They deliver lower prices and more choice for consumers, but also impose the disciplines of competition on our industries, making the economy more productive. This is precisely why we trade.

That remorseless logic applies whether we open up to goods from the EU or Timbuktu, deal or no deal. So why is Liam Fox's contingency plan so controversial? One explanation is politics. Remainers are loath to admit there are upsides from Brexit. In the event of no deal, keeping imports from the EU flowing into the UK without tariffs requires (under WTO rules) offering the same tariff-free access to the rest of the world. Remainers can therefore play on the grievances of those losing EU protection. Given the costs of tariffs are diffused across the economy, but the benefits are narrowly concentrated on industries and their workers, the latter's cries of anguish will be louder than consumer cheers.

Yet there's an economic argument made too. The problem, some Remainers say, is that tariffs – having fallen worldwide over decades – are no longer the key impediment to trade, especially for a services economy. Unilateral tariff reduction provides gains, yes, but these will not offset the losses from new trade barriers developing with the EU. Unilaterally “disarming” on tariffs will

furthermore reduce what we have to offer countries in coming to trade deals, hindering the potential to open up new export markets.

This sounds seductively sensible. But again, there is a glaring contradiction. If trade deals are not primarily about tariffs these days, then abolishing tariffs should not massively affect the incentive for countries seeking deals with us. If everyone recognises non-tariff barriers, standards and regulations on service sectors are the nuts for negotiators to crack, free-trade agreements (FTAs) are useful even when one side is tariff-free.

This is borne out by evidence. Hong Kong imposes no import taxes, but has FTAs with China, New Zealand, EFTA countries (Iceland, Norway, Switzerland and Liechtenstein) and Chile. Ninety-nine per cent of imports enter Singapore duty free, but the country has FTAs with China, Australia, New Zealand, India, Japan, Korea, EFTA, Turkey and the US.

Trade economist Doug Irwin has noted that around two thirds of the tariff reductions seen globally between 1983 and 2003 were undertaken as unilateral measures, and during that period major FTAs were signed. Extensive unilateral liberalisation has been seen in Chile, Australia, New Zealand and Indonesia, and, since 1991, India. There is little evidence then that unilaterally reducing tariffs represents a large impediment to our broader free-trade ambitions.

In fact, by reducing demands in other countries to replicate our protection and weakening import-competing lobbies at home (who then have incentives to lobby for favorable taxes and regulations, by the way), some argue unilateral action begets counter-liberalisation that could benefit exporters. The evidence here is less clear. But certainly after the UK adopted unilateral free-trade upon scrapping the Corn Laws, liberalisation rippled through Europe.

That's not to say there aren't theoretical benefits to negotiated tariff-reducing deals. Mutual action can protect against domestic political swings, by creating export industries with "skin in the game" to resist reintroducing barriers. Just look at how UK exporters to the EU are lobbying against leaving the single market and customs union! Simultaneous reductions can mitigate shocks to certain industries as well.

But there's costs too. Negotiated tariff reductions can entrench the idea that imports are "bad" and exports "good". Making liberalisation conditional on other countries' willingness to act will also necessarily limit ambitions away from complete tariff abolition as negotiations play out.

Far from a crazy idea cooked up by desperate Brexiteers then, unilaterally slashing tariffs has historical pedigree and is based on sound economics. The prospect of no deal and the rising forces of protectionism make the need for countervailing liberalisation pressing. In fact, with others unwilling to negotiate reasonable deals or veering to mercantilism, there's arguably never been a better time for free-trading nations to "go it alone".

Ideally, tariff reductions would, of course, be phased in to give certainty to business and time to adjust. But we are where we are. Brexit itself is a trade shock and policymakers' responsibility should be to set the best conditions for long-term economic health.

If importing goods tariff-free from the EU is economically beneficial, then so is importing goods from the rest of the world. If tariffs are not significant, as Remainers claim, then reducing them brings no significant loss of bargaining power in future trade deals. Politics should not blind anti-Brexiteers to the logic of their own arguments.

*Ryan Bourne holds the R. Evan Scharf chair for the public understanding of economics at the Cato Institute*