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The Case for **Unilateral Trade Liberalisation** in **ASEAN**

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Introduction

Since taking the unilateral trade liberalisation route, Singapore has seen positive results, but would this approach work just as well for the other countries in The Association of South East Asian Nations (ASEAN)?

This paper briefly explains:

01 The comparative advantage theory

02 Commodity price equalisation

03 Factor mobility and factor price equalisation

To provide a clearer perspective on the current trade performance in the region, this paper takes a closer look into the progress that member-countries have made in eliminating import duties and managing tariffs, when conducting inter and intra ASEAN trade. While there has been an evident reduction of tariffs, some member-countries have employed the use of non-tariff barriers, such as by implementing strict technical regulations. On top of being problematic for businesses, these trade barriers are restrictive towards individual and economic freedom.

This paper also includes brief statements by economic opinion leaders to highlight the importance of moving ASEAN towards unilateral and liberalised trade. To achieve unilateral trade liberalisation, which would encourage foreign investment and trade, this paper concludes that member-governments of ASEAN must play active roles in reducing barriers for the benefit and prosperity of their respective countries.

The Case for Unilateral Trade Liberalisation in ASEAN

Bienvenido "Nonoy" Oplas, Jr.

People want convenience in life and there are some things that they need or aspire for, which they or their neighbours cannot produce on their own. Hence the need to trade their surplus output and in return, get certain goods and services that are produced by other people from another location or country.

A rice and vegetable farmer may be self-sufficient in food and can exist for many years without the help of other people. However, the farmer would also need clothes, shoes, books and other educational materials for his children, medicines and healthcare, a motorised vehicle to visit places, or a hand tractor to lighten his work in the fields. He can sell his extra produce for money to buy other things, that he and his family need, that are produced from another province or country.

An archipelagic country with hundreds or even thousands of islands in a tropical climate would have trouble to efficiently produce agricultural goods but would be ideal for large scale tourism. A country that has wide contiguous landmass with good irrigation systems and fertile soil may not be the most attractive tourist destination but has an advantage in large-scale cultivation and farming. And a small country with little else to offer but high levels of education and a skilled workforce can have an advantage in the provision of services such as commerce, finance and banking and so forth.

> "*Trade is part of human nature.*"

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In 2013, the Friedrich Naumann Foundation Philippines awarded Nonoy the Freedom Flame Award.

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A. Theory of Comparative Advantage

David Ricardo (1772-1823) is a famous British investor who went to study political economy after reading Adam Smith's "The Wealth of Nations". He formulated the idea that people need not produce everything that they need, and instead, should have a specialisation of labour to produce certain goods and services of which they have ample resources and skills, then export their surplus output and import or buy from other countries that provides goods that they lack.

> *Ricardo's theory of comparative advantage says that a country that trades for products it can get at lower cost from another country is better off than if it had made the products at home.*

The theory of comparative advantage is different from having absolute advantage.

To illustrate the two concepts, consider an example of a pair of consultants who are married to each other, and they each earn around $100 per hour. The husband can drive faster and safer than an average driver for hire; the wife can take care of babies, cook and clean the house, better and faster than an average nanny, cook or helper. In this case, the couple has the absolute advantage in research and consulting, driving, cooking, and in taking care of the young children. It is possible for them to do everything and not get any outside services.

Yet if the couple decides to get a driver, a nanny, and an extra helper or cook with the hourly rates of $15, $10 and $10 respectively, for a total of $35/hour, then the couple can concentrate on their higher-paying work as consultants. Here is an illustration.

Table 1. Comparative Advantage at the Household Level

	Per hour	10 hours
Consultants	100	1,000
Driver, Nanny, Cook/helper	35	350
Net gain from trade/outsourcing	65	650

In this example, the couple has the absolute advantage in being consultants, driver, nanny and cook at the same time. But the professional driver has *comparative advantage* in driving, the professional nanny has the Comparative Advantage in taking care of the children, and the cook or helper has the Comparative Advantage in cooking, doing laundry and house cleaning.

The couple is better off and can earn higher if they buy the services of other people, freeing themselves X number of hours per day so that they focus on their work as consultants. **This is the free trade of services and an application of the theory of comparative advantage at the household level.**

Thus, while many people may oppose free trade, consciously or unconsciously they are practicing it; they are engaged in it. Even militant protectionism crusaders need to eat and they want to freely choose where to eat. Thus, they do not go to restaurants that are too expensive for their budget, nor do they go back to a restaurant which may be cheap but gives disappointing service. They want to be served well given their budget or they may endure bad service in exchange for cheaper food.

> *While many people may oppose free trade, consciously or unconsciously they are practicing it; they are engaged in it.*

B. Commodity Price Equalisation

When goods are freely mobile and their prices are different across countries, all other things being equal, then the importing countries will buy from the cheapest suppliers and the expensive local commodities will experience price decline with the entry of cheaper goods from abroad. On the part of the exporting countries, increased local and foreign demand will lead to a price increase there and what used to be cheap products will become more expensive through time.

The graphs below, for readers who have no background in basic economics, is a quick guide on supply-demand curves. The price is written on the vertical axis and quantity is on the horizontal axis. The supply curve (S) is upward-sloping, which indicates that as the price of a product goes up or remains high, more products will be supplied. The demand curve (D) is downward-sloping, indicating that as the price goes down or remains low, consumers will demand and buy more.

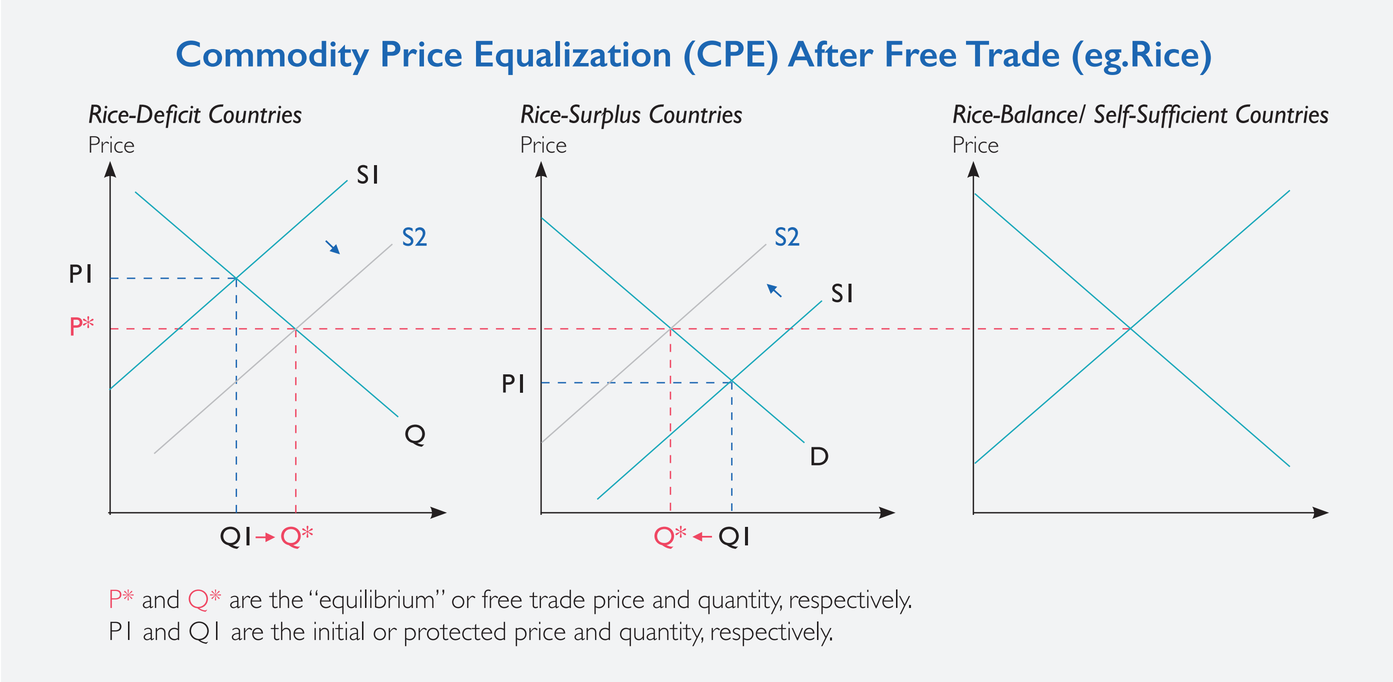
> *For as long as there is zero or very little trade barriers, this process will result in commodity price equalisation (CPE) of those goods among trading countries.*

Free trade expands the supply curve and it moves to the right. Thus, in the graph on the left, S1 moves to S2 and this expands the quantity available for domestic consumption from Q1 to Q*. As a result, the price goes down from P1 to P*.

In the middle graph, free trade allows a surplus-producing country to export its excess output to other countries. Thus, the supply curve moves to the left, from S1 to S2. Consequently, the domestic price goes up from P1 to P*.

The P* is now the prevailing global or regional price of a particular commodity like a specific rice variety. It is the level where there is commodity price equalisation worldwide, or at least region-wide.

Chart 1. CPE Illustration.



Countries in ASEAN that also generally rice-deficit and are net importers include the Philippines, Indonesia and Singapore. The rice-surplus and net rice exporters are Thailand and Vietnam and those that are generally rice-balanced are Cambodia and Myanmar.

> Freeing up rice trade remains a highly emotional and politicised subject in many Asian countries until now. Thus, this commodity is still far from being traded freely.

C. Factor Mobility and Factor Price Equalisation

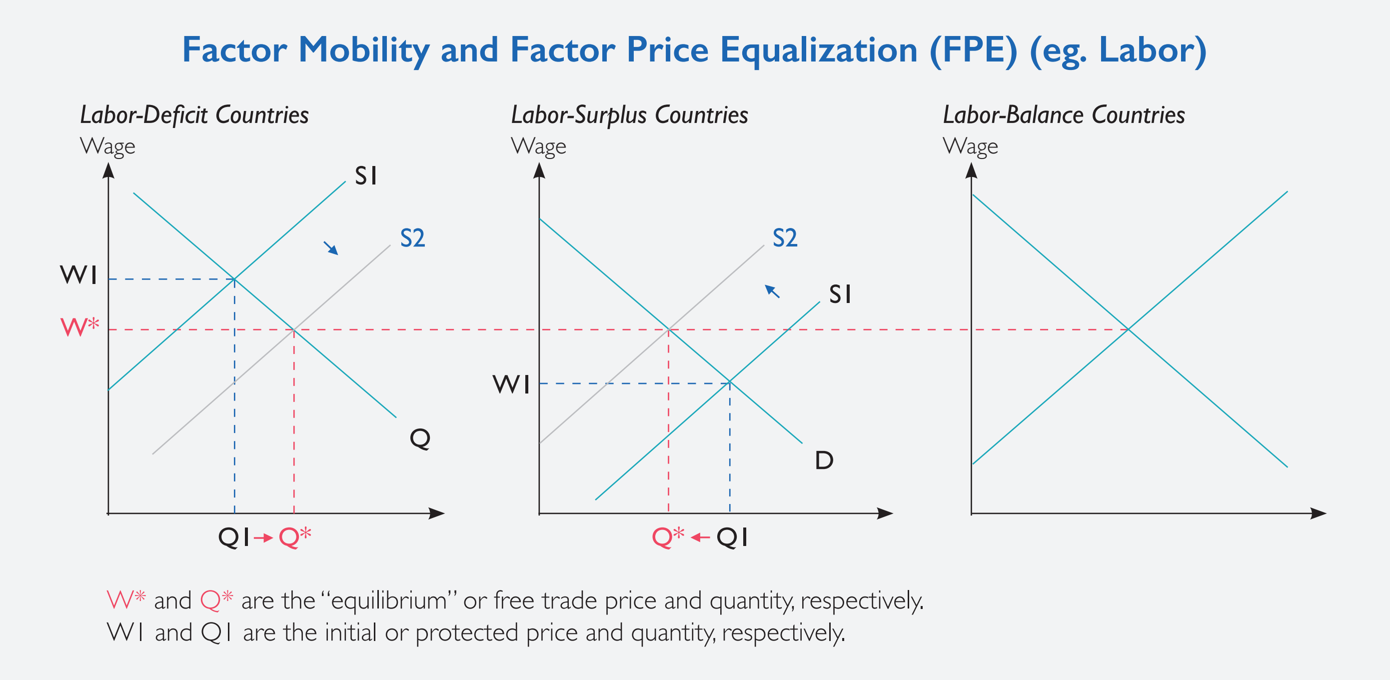
Goods mobility and factor mobility can substitute each other. If movement of factors of production like labour, capital and technology are heavily restricted (say foreign investments or labour are completely banned or prohibited) but goods are freely allowed to cross borders, a factor price equalisation (FPE) may happen. This is because those factors will be realigned among industries within a country and the export sector will bid for more local labour and capital, resulting in higher local wages and interest rate. **This process is replicated in another country until the cost of labour and capital will equalise in the two trading countries.**

It is possible that the movement of commodities is heavily restricted but the movement of labour and capital across countries is unrestricted. Holding all other things constant, an FPE situation can also happen. Countries that are labour-deficit and hence have expensive wages (either due to low population or big but ageing population) will experience decline in labour cost once additional and competing labour of similar skills from abroad come in. The labour supply curve in labour-deficit countries will move to the right from S1 to S2 and this brings down the prevailing wage rate from W1 to W*.

Countries with abundant and cheap labour, due to a high working-age population, will experience an increase in labour cost once the excess labour goes out and are hired abroad. Their labour supply curve moves to the left from S1 to S2 and the average wage rate moves up from W1 to W*.

The hypothetical W* level becomes the prevailing wage rate across the region or across the world over the long term.

Chart 2. FPE Illustration under Free Factor Mobility



Like free trade in rice, full labour mobility around the world is far from reality because of high resistance by organised labour groups and their allies in rich countries. It is an internal dilemma for these countries because employers want to get cheaper labour that can come only from labour-abundant developing countries, while labour unions oppose that because it will displace many local workers who tend to be more picky or want higher pay for the same work.

Despite those strong protectionist forces and interests in various countries, both in the developed and developing world, **globalisation and mobility of goods and people across countries and continents continue to increase.**

> *"Employers want to get cheaper labour that can come only from labour-abundant developing countries"*

D. Tariffs in ASEAN Trade in Goods Agreement (ATIGA)

Compared to other regions in the developing world, members of ASEAN are more open to faster and accelerated trade liberalisation. When ASEAN Economic Community (AEC) was conceptualised two decades ago, the target was a zero tariffs for inter-ASEAN trade in this decade.

> *"Target was a zero tariff for inter-ASEAN trade in this decade"*

Table 2 shows the annual average ATIGA tariff rates for inter-ASEAN trade. ASEAN member states (AMS) were to eliminate import duties on all products traded among them by 2010 for ASEAN-6 (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand) and by 2015, with flexibility to 2018, for Cambodia, Laos, Myanmar and Vietnam (CLMV). This goal was not perfectly executed by four of ASEAN-6 but their rates are almost close to zero nonetheless.

Table 2. Average ATIGA Rates, 2010-2015

	2010	2012	2014	2015
Vietnam	n.a.	7.21	6.46	n.a.
Cambodia	4.84	5.74	5.72	n.a.
Laos	1.38	0.95*	0.78	0.48
Myanmar	1	1*	0.55	0.20
Philippines	0.18	0.16	0.13	0.11
Malaysia	0.41	0.05	0.05	0.05
Indonesia	0.06	0.05	0.04	0.03
Thailand	0.01	0.01	0.01	0.01
Brunei	0	0	0	0
Singapore	0	0	0	0

* ASEAN Harmonised Tariff Nomenclature
AHTN 2007 Code (2010-2011), AHTN 2012 Code (2012-2015)
Excluding products under the General Exclusion List

Source: Tariff Commission, Philippines

Tariff elimination in goods is not 100 percent though as there are exceptions on sensitive products with end rates of 1-5 percent and those under the general exclusion list.

Tariff for agricultural products is mildly higher than those in non-agriculture. By 2014, seven of the AMS have tariff rates below one percent, including Brunei and Singapore, which consistently have eliminated all tariff in the last decade. Rice and sugar are not included in this schedule for some countries like the Philippines as there is a protocol (signed in 2007) among AMS to provide special consideration for these two commodities. This likely means that the political lobby by the domestic rice and sugar producers were strong in those countries that requested for this protocol.

> *"Political lobby by the domestic rice and sugar producers were strong in those countries that requested for this protocol."*

Table 3. Average ATIGA Rates, Agriculture (Chapters 1-24)

	2010	2012	2014	2015
Cambodia	5.47	6.62	6.62	n.a.
Vietnam	n.a.	5.3	5	n.a.
Laos	3.84	2.59*	1.75	1.34
Philippines	0.92	0.92	0.75	0.65
Myanmar	1	1*	0.72	0.35
Malaysia	0.3	0.28	0.28	0.28
Indonesia	0.43	0.3	0.26	0.19
Thailand	0.05	0.04	0.04	n.a.
Brunei	0	0	0	0
Singapore	0	0	0	0

* AHTN 2007 Code (2010-2011), AHTN 2012 Code (2012-2015)
Excluding products under the General Exclusion List

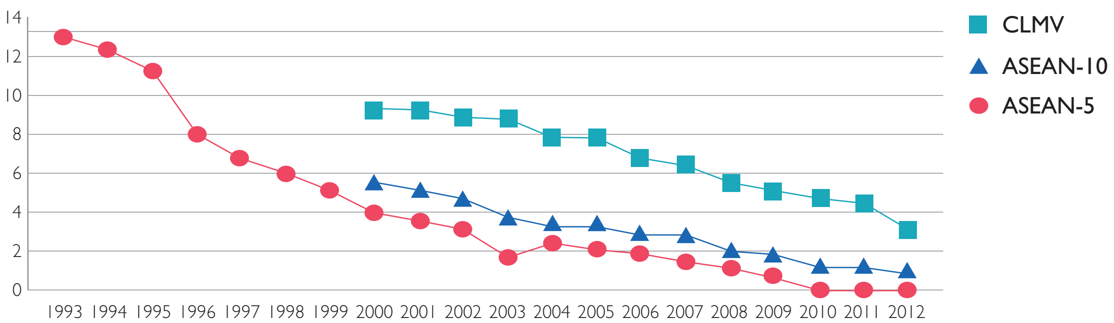
Source: Tariff Commission, Philippines

> *ASEAN countries are easily and geographically exposed to the beauty of free trade*

ASEAN countries north of the equator are closer to Hong Kong, which is a free port economy and a model for free trade in the modern world. Those south of the equator are neighbours of Singapore, another model and example that free trade is good and can greatly contribute to economic prosperity.

Thus, ASEAN countries are easily and geographically exposed to the beauty of free trade. Even the newly-democratising members, CLMV, have reduced their rates of protection to below two percent by 2012. Trade liberalisation has marched into ASEAN and has been consistently doing so since more than two decades ago. This is shown in a report made by ASEAN Secretariat and the World Bank in 2013.

Chart 3. Intra-ASEAN Preferential Tariffs, Average CEPT Rates, 1993-2012, in Percent.



Source: ASEAN Integration and Monitoring Office, WB East Asia and the Pacific Region (2013). ASEAN Integration Monitoring Report

E. Tariff for Imports Outside of ASEAN

"For ASEAN imports from non-ASEAN and non-ASEAN partners, the most favored nation (MFN) tariff is applied, which is generally higher than tariff rates among AMS and ASEAN partners." It is interesting to note that Thailand has higher tariff rates than the CLMV group and Myanmar has accelerated its liberalisation process with rates even lower than those applied by Thailand, Indonesia and the Philippines.

Table 4. Average ASEAN MFN Rates for Imports from non-ASEAN + 6

Thailand	13.05%	2013
Laos	10.62%	2012
Vietnam	10.46%	2012
Cambodia	7.94%	2013
Philippines	7.16%	2014
Indonesia	7.05%	2012
Malaysia	5.58%	2013
Myanmar	5.58%	2012
Brunei	1.73%	2013
Singapore	0%	2013

Source: WTO IDB, RCEP Submission; Tariff Commission, Philippines

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F. ASEAN Trade Performance

Trade liberalisation, in particular unilateral liberalisation has two important positive effects.

01 It exerts pressure on domestic companies and producers to become more efficient and competitive as there is rising competition from abroad in getting the patronage of local consumers and producers.

02 It creates goodwill to other trade partners, encouraging them to open up their borders more freely compared to those with less liberalising economies.

This is shown in Table 5 and 6. Data for the five North East Asian economies are also added to give additional perspective to the regional trend.

> Trade liberalisation exerts pressure on domestic producers to become more efficient due to increased competition from abroad.

Table 5. Merchandise Exports of the ASEAN, North East Asian Neighbours, in USD Billion

	1990	2000	2014	Multiple* 2013/1990
Singapore	52.53	137.95	410.28	7.8
Malaysia	29.44	98.23	228.45	7.8
Thailand	23.05	69.15	224.91	9.8
Indonesia	25.68	62.12	182.55	7.1
Vietnam	2.40	14.48	132.14	**55.1**
Philippines	8.19	38.08	56.70	6.9
Brunei	2.24	3.91	11.43	5.1
Myanmar	0.47	1.96	11.20	**23.8**
Cambodia	0.09	1.40	6.53	**72.6**
Laos	0.08	0.33	2.26	**28.3**
China	62.09	249.20	2,209.63	35.6
Japan	286.32	479.32	714.93	2.5
S. Korea	65.02	172.27	559.63	8.6
Hong Kong	82.14	201.86	458.96	5.6
Taiwan	67.04	151.46	303.74	4.5

* Multiple, 2013 over 2010 is not part of the ADB data; it is only added in this paper.
Source: ADB, Key Indicators of Asia and the Pacific 2014

CLMV have greatly expanded their export performance, with exports multiplying from the range of 24 times (Myanmar) to 73 times (Cambodia) in just 23 years. The main explanations for this would be their low base in 1990, and their increased economic integration with ASEAN neighbours.

ASEAN Free Trade Agreement (AFTA) was signed in 1992 among the original ASEAN 6 members. CLMV joined the association in mid- to late 1990s. The main goal in establishing AFTA was to expand trade and foreign direct investments (FDIs) in the region.

Trade liberalisation results in more importation but despite the arguments of protectionist advocates, this is not a bad thing. Most of the imported products are productivity-enhancing goods like new machines and transport equipment, computers and telecommunication equipment, raw materials and intermediate goods, oil, and other energy products, that are used to produce both domestic and export commodities.

Recall from Chart 1 above, free trade results in:
(a) the expansion of domestic supply of goods and services
(b) lower prices for otherwise monopolistically or oligopolistically produced domestic goods.

Table 6. Merchandise Imports of the ASEAN, North East Asian Neighbours, in USD Billion

	1990	2000	2014	Multiple* 2013/1990
Singapxore	60.58	134.68	373.02	6.2
Thailand	33.00	62.18	249.53	7.6
Malaysia	29.25	81.96	205.99	7.0
Indonesia	21.84	33.52	186.63	8.5
Vietnam	2.75	14.48	132.14	**48.0**
Philippines	13.04	33.81	65.74	5.0
Myanmar	0.87	2.32	13.76	**15.8**
Cambodia	0.16	1.94	9.49	**59.3**
Brunei	1.01	1.11	3.61	3.6
Laos	0.18	0.54	3.02	**16.8**
China	53.34	225.09	1,950.38	36.6
Japan	233.82	379.88	832.44	3.6
Hong Kong	82.48	212.80	523.66	6.3
S. Korea	69.84	160.48	515.59	7.4
Taiwan	54.73	140.63	269.24	4.9

* Multiple, 2013 over 2010 is not part of the ADB data; it is only added in this paper.
Source: ADB, Key Indicators of Asia and the Pacific (2014)

Above are import data. CLMV have experienced fast expansion in their imports, although at a lower rate than the expansion of their exports.

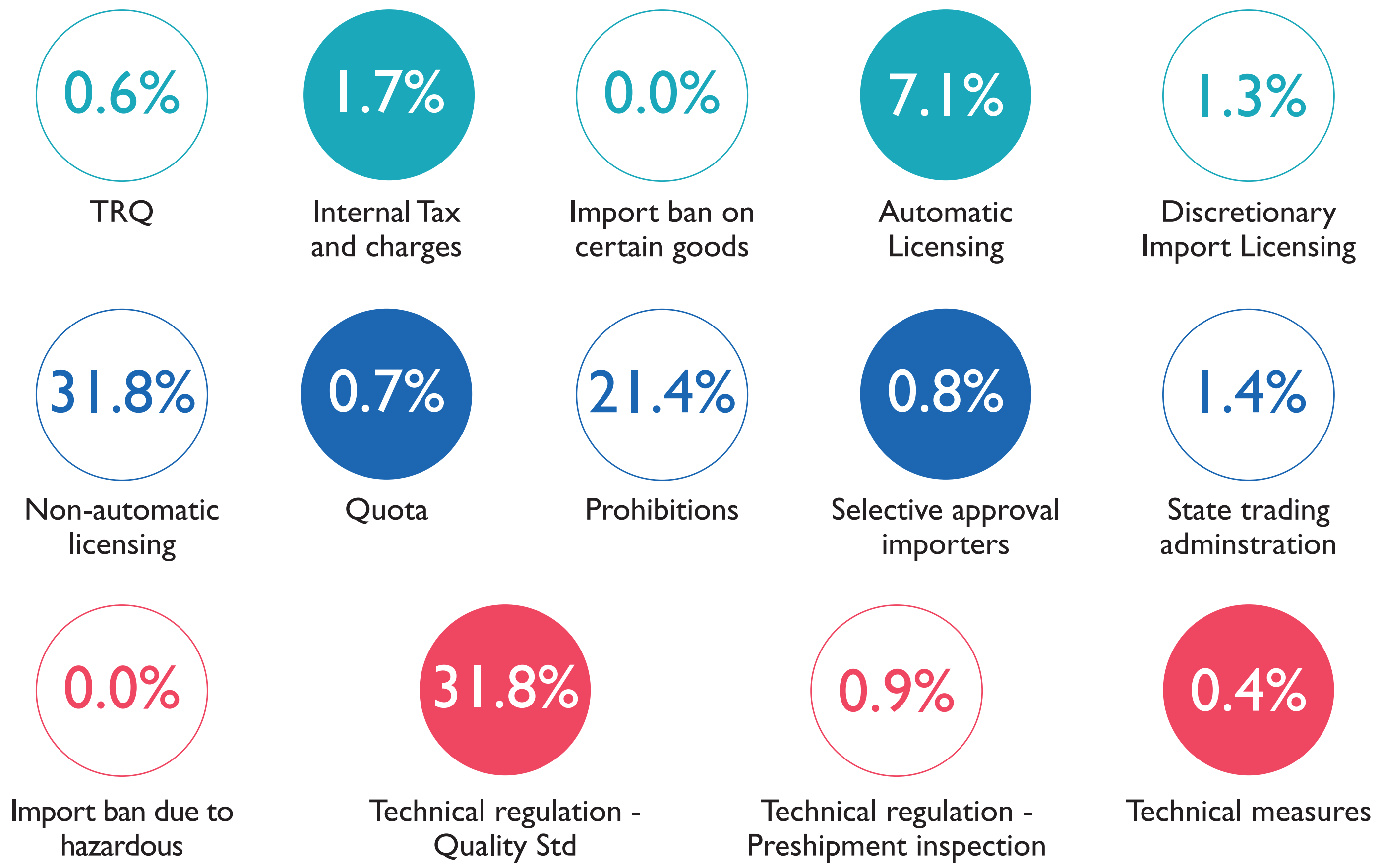
G. Non-Tariff Barriers and Measures in the ASEAN

Protectionist and bureaucratic interests may have given up on opposing tariff reduction and elimination in the region, but it does not mean that they have completely given up. They have shifted their schemes and tactics to create non-tariff barriers (NTBs) or non-tariff measures (NTMs) to trade. These can be highly misleading and confusing to the public.

ASEAN Secretariat and the World Bank (WB) pointed out many of these NTMs. The most common are:
1) non-automatic licensing, 31.8 percent of total ASEAN NTMs,
2) technical regulations and quality standards, 31.8 percent,
3) prohibitions, 21.4 percent
4) automatic licensing, 7.1 percent

The other NTMs, but of lesser incidence, are state trading administration (1.4 percent), discretionary import licensing/import monitoring (1.3 percent), technical regulation: pre-shipment inspection (0.9 percent) and technical measures (2 percent). Amounting to less than two percent of other NTMs were: tariff rate quotas (TRQs), internal taxes and charges, import bans and quotas and selected importers' approvals.

Table 4. Non-Tariff Measures (NTMs) in ASEAN by Type - Officially Notified



Source: ASEAN Secretariat and the WB(2013). ASEAN Integration Monitoring Report

Beyond those traditional NTMs, what may be overlooked by some trade researchers and analysts, is the role of government business bureaucracies and regulations. For instance, while it is may be possible to have only three documents to allow exporters and importers to ship or receive their products, some ASEAN countries require six to 10 documents. This bureaucracy is another variety of NTBs to trade.

Table 7 is one result of the Doing Business 2015 Report, in the section on International Trade. There were 189 countries covered in that report. Global ranks of ASEAN countries are given, the CLMV are at the bottom. It would take around three weeks for an exporter to finally move his containers out of CLMV, which is very long when compared to Singapore, which takes less than one week, while Malaysia and Thailand takes around two weeks.

For additional reference, four North East Asian economies and three non-West countries that scored high in this aspect are shown in Table 8. It is comforting to see that the top three economies in the world that deliberately simplified business procedures to export and import are in East Asia – Singapore, Hong Kong and S. Korea. The nine other ASEAN countries should learn lessons from them.

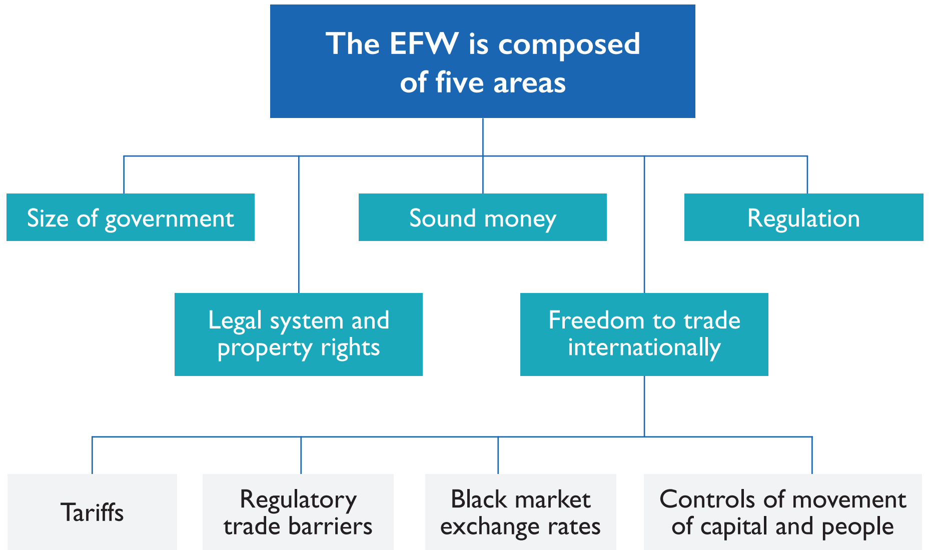
	Trading across borders (rank)	Docs. to export (number)	Time to export (days)	Cost to export ($ per container)	Docs. to import (number)	Time to import (days)	Cost to import ($ per container)
Table 7. Ease or Unease of International Trade, ASEAN							
Singapore	1	3	6	460	3	4	440
Malaysia	11	4	11	525	4	8	560
Thailand	36	5	14	595	5	13	760
Brunei	46	5	19	705	5	15	770
Philippines	65	6	15	755	7	15	915
Indonesia	62	4	17	572	8	26	647
Vietnam	75	5	21	610	8	21	600
Myanmar	103	8	20	620	8	22	610
Cambodia	124	8	22	795	9	24	930
Laos	156	10	23	1,950	10	26	1,910
Table 8. Ease or Unease of International Trade, Selected Countries							
Hong Kong	2	3	6	590	3	5	565
S. Korea	3	3	8	670	3	7	695
Japan	20	3	11	829	5	11	1021
Taiwan	32	5	10	655	6	10	720
U.A. Emirates	8	3	7	665	5	7	625
Panama	9	3	10	665	3	9	1030
Israel	12	4	10	620	4	10	565

Source: WB, Doing Business 2015 Report & WB-IFC, Doing Business 2015 Report

Table 9. Score in Area 4 of EFW, 2012 data

	Singapore	Brunei	Malaysia	Cambodia	HK *	Thailand	Indonesia	Philippines	Vietnam	Myanmar
Freedom to trade internationally	8.86	7.93	7.60	7.09	9.36	6.91	6.80	6.70	6.41	5.58
A. Tariffs	8.86	8.66	6.93	7.67	10.0	7.48	7.85	7.61	7.22	5.40
Revenue from trade taxes (% of trade)	10.0		9.81	8.64	9.99	9.55	9.05	7.18	8.16	0.0
Data	0		0.28	2.04	0.02	0.68	1.42	4.23	2.76	57.21
Mean tariff rate	9.96	9.50	8.70	7.82	10.0	8.04	8.60	8.76	8.10	8.88
Data	0.20	2.5	6.3	10.9	0	9.8	7.0	6.2	9.5	5.6
Standard deviation of tariff rates	5.31	7.82	2.28	6.56	10.0	4.86	5.88	6.88	5.40	7.31
Data	11.73	5.45	19.31	8.61		12.84	10.29	7.81	11.50	6.72
B. Regulatory trade barriers	8.51	6.57	7.53	6.12	8.71	7.01	6.40	6.85	6.06	5.67
Non-tariff trade barriers	7.61	5.51	6.32	5.42	8.05	5.83	5.51	5.66	5.02	4.95
Compliance cost of imports, exports	9.41	7.63	8.74	6.82	9.35	9.41	7.63	8.74	6.82	6.38

Source: Fraser Institute, ***Economic Freedom of the World 2014 Report*** *(2014), Country Tables*



It is surely possible to reduce the time to export as shown by Singapore and Malaysia plus the seven countries above. The eight other governments in ASEAN need not hold back the exports of their entrepreneurs for two weeks or more.

A similar measurement of government bureaucracies and taxes as new variety of NTBs to international trade is found in the Fraser Institute's Economic Freedom of the World (EFW) annual reports.

The EFW employs a scoring system of 0 to 10, where zero is totally unfree and 10 means there is full economic freedom. Thus, high revenues from trade taxes, high tariffs, wide variations, and deviation of tariff rates would mean a low score. And more regulatory barriers, more NTBs would also mean low scores and low degrees of economic freedom for entrepreneurs.

For this paper, sub-areas 4A and 4B are shown in the EFW Table 9. Unfortunately, Laos was not included in the EFW report. Hong Kong is added here as "benchmark" for being the freest economy in the region.

The above numbers show that ASEAN countries generally have low tariff rates, with scores of 8 to almost 10 (Singapore and Brunei). This is a reflection of the accelerated trade liberalisation in goods in the region.

But there are problems too, like having wide variations and high standard deviations in tariff rates seen in Singapore, Malaysia, Thailand and Vietnam; they scored below 6.

The 9 countries above, except Singapore and Malaysia, scored below 6, which is rather low, in NTBs. EFW used data from a survey on NTBs by the WEF's Global Competitiveness Report.

ASEAN countries need to be reminded from time to time that the main purpose of trade liberalisation, of relaxing both tariff and NTMs, is to empower the consumers and producers of their own countries with more choices. NTMs and complicated bureaucracies defeat or undermine that goal.

> *"The main purpose of trade liberalisation, is to empower the consumers and producers of their own countries with more choices."*

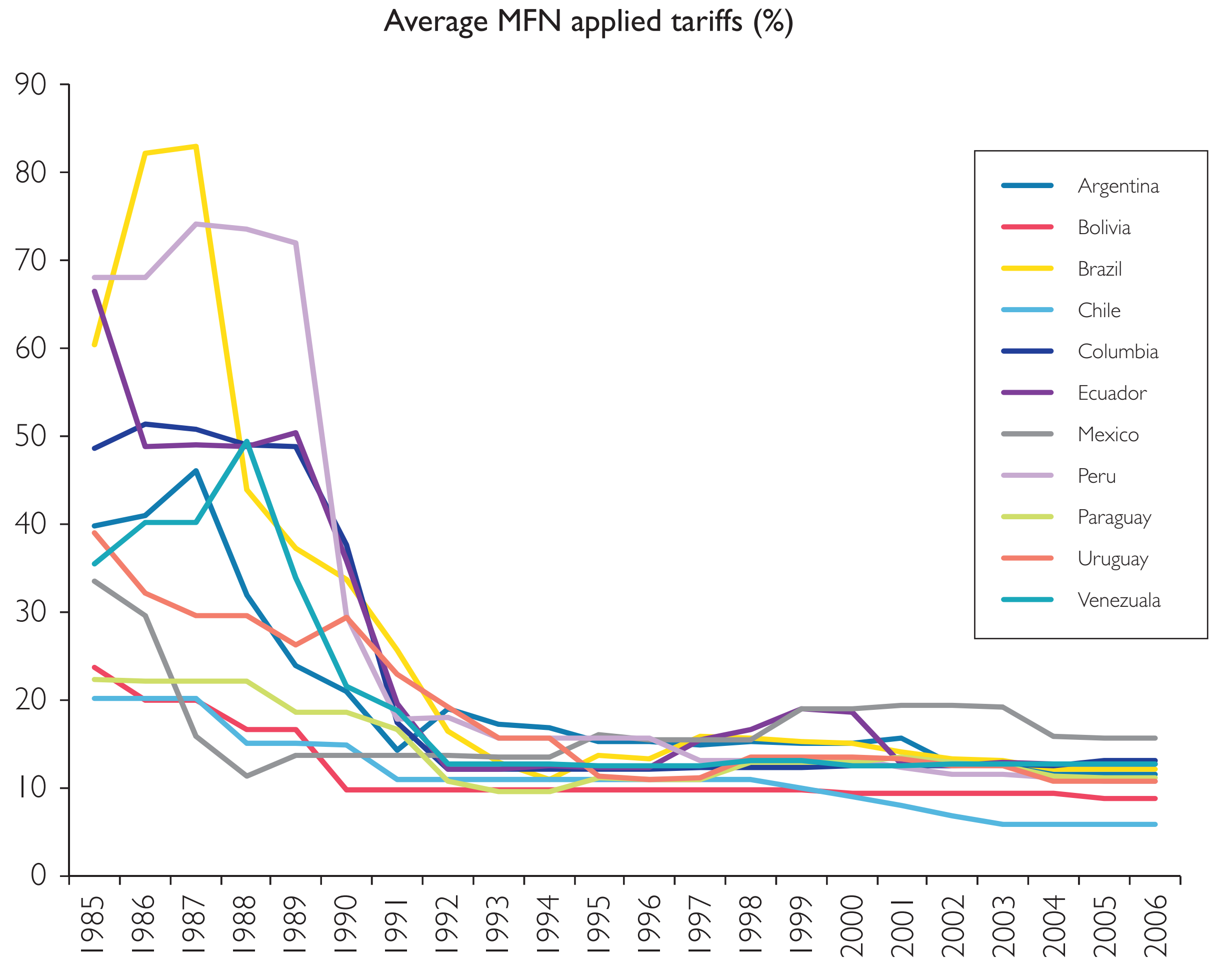
H. Towards Unilateral Trade Liberalisation

The World Trade Organisation (WTO) was established two decades ago with the goal of moving the world towards free trade and having rules to guide global policy and settle trade disputes among member-countries. However, as there are some business, political or bureaucratic interests that dislike giving consumers and other producers more choices, contentious and prolonged negotiations and finger pointing resulted in a convoluted trade agreements while various NTMs have been erected that slowed the pace of global trade. Thus, **multilateral trade negotiations through the WTO have become too bureaucratic and time consuming.**

The second scheme next to multilateral negotiations that many countries have opted is the regional and bilateral negotiations, leading to regional and bilateral free trade agreements and free trade areas (FTAs). There are hundreds of this type currently existing and are under negotiations.

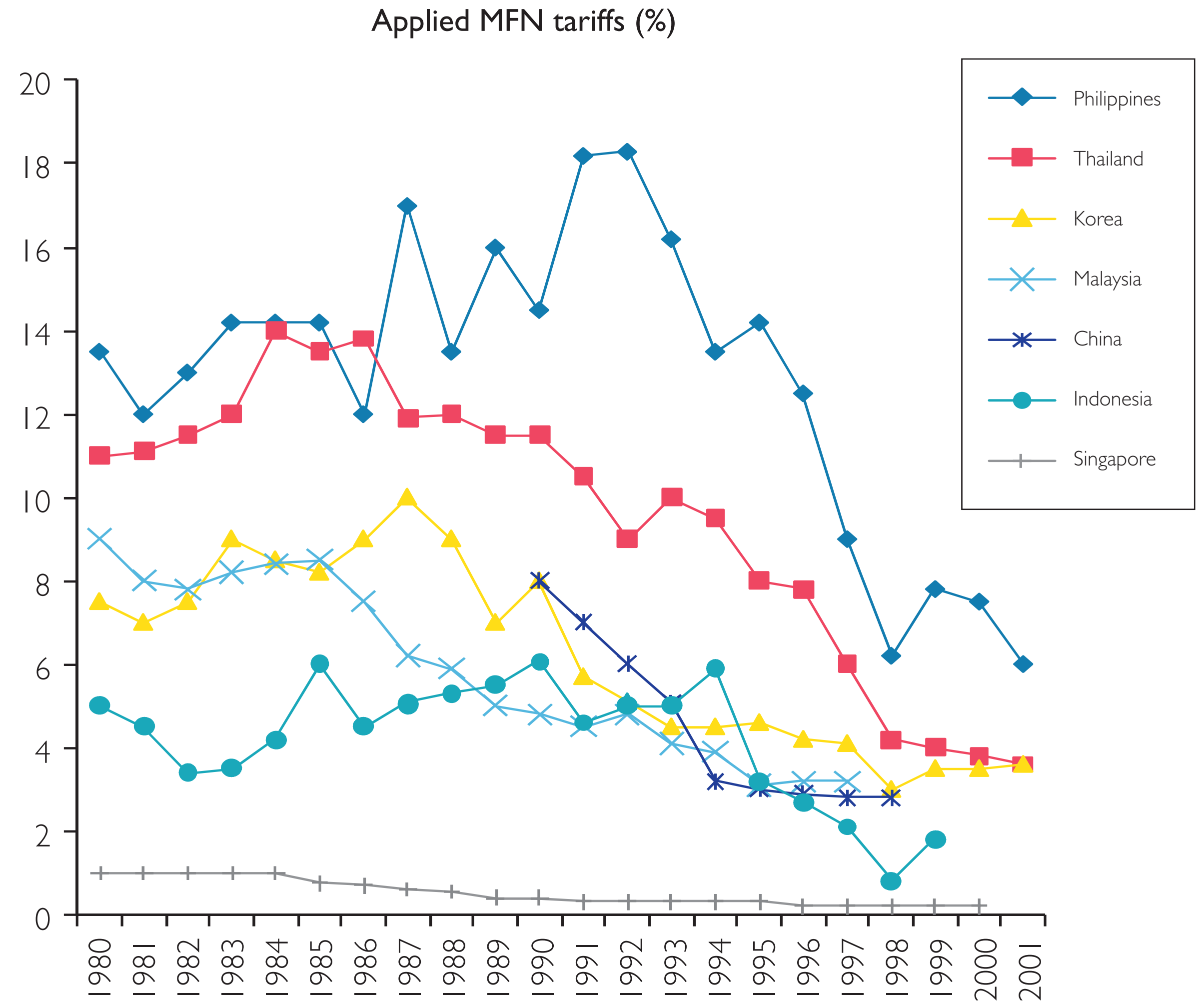
Going back to the classical philosophy of trade and comparative advantage, individuals and companies in different countries do trade unilaterally, minimal negotiations and preconditions are required because labour specialisation and trade benefit them. They are better off producing more of goods and services that they have comparative advantage and export the surplus while buying and importing certain goods and services that other countries can produce cheaper.

Chart 5. Applied MFN Tariff Liberalisation in Latin America and East Asia



Thus, some countries and economies have taken the unilateral trade liberalisation route. Examples are Hong Kong, Singapore, Dubai/UAE and Chile. The results have been good and positive so far.

Chart 5 shows that, as of 2001, while average tariff in South America was around 12 percent, it was only around four percent in East Asia and zero in Singapore. East Asians are more receptive to unilateral trade liberalisation than their counterparts in South America or Africa.



Source: Richard Baldwin, 'Unilateral Trade Liberalisation", Centre for Trade and Economic Integration, CTEI (2011-04), http://graduateinstitute.ch/.../working.../CTEI-2011-04.pdf

Renowned trade economist, Dr Razeen Sally of the European Centre for International Political Economy (ECIPE) and Chair of Political Economy of Malaysia's Institute for Democracy and Economic Affairs (IDEAS) wrote the book, "Trade Policy, New Century: The WTO, FTAs and Asia Rising". The book was published by the Institute of Economic Affairs (IEA) in London, 2008, and he wrote:

"Those Asian countries that have successfully integrated into the world economy have done so through unilateral liberalisation. China has reduced its tariffs from an average of 65 per cent twenty years ago to 10 per cent today. This process of unilateral liberalisation must continue.

Slower reformers, generally lower-income countries, should focus on lowering tariff barriers and quotas – they generally lack the governance capacity to implement more complex reforms. ***Less developed countries need to lower their tariff barriers between themselves.***

A classical liberal, 'small-government' domestic culture, which includes the promotion of unilateral free trade, will help ensure that the development of free trade is not knocked off course by vested interests. Dangerous vested interests include those promoting protectionism in the name of environmentalism, protecting strategic industries or promoting domestic security."

Dr Sally also wrote in the Wall Street Journal in May 2013, "It's Time for a 21st-Century Trade Policy",

"The expansion of global value chains should cause leaders to revisit the idea of unilateral opening. New political blocs of import-dependent manufacturers and services providers are growing in many countries, counterbalancing the old protectionist interests. Especially since trade negotiations are time-consuming — the Doha Round is in its 12th year and TPP talks have been underway since 2010 — governments need to ask themselves why they're waiting to open their own economies to trade.

The WTO should also tackle issues such as an updated Information Technology Agreement to widen the list of duty-free items and tackle non-tariff barriers to trade in information-technology products; ***new rules on openness to foreign direct investment****; and much stronger commitments to opening up services markets. These would "lock in" previous unilateral liberalisation, and set the stage for future unilateral opening by WTO members."*

In the paper, A Cautionary Tale on Negotiated vs. Unilateral Trade Liberalisation (Cato Institute, 21 Nov 2012), author Sallie James wrote,

"But since the 1950s...trade theory has pretty much consistently shown a hierarchy of mechanisms for increasing commerce across borders: unilateral trade liberalisation is best, followed by multilateral trade liberalisation (although the current WTO round of trade negotiations is dead), and then regional or bilateral agreements."

Dr Daniel Schoch of University of Nottingham in Kuala Lumpur, in his review of the earlier draft of this paper, observed that

*"****Bi- and multilateral trade negotiations face a fundamental problem, since they are based on reciprocation****. But how much is, say a 20% reduction of tariff in good A by country 1 worth in terms of a tariff reduction for good B for country 2? Even if some concession is granted by a country to some other, it has "every incentive" to divert this access to its home market to a third country....*

Bi- and multilateral agreements are hardly feasible because one does not achieve them in the first place. ***Unilateral trade liberalisation does not seem the best, but the only way towards free trade****."*

I. Concluding Notes

Free trade means free individuals and free enterprises. Restrictions to trade are restricting individual and economic freedom, the freedom to choose and compete, where and from whom to buy and to whom to sell. However, some consumers may lose from free trade and unilateral liberalisation if the goods they regularly consume are being exported because prices might increase. But this loss is temporary because more goods and more choices from abroad will become available in the domestic market.

> *"Free trade means free individuals, free enterprises"*

Multilateral trade negotiations for free trade are usually unwieldy and costly, time-consuming, and bureaucratic. Regional and bilateral FTAs are faster in producing agreements and results but they are selective and become an excuse for protectionism against countries where no FTAs are signed yet.

> *"The main function of government in trade is to help enforce contracts and promulgate the rule of law"*

Unilateral trade liberalisation, with minimal negotiations, is pro-development, by virtue of opening the borders, thus promoting zero tariff and minimal bureaucracies. There is little or no justification to restrict trade as it is a voluntary exchange between two or more entities -- individuals, companies and institutions.

People and companies, not nations and governments, trade with each other. Governments, therefore, should reduce restrictions on people and goods mobility. In particular government should:

(a) reduce tariff and non-tariff barriers (NTBs) like quantitative restrictions and customs bureaucracies.
(b) simplify visa requirements and issuance and reduce the cost of migration.

The main function of government in trade is to help enforce contracts and promulgate the rule of law. The only justifiable consideration for governments to regulate trade are those involving public health and safety such as bringing in or exporting weapons, ammunitions, dangerous substances, counterfeit or substandard medicines, virus-infected animals, etc. All other goods should be allowed entry with the minimum or zero restrictions and taxation. This will significantly bring down prices and benefit consumers, especially the poor.

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