Ideas for a More Prosperous Society

VIEWPOINT

REGULATION SERIES

MARCH 2025

THE CASE FOR GOING IT ALONE: UNILATERAL TRADE LIBERALIZATION

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The Government of Canada claims that "trade liberalization has been a significant stimulus to economic growth and prosperity."[1] Given this statement, and considering the rising political tensions with the United States over tariffs, one could be forgiven for thinking Canada a champion of free trade, yet non-trivial barriers to international trade for multiple goods still exist.

Table 1 shows the significant import taxes levied on dairy products, clothing, leather, rubber products, and cereals. The Canadian government also applies multiple "non-tariff barriers," such as strict regulatory standards, that are designed to serve the same purpose as tariffs. Moreover, it imposes multiple barriers that apply to the services industry (such as telecommunications and airlines).[2]

The result is that indexes of trade barriers show Canada having the 4th lowest tariff levels in the world, while it simultaneously ranks a dismal 47th in non-tariff barriers and 28th in barriers to freedom of service provision. Canada is thus significantly protectionist, but in ways that are not frequently discussed.[3]

A better policy would be to go forward with unilateral liberalization independent of what other nations do—i.e., going it alone by removing all import taxes and other barriers to foreign producers and investors, without any expectation of reciprocity.

TRADE LIBERALIZATION DOES NOT NEED TO BE RECIPROCAL

A commonly held belief is that trade liberalization has to be reciprocal, and that otherwise, it will not happen. This is incorrect. The vast majority of tariff reductions since the early 19th century have occurred without reciprocity.

The first, and most famous, episode of unilateral liberalization was the abolishing of the tariffs (known as the Corn Laws) on all grain imported into Britain.[4] The Corn Laws had the effect of keeping food prices in the UK 9% higher relative to world markets.[5] Since food items were a major component of the budgets of the poor, the repeal of the tariffs was largely a "pro-poor" policy.[6]

The repeal is such a momentous event in British history that some historians argue it "fixed in the minds of the British working class in particular, right up to the present day, the profound belief that free trade is good for the poor and the working man and woman" and that this is why "the lower middle class and the working class in Britain is and always has been solidly in favor of free trade."[7]

But Britain is far from the only case. Most of the trade liberalization of the 19th century was done unilaterally.[8] Historically, there are multiple Canadian episodes of unilateral liberalization.[9] More recent examples include Australia's massive reduction of manufacturing tariffs starting in the 1980s[10] and Switzerland's 2024 abolition of all import taxes on industrial products regardless of origin.[11]

Some countries have historically operated under "unilateral free trade" regimes. This includes Hong Kong, which long functioned as a free port. To this day, the Hong Kong government does not levy customs tariffs except minimal excise duties on hard alcohol, tobacco, hydrocarbon oil, and methyl alcohol.[12] Singapore imposes zero duties on "nearly 100 percent" of imported goods.[13] Neither jurisdiction applies more than a very few "non-tariff barriers" that control the flow of goods and services without imposing direct tariffs (e.g., quotas, import licensing, etc.).[14]

Table 1

Average tariffs and highest tariffs by product group

Item	Tariff
Average (trade-weighted)	3.4%
Dairy products	205.7%
Live animals and meat	21.2%
Clothing	17.3%
Cereals and food preparations	12.7%
Textiles	10.7%
Other agricultural products	9.0%
Oilseeds, fats, and oils	8.0%
Rubber, leather, and footwear	7.3%

Source: World Trade Organization, *World Tariff Profiles: 2024*, Washington, D.C., 2024, p. 69.

The period from 1983 to 2003, often cited as a triumph of reciprocity through international agreements, was in fact largely characterized by unilateral moves. During this time, developing countries cut average tariff rates by 18.6 percentage points—two-thirds unilaterally, one-quarter through multilateral deals, and one-tenth via regional agreements.[15]

A great many studies have shown unilateral reductions to be generally positive—especially for smaller economies (such as Canada's) that have little influence on world economic events.[16] The only study of Canadian unilateral liberalization shows results consistent with this literature.[17]

WHY IS UNILATERAL LIBERALIZATION BENEFICIAL?

In addition to being a direct tax on imported consumer goods, every tax on imports ultimately functions as a tax on exports. Import tariffs raise production costs for firms that rely on foreign inputs, making it harder for them to compete in global markets. Higher import taxes also reduce the supply of foreign currency in exchange markets, driving up exchange rates and further weakening export competitiveness.[18] Additionally, tariffs hinder foreign investment in Canada, limiting capital inflows that could otherwise boost productivity and wages.[19] This is why simulations of Canadian economic activity with unilateral liberalization suggest that GDP would increase by 1.67% and that the price level would fall by 1.51%.[20]

To be sure, multilateral (multiple countries) trade liberalization tends (not always) to show larger benefits than unilateral liberalization (especially for the poor).[21] However, if we find ourselves in an imperfect world with the best option unavailable, the second-best should do. Given current political tensions and tariff threats from traditional trading partners, bilateral liberalization may not be an option, and thus unilateral liberalization seems the next best choice.

In fact, it is an even better option than strictly bilateral deals, which create a "spaghetti bowl"—an analogy for the complexity that arises when multiple overlapping trade agreements form a tangled web of rules, much like intertwined strands of spaghetti. This fragmentation distorts trade flows, as firms may make decisions based on regulatory loopholes rather than economic efficiency, ultimately undermining the benefits of trade.[22]

Since multilateral liberalization is no longer on the table, the only course is unilateral liberalization with the total elimination of the remaining tariffs and a serious plan to dismantle non-tariff barriers as well as protectionism in the services industry. This should help reduce costs both for consumers and producers in Canada, allowing for faster productivity growth and more investment. In the process, it will bolster our ability to overcome the trade barriers of other nations.

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