The Virtue of Free-Trade Unilateralism

When multilateral deals stall, leaders should break

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Trade liberalization has run into a cul-de-sac. Global liberalization in the Doha Round has stalled, perhaps for good, and preferential trade agreements, such as the Trans-Atlantic Trade and Investment Partnership between the U.S. and European Union, face serious political obstacles. But policy makers shouldn't use their failure to craft multilateral deals as an excuse for inaction. Instead, it's time to reconsider a well-established method for reducing trade barriers: unilateral liberalization.

Economists have long understood that unilateral free trade is economically desirable, and real-world examples such as Hong Kong and Singapore prove the point. The constant focus on multilateral negotiations—whether the Doha Round, TTIP or the Trans-Pacific Partnership deal—stems mainly from a political consideration that it is easier for one country's leaders to open to trade if those leaders can tell voters that other countries are making similar concessions.

But with those deals stalled and many major economies stalled too, a new political approach to trade is needed. Instead of highlighting concessions rung from other countries in multilateral talks, leaders should focus on reminding voters of the enormous benefits that will come to countries that open unilaterally.

The automotive industry offers a good case study of how this would work. The U.S. applies a tariff of 25% to light trucks, comprising about half the vehicle market, and 2.5% to passenger cars. The light-truck tariff in particular means that American consumers are deprived of choice in that popular vehicle category, and what choices they do have among U.S.-manufactured trucks are more expensive.

Mercedes Benz vehicles sit parked outside of the company's international assembly plant in Vance, Alabama. Bloomberg

Detroit would balk if Washington slashed the 25% light-truck tariff without extracting any concessions from Europe, not least because many of the product lines the tariff shields are cash cows for the U.S. auto makers. But the tariff hasn't saved the Big Three from a decade or more of economic dislocation, and Washington should consider the interests of other participants in the auto market—such as dealers who could profitably sell foreign models, mechanics who could service those cars and even small businesses that could buy them more cheaply as job-creating capital investments in seemingly unrelated industries.
On the other side, the EU's 10% tariff on both cars and light trucks is lower than the U.S. light-truck rate, but still far too high for a mature industry no longer plausibly in need of any infant-industry protection. On the contrary, the European auto industry has transformed steadily despite a tariff that forces consumers to pay more both for imports and for less-competitively priced domestic products. Italy, once an automotive stalwart and still a prime advocate of protectionism, now manufactures fewer vehicles per year than Iran, Argentina or Slovakia. In 2013, Italy produced 660,000 vehicles including trucks, down from 2.1 million in 1990.

France, which does still have a substantial auto industry, would complain about a reduction in the EU's tariff rate without concessions from Washington. But France's troubled auto makers are troubled even with the tariff, and the rest of the French economy is in worse shape. There's no justification for Brussels to continue to insist that French consumers pay more for cars.

Other EU auto makers would benefit from unilateral opening. German manufacturers, which in 2013 produced 5.6 million vehicles in Germany and another 8.5 million abroad, would greatly benefit from a reduction of tariffs in the EU. Many "German" vehicles sold in the EU are made in the U.S. Virtually all BMW and Mercedes sport-utility vehicles are made in Alabama or South Carolina, and the EU tariff is levied on those vehicles. Today, the German car industry is forced to pay about €1 billion ($1.29 billion) in tariffs per year in trans-Atlantic trade: about €600 million to U.S. customs, the remainder to the EU.

Today, the trans-Atlantic powers have an opportunity to demonstrate their leadership capabilities in the global economy and move ahead with industry-specific trade liberalization. The car industry would be an excellent start: The U.S., which had suggested dropping all tariffs on manufactured goods to zero in the Doha-Round negotiations, no longer needs a 25% tariff on light trucks. The EU, with its competitive automotive industry, should reduce its import duty on cars to zero. Both sides should stop waiting for the other to reach an agreement. The first one to cut its tariffs, wins.

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