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Scare tactics over US-UK free trade move should not be a deal-breaker

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A week when US president Donald Trump slapped tariffs on another \$200bn of Chinese goods might seem peculiar timing for proposing a US-UK free trade agreement (FTA).

But a new type of trade deal signed by a post-Brexit UK and a US government intent on shaking up the global trading system could be exactly the trade reset the world economy needs.

This week, 11 think tanks, including the Cato Institute in the US and the Initiative for Free Trade (IFT) here, published the full legal text of an ambitious, ideal US-UK FTA.

The treaty has at its core a plan to give back control to consumers and businesses, and strip it from bureaucrats, politicians and special interests.

The key guiding principle is consistent with what Brexit is about: trade liberalisation, but not governance.

Economists understand the benefits of “free trade” come from freedom itself, not politicians managing what we can and can’t buy. The liberty to purchase goods or services from elsewhere, free of restrictions, broadens choice and drives down prices, exposing domestic industry to competitive pressures and diverting resources towards production in areas of relative efficiency.

The policy insight is simple: the best approach to generate prosperity is to avoid barriers or restrictions on imports, irrespective of what other nations do.

Yet politics is the art of the possible. Exporters want a level playing field. Recognising the political costs of free trade, “free trade agreements” have long produced more “managed trade” than simple removal of barriers. Eliminating protectionism requires reciprocity and negotiation.

Trade deals mean horse-trading, codification of some protectionism and a power game over regulation. Here’s the paradox: despite these downsides, on net this approach has still produced much liberalisation overall. Between 1947 and 1994 average global tariffs fell from 40pc to 4pc.

The EU, for all its faults, clearly advanced free trade in Europe too.

But the managed trade has clearly overreached. British voters rightly questioned, for example, what harmonising labour, environmental, or human rights law within the EU had to do with deepening a common market.

When the EU's discussions with the US over the Transatlantic Trade and Investment Partnership (TTIP) occurred, voters worried about Investor-State Dispute Settlement provisions superseding democratic control. The incoherent arguments for managed trade arguably underpin a lot of Trump's actions today too. He perceives tariffs as useful weapons to punish certain actions, reduce trade deficits and obtain "better" deals.

The FTA genie is out of the bottle. But better bilateral agreements can try to maximise the liberalisation components and minimise the mercantilist damage. Thankfully, the US and UK are two large liberal economies, at similar income levels, seeking a new approach and with the economic power to achieve it.

This Cato-IFT framework shows the path we should take. It largely jettisons investor dispute settlement provisions and attempts to harmonise non-trade-related laws. It avoids creating supranational governance structures, as with the EU. Instead it focuses on broadening markets, allowing deeper supply-chain innovation, and giving people the freedom to buy, move or invest between the US and UK.

In practice, it recommends tariffs on all goods trade being zeroed out. Backdoor protectionism would be avoided through precluding anti-dumping tariff provisions and easing rules of origin requirements.

There would be robust restrictions on non-tariff protectionism justified through dodgy science and spurious national security concerns. Investment and data would flow freely, and customs procedures streamlined. Importantly, people would be free to move between countries for work with a job offer – a process made more likely through an effort to mutually recognise professional qualifications.

Critics have started their inevitable fearmongering. The political editor of the *New Statesman* has characterised a US deal as the UK giving up control to the "diktats of the free market." Ridiculously, the plan has been caricatured as "handing the keys to the NHS to Donald Trump," and the usual scare stories about "chlorinated chicken" and "hormone-fed beef" are being pushed by the great and good.

On planet earth, the "diktats of the free market" means British and American consumers deciding what they want to buy. The starting point on regulation is that if a good or service meets appropriate standards in one country, it can be bought in the other. Brits who travel to the States eat food perfectly safely and buy over-the-counter medications from stores.

With limited exceptions, we trust the regulators in America and they trust ours. Little surprise that surveys show overwhelming majorities of people in both countries favour a free trade deal, with politicians rallying to the cause.

Under this deal, the UK Government would carry on funding and providing healthcare as it saw fit. The procurement provision would simply mean that if any service was contracted out, companies from the US could compete for the contract on the same basis as domestic firms (an arrangement that few seem to mind today at an EU level).

Thornier issues, such as intellectual property theft, are largely irrelevant in a US-UK context. Among wealthy nations with high standards, a simplified, liberalising deal of this nature does not require swathes of provisions about non-trade matters and social objectives. Political realities will naturally mean some goods and services are excluded – something the text allows for. But trade liberty should be our default assumption, with exclusions facing a high bar.

Brexit affords an opportunity to reshape global trade, and a new, simpler US and UK deal would go a long way to showing how that's possible. Such a deal would generate greater prosperity. It would also have the great benefit of highlighting that neither political union nor extensive regulatory harmonisation is necessary to achieve the deal most politicians purport to desire.

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