



The Transatlantic Trade Plan Sets A New Gold Standard For International Cooperation

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In Westminster yesterday afternoon, the Initiative for Free Trade and the Cato Institute launched *The Ideal US-UK Free Trade Agreement*, an unashamedly free market take on the question of Anglo-American trade after Brexit. Unusually for a think tank-inspired publication, this one included a 200-page draft legal text—a model trade deal that negotiators could pick up and run with, if the political winds blow in the right direction.

Along with representatives of nine other think tanks, I am listed as a contributing author of the Agreement, having participated in two rounds of transatlantic ‘trade talks’ over the last few months. And while I cannot take much credit for the final product (the heavy lifting was certainly done elsewhere), I do want to highlight a few of the things that make this publication so valuable—and potentially so groundbreaking, if it is received the way I hope it will be.

For starters, I see this publication as more than just an attempt to bring about the freest possible trade between Britain and the United States. That is clearly the immediate goal of the exercise, and it is obviously an enormously important one.

Eliminating trade barriers between the world’s largest and fifth-largest economies would bring significant benefits to all concerned: free trade means greater competition, lower prices, and more consumer choice; it adds up to greater productivity, faster economic growth, and higher living standards in the long run.

But what this Agreement also does is establish a new gold standard for the way trade deals can and should work—regardless of who is trying to conclude them. Take the Agreement’s approach to goods and services liberalisation. Most trade negotiations involve the parties coming up with a ‘positive list’ of specific goods on which tariffs will be eliminated, and specific services which will be opened up to international competition. Not surprisingly, progress tends to be slow, patchy, and fraught with politically-motivated horsetrading.

The Ideal US-UK Free Trade Agreement turns this problem on its head by adopting a ‘negative list’ approach. Essentially, the presumption is for free trade rather than for protection. Tariffs on goods are eliminated and services are opened to competition—unless one of the parties specifically requires an exception for a particular good or service.

Even then, such ‘nonconforming measures’ are limited to 10 per cent of the total annual value of trade in goods or services, respectively. And in the case of goods, any residual tariffs are scheduled to be eliminated a decade after the agreement comes into force.

This may seem like a mere procedural point, but the way a negotiation is framed can actually have a profound impact on its outcome. Changing the operating assumptions of the parties, and making free trade the ‘default setting’ could make an enormous difference.

Of course, if trade deals were simply about tariffs and quotas on goods, or outright prohibitions on foreign service providers, drafting a good trade deal would be a relatively straightforward matter. A single line agreement—‘There shall be free trade among the Parties’—ought to do the trick.

In reality, however, things are a lot more complicated, and that’s mostly down to regulation. Indeed, the biggest barriers to trade today are not tariffs but different regulatory regimes. As Dan Ikenson, one of the US-UK Agreement’s lead authors, has put it, ‘it is enormously costly whenever businesses have to meet different standards to participate in different markets’.

And yet efforts to address regulatory issues through trade agreements tend to be polarising. The political left is quick to call out what it sees as a race to the bottom. The right, on the other hand, hates the idea of ceding regulatory sovereignty and argues that efforts to ‘harmonise’ regulation lead to the ossification of bad rules and increased bureaucracy. Either way, it is difficult for negotiating parties to come to an agreement.

That’s why the approach detailed in the draft US-UK trade deal is so interesting. It basically starts from the position that if two developed countries can agree what the objective of regulation should be (product safety, for example) and also commit to good regulatory process—which means transparency, consultation, cost-benefit analyses and impact assessments—then one set of national regulations is pretty much as good as another. As long as businesses obey the rules in one country, they should be free to sell their goods and services in both.

There may, of course, be times when Britain and the United States have incompatible regulatory objectives, or when different national regulations lead to substantially different outcomes. In such cases, ‘equivalence-based mutual recognition’ can be suspended. But the truth is that these instances will be few and far between—certainly between Britain and the United States, but probably between most OECD countries too.

As a result, the US-UK trade deal offers a way to achieve significant market integration without the need for centralised decision-making or top-down edicts. It’s a flexible, cooperative approach that greatly frees up trade without trampling on national prerogatives.

The last great virtue of ‘The Ideal US-UK Free Trade Agreement’ that I want to highlight is that it is explicitly an ‘open accession’ deal— other countries that can live up to the standards it sets out would be able to join in future. There is no reason, for example, why Canada, Australia, and New Zealand could not sign up in short order.

It needn’t be an Anglosphere thing either: Japan, Israel, Singapore, and the EFTA group would all be obvious candidates. In the long run—dare I suggest it?—even the EU27 could clamber aboard, provided they were able to put freer trade before wider political union.

For me, that last point hints at the real heart of the matter. There is, at the moment, a competition going on between states and blocs to set the rules of 21st Century trade. The European Union has a view of how the world should work; China has its own ideas.

What the proposed US-UK deal would do is give Britain and the United States—two countries united by their free market heritage—a chance to have their own say; to set a compelling new direction for free trade that combines independence with openness. This is an enormous opportunity, so let’s hope it is one that British and American policymakers are prepared to take.