



## **Adam Smith Inst - 11 US & UK Think Tanks produce the ideal free trade agreement**

### **11 Think Tanks in US and UK draft the legal text of an Ideal Free Trade Agreement**

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Simultaneous launches in the UK and US stress political and commercial will of securing a deal between world's largest and 5th largest economies.

Key policy innovations include:

- Enshrine the “negative list” approach to liberalization across goods, services, investment, and government procurement, which is conducive to faster, broader, and deeper economic integration
- Eliminate tariffs on nearly all goods upon entry into force
- Permit free movement of British and American workers, conditioned on an offer of employment
- Commit the parties to expedited customs clearance and administrative procedures
- Mutually recognize professional qualifications and licenses
- Mutually recognize the efficacy of conformity assessment, and equivalence provisions, which would allow companies to sell and operate in both markets by satisfying either Parties’ regulations in areas where there is agreement as to the objectives of the regulations
- Are less restrictive on the use of inputs from third countries by lowering “rules of origin” thresholds that must be met to qualify for the agreement’s preferential terms
- Preclude application of anti-dumping measures between the Parties
- Preclude the use of investor-state dispute settlement

- Provide for the accessions to the agreement of other Parties that can demonstrate willingness and capability to meet its market-liberalizing standards

This week, a collaborative project spearheaded by the Initiative for Free Trade in London and the Cato Institute in Washington, D.C. presents its first fruit. With contributions from policy experts affiliated with 11 U.S. and U.K. think tanks, *The Ideal U.S.-U.K. Free Trade Agreement: A Free Trader's Perspective* is the proposed legal text for a bilateral free trade agreement between two of the world's largest economies and the two richest English-speaking countries.

With both states deeply committed to the institutions of free-market capitalism and the rule of law, the ideal free trade agreement between the United States and the United Kingdom is an opportunity to create greater prosperity for Brits and Americans. Novel, sensible, transparent rules to eliminate costly barriers to trade will help stimulate innovation, encourage competition, provide opportunities for all, and incentivize reform-minded governments around the world.

The agreement includes provisions that foreclose governments' access to discriminatory protectionism and obligate both parties to refrain from backsliding. Mutual recognition across sectors in developed countries would help achieve maximum market barrier reduction, the report argues, and enables consumers to access goods and services across both markets fully. All the while both states would preserve national sovereignty to legislate and regulate in ways that do not discriminate against imported goods, services, or capital.

As the U.K. government prepares to repatriate its authority over trade policymaking for the first time in 45 years, concluding and implementing a free trade agreement with the United States should be among its highest priorities. Indeed, the Department for International Trade has selected the U.S. as one of four potential trade agreements on which it is currently seeking public consultation.

In many respects, the U.S. and U.K. economies already benefit from a high level of economic integration. U.S. entities are the largest foreign direct investors in the United Kingdom, and U.K. entities account for the largest share of foreign direct investment in the United States. The value of the cumulative investment stands at nearly \$1.3 trillion today. More than 1.1 million Americans work for British companies in the U.S. and nearly 1.5 million Britons are directly employed by U.S. affiliates.

It is, in addition, an exceptionally popular proposition for both the UK and the US. In a recent Public First / YouGov Poll, 67% of British people surveyed said that they supported an FTA being signed with America (with just 9% opposed), while 64% of Americans would support an FTA with Britain (with just 7% opposed).

The greatest area of benefit could come from an enhanced equivalence model of mutual recognition across all financial sectors. Finance and insurance represented 7.5% of US GDP (or \$1.45 trillion) and 6.5% of UK GDP (£119bn). After the financial crisis of 2007-2008 financial regulators have sought equivalent outcomes with high degrees of synchronization on Wall Street and in the City and the report argues fostering greater collaboration between regulators could increase best practice while expanding and access to services for consumers.

In total, the ideal free trade agreement includes provisions to liberalize trade that are spread over 18 different chapters. Innovative, market-based rules are presented on subjects such as

Regulatory Coherence, E-Commerce, Sanitary and Phytosanitary measures, Dispute Settlement, and provisions governing third party accession.

Dan Ikenson, director of the Cato Institute's Centre for Trade Policy and co-author of the paper, said that the objective of the project is: "to persuade policymakers and the public in both countries that a comprehensive bilateral trade and investment agreement removing all barriers to trade across all sectors of both economies without exception is in their best interests and to provide the blueprint of an agreement that would be the most liberalizing FTA in the world."

Beyond providing the formal agreement text and summaries, the paper "provides an intellectual basis for why real free-traders are often skeptical of free trade agreements, which often include protectionist or 'managed trade' provisions, and how this FTA overcomes those concerns," Ikenson explains.

Victoria Hewson of the Institute of Economic Affairs, says:

"This has been a fascinating and important project, cutting through rhetoric and misinformation to point the way towards a genuine free trade agreement to deliver increased prosperity to the people of the UK and the United States. As the British government makes pivotal decisions that will have far reaching effects on trade policy for a generation, a glimpse of what the ideal free trade agreement might look like could not come at a better time."

Tom Clougherty, Head of Tax at the CPS and co-author of the report:

"This isn't just an ideal free trade agreement between Britain and the United States; it is a model for how trade liberalisation can and should work in the 21st Century.

Our draft agreement would put British and American policymakers at the forefront of a new movement for free trade in goods and services, for unrestrained cross-border investment, and for mutual recognition of national regulatory regimes.

In short, it represents a modern gold standard for international trade and cooperation."

Matt Kilcoyne, of neoliberal think tank the Adam Smith Institute and co-author of the report said:

"Together the US and the UK have the clout to rewrite the rules of global trade. This deal would be about freeing citizens of the two largest English speaking countries to trade without impediment, to be able to move for work and change their stars.

Britain's future is bright, so long as it doesn't just buy into the status quo or joining in trade wars against her own citizens. Instead the UK must seek to bring down barriers and push up prosperity."