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Charting a Free Market Course for UK Trade Policy

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Last month's vote by the United Kingdom to leave the European Union gives control over trade policy back to British officials, who are now faced with the difficult task of creating new domestic institutions and formulating trade and other international economic policies. Some of their immediate work is obvious. The UK must negotiate a new economic relationship with Europe, both with the EU and with non-EU countries. The UK must also restructure its relationship with its trading partners at the WTO.

Beyond that, UK trade policy is more open ended, with a great deal of discretion on future directions. Brexit might lead to some short-term economic disruptions, but it is also a great opportunity for expanding free markets and free trade.

While trade policy has some domestic components, these days it is largely an international issue. Governments negotiate mutual reductions in trade barriers, with international agreements to enforce their commitments. But there are many models for these negotiations, with different countries taking different views about what a trade agreement should involve. The UK has a blank slate in front of it and thus has many options available. The two most important questions for future UK trade agreements are: (1) With whom should the UK negotiate, and (2) what should it negotiate about?

As noted, the UK will be negotiating a new relationship with the EU and with other European neighbors. There are questions, though, about how the UK should select other trade negotiating partners. To maximize the value of its initial trade negotiations, the UK should think about several factors: (1) Which countries have the most to offer in terms of a substantial economic relationship; (2) with which countries would the negotiations be the smoothest; and (3) which countries would involve the least external controversy in a trade negotiation.

Weighing and balancing all of these factors, the best candidates for the initial trade negotiations would be Australia, Canada, New Zealand, and the United States; and perhaps South Korea and Japan as well. These countries maximize the potential value of an international economic agreement; deals could be done relatively quickly; and they would minimize any controversy.

The second question for the UK in deciding on an approach to trade agreements is what to negotiate about. Some ongoing trade negotiations have dragged on for years. The UK should push for quick agreements that are done in one or two years.

To achieve this, the UK should consider a streamlined approach to negotiating trade agreements that focuses on core trade liberalization issues, and leaves out the more complex and controversial regulatory and governance issues — such as intellectual property — that have led to delays in other trade negotiations. In this regard, UK trade agreements should cover tariff reductions, services liberalization, and opening procurement markets; there should also be a placeholder for negotiating future mutual recognition agreements for trade in specific goods and services.

With regard to tariffs, the UK should be bold and propose zero tariffs on all products. Trade negotiations can get bogged down in balancing out the demands from each side for continued tariff protection of certain products, and in determining how long phase-out periods should be. However, the simplest and most beneficial tariff policy is to remove all tariffs as quickly as possible.

Services are traded differently than goods, and the barriers tend to be regulatory in nature. That makes services negotiations inherently more controversial than simple tariff lowering. With services trade, the UK should focus on liberalizing particular areas that are less sensitive.

A cross-cutting area, which covers both trade in goods and services, is government procurement. The UK should push hard in these negotiations to open its market and those of its trading partners.

Beyond these core issues, there is the potential for mutual recognition of domestic regulations related to product standards and services qualifications. But trying to negotiate these issues comprehensively has proved extremely controversial in the TTIP context, and is unlikely to have greater success in the UK trade negotiations. Instead, the UK agreements should merely refer to the possibility of future discussions on specific products, and leave this issue for a later date.

One final area where the UK has an opportunity to be bold and do something innovative in a trade negotiation is trade remedies, which covers antidumping duties, countervailing duties and safeguards. Ideally, the UK would use these measures in a very limited manner, or even not at all, as part of its domestic trade regime. But practically speaking, these trade measures are a core part of today's trade policy world, and it is unlikely the UK will abandon them. However, what is possible is that, for its trade relations with close trading partners, the UK might consider a mutual decision not to apply trade remedies.

The UK faces some difficult tasks in terms of formulating a new trade policy, and questions have been raised as to whether it even has the power to do so before it leaves the EU. But assuming Brexit goes ahead, the UK will start engaging in trade negotiations at some point. When it does, it should push for the most free trade that its partners can accept.

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