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Aussie trade deal shows what the future holds for post-Brexit trade policy

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During the referendum campaign, pro-Brexit economists said that outside of the EU's customs union, the UK would quickly sign free trade agreements (FTAs) that reflected a liberal instinct to remove tariffs, quotas and barriers to service trades.

Switzerland had trade deals with China, Japan and Canada, after all. The city state of Singapore, a country as historically steeped in free trade as Britain, had cut agreements with Australia, New Zealand, India, Japan, South Korea, the European Free Trade Association and the US too. Britain, with a newly repatriated trade policy, would similarly liberalise around the world.

These arguments were dismissed by Remainers as not reflecting the “complex” trade-offs an independent UK would face. Well, this week the Government laid an early marker. Liz Truss, the Trade Secretary, agreed a liberalising FTA with Australia after just a year of negotiations. For comparison: the EU is now in its fourth year of talks for an Aussie deal.

Most tariffs will be eliminated by the UK-Australia deal immediately. Even agricultural tariffs will be phased out over 15 years, with significant ongoing relaxations to quotas for Aussie meat in the interim before full abolition. Digital data will flow more easily, many professional qualifications will be mutually recognised in both countries, and working holiday visas for Britons down under will be expanded.

The deal's speed reflects that, since the repeal of the Corn Laws, the UK has been, by and large, a free trading nation. Instead, other European governments often demand significant protection for agricultural and manufacturing interests from non-EU countries or exclusivity for use of “geographic indicators” such as “Parmigiano-Reggiano” or “Kalamata” olives. Add to this the 27 EU countries' different “interests” and negotiations are slowed down by a potpourri of protectionist demands and red lines.

Barriers to cross-border trade are economically destructive, raising prices and sheltering inefficiency. So any self-respecting free trader, Brexiteer or otherwise, ought to endorse a deal making it easier to import Aussie sports gear, biscuits, and wine, that removes domestic agricultural protections, and that sees the Aussies strip tariffs from UK cars, whisky and ceramics.

But no. Tediously and predictably, a bunch of Remain-leaning trade lawyers this week shook off their free trade *bona fides* and became mercantilists. The UK has rolled over and given Australia everything they wanted on agricultural access, they said – implying that good trade policy is about gaining access for exporters while protecting industries from imports. Ignoring basic trade economics, it seems, is a price they are willing to pay to signal their anti-Brexit credentials.

In reality, the Aussies will merely enjoy similar UK agricultural terms to the EU, albeit after 15 years. Economists know that tariffs are damaging rocks in our own harbour, not bargaining chips to be protected. The British public agrees. Adam Smith Institute polling has shown they overwhelmingly favour the Australia FTA. Britons have long had a desire for cheaper and wider access to food, goods and services. The squeals of agricultural vested interests, stoked by trade lawyers, will not dampen that enthusiasm.

Nor, indeed, will misguided claims that this agreement is economically insignificant. The deal's critics highlight the 2019 UK government assessment that claimed an FTA with Australia might raise GDP by just 0.01pc to 0.02pc after 15 years. But this type of analysis severely understates the dynamic boost to activity that free trade brings.

These models take the industrial structure of the economy of today, plug in the reductions to tariffs and quotas from a potential deal, and estimate the GDP gains stemming from resources shifting into sectors better reflecting the UK's comparative advantages given current conditions.

This exercise is useful for comparing one set of negotiated policies to another. But it is a static analysis, not a forecast. It doesn't tell us the full impact of trade liberalisation because it ignores any impact it has on innovation, the true driver of long-term prosperity. It doesn't account for the shifting trade gravity east over time, either, nor is the modelling good for assessing services trade or the impact of reduced barriers to worker mobility.

The real economy is constantly affected by creative destruction and shocks – including new technologies, changing tastes, political disruption, agricultural challenges and entrepreneurial endeavour. Freer trade allows a more rapid specialisation in these ever-changing circumstances. Removing trade barriers encourages businesspeople to explore broader horizons. By diversifying supply lines, freer trade provides options for mitigating against domestic disruption harming consumers. All these benefits are difficult to calculate but extend beyond the static GDP gains from tariff reductions.

What's more, the UK's willingness to spurn agricultural protection here sets us up for other trade negotiations that could be economically more significant. As part of Britain's proposed accession to the Pacific-Rim CPTPP, the UK must agree trade terms with 11 countries, including Australia. This deal shows other signatories that the UK is serious about deepening free trade, without giving in to the loudest voices for protection at home.

This is important: CPTPP countries make up 13.5pc of global GDP today. The UK already has deals with seven members, but full accession would bring a deep trade relationship with a fast-growing region of the world, as Europe's importance shrinks. The US might eventually join too

and will be keen on agricultural liberalisation. This, plus other bilateral deals, will show that free trade does not require political union.

Perhaps it is inevitable that eliminating protections is perceived by some as “concessions” to the other country. Most economists, however, understand that the best metric for judging changes to trade relationships is not how many “wins” one side gets for its industries, but whether the package overall enhances economic freedom. By slashing protections and setting a precedent for liberalising deals, this agreement does that – just as Brexiteers predicted.

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