

Comment: Negotiating Objectives for a U.S.-United Kingdom Trade Agreement

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A trade agreement between the United States and United Kingdom would be a chance to increase prosperity in both nations by eliminating all forms of trade barriers, thus enabling greater levels of commerce for the benefit of workers and consumers on both sides of the Atlantic.

It's also an opportunity to refocus trade agreements in ways that recognize sovereignty and promote pro-market policies. More specifically, a free trade pact between the U.S. and U.K. would offer a much-needed opportunity to discard the clutter of exceptions, long phase out periods, and non-trade issues, which has characterized recent agreements, and instead go with a cleaner approach that would allow the simplicity of unfettered commerce.

The ideal trade pact should seek to make trade between the U.S. and the U.K. as simple as trade between New York and Pennsylvania. That type of trade agreement doesn't need to be cumbersome and doesn't require a detailed thousand-page document.

When dealing with other advanced nations, the default rule for a free trade agreement should be based on the following principles.

- There should be no tariffs.
- There should be no quotas.
- There should be no regulatory rules.

In other words, it's not just rhetorical flourish to say that trade between the U.S. and the U.K. should be as seamless and simple as trade between two states. That should be the real goal, and it is possible.

Indeed, that's basically a description of how trade works among nations in the European Union. And it's basically a description of how trade works between Australia and New Zealand.

A close examination of the European Union's approach to trade illuminates some key features. The various countries of the E.U. have different tax laws, different labor laws, and many different regulations, but trade among those nations is frictionless. For all the criticism the E.U. receives, much of it justified (including protectionist barriers to non-E.U. nations), the elimination of trade barriers among member nations should be recognized as a great achievement.

The U.S. should have this type of trade deal with the U.K. Like in the E.U., such a pact should be based on the principle of "mutual recognition," which means that nations can have their own laws governing economic activity inside their borders, but they recognize that other nations have the same right. Most important, they also agree that there should be no restriction on the ability of consumers to buy from producers in the other nation(s).

This approach is premised on the notion that two advanced nations such as the U.S. and U.K. are sufficiently similar that there's no need to worry about the quality and safety of goods produced in either nation.

Exceptions

It is a near certainty that either the U.S. or U.K. will want some exceptions to a system of frictionless cross-border trade. Maybe one of the nations legalizes a pharmaceutical product and the other nation wants it to remain off the market. Another example is that one of the countries may think that a certain component used in production is cancerous, but the other has deemed it safe. Or maybe the nations will want different types of limits on gambling or pornographic material. Perhaps they may want to specify intellectual property rules.

Such exceptions may or may not be rational or desirable, but they are not poison pills so long as the default assumption is open trade based on mutual recognition. Though the burden of proof clearly should be upon those who want to carve out exceptions to unfettered trade.

Mutual Recognition vs Regulatory Harmonization

The benefits of trade liberalization revolve around specialization and comparative advantage. But some argue that those benefits can be maximized if there is complete economic integration, including a merging of regulatory policy. The E.U. is evolving in that direction, and there are elements of regulatory harmonization in other trade deals.

It is true that multinational companies would enjoy lower costs if they didn't have to worry about complying with different regulatory regimes. But there is a downside to that approach in that policy harmonization seems to inevitably result in a greater burden of government. Tax harmonization means tax rates go up, not down. Regulatory harmonization means the nation with the most onerous amount of red tape becomes the standard that other nations have to copy.

A system of mutual recognition, by contrast, is the best of all worlds. Under such a regime, a company in the U.S. wouldn't have to produce separate products for U.K. customers since there would be no policy restricting a consumer in, say, London, from buying a product made in, say, Cleveland.

This approach respects national sovereignty and also would have the added benefit of encouraging policy competition between nations. If either the U.S. or the U.K. was over-regulating in a certain sector, it would mean a loss of sales to the other country, which surely would create pressure for regulatory relief. Very similar to the way tax competition puts pressure on governments today not to impose excessive tax rates. This kind of competition, like competition between businesses and industries, has been a key component of growing, thriving economies

Conclusion

A pact for free and open trade between the U.S. and U.K. could become a new role model for agreements between industrialized, high-income nations. If based on mutual recognition, such a free trade agreement should reverse the unfortunate trend of deals getting saddled with extraneous and/or harmful provisions.

For further reading:

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Daniel Griswold, “Leading the Way with a US-UK Free Trade Agreement,” Mercatus Center, October 30, 2018. <https://www.mercatus.org/publications/trade-and-immigration/leading-way-us-uk-free-trade-agreement>

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