

Priorities for UK trade liberalisation

As the UK develops its trade policy outside of the EU, it would be a mistake to base its future approach on the one it inherits from the EU.

Rolling over existing EU deals with third countries may be fast and convenient, however many of them don't fit the specific interests of the British economy. There are significant opportunities for Britain to forge a different approach. There are three areas where this approach could be particularly beneficial : Adopting a unilateral tariff liberalisation approach – ideally eventually to all, but certainly immediately with the poorer countries in the world; using “Concerted open plurilateralism” to forge trade alliances with groups of like minded countries; and renegotiating existing trade agreements – starting with the EU-Japan EPA.

Unilateral tariff liberalisation

The EU's trade policy with developing countries is often portrayed as benevolent, as it offers significant tariff free access to the EU market, yet on closer inspection it is also increasingly protectionist, with both developing countries and the EU itself suffering from the graduated barriers to trade included within it. These Generalised System of Preferences (GSP) schemes give developing countries preferential access, but the level of openness the EU grants is based on how poor the country is and how much it sells to the EU.

The poorest countries in the world benefit from the Everything but Arms (EBA) scheme, where they get unilateral tariff free access to the EU for virtually all goods. Richer developing countries access the GSP or GSP+ scheme. At each level the country has progressively less EU access. In addition there are thresholds within the schemes governing how much a third country can export to the EU. A country risks losing some or all of its preferences if the thresholds are breached. As a result, the EU effectively offers tariff free access only where a third country doesn't pose a competitive challenge to European products.

It is therefore far from unilateral tariff liberalisation and offers some perverse incentives as countries which successfully use their preferential access will ultimately lose them as they get richer and increase their exports to the EU.

If the UK replicates the scheme, including the existing thresholds for the UK share of the market, it risks penalising countries which currently sell mainly into the UK. They could go well over a UK only threshold carved out of the EU GSP. This would not only be bad for developing countries, but also for British consumers, as goods produced in these countries would become more expensive.

As well as simplifying the UK's MFN tariff rates¹, and removing them across all sectors over time, there is also an opportunity to forge a more open GSP scheme. It should offer Everything But Arms (duty free, quota free) access to all developing (GSP eligible) countries. A new, more open GSP scheme could also help the UK in its approach to the Commonwealth, given that Commonwealth members make up a large proportion of the developing world.

¹ http://ifretrade.org/publication/future_uk_global_tariff_policy

Concerted Open Plurilateralism

The UK can also sharply diverge from the EU trade approach in digital trade. The UK is a services superpower and a key incubator for tech start-ups. With the advent of technologies such as AI and 3D printing, and with the world lacking a framework to govern digital trade, the UK has a unique chance to shape the trade rules in these areas, which now account for 25% of global GDP.

In this context the [UK should work with smaller and middle sized nations to create common rules and approaches](#) in specific areas.² This “Concerted Open Plurilateralism” approach allows nations to create such partnerships and design them in such a way that other nations can join at a later stage. It is a bottom-up approach to building expandable trade alliances in an era when the WTO hasn’t been able to deliver a global deal. New Zealand has been exemplary in this regard, and was involved in spearheading the recently completed Digital Economic Partnership Agreement (DEPA) covering digital trade, and the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) – both of which the UK should seek to join.³

The UK should take a proactive and strategic role in initiating plurilateral agreements. It could start with other advanced, English speaking economies such as the US, Canada, Singapore, New Zealand, Australia, and Israel – not forgetting the overseas territories. In 2018 the Initiative for Free Trade collaborated with the Cato Institute in drafting the legal text of an Ideal US-UK free trade agreement.⁴ This includes a regulatory coherence chapter facilitating mutual recognition of equivalence; free movement of workers (conditioned upon job offer); removal of tariffs; mutual recognition of professional qualifications, and more. The text was purposefully written such that other countries might join in the future.

Upgrade current FTAs: Japan in focus

One of the signatories of the CPTPP is Japan, and the UK also has a golden opportunity to renegotiate the EU-Japan trade deal. Japan is the second largest non-EU investor in the UK and the Japanese government has signaled that it is keen to improve the deal. Such a renegotiation would be in the interests of both sides.

The EU-Japan deal mainly gave European farmers improved access and reduced some barriers in the automotive sector. It wasn’t designed for the UK economy which won’t benefit hugely from it: a study by IFT⁵ found that gains for UK business were only 50-60% of those enjoyed by the EU27. Liberalisations in E-Commerce and services were weak, but both could be accommodated in a UK-Japan deal.

Japan wants greater protections for its investments, primarily in the car industry. The EU couldn’t give them that, but the UK can. Both countries are closely aligned on data policy, and especially on privacy

² http://ifretrade.org/publication/joint_statement_on_uk_participation_in_the_depa_and_cop_strategy

³ http://ifretrade.org/publication/a_roadmap_for_uk_accession_to_cptpp

⁴ http://ifretrade.org/publication/an_ideal_us_uk_fta

⁵ http://ifretrade.org/publication/a_better_fit_remodelling_the_eu_japan_epa_after_brexit

protections. A data agreement would lead to far easier and more secure data flows, an ideal link between two digital focused economies.

The UK also has an opportunity to be stronger on professional mobility. The Japan/EU deal affords easier movement between the two jurisdictions for professionals and inter company transfers, crucially it allows family members to also come. This is vital to securing inward investment from Japan. The UK, which often doesn't make it easy for family members, should offer Japan the same. Without flexible rules on movement it will be difficult for either side to truly benefit from the liberalised trade rules that an agreement could bring. This approach should also be applied to other trade deals so the UK can attract foreign investment and qualified professionals, particularly in the digital sector. The Japan deal also offers a fast track way into the CPTPP, as many of the Japanese protocols are aligned with that agreement.

Conclusion

In sum: by focusing on unilaterally opening the economy – particularly to developing countries; upgrading current FTAs; and forging open alliances with like minded countries, the UK can build a strong trade policy focused on its strengths, and one which will allow the UK to be a more progressive force for global trade liberalisation.

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