

US & UK

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# COULD A FREE TRADE DEAL HAPPEN?

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# EXPLORING POST-BREXIT TRADE

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## FOREWORD

Post-Brexit, Britain faces a substantial task in negotiating new trade deals with major economies across the globe.

One of the fundamental arguments from the 'Remain' campaign during the EU referendum was that Britain would find it extremely difficult to quickly secure such deals. But now it seems a US and UK trade deal could be on the cards.

In this eBook, we explore whether such a trade deal could come to fruition. We also discuss the potential implications for the US and UK economies.

**Patrick Latchford**  
**CEO, Blackwell Global Investments (UK) Limited**

# WHAT IS BRITAIN LEAVING?

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Before we explore the specifics of a US and UK trade deal, it's important to get some context.

By voting to leave the European Union, Britain is essentially leaving the free trade agreements that the European Union has already agreed. Clearly, one of the priorities for Britain during the Brexit process is to establish new trading relationships across the globe.

## WHY DO TRADE DEALS MATTER?

But why are trade deals so important? Well, the theory is actually quite simple. These deals tend to remove barriers to trade - such as export tariffs. This can help businesses expand and reach new territories - creating growth and jobs for both trading partners. These are sometimes called 'free trade deals'. These arrangements - along with technology - have fuelled globalisation.

However, there are vocal critics of trade deals. Many - including the current President of the United States - believe that trade deals

are detrimental to domestic workers. There's an element of truth to this. Globalisation has put some strain on certain domestic industries in America (and other developed countries).

Ironically, an anti-globalisation sentiment played a significant role in the Brexit vote. Many 'Leave' voters felt that the European Union was an embodiment of uncontrolled globalisation.

### THE BRITISH GOVERNMENT'S PRIORITY

Despite the debate over globalisation, the British government is currently pursuing a policy of negotiating new trade deals. Many trading experts believe this is an extremely difficult task for a number of reasons.

The first relates to time. Trade deals are renowned for the protracted length of time they take to ratify. For example, the recent trade deal between Canada and the European Union (which still needs to be ratified by national legislatures) has taken just under eight years to be approved. This is because trade deals are incredibly complex. Both parties go to great lengths to protect their nation's interests.

Secondly, Britain has lost a negotiating strength by leaving the European Union. In recent years, trade deals have been negotiated based on a concept called 'market size'. The concept is simple: countries with bigger populations have more customers and a more desirable market size. It's why trade deals now tend to be negotiated between economic blocs or large countries, rather than smaller individual nations. It's one of the advantages of the European Union - which currently has a market size of over 500

million people. By leaving the European Union, Britain's market size will become much smaller (65 million).

Some also believe that the ongoing Brexit negotiations will also make new trade talks difficult to progress. Remember, as the UK separates from the European Union, there could be changes in business and investor confidence.

# A US/UK TRADE DEAL

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Just before the EU referendum in 2016, the then US President, Barack Obama, proclaimed that Britain would be at the 'back of the queue' when it came to negotiating a trade deal with the US.

Twelve months on, and the situation is very different. President Donald Trump has publicly indicated that he is willing to negotiate a trade deal with Britain.

For the British government, this has become a priority. International Trade Secretary, Liam Fox, is currently in the US capital attempting to secure bilateral trade deal (July 2017). It's believed that this trade deal would take effect in 2019 - when Britain officially leaves the European Union.

This potential trade deal has garnered enthusiasm from both sides of the Atlantic - and for good reason. Behind the European Union, the US is the UK's largest export destination. The US is also the second largest exporter to the UK. By agreeing on a trade deal, import tariffs for both US and UK businesses could be removed.

This is something that businesses would favour.

## INTERESTING AREAS

Despite this optimism, Britain has recent history in negotiating a trade deal with the US. This was through the European Union, which is attempting to secure something called the Transatlantic Trade & Investment Partnership (TTIP). This is another deal which has exposed how difficult it can be for partners to reach an agreement.

It's why many are sceptical on whether the US and UK will be able to agree a trade deal quickly. Plus, President Trump has been incredibly vocal about standing up for American workers in trade deals. His 'America First' agenda has made some speculate on whether Britain can secure favourable terms.

## NHS

One area of potential difficulty regards Britain's National Health Service (NHS). Unlike health care provision in the US, the NHS is controlled by the government. Many in Britain are concerned about elements of the NHS becoming privatised because of a trade agreement. By privatising provision, US businesses would be able to pitch for business within the NHS. Critics are also concerned that any attempt to reverse this kind of privatisation could result in US businesses pursuing legal action against the British government.

It's important to emphasise that the British government has said that it does not intend to privatise any parts of the NHS.

## FOOD

There are substantial differences in how the US and UK prepare food. For example, chicken in the US is washed with chlorine to remove harmful microbes. However, this practice is banned in Britain. The US also permits the use of genetically modified crops - again something which isn't allowed in Britain.

## AUTOMOTIVE INDUSTRY

Cars that are imported to Britain from outside the European Union currently incur a 10% tariff. A trade deal between the US and UK could remove these barriers of entry for car manufacturers. This could be an exciting area of growth for both the US and UK automotive industries.

## FINANCIAL SERVICES

Any prospective trade deal could make it easier for US and UK companies to adopt common practices and regulations. This could be especially promising for the financial services industries in London and New York. For Britain, this could take on new significance once it loses access to the European Single Market.

## COULD IT HAPPEN?

There's clearly a desire from both the US and UK governments to progress a trade deal. However, as with all trade deals, there are likely to be protracted negotiations. But at this moment in time (July 2017) - a trade deal with the US looks like it could be Britain's first successful post-Brexit endeavour.



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