

BACKGROUND

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How Brexit Can Promote Economic Freedom

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Abstract

Brexit offers the United Kingdom (U.K.) an opportunity to forge new, mutually beneficial trade relationships with nations around the world, including the United States. The U.K. can also use the Brexit process to eliminate industrial tariffs and reduce excessive regulations that have unnecessarily constrained British economic growth. More generally, the U.K. should adopt a Brexit reform strategy focused on unilateral actions to lower regulatory costs and tariff barriers, as well as multi-lateral actions aimed at forging bilateral, regional, and international free trade deals.

On March 29, 2017, the United Kingdom (U.K.)¹ formally triggered a two-year period of negotiations to exit the European Union (EU). This “Brexit” process will offer the U.K. the opportunity to forge new trade relationships with nations around the world, including—importantly—the United States, as Heritage Foundation scholars have explained.² The U.K. can also use the Brexit process to eliminate industrial tariffs and reduce excessive regulations that have unnecessarily constrained British economic growth. More generally, the U.K. should adopt a four-part Brexit reform strategy focused on unilateral, bilateral, plurilateral, and multilateral actions. If correctly implemented, this strategy not only would strengthen the British economy (both producers and consumers), it also would bestow economic gains on the United States and other nations that trade with the U.K. Most fundamentally, successful Brexit reforms would serve as an example of how government trade and regulatory reforms can promote the cause of economic freedom by expanding the scope of economic liberties enjoyed by a reforming nation’s residents.

KEY POINTS

- Brexit can, if handled correctly, usher in greater prosperity for the United Kingdom.
- The U.K. can give its economy an initial boost by unilaterally eliminating or reforming economically excessive regulations imposed by EU law and by slashing (or zeroing out) entire categories of industrial tariffs.
- In negotiating the terms of Brexit, the U.K. should seek as broad a free trade agreement as possible with the EU. Additionally, the U.K. should also explore mutually beneficial bilateral and regional trade arrangements with like-minded countries, particularly the U.S.
- The U.K. should also use its influence on the global stage, working through the World Trade Organization to push for global free trade.
- Through successful regulatory reform and trade liberalization measures, the U.K. can advance the cause of economic liberty, here and around the world.

This paper, in its entirety, can be found at <http://report.heritage.org/bg3225>

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Background

On June 23, 2016, in a referendum called by the U.K. government, the British people opted in favor of leaving the EU by a vote of 52 percent to 48 percent. That led, in turn, to the resignation of the Conservative Party's David Cameron as Prime Minister (Cameron had campaigned against leaving the EU), and his replacement by a new Conservative Prime Minister, Theresa May, as well as a March 2017 vote by Parliament to authorize Britain's full withdrawal from the EU.³

Brexit, however, cannot be accomplished overnight, with a mere notice of withdrawal to EU officials. It will require extensive negotiations. Currently, the U.K. is subject to a wide variety of legal obligations under EU treaty law and statutes, including a plethora of rules and regulations that limit the U.K. government's exercise of independent legal authority. These complex legal relationships will have to be untangled in talks between the British government and the EU.

Leaving the EU involves a formal process that is triggered by invocation of Article 50 of the 2007 Lisbon Treaty,⁴ the agreement that governs the functioning of the European Union. Article 50 specifies that EU Member States may decide to withdraw from the EU. It provides that the various EU treaties "shall cease to apply" two years after a member state notifies the EU's general policy body, the European Council.⁵ Following a March vote by Parliament, Prime Minister May transmitted a letter of withdrawal to the European Council on March 29, 2017,⁶ which described generally the U.K. government's Brexit negotiating policy. Pertinent excerpts follow:

As I have announced already, the Government will bring forward legislation that will repeal the Act of Parliament—the European Communities Act [of] 1972—that gives effect to EU law in our country. This legislation will, wherever practical and appropriate, in effect convert the body of existing European Union law (the "acquis")

1. The U.K. comprises England, Wales, Scotland, and Northern Ireland. This *Backgrounder*, consistent with common usage, uses the term "Britain" and "British" when referring to the U.K., although technically "Great Britain" includes only England, Wales, and Scotland.
2. Both the Conservative government of Prime Minister Theresa May and the Trump Administration have welcomed the prospect of a U.S.-U.K. Free Trade Area. The Heritage Foundation firmly supported Brexit. Heritage experts have explained the potential benefits that Brexit holds for Britain and for the U.K.-U.S. relationship. See, e.g., Nile Gardiner, "Next Steps in the 'Special Relationship': Impact of a U.S.-U.K. Free Trade Agreement," testimony before the Subcommittee on Terrorism, Nonproliferation, and Trade, and Subcommittee on Europe, Eurasia, and Emerging Threats, Committee on Foreign Affairs, U.S. House of Representatives, February 1, 2017, <http://www.heritage.org/testimony/next-steps-the-special-relationship-impact-us-u.k.-free-trade-agreement>; Theodore R. Bromund, "Theresa May and the Rise of the Brexiteers," *Heritage Foundation Commentary*, March 29, 2017, <http://www.heritage.org/europe/commentary/theresa-may-and-the-rise-of-the-brexiteers>; Theodore R. Bromund, "Brexit and the Arrival of Trump: The Beginning of an Exciting New Era of Closer and Deeper U.S.-U.K. Relations," *Heritage Foundation Commentary*, January 19, 2017, <http://www.heritage.org/europe/commentary/brexit-and-the-arrival-trump-the-beginning-exciting-new-era-closer-and-deeper-us>; Theodore R. Bromund, "U.S. Interests in the United Kingdom and Europe After Brexit," *Heritage Foundation Commentary*, September 14, 2016, <http://www.heritage.org/europe/commentary/us-interests-the-united-kingdom-and-europe-after-brexit>; and Alden Abbott, "Legatum Institute's Special Trade Commission Advances Brexit Policies Designed to Promote Economic Freedom and Prosperity—for the United Kingdom and (Eventually) the World," *Heritage Foundation Commentary*, February 10, 2017, <http://www.heritage.org/trade/commentary/legatum-institutes-special-trade-commission-advances-brexit-policies-designed>.
3. See Alex Hunt and Brian Wheeler, "Brexit: All You Need to Know About the U.K. Leaving the EU," *BBC News*, April 25, 2017, <http://www.bbc.com/news/U.K.-politics-32810887> (accessed June 21, 2017).
4. See "The Lisbon Treaty, Introduction," <http://www.lisbon-treaty.org/wcm/the-lisbon-treaty.html> (accessed June 14, 2017), and "The Lisbon Treaty, Article 50," <http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-European-union-and-comments/title-6-final-provisions/137-article-50.html> (accessed June 14, 2017). There are various other EU treaties predating the Lisbon Treaty that deal with the initial establishment of the EU and its predecessor institutions, as well as with the Establishment of a European Atomic Energy Commission. See European Union, "EU Treaties," https://europa.eu/european-union/law/treaties_en (accessed June 14, 2017).
5. "The European Council defines the EU's overall political direction and priorities. It is not one of the EU's legislating institutions, so does not negotiate or adopt EU laws. Instead it sets the EU's policy agenda, traditionally by adopting 'conclusions' during European Council meetings which identify issues of concern and actions to take.... The members of the European Council are the heads of state or government of the 28 EU member states, the European Council President and the President of the European Commission.... The European Council mostly takes its decisions by consensus. However, in certain specific cases outlined in the EU treaties, it decides by unanimity or by qualified majority." See "The European Council," <http://www.consilium.europa.eu/en/european-council/> (accessed June 14, 2017).
6. Office of the Prime Minister, "Prime Minister's Letter to Donald Tusk Triggering Article 50," March 29, 2017, <https://www.gov.uk/government/publications/prime-ministers-letter-to-donald-tusk-triggering-article-50/prime-ministers-letter-to-donald-tusk-triggering-article-50> (accessed June 21, 2017).

into U.K. law. This means there will be certainty for U.K. citizens and for anybody from the European Union who does business in the United Kingdom....

We also intend to bring forward several other pieces of legislation that address specific issues relating to our departure from the European Union, also with a view to ensuring continuity and certainty, in particular for businesses....

The United Kingdom wants to agree with the European Union [on the terms of] a deep and special partnership that takes in both economic and security cooperation.

To achieve this, we believe it is necessary to agree [to] the terms of our future partnership alongside those of our withdrawal from the EU.

If, however, we leave the European Union without an agreement, the default position is that we would have to trade on World Trade Organisation terms. In security terms a failure to reach agreement would mean our cooperation in the fight against crime and terrorism would be weakened....

We should work towards securing a comprehensive agreement. We want to agree [to] a deep and special partnership between the U.K. and the EU, taking in both economic and security cooperation. We will need to discuss how we determine a fair settlement of the U.K.'s rights and obligations as a departing member state, in accordance with the law and in the spirit of the United Kingdom's continuing partnership with the EU. But we believe it is necessary to agree [to] the terms of our future partnership alongside those of our withdrawal from the EU....

We should begin technical talks on detailed policy areas as soon as possible, but we should prioritise the biggest challenges. Agreeing a high-level approach to the issues arising from our withdrawal will of course be an early priority. But we also propose a bold and ambitious Free Trade Agreement between the United Kingdom and the European Union. This should be of greater scope and ambition than any such agreement before it so that it covers sectors crucial to our linked economies such as financial services and network industries. This will require detailed technical talks, but as the U.K. is an existing EU member state, both sides have regulatory frameworks and standards that already match. We should therefore prioritise how we manage the evolution of our regulatory frameworks to maintain a fair and open trading environment, and how we resolve disputes. On the scope of the partnership between us—on both economic and security matters—my officials will put forward detailed proposals for deep, broad, and dynamic cooperation.

In short, the U.K. government plans to proceed as follows: (1) Parliament initially will convert applicable EU legal rules into U.K. law to preserve continuity; (2) The U.K. will seek to negotiate a comprehensive agreement covering economic and security cooperation with the EU; (3) Specifically, the U.K. will pursue a free trade agreement with the EU that covers key economic sectors—particularly financial services and network industries—involving technical discussions regarding regulatory frameworks and standards; and (4) If, nevertheless, negotiations fail (the worst-case scenario), the U.K.'s relationships with the EU would be based on its trade commitments as a member of the World Trade Organization (and its predecessor institution, the General Agreement on Tariffs and Trade)—the multinational body which administers major international trade agreements.⁷

7. The World Trade Organization (WTO) "operates a global system of trade rules,...acts as a forum for negotiating trade agreements,...settles trade disputes between its members and...supports the needs of developing countries." World Trade Organization, "What Is the WTO?" https://www.wto.org/english/thewto_e/thewto_e.htm (accessed June 14, 2017). Although the EU as an institution is a WTO Member, individual EU states, including the U.K., are members of the WTO in their own right. The U.K. is committed to specific tariff rate schedules and other commitments as a WTO member, and those commitments will remain in place after the U.K. leaves the EU. The WTO is the successor to the General Agreement on Tariffs and Trade (GATT), which served as a negotiating forum for multilateral trade negotiations, largely but not entirely, centered on tariff reductions, from the late 1940s to the 1990s. Member nations' GATT trade commitments carried forward when the WTO was created in 1994 at the end of the GATT "Uruguay Round" of negotiations. See World Trade Organization, "WTO Legal Texts," https://www.wto.org/english/docs_e/legal_e/legal_e.htm#GATT94 (accessed June 14, 2017).

In sum, the U.K. should adapt its regulatory structures and trade commitments as it negotiates its separation from the EU. Although EU rules will remain in place temporarily, the U.K. government ultimately will decide what departures from EU legal strictures are appropriate. The U.K. will also have the opportunity to forge new trade relationships with non-EU nations. Thus, the Brexit process makes possible the significant reform of British regulations and the adoption of new British international trade agreements—initiatives that were not possible while the U.K. remained an EU member state. Carried out appropriately, such initiatives should promote prosperity and significantly advance the cause of economic freedom.

A Template for Brexit-Related Reforms⁸

In order to strengthen the British economy and enhance trade liberalization with its foreign trading partners, the U.K. government can and should move simultaneously along four fronts during the Brexit negotiations process.

First, it should act *unilaterally* to lower its existing tariffs and reduce inefficient regulatory burdens that are an impediment to faster economic growth. Second, it should negotiate *bilateral* trade agreements with several major individual jurisdictions, focused primarily on reducing competitive barriers in specific markets. Third, it should propose a set of deeper market-opening commitments with groups of like-minded countries—“*plurilateral*” arrangements. Fourth, it should take *multilateral* trade liberalization measures on a global scale, wherever feasible. All told, these initiatives will require a major commitment of resources by the U.K. government in order to achieve economic gains that may not be immediately observable but that hold out the prospect for greatly enhanced future prosperity.

Unilateral Measures. In considering unilateral legal reforms, the U.K. government must weigh the effects of a vast array of EU rules currently in place. Under the Treaty of Lisbon, the EU exercises legal authority through a variety of measures that directly affect British economic and social policy, including in the areas of competition (anti-trust); the environment; consumer protection; international agreements covering trade and other topics; common commercial policy within the EU; fisheries regulation (the Common Fisheries Policy, which also involves various subsidies); agricultural regulation (the Common Agricultural Policy and its substantial market-distorting subsidies for European farmers); certain safety and public health matters; energy; transportation; trans-European networks; and human rights.

The European Commission, the administrative arm of the EU, enforces violations of EU rules and constitutional provisions. The ultimate authority to determine whether a particular British law or policy is consistent with EU legal obligations rests in the hands of European courts—specifically in the European Court of Justice and the European Court of Human Rights, located in Luxembourg and France, respectively—not British courts.⁹

The costs of EU regulation weigh heavily on the U.K. One major study estimates EU regulation may be costing the British economy between \$171 billion and \$712 billion a year.¹⁰ Another report finds that the 100 most costly EU regulations imposed a \$43 billion burden, measured in 2014 prices, and that many of those regulations are not cost beneficial.¹¹ Other scholarly evaluations also find major U.K. regulatory cost burdens due to EU legal requirements.¹² In short, as a comprehensive analysis of the economics of Brexit concluded, “[W]ithdrawing from the European Union will allow the U.K. to address this burden by abolishing regulations that add cost but few benefits.”¹³

8. The following discussion draws substantially on Shanker A. Singham, “A Blueprint for U.K. Trade Policy,” Legatum Institute, April 2017, <https://lif.blob.core.windows.net/lif/docs/default-source/default-library/170427-final-trade-blueprintweb.pdf?sfvrsn=0> (accessed June 21, 2017). The Singham Blueprint discusses at length detailed aspects of the issues that will have to be covered in future U.K. trade negotiations.

9. For an overview of the EU’s legal oversight authority over the U.K., see Iain Murray and Rory Broomfield, *Cutting the Gordian Knot: A Roadmap for British Exit from the European Union* (Washington, DC: Competitive Enterprise Institute, 2016), pp. 11-14, https://cei.org/sites/default/files/ain%20Murray%20and%20Rory%20Broomfield%20-%20Cutting%20the%20Gordian%20Knot_0.pdf (accessed June 21, 2017).

10. *Ibid.*, p. 27.

11. *Ibid.*

12. *Ibid.*, pp. 26-28 (summarizing research).

13. *Ibid.*, p. 28.

The U.K. government should use the adoption of EU statutes and rules into British law as an opportunity to eliminate those regulations that fail a cost-benefit test and to reform other major rules to reduce their cost burden wherever possible. It may wish to follow the example of Australia and New Zealand, which established productivity commissions that examined the economic burden of excessive regulation, recommended statutory changes, and created institutional platforms for ongoing regulatory evaluation and procompetitive regulatory reform.¹⁴

The U.K. could, for instance, create a special regulatory review commission reporting to the Prime Minister, charged with recommending economically beneficial regulatory improvements in light of Brexit. (The Commission might take note of the U.S. government's current effort to identify and, where appropriate, eliminate overly burdensome regulations.¹⁵) The U.K. government could then use the Commission's findings in proposing a legislative reform package to Parliament and in promulgating regulatory changes that do not require parliamentary approval. The U.K. government also might choose

to make the regulatory review commission a permanent institution, assigned to carry out cost-benefit studies of future proposed regulations, much like the U.S. Office of Management and Budget's Office of Information and Regulatory Affairs.¹⁶

While it is busy eliminating excessively costly EU rules, the U.K. should also take the opportunity unilaterally to reduce or—ideally—eliminate remaining industrial and agricultural tariffs, an impossible feat while Britain remained in the EU.¹⁷ Tariffs reduce economic efficiency and distort competition by imposing a tax on imported items. They raise the costs for domestic consumers and manufacturers who purchase those items for consumption or (in the case of producers) for incorporation as inputs in the production process.¹⁸ Slashing or eliminating whole categories of industrial and agricultural tariffs therefore would benefit British consumers and U.K. industrial import users.¹⁹

Bilateral Measures. The U.K. cannot rely solely on unilateral measures. It should negotiate multiple post-Brexit international agreements to reduce trade barriers and enhance economic

14. See Rod Sims, "Australia's Experience Driving Economic Growth Through Competition Policy Reforms," World Bank Forum, April 23, 2013, <https://www.accc.gov.au/speech/australia%E2%80%99s-experience-driving-economic-growth-through-competition-policy-reforms> (accessed June 21, 2017); Gary Banks, "Institutions to Promote Pro-Productivity Policies: Logic and Lessons," Organization for Economic Co-operation and Development *Productivity Working Papers* No. 1, November 2015, <https://www.oecd.org/economy/Institutions-to-promote-pro-productivity-policies-OECD-productivity-working-papers.pdf> (accessed June 21, 2017); New Zealand Productivity Commission, "What We Do," <http://www.productivity.govt.nz/about-us/what-we-do-0> (accessed June 14, 2017); and Australian Government Productivity Commission, "A Quick Guide to the Productivity Commission," <http://www.pc.gov.au/about/productivity-commission-quickguide-2014.pdf> (accessed June 14, 2017).
15. In February 2017, President Trump issued a Presidential Executive Order requiring federal agencies to "evaluate existing regulations...and make recommendations...regarding their repeal, replacement, or modification, consistent with applicable law," when the regulations were found to be economically harmful, unnecessary, or inconsistent with regulatory reform policies. See Donald J. Trump, Executive Order No. 13777, "Enforcing the Regulatory Reform Agenda," *Federal Register*, February 24, 2017, pp. 12285-12287, <https://www.federalregister.gov/documents/2017/03/01/2017-04107/enforcing-the-regulatory-reform-agenda> (accessed June 21, 2017).
16. See U.S. Office of Management and Budget, Office of Information and Regulatory Affairs, <https://obamawhitehouse.archives.gov/omb/oira> (accessed June 14, 2017).
17. One key feature of EU membership is a "customs union," under which, as a general matter, all EU members must maintain common external tariffs vis-à-vis non-EU nations. See BBC News, "Free Trade Area, Single Market, Customs Union: What's the Difference?" January 15, 2017, <http://www.bbc.com/news/business-36083664> (accessed June 21, 2017).
18. See, generally, Jason Welker, "The High Cost of Tariffs," October 4, 2010, <http://welkerswikinomics.com/blog/2010/10/04/the-high-cost-of-tariffs/> (accessed June 21, 2017).
19. While the total elimination of all tariffs is ideal, a leading U.K. research center, the Legatum Institute, which is providing expert commentary on the Brexit process, recently recommended tariff cutbacks that seek to deal with the likely objections from import-competing domestic industries:

The U.K. should lower its tariffs for industrial goods where they are low (below 4%) already. It should also lower tariffs and quotas for agricultural products that it does not produce, and for products where there are directly competitive or substitutable products. These would in effect be a[n] "Ordinary Working Families" tax cut. Like Canada, the U.K. should consider reducing intermediate goods tariffs to zero, especially on products like automotive parts. This would make our manufacturing industry much more competitive, and would be done on an MFN [Most Favored Nation] basis (i.e. rest of the world). Singham, "A Blueprint for U.K. Trade Policy," p. 3, note 8.

growth and innovation. Such agreements are needed to deal with a variety of major impediments to U.K. commerce, many having a far greater practical impact than tariffs (which were reduced substantially during decades of trade liberalization under the GATT and its successor, the WTO). Bilateral treaties, in particular a U.K.–EU agreement, merit special attention.

The highest bilateral treaty priority must be given to a comprehensive U.K.–EU free trade agreement (FTA), to ensure that robust existing U.K.–EU trade relationships are maintained. First, temporary (“interim”) measures will be required to avoid disruption of existing business ties among the many EU and British companies engaged in commerce relationships throughout the U.K. and continental Europe. Those interim measures should cover tariffs, customs, financial services, aviation, immigration, intellectual property, and the “digital single market” (Internet commerce, telecommunications, broadcasting, and data protection rules), among other topics. A final comprehensive U.K.–EU FTA ideally should seek to minimize all barriers to trade across those various dimensions and address cooperation on non-trade matters such as security.

Another high priority should be a U.K.–U.S. FTA, which will benefit the economies of both nations and underscore their commitment to economic freedom.²⁰ A U.K.–U.S. FTA should, of course, seek to eliminate tariffs between the two nations. But that is just for starters. The reduction of trade barriers in specific sectors could significantly raise the welfare of British and American producers and consumers. An important area for trade liberalization is better U.K. producer access to U.S. federal and state government procurement markets. In particular, U.S. “Buy American” laws that favor domestic suppliers currently limit the ability of U.K. firms to participate in federal and state government procurements.²¹ Waiver of those laws would involve an economic welfare-enhancing “win-win”—it would strengthen beneficial competition in U.S. public tenders, reduce U.S. taxpayer burdens, and provide

desirable new commercial opportunities for U.K. bidders.

A further reduction of barriers to defense trade (elimination of export licenses for defense-related exports to the U.K. and expansion of defense procurement opportunities) would be mutually beneficial. Improved access for each nation’s providers to U.K. and U.S. financial services and insurance markets would enhance competition and generate efficiencies for all of the other industry sectors that rely on insurance and financial transactions. Finally, greater access to the U.K. agricultural market for U.S. producers of lamb, mutton, beef, pork, poultry, oil seeds, dairy, and bulk commodities would benefit American agricultural producers and British consumers alike.

The U.K. also should begin bilateral talks with major emerging economies such as China, India, and Brazil, among others. Because these emerging markets suffer from major internal market distortions,²² negotiations may be difficult and should be tailored to the particular circumstances of each nation. For instance, such thorny questions as business visas, tax distortions, and problems created by state-owned enterprises would have to be overcome. Nevertheless, the size and economic potential of these nations suggest that major untapped economic benefits may be derived from even modest improvements in market access.

Individual “economic partnership agreements” with developing countries—particularly the African, Caribbean, and Pacific countries—might emphasize opening the U.K. to agricultural and other tropical products as leverage for a reduction in developing countries’ tariffs on advanced manufacturing goods, as well as developing country-wide structural reforms. Such a move would benefit U.K. consumers and yield new export sales opportunities for such U.K. advanced manufacturing industries as life sciences and medical devices.

Finally, the U.K. may wish to consider broader bilateral trade liberalization measures with significant non-EU economies that have fewer distortions

20. See, generally, Nile Gardiner and Theodore Bromund, “Freedom from the EU: Why Britain and the U.S. Should Pursue a U.S.–U.K. Free Trade Area,” Heritage Foundation *Backgrounder* No. 2951, September 26, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/BG2951.pdf.

21. “Buy American” laws create additional, costly regulatory burdens for producers, increase costs for American taxpayers, and are unlikely to yield job growth in target industries. See Tory Whiting, “‘Buy American’ Laws: A Costly Policy Mistake That Hurts Americans,” Heritage Foundation *Backgrounder* No. 3218, May 18, 2017, <http://www.heritage.org/sites/default/files/2017-05/BG3218.pdf>.

22. See Singham, “A Blueprint for U.K. Trade Policy,” pp. 16–17.

than developing countries, e.g., Canada, Chile, Iceland, Mexico, Norway, Singapore, South Korea, Switzerland, and Turkey.²³

Plurilateral Measures.²⁴ The U.K. government should consider a variety of plurilateral measures. Working within the WTO, the U.K. could make “deeper” enhanced domestic market access commitments to all countries that agree to certain core principles regarding openness to trade, ensuring competition on the merits, and protecting property rights. Those commitments could include a reduction in domestic regulatory barriers affecting trade in various areas.

The U.K. should consider promoting a “prosperity zone” agreement, starting with a handful of developed countries that have very high degrees of economic freedom and open trade, including Australia, New Zealand, and Singapore.²⁵ Such an agreement would be open to future participants that met specified membership criteria.

The U.K. could also draw on strong trade-promoting elements of existing recent regional agreements, such as the Trans-Pacific Partnership (TPP), in developing future FTAs. Key TPP elements that merit adoption in other agreements include, for example, provisions dealing with strong customs administration, trade facilitation (eliminating unnecessary trade formalities that raise transaction costs), investment protection, competition policy, and regulatory coherence. The Comprehensive Economic and Trade Agreement between the U.S. and Canada is another useful model containing certain key provisions that could be built upon in future FTAs and regional agreements.

Multilateral Actions.²⁶ The U.K. government also should focus on multilateral initiatives that necessarily arise from its existing WTO and EU trade commitments.

First and foremost, it will have to “rectify” its individual tariff and quota schedule commitments (referred to as “bindings”) as an individual WTO member (separate from the EU), decoupling and disentangling them from the commitments it agreed to as a member of the EU’s common market. The rectification process involves highly technical details regarding trade commitments made in goods, agriculture, and services.

The U.K. may use the schedules of trade commitments revealed through the rectification process as a launching pad for FTA negotiations with interested countries. The notion would be to use existing U.K. tariff and service trade commitments made to the WTO as a starting point for further liberalization (downward revision of restriction levels) in the context of negotiations. Ideally, FTAs should provide for broad market access and national treatment in services, i.e., each nation would accord the negotiating partner’s service providers the same terms as its domestic service providers. The U.K. should be prepared in such negotiations to aggressively lower or eliminate remaining tariffs with its negotiating partners.

Finally, the U.K. should work actively as a voice for free trade within major WTO councils, such as the Council on Technical Barriers to Trade. In particular, the WTO could push for the lifting of excessive service industry regulatory requirements through its participation in the recently created Working Party on Regulation established as part of the WTO’s services negotiations.

The Big Picture: Promoting Economic Freedom

If handled appropriately, Brexit affords the opportunity for significant U.K. economic welfare gains through the elimination of harmful EU regula-

23. Norway and Iceland are outside the EU but within the European Economic Area (EEA). The EEA comprises all EU nations plus Iceland, Liechtenstein, and Norway. The EEA Agreement provides for the inclusion of EU legislation covering the four freedoms—the free movement of goods, services, persons, and capital—throughout the 31 EEA States. The EEA does not, however, cover certain other EU policies, including common agricultural and fisheries policies; the customs union (same external tariff for all EU members); the common trade policy; the common foreign and security policy; justice and home affairs; and monetary union. Switzerland is not part of the EEA Agreement, but has a set of bilateral agreements with the EU. See European Economic Area, “EEA Agreement,” <http://www.efta.int/eea/eea-agreement> (accessed June 14, 2017).

24. See Singham, “A Blueprint for U.K. Trade Policy,” pp. 4–5 and 18–23.

25. Singapore ranks number two, New Zealand number three, and Australia number five in the 2017 *Heritage Index of Economic Freedom*. See note 29, *infra*. These countries have very close historical relationships with the U.K. (For reference, Hong Kong is ranked number one and Switzerland number four in the 2017 *Index*.) Terry Miller and Anthony B. Kim, 2017 *Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2017), <http://www.heritage.org/international-economies/report/2017-index-economic-freedom-trade-and-prosperity-risk>.

26. See Singham, “A Blueprint for U.K. Trade Policy,” pp. 5 and 23–35.

tions and the liberalization of trade between the U.K. and other nations. Because of the mutually beneficial nature of free trade, economic welfare benefits will also flow to other countries, including the United States. Such benefits include enhanced economic efficiency, new opportunities for economic growth, and support for creative entrepreneurship that are stifled by trade and regulatory restrictions. Thus, although bringing about the proposed regulatory and trade reforms will not be easy—opposition may be expected from protected interest groups (and perhaps entrenched bureaucracies) that prefer the comfort of the status quo—it is well worth the candle.

Fundamentally, comprehensive U.K. regulatory reform and trade liberalization initiatives should be seen as far more than merely means to grow the economy. They are instruments to promote economic freedom.²⁷ Private individuals should have the right to enter into voluntary, mutually beneficial transactions with other individuals that impose no harm on third parties as a matter of economic liberty. Private parties also have a fundamental right to earn a living²⁸ and to engage in legitimate commerce (as individuals and as companies that represent the interests of individuals) to achieve that end. Impediments to free trade and unnecessary regulatory strictures interfere with the free exercise of those rights by inappropriately constraining freedom of contract and reducing the value of property. It follows that economic freedom will rise as unwarranted regulatory and trade restraints are lifted through Brexit-induced reforms.

The Heritage Foundation's *Index of Economic Freedom* annually ranks nations in numerical order, based on their degree of economic freedom. The *Index* is based on measures of: (1) rule of law (property rights, government strategy, and judicial

effectiveness); (2) government size; (3) regulatory efficiency; and (4) open markets.²⁹ Brexit-related U.K. regulatory reform and trade barrier reductions would improve the U.K.'s economic freedom scores in all four categories, and thereby help it raise its 2017 *Index* ranking of number 12.³⁰ Nations that enter into broad, mutually beneficial trade-liberalizing agreements with the U.K. should also be able to raise their economic freedom scores. Thus, for example, a strong U.K.–U.S. FTA might help the United States improve its current, disappointing number 17 ranking.³¹

Conclusion

The four pillars of trade-liberalizing reforms that the U.K. should pursue during Brexit negotiations are complementary and self-reinforcing. The reduction of U.K. trade barriers should encourage other countries to liberalize and consider joining plurilateral free trade agreements already negotiated with the U.K.—or perhaps consider exploring their own bilateral trade arrangements with the U.K. Furthermore, individual nations' incentives to gain greater access to the U.K. market through trade negotiations should be enhanced by the unilateral reduction of U.K. regulatory constraints.

As trade barriers drop, U.K. consumers (perhaps especially poorer consumers) should perceive a direct benefit from economic liberalization, providing political support for continued liberalization. And the economic growth and innovation spurred by this virtuous cycle should encourage the European Union and its member states to “join the club” by paring back common external tariffs and by loosening regulatory impediments to international competition, such as restrictive standards and licensing schemes. In short, the four paths described above

27. “Economic freedom is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please. In economically free societies, governments allow labor, capital, and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself.” The Heritage Foundation, “What Is Economic Freedom?” in Miller and Kim, *2017 Index of Economic Freedom*.

28. “The right to earn a living and enjoy the fruits of one’s labor is a fundamental human right, guaranteed by the Constitution.” Cato Institute, “The Right to Earn a Living,” September 20, 2010, <https://www.cato.org/events/right-earn-living> (accessed June 21, 2017).

29. Miller and Kim, *2017 Index of Economic Freedom*.

30. “Country Rankings” from the *2017 Index of Economic Freedom*.

31. This is the United States’ lowest rating ever. It has suffered a continuing relative decline over the past decade. See Anthony B. Kim, “America’s Economic Freedom Has Rapidly Declined Under Obama,” *The Daily Signal*, January 31, 2016, <http://dailysignal.com/2016/01/31/americas-economic-freedom-has-rapidly-declined-under-obama/> (accessed June 15, 2017) (commenting on the decline of the United States from sixth freest economy in the world in January 2009 to 11th freest economy in the world in January 2016).

provide the outlines for a win-win strategy that would be beneficial to the U.K. and its trading partners, both within and outside the EU.

Admittedly, trade liberalization and regulatory reform proposals may have to overcome opposition from entrenched interest groups who would be harmed by liberalization and may be viewed with skepticism by some risk-averse government officials and politicians. Thus, the U.K. government needs to continue to work and consult with all outside stakeholders that are affected by Brexit to convince them that Brexit strategies centered on unilateral trade and regulatory reforms, and negotiated trade liberalization, provide a way forward that will prove mutually beneficial to producers and consumers in the U.K.—and in other nations as well.

Finally, U.K. deregulatory initiatives would be in harmony with Trump Administration efforts to reduce the burden of U.S. regulation. Successful U.K. and U.S. regulatory improvements, in tandem with a robust U.S.–U.K. trade agreement that reduces barriers to commerce between these two great nations, could serve as beacons to highlight for other nations the economic benefits of free market–oriented government reforms—and the value of expanding the scope of economic freedom.

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