

# Why the U.K. Is an Ideal Free Trade Partner for the U.S.

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## KEY TAKEAWAYS

As a vital partner of the U.S., and as a rule-following, high-wage nation, the U.K. is ideally placed to negotiate a free trade agreement with the U.S.

A free trade agreement with the U.K. would offer wider advantages that would help the U.S. to build the positive free trade agenda it needs.

The U.S. and the U.K. should continue intensive negotiations, with the goal of concluding a free trade agreement in 2021.

The U.S. and the U.K. are currently engaged in intensive negotiations for an ambitious free trade agreement. The trade and financial relationship between these two nations is deep and mutually profitable, and their security partnership has been the cornerstone of the North Atlantic Treaty Organization (NATO) since its founding. With the U.K. regaining control of its own trading policy as a result of Brexit, Britain is now free to negotiate its own trade agreements, a freedom it is asserting vigorously.

The U.S. therefore faces a simple choice. It can accept the reality that the U.K. has entered the world economy as an independent trading nation, or it can deny that reality and watch as other countries negotiate their own trade agreements with the U.K. As a rule-following, high-wage nation, the U.K. is an ideal free trade partner for the U.S. The U.S. should take

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the opportunity of its negotiations with the U.K. to conclude an ambitious free trade agreement in 2021, and make that agreement the foundation of a positive free trade agenda.

## **A Free Trade Agreement Would Build on Today's U.S.-U.K. Trade**

A free trade agreement between the U.S. and the U.K. would build on what is, for both nations, already a vitally important trading and investment partnership. In 2019, the U.S. exported \$69 billion in goods to the U.K., and imported \$63 billion in goods.<sup>1</sup> The U.K. was the U.S.'s seventh-most important trading partner, and the fifth-most important destination for U.S. exports.<sup>2</sup> The investment relationship between the two nations is even stronger: The U.S. has invested more than \$850 billion in the U.K., while the U.K. has invested \$505 billion in the U.S.<sup>3</sup> British firms employ approximately 1.25 million Americans, and American firms employ about 1.5 million Britons.<sup>4</sup> There are few if any nations in the world with which the U.S. enjoys as strong and well-balanced a trading and investment relationship as it does with the U.K.

## **Negotiating with the U.K. Offers Wider Advantages**

The U.K.'s entry onto the world trading stage as an independent free market nation with a top-five world economy is a once-in-a-lifetime event. This event has ultimately occurred because the British people were asked if they wanted Britain to remain a member of the European Union, and British voters answered with "no." Successive elections in 2017 and 2020 have offered the British an opportunity to reverse that decision. Instead, the British people have reaffirmed their decision—decisively so in 2020. The U.S. can either sulk about this fact, or it can accept it and take advantage of it. The latter is what every other nation will do.

A free trade agreement between the U.S. and the U.K. offers the U.S. commercial advantages that go beyond enhancing the existing trading relationship. Above all, the emergence of a fully independent U.K. offers the U.S. an opportunity to negotiate a trade agreement that sets a pattern for future U.S. negotiations with other leading capitalist democracies. Major developed economies like the U.S., the U.K., and the EU are unlikely to abandon their power to make rules for their own economies, but these rules—much more than tariffs—are today the major constraints on international trade. If the U.S. and the U.K. can arrive at a trade agreement

based on mutual equivalence that respects the right of each side to make its own rules, provided that those rules are equivalent in intent, they will have created a model that each nation can apply to negotiations with other countries.<sup>5</sup>

## The U.K. Is a Vital Ally

Historically, the U.S. has often negotiated trade agreements with nations that are as much important allies as they are economically vital trading partners. Thus, the U.S. has a free trade agreement with Jordan, which is an important regional partner but one with which U.S. trade in 2019 totaled only \$5.1 billion. For the U.S., trade agreements are often, if not always, a way of enhancing and cementing an existing relationship that matters for broader geopolitical reasons.

It need hardly be said that the U.K. is an ally of fundamental importance to the United States. American and British forces have fought side by side for 70 years, and together, they played a vital role in NATO in protecting the peace and security of Western Europe during the Cold War. Were it not for the U.K.'s membership in the European Economic Community and its successors from 1973 to 2020, and the U.K.'s resulting loss of control over its trade policy, the U.S. and Britain would almost certainly have negotiated a free trade area already.

## A U.S.-U.K. Free Trade Agreement Enjoys Wide Support on Both Sides of the Atlantic

Trade agreements are inevitably controversial, and no agreement can expect a free ride. But if the U.S. cannot arrive at a free trade agreement with the U.K., its closest ally, it is hard to believe that it will be able to negotiate a satisfactory agreement with any other nation. It is hard to identify a major U.S. interest that would oppose a U.K. agreement on its merits, while major industry groups, such as the British American Financial Alliance, have backed an agreement.<sup>6</sup>

Support is also strong in the U.K. According to research conducted by the U.K.'s Department for International Trade (DIT), support for free trade agreements, in general, and for an agreement with the U.S., in particular, remains strong in the U.K. Two-thirds of the British public (66 percent) support free trade agreements in general, and 63 percent believe that signing free trade agreements outside the EU would have a positive impact on the U.K. overall.

New Zealand and Australia were the most popular potential trading partners for Britain, each supported by 64 percent of respondents. The U.S. was the next most popular choice, supported by 57 percent of respondents. Opposition to trade agreements with Australia and New Zealand was low, at 5 percent, and opposition to a trade agreement with the U.S. was at 12 percent.

While it is easy to find evidence of opposition to a trade agreement with the U.K. in the British media, the fact is that this opposition makes noise that is out of all proportion to its size. The majority of the British public is both supportive of free trade, in general, and of an agreement with the U.S., in particular.<sup>7</sup>

## The U.K. Is a Rule-Following, High-Wage Nation

Free trade agreements remove restraints—such as tariffs—that are imposed by governments on trade. A free trade agreement that allows one (or more) of its signatories to cheat by re-imposing those restraints is not living up to its name, and it has the potential to bring the entire concept of free trade agreements into public disrepute. Of course, there are mechanisms, such as Investor–State Dispute Settlement mechanisms and the World Trade Organization (WTO), for deterring, detecting, and punishing violations of trade agreements, but it is better not to have to employ these remedies in the first place.<sup>8</sup>

The U.K. is a negotiating partner on which the U.S. can rely. Simply put, if the U.K. signs an agreement, the U.S. can have confidence that the U.K. will live up to it. Of course, no nation is perfect, and there will always be cases at the margin that will raise questions. But the U.K. is an exceptionally open nation, with a strong rule of law, and—given its desire to negotiate free trade agreements around the world—with a vital interest in keeping its word. A U.S.–U.K. free trade agreement is less likely to generate sustained controversy about cheating down the road than any other U.S. agreement with a comparable negotiating partner.

The U.K. is also a high-wage nation. It is not true, of course, that free trade only works between nations of comparable levels of economic development. Trade occurs by mutual consent and so can only take place if both parties find it profitable. But U.K. producers will not be able to undercut U.S. producers by paying below-market wages, U.K. industry does not work at the behest of the U.K. government, and no U.S.–U.K. agreement is going to lead to a flood of U.K. job-seekers being pulled to the U.S. by higher wages. Whatever concerns may exist about trade agreements between the U.S. and developing nations clearly do not apply to the U.K.

## The U.S. Needs a Positive Trade Agenda

The world of international trade is not standing still. From the EU to China, other major economic powers are moving rapidly to negotiate new trade agreements. Trade is not, of course, a win or lose proposition: The U.S. does not become poorer simply because the EU signs a trade agreement. But trade can help other countries to grow faster than the U.S., and therefore result in the U.S. becoming relatively less well off. Moreover, trade agreements can—either intentionally or not—set rules in ways that systemically disfavor U.S. workers and firms.

Of course, the U.S. must use multilateral mechanisms, such as the World Trade Organization, to protest violations of existing trade agreements. But while policing today's agreements is necessary, it is not sufficient: The U.S. needs a positive agenda that emphasizes expanding trade with new agreements. The U.S. has many potential negotiating partners, including the nations of Georgia (which has been in a high-level dialogue on trade with the U.S. since the Obama Administration) and Kenya (which began negotiations for a free trade area with the U.S. in July 2020).<sup>9</sup> Both of these opportunities, and others, are certainly worth pursuing.

Undoubtedly, the most advanced U.S. negotiations are those with the United Kingdom. Simply put, a U.S.–U.K. agreement is the easiest agreement to conclude quickly. A U.S.–U.K. free trade agreement would thus be a valuable sign that the U.S. will press ahead with a positive trade agenda. Of course, the U.S. trade agenda cannot stop with the U.K., just as the British trade agenda will not end with negotiations with the U.S. But a U.S.–U.K. agreement is an excellent and readily available option for setting out a positive U.S. trade agenda.

## What the U.S. Should Do

In early 2021, the United States should:

**Commit to a Positive Trade Agenda with the U.K. and Other Countries.** The U.S. needs to pick up the pace of its trade agenda. The Obama Administration restricted itself to completing free trade agreements negotiated by the George W. Bush Administration and did not get serious about trade expansion in Europe or the Pacific until too late in its second term to achieve anything. To its credit, the Trump Administration did open negotiations with Britain and Kenya, but it has largely focused on policing or renegotiating existing agreements (such as the conversion of the North American Free Trade Agreement into the U.S.–Mexico–Canada Agreement).

Policing existing agreements is important, but it risks forgoing opportunities in new markets. There are many such markets, and right now, the easiest one to build on is Britain's.

**Commit to Continuing Intensive Negotiations with the U.K.** The U.S. cannot, of course, guarantee an agreement with the U.K.: That outcome rests in British hands as well as American ones. But the U.S. can and should commit to continuing—and accelerating—the current pace of negotiations with the U.K. with the aim of concluding an ambitious bilateral free trade agreement as soon as possible. Achieving that goal will benefit the U.S. economically, and be an important contribution to the wider trade agenda that the U.S. should pursue.

## Conclusion

It is a curiosity of history that the U.S. and the U.K. do not already have a free trade agreement. Such an agreement does not exist because, in the decades after World War II, the U.S. and the U.K. emphasized advancing multilateral free trade through the General Agreement on Tariffs and Trade, the WTO's predecessor. By the time bilateral free trade agreements came into vogue in the 1990s, the U.K. was a member of the EU, and had therefore lost control of its trade policy. Thus, the U.K. did not negotiate when it could have done so, and could not negotiate when it wanted to do so.

Today, those obstacles have been removed. The U.K. is both willing and able to negotiate free trade agreements and is pursuing negotiations around the world with considerable energy. The U.K. has already concluded a free trade agreement with Japan, along with continuity agreements that preserve the market access to many nations it formerly derived through the EU. There is every chance that the U.K. will conclude more new agreements in the coming months. The U.S. has the opportunity to conclude an ambitious free trade agreement with the U.K. in 2021. This is an opportunity that neither the U.S. nor the U.K. can afford to miss.

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## Endnotes

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