Great expectations? A US-UK trade deal will most likely disappoint

*The great fanfare around the US-UK trade agreement creates expectations that almost certainly will not be met, argues **Dalibor Rohac (AEI)**. While the Trump administration is looking for an easy deal and a symbolic gesture, it stands little chance of getting through the current House of Representatives, or being upheld by a Biden White House. Negotiating an FTA with the US needn't be a priority for the British either. Given how unpopular the current US administration is in the UK, the political and PR value of these negotiations is low, if not negative.*

The idea of a "fantastic and big" US-UK trade agreement, as President Trump characterised it, sounds certainly appealing, particularly at a time when protectionism appears to be making a comeback. But, symbols aside, the politics and the economics of the negotiations started by the UK and US governments Tuesday last week feel more than a bit off. Moreover, the political capital invested by the UK government would have been better spent in fighting for an open trade environment globally, particularly pushing the United States to take seriously its role within the World Trade Organization.

First of all, the United States is heading into an election season with the disastrous economic fallout from the COVID-19 pandemic. Meaningful trade agreements require difficult compromises on both sides, upsetting interest groups. That is not what the incumbent administration is after. With the announcement that the agreement ought to be completed in a year, everything suggests that President Trump is looking for an easy, purely symbolic gesture which furthermore stands no chance of getting through the current House of Representatives. A prospective Biden administration, meanwhile, would be ill-advised to tie its hands with a UK trade deal before a return to some version of updated TTIP negotiations with the European Union.

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A similar logic applies even more strongly to the British side of the negotiations. Given the magnitude of UK-EU trade (43 per cent of all UK exports) and the importance of the service sector, completing a satisfactory deal with the EU ought to be a priority for the British. With the different regulatory cultures reigning on both sides of the Atlantic, concessions to Washington necessarily tie the hands of UK negotiators seeking to strike an agreement with Brussels.

Furthermore, the current administration has made it clear that it expects significant concessions in areas that are highly sensitive to the British public, regardless of Brexit. The opening up of the British market to US agricultural exports or modifying the 'reimbursements regimes' for pharmaceuticals from the United States is bound to be controversial. More generally, as Daniel Henig of the European Centre for International Political Economy identified in 2018, the absence of a domestic consensus over such questions remains one of the main hurdles to an effective UK trade policy. Adding to the mix the salience of the National Health Service in the current pandemic will make the entire healthcare industry off-limits for trade negotiations.

And while a lot of uncertainty surrounds future developments of the COVID-19 pandemic, it is not obvious how Johnson's government can claim victory given that the spread of the disease and the death toll appear worse than in most European countries. That is hardly a good starting point for stirring further political controversy, which a meaningful trade agreement with the United States would entail – especially considering the bargaining power of the two countries.

What's the point of it all? The economic ties between the two countries are already deep. The UK is, for example, the largest foreign investor in the US economy, which is also the UK's largest export market – and second-largest source of the UK's imported goods and services. Both economies already feature a significant degree of openness. Without much low-hanging fruit, the UK government estimates the effect of the agreement to amount to 0.16 per cent of GDP over a long-term time horizon.

Given how unpopular the current US administration is in the UK, the political and PR value of these negotiations is low, if not negative. If the aim of the UK government is to dismantle barriers in sectors where tangible economic gains can be achieved, a much better strategy might involve sectoral work away from the spotlight of full-fledged trade negotiations. The US-UK Financial Regulatory Working Group, set up in 2018, provides a model to follow, as do narrow 'FinTech bridge agreements' reached in recent years with several Asian economies and Australia. Likewise, there may be space for sectoral mutual recognition agreements – the UK has already sought to ensure that the US-EU mutual recognition agreement will continue to apply after Brexit. And most importantly, a post-Brexit UK has a very strong reason to seek to ensure that the global trading system remains open. That cannot be achieved through bilateral trade agreements but only through engagement at the WTO level and through various multilateral and plurilateral regulatory fora.

A more piecemeal approach does not eliminate the basic trade-offs entailed in Brexit. Dismantling non-tariff barriers to trade and investment comes necessarily at the cost of giving up 'control' – that is equally true of participating in the EU's single market as it is of striking a deep trade agreement with the United States. However, seeking to navigate those trade-offs by announcing with great fanfare the beginning of supposedly landmark trade negotiations creates expectations that almost certainly will not be met.

This article gives the views of the author, and not the position of LSE Brexit, nor of the London School of Economics. Image: public domain – the Agricultural Research Service, the research agency of the United States Department of Agriculture.

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