



ECONOMICS
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Non-Paper on the Impact of BREXIT: A Path Forward

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This paper addresses the impact of the BREXIT vote and what can be done as a result of the vote to maximise the UK's trade and investment prospects around the world. While most commentators have focused their attention on the UK's negotiation with the European Union, we believe that this is only one part of a multi-tiered, multi-track approach that could position the UK to be a great trading nation once more. This paper focuses on a strategic approach but does not address the tactical steps that need to be taken for reasons of confidentiality.

All countries that have embarked on significant free trade initiatives have been intentional about how to manage the trade negotiating function. In the UK political system, the best way to achieve this is through the creation of a dedicated, senior Cabinet-level position. To this end, we advocate the creation of a Secretary of State for Competitiveness which would be a senior Cabinet level post that speaks for the Government, and an efficient, fast moving Office of the Special Trade Representative under that which would consist of politically appointed officials, and whose sole function would be the various trade negotiations referenced herein, and to make recommendations to the Secretary on changes to the UK regulatory system which would make the UK more competitive.

NEGOTIATIONS WITH NON-EU COUNTRIES—TOWARDS A PROSPERITY ZONE

We advocate the UK adopting the following approach with non-EU markets, including developing the idea of a Prosperity Zone based on certain core principles. The guiding principle of the Prosperity Zone negotiation should reflect the shared values of its members. These shared values are based on the principle that private parties coming together in voluntary exchange best serve human needs, and that where the government interferes with these relationships, this leads to bad outcomes for people in Britain and around the world. These shared values also include the empowerment of individuals, and the notion that it is empowered individuals that lead to stronger societies that are built on trust rather than coercion. When individuals are empowered to serve each other's needs, private philanthropy also flourishes. When the government attempts to interpose itself, this leads to a crowding out of private sector solutions, and a net loss for society as a whole.

At the core of these shared values is an agreement on the appropriate role of government. Government's role should be to protect the security of people, their property and to ensure their economic freedom. Where markets are distorted, governments must be strong enough to progressively eliminate and lower the overall level of distortions, and overcome the vested interests that benefit from the distortion. But outside of these areas, government action can crowd out private sector solutions. There are some countries in the world who

share these core values, but we must be realistic about who these nations are. In order to discover them, we propose the following series of actions, but note that the Prosperity Zone is open to new members who share its core values.

1. Agree with the US, Australia, Canada, NZ, Singapore and Switzerland a comprehensive, deep integration agreement that aims to lower border barriers to zero, and also to lower Anti-Competitive Market Distortions (ACMDs). This Agreement would also increase the level of protection for investments that would include actions tantamount to expropriation as well as regulatory takings. Already many of these countries have already offered Free Trade Agreements (FTAs) for the UK.
2. The Prosperity Zone negotiations will therefore be focused on:
 - a. Elimination of border barriers between nations;
 - b. Elimination of Anti-Competitive Market Distortions;
 - c. Regulatory promulgation mechanisms that are designed to minimise laws and regulations that damage market competition without a clearly expressed regulatory goal;
 - d. Rules allowing member countries to tarifficate distortions in other markets so that the pressure to reduce ACMDs is increased;
 - e. Higher level property rights protection than exists in any existing free trade agreement through rules to limit regulatory takings and comprehensive investor-state dispute resolution.
3. Evaluation of potential application of UK for Trans-Pacific Partnership (TPP) membership. This will depend on the final content of the TPP. If TPP is truly a Free Trade Agreement, without labour and environmental provisions that are distortive, then it is an agreement that the UK should consider joining. UK negotiators will have to watch carefully how the TPP is changed in order to accommodate the US election process.
4. Initiate a discussion with the Commonwealth countries for a comprehensive Free Trade Zone. This announcement should be made now, and concrete progress should be made in advance of the Commonwealth Heads of Government Meeting in London, Spring 2018 which will fit quite well with the timing of any Article 50 EU negotiations with the EU.
5. The UK will no longer be bound by the Common Agricultural Policy or Common Fisheries Policy subsidy program, and should not replace the EU programs with domestic subsidy programs. This will make it much easier for the UK to negotiate the Commonwealth Trade Agreement as well as with other countries, as this will greatly reduce the UK's defensive interests in a trade agreement. It is the management of a nation's defensive interests that increases the degree of difficulty of negotiating agreements.
6. Any FTA with developing or emerging markets that are not part of the Prosperity Zone would have to prioritise the UK's service industry, something the EU is not able to do. By aggressively opening up markets for its core industries, and by minimising its defensive interests, the UK can move quickly to negotiate and conclude FTAs.
7. Re-negotiation of Britain's World Trade Organisation (WTO) commitments and status. Britain could lower barriers in the WTO context to the rest of the world, and would not be hampered by agricultural subsidisation, or by the EU's common external tariff.

NEGOTIATIONS WITH THE EU

Britain's negotiation with the EU will be built on the shared interests of key EU member states, such as France, Germany, Netherlands, Sweden and others to negotiate a solid FTA with market access and contestability for firms from both the UK and the EU to each other's markets. As the German business group, BDI noted on the day after the BREXIT vote, "it would be foolish not to give the UK an FTA". It would also be immensely damaging to French and German business interests not to move forward with a comprehensive FTA with the UK and conclude it as soon as possible. Supply chains will demand no less. The UK should therefore initiate the following actions:

1. Evaluation of the most appropriate time to invoke Article 50 of the Lisbon Treaty;
2. Upon initiation of Article 50 of the Lisbon Treaty, the UK would need to initiate a number of steps with its EU counterparts. While a full list is to be developed, and should not be publicly revealed when it is, some of these include:
 - a. Aim for access to the Single European Market through an European Economic Area (EEA) agreement. Such an agreement must deal not only with traditional tariff measures (through an EFTA), but also market distortions inside the border that harm the interests of UK firms;
 - b. Offer Freedom of Movement of Labour in the form of expedited immigration processes for those in member states who get jobs in the UK, but would not apply for someone looking for a job. There are EEA members such as Liechtenstein which have strong national immigration rules, and retain control over their borders, but are nevertheless EEA members. The EU should recognize the notion that only a full political union can underpin complete freedom of movement of people, and that of necessity an economic agreement will require a different approach;
 - c. Maximise market access and contestability for Britain's very strong services industry. Negotiate reductions to ACMDs that adversely affect Britain's services industries, especially where single market is incomplete;
 - d. Agree a common approach to the EU's agreements already negotiated with third countries (e.g. Mexico, S.Korea etc). One approach would simply be to grandfather those agreements into UK FTAs, as these countries bargained for UK access when they initially signed the agreements. It should be clear that the UK will have to negotiate its own agreements with other parties, including those with whom the EU is currently negotiating. In many cases, these agreements should be easier to negotiate than the EU agreements because the UK has fewer defensive interests than the EU.

ENHANCING UK COMPETITIVENESS

There are a range of things the UK can do after the negotiations are concluded to implement a better internal regulatory system that will deliver competition on the merits as an organising economic principle. If the UK leaves the EU, then there is a host of economic regulation, such as anti-dumping and countervailing duty law, competition law, and standards/sanitary and phyto-sanitary issues that the UK will have to adopt. It has a choice of simply transposing EU law onto its statute books or of using the wealth of research on how to promote pro-competitive rules in these areas to craft ground-breaking legislation and regulation that promotes trade, but also protects UK interests from the impact of distortions in foreign markets. The UK also has the ability to agree a regulatory promulgation process that makes economic sense. This would include a rigid cost benefit analysis that compares the damage to the market and the ordinary process of competition with the benefit achieved as a result of fulfilling the regulatory goal. The aim of the regulatory promulgation process is to ensure that regulation is the least market distortive consistent with the regulatory goal.



NEGOTIATING DYNAMICS AND THE NEED FOR A NEW GOVERNMENTAL ARCHITECTURE

It is the UK's interest to maintain a multi-track/multi-tier approach as this will be important to securing a trade agreement. All trade negotiations involve trade-offs, and BREXIT will be no different. There will be a need for a wide range of trade options in order to enable the UK's trading positions to be defended. It would be a mistake to put these different negotiations into silos. It is very important that the same overall negotiator is managing the dynamics of all the negotiations and using them to gain an advantage for the UK. To that end, we recommend the standing up of a Special Trade Representative (STR) within a high level Department with Cabinet rank (Secretary of State for Competitiveness), along the lines of the US Trade Representative (USTR), originally established to manage the US' global trade negotiations. By creating a lean, efficient and powerful agency which speaks for the President, USTR has been able to become one of the most effective trade negotiators in the world. The UK will need to substantially ramp up its trade negotiating machinery, and the STR is a way of rapidly doing this. Given the stalled nature of many other trade negotiations (Doha Development Agenda, TPP, TTIP, EU-India etc), and assuming it is given the appropriate authority and a clear line of sight to ultimate results, STR would be able to attract the best trade negotiating talent from around the world.