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# Mixed Prospects: Post-Brexit Anglo-American Economic Relations

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On 23 June 2016, the citizens of the United Kingdom voted, by a 4 percent margin, to leave the European Union, a decision commonly referred to as Brexit. Prime Minister David Cameron, who had put forth the national referendum, resigned the next day.<sup>1</sup> His replacement, Theresa May, told the world, “Brexit means Brexit, and we will make a success of it.”<sup>2</sup> This success, suggested the May administration, would hinge partly on a free trade agreement (FTA) with the United States.<sup>3</sup> U.S. President Barack Obama, himself no fan of Brexit, cast doubts on the prospect, stating that the United Kingdom would find itself at the “back of the queue” for a trade deal.<sup>4</sup> Obama, however, was on the way out, and his replacement, Donald Trump, was pro-Brexit and is pro-FTA. Indeed, the Trump administration reportedly has a “great appetite” for a “quick and substantial” post-Brexit trade deal with the United Kingdom.<sup>5</sup> And, this pleases the current U.K. prime minister, Boris Johnson, who claimed in August 2019 that he is “gung-ho” over the prospect.<sup>6</sup> Such bilateral political posturing aside, and despite the repeatedly-mentioned “special relationship” between the two Anglophone nations,<sup>7</sup> the odds of doing what Trump referred to as “a very big trade deal” are, in reality, slim to none.<sup>8</sup> Instead, for the foreseeable future, the United States and the United Kingdom will most likely continue to trade with each other under World Trade Organization (WTO) Most Favored Nation (MFN) status, which dictates “fair” and “equal” trade, but thanks to the imposition of tariffs, not free trade.<sup>9</sup>

Prime Minister Theresa May’s 29 March 2017 letter to E.U. Council President Donald Tusk triggered Article 50 of the 2009 Lisbon Treaty,<sup>10</sup> marking the beginning of the end of a relationship extending back to 1973, when the United Kingdom, then “lagging seriously behind its European neighbours in terms of economic growth,” requested and was granted membership to the European Communities. Two years later, the United Kingdom held a referendum on that membership, and two-thirds of British voters supported it.<sup>11</sup> In 1993, the European Communities, via the Maastricht Treaty, were rolled into the European Union, of which the United Kingdom was one of twelve member states. On 1 January 1995, three more states joined, without incident. It was the ten-state E.U. expansion on 1 May 2004, mostly Eastern European, that sowed the seeds of future problems for the United Kingdom. With that expansion, the population floodgates opened, as over a million Eastern Europeans, predominantly Polish, made use of “Directive 2004/38/EC on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States” to migrate to the United Kingdom, to live and work.<sup>12</sup> This influx of so-called “Polish plumbers” and “welfare migrants” fueled “British resentment of the E.U.” to such an extent that the Brexit referendum was called for.<sup>13</sup> The vote for “Leave” was largely a xenophobic and hostile

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response to unfettered emigration from Europe. Although little evidence exists that immigration caused problems, “in the popular mind there was a causal link between immigrants and falling wages as well as competition for housing and pressure on public services such as the National Health Service and education.”<sup>14</sup> Brexit allows the United Kingdom to reestablish its borders and retake control over immigration.

Brexit will also allow the United Kingdom to retake control of its finances from Brussels. The United Kingdom has long been a “net contributor” to the E.U. budget, meaning it has contributed more to the budget than it has received back.<sup>15</sup> In fact, the Leave campaign famously claimed that the United Kingdom would save “£350m a week” after leaving the European Union. This turned out to be “misinformation,” but “nearly half the British public believed it.”<sup>16</sup> The British working and lower classes, who had seen their statuses decline in the last decade thanks to stagnating wages, and the elderly, who worried about healthcare funding,<sup>17</sup> were especially susceptible to the Leave campaign’s repeated assertion that Britain would be financially better off on its own. Left unanswered were the specific details of how exactly this would be achieved. After doomsday predictions made by the Remainers, much political wrangling and handwringing, and repeated delays, the U.K general election in December 2019 finally “delivered a measure of clarity” about how Brexit would unfold:<sup>18</sup> the United Kingdom would leave the European Union on 31 January 2020 at 23:00 GMT (midnight in Europe). However, despite the flag waving and a “light display,” little else would change.<sup>19</sup> Instead, there would be an eleven-month “transition period,” instituted to give the United Kingdom and European Union time to negotiate the characteristics of their post-Brexit relationship.<sup>20</sup> According to the terms of the withdrawal agreement, the European Union and the United Kingdom will need to decide by 1 July 2020 whether to extend the transition period beyond the end of the year, for up to two more years.<sup>21</sup> Prime Minister Johnson wants no extension and even “inserted language in the Withdrawal Agreement Bill” to that effect,<sup>22</sup> whereas the E.U. Commission president, Ursula von der Leyen, has alternately called the 11-month negotiation timetable “extremely challenging” and “impossible,”<sup>23</sup> suggesting that, at least from the E.U. perspective, an extension to the end of 2022 might be required to prevent the United Kingdom from “falling off the cliff-edge,”<sup>24</sup> an event commonly referred to as a “hard Brexit,”<sup>25</sup> with barriers limiting the movement of people, goods and services. E.U. Commissioner for Trade Phil Hogan stated that Johnson will most likely have to “cave and agree” to an extension of the transition period.<sup>26</sup>

Of utmost importance to all concerned is the extent and nature of the post-Brexit relationship between the United Kingdom and European Union, and for two good reasons:

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demographics and economics. First, as of August 2019, approximately 2.37 million E.U. nationals lived in the United Kingdom,<sup>27</sup> while as of April 2018, approximately 785,000 British citizens lived in the European Union.<sup>28</sup> The legal residency status of these expatriates needs to be determined. Second, even after Brexit, the European Union remains the world's largest economy (European Commission 2019), while the United Kingdom is the world's fifth largest economy.<sup>29</sup> And, thanks to geographic proximity,<sup>30</sup> these two economies do a great amount of business with each other: £423 billion in 2017 alone.<sup>31</sup> In fact, the European Union is the United Kingdom's largest trading partner, accounting for 45 percent of U.K. exports and 53 percent of imports in 2018.<sup>32</sup> One-third of Britain's food comes from the European Union.<sup>33</sup> Although the United Kingdom is not the European Union's largest trading partner (that would be the United States, followed by China),<sup>34</sup> and although numbers are difficult to break out, somewhere between 8 and 18 percent of E.U. exports go to the United Kingdom.<sup>35</sup> Based on such figures, clearly "any disruption to the UK-EU trading partnership will have consequences."<sup>36</sup> For these socioeconomic reasons, among others, politicians on both sides of the English Channel have declared an agreement between the United Kingdom and the European Union to be a "priority."<sup>37</sup>

Any such agreement would have to be wide-ranging, dealing with complicated issues concerning expatriates, trade, and the Irish backstop. As far as expatriates are concerned, the United Kingdom has said that E.U. citizens "already living" in the United Kingdom by the end of the transition period "would have broadly the same rights," and most E.U. countries "have indicated they would reciprocate the U.K.'s offer to British citizens living there."<sup>38</sup> So, it appears a massive forced migration is to be avoided. Concerning the Irish backstop, under the withdrawal agreement, during the transition period, Northern Ireland will "remain legally in the U.K. customs territory but practically in the E.U. customs union, which essentially will create a customs border in the Irish Sea." Then, at the end of the transition period, "the entire U.K., including Northern Ireland, will leave the E.U. customs union and conduct its own national trade policy."<sup>39</sup> Concerning trade, during the transition period, however long that might be, the United Kingdom will "continue to follow all E.U. rules and remain a member of the E.U. single market and customs union." The United Kingdom and European Union will attempt to negotiate an FTA, "with the aim of concluding an agreement" before the transition period ends. Should it end without an FTA or other trade agreement, resembling "many aspects of a no-deal Brexit," then U.K.-E.U. trade and economic relations would be governed by WTO-MFN rules.<sup>40</sup>

Whether or not the two sides can agree on a "comprehensive trade deal,"<sup>41</sup> like an FTA, depends largely on how far, if at all, the United Kingdom decides to diverge from E.U. standards and

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regulations, which are “precautionary” or “hazard-based,” centralized, and require certification by an approved government agency, making them among the highest and most stringent in the world.<sup>42</sup> Brexit supporters had touted the fact that Brexit would get “rid of the shackles,”<sup>43</sup> thereby giving Britain freedom to negotiate trade deals with the rest of the world, but if Britain wants to maintain a close economic relationship with the European Union, its main trading partner,<sup>44</sup> then, said French President Emmanuel Macron, it will simply have to accept the European Union’s “climate, environmental, economic or social regulations.”<sup>45</sup> A German MP agreed, stating that if the United Kingdom wants “broad access” to the European Union, it will have to “adopt E.U. rules” despite “no longer having a say in them.”<sup>46</sup> In fact, officials in Brussels, concerned that Britain could turn into a dangerous competitor if it deviates widely from E.U. rules after Brexit, have insisted that any comprehensive trade deal “will have to be based on the preservation of a ‘level playing field’ in terms of E.U. laws and standards.”<sup>47</sup> Thus, the United Kingdom faces a ‘Sophie’s choice’: either it maintains its current E.U.-backed standards and regulations and thereby its business with its main trading partner, or it changes its standards and regulations, accepts a WTO-MFN relationship with the European Union, and transforms itself into what Leave campaign supporters called the “Singapore of the Atlantic,” an “open, internationally competitive island nation based on free trade in goods and services and the free flow of capital and investment.”<sup>48</sup> In short, either Britain can keep its business with the European Union, or it can “open for business” to the rest of the world.<sup>49</sup>

Enticing the United Kingdom towards choosing the latter is the United States, which is, at first glance, an attractive and powerful political and economic suitor that is openly and unabashedly wooing the United Kingdom away from the E.U. embrace. The Trump administration is seemingly falling all over itself to do a trade deal with the United Kingdom. Vice President Mike Pence told Prime Minister Boris Johnson that “the minute the U.K. is out [of the E.U.], America is in.”<sup>50</sup> Trump’s national security adviser said that after Brexit the United Kingdom “would be at the ‘front of the trade queue’ for a deal.”<sup>51</sup> The U.S. secretary of state said the United States is “ready to sign a new free trade agreement” with the United Kingdom “at the earliest possible time.”<sup>52</sup> The U.S. treasury secretary said, “the U.K. is our number one ally and it would be at the top of the list of trade agreements.”<sup>53</sup> The U.S. commerce secretary stated that “there should be a free trade agreement between us once the U.K. is on its own. We’re huge trading partners with each other and our economies are in many ways more similar to each other than either of us is to most of Europe. So there’s all the logic in the world for the U.S. and the U.K. to be not only good trading partners, but FTA partners.”<sup>54</sup> U.S. Trade Representative Robert Lighthizer called trade negotiations with the

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United Kingdom a “priority.”<sup>55</sup> U.S. Senator Tom Cotton said, “Great Britain should be in the front of the queue given everything our nations have gone through together.”<sup>56</sup> And, Trump himself tweeted that “Britain and the United States will now be free to strike a massive new Trade Deal after BREXIT. This deal has the potential to be far bigger and more lucrative than any deal that could be made with the EU.”<sup>57</sup> Trump has also said that the deal could be done “very quickly,”<sup>58</sup> and that it could at least “quadruple bilateral trade.”<sup>59</sup>

To such enticements, British officials have responded warmly, and with good reasons. The British international trade secretary called the possibility of a trade deal with the United States a “golden opportunity to increase trade. . . as soon as possible” and said Britain would “fast-track” a deal.<sup>60</sup> She in turn instructed her department to make a trade deal its top priority.<sup>61</sup> Johnson then promised to “roll out the red carpet” for American businesses as part of his plan to make the United Kingdom “the best place in the world to start, run and build a business,”<sup>62</sup> while his cabinet agreed to prioritize the United States as a “tier one” country in trade negotiations.<sup>63</sup> Such enthusiastic responses surely stem from the fact that the United States is the United Kingdom’s second largest trading partner (after the European Union), accounting for £118 billion in exports (20 percent) and £72 billion in imports (11 percent) in 2018.<sup>64</sup> But, such responses also reflect the generally held belief that the United Kingdom is “desperate” because it “has nothing else.”<sup>65</sup> The British government promoted the prospect of an FTA with the United States “as one of the key benefits of leaving the European Union and, specifically, of freeing the U.K.” from E.U. constraints. “Failure to deliver such a deal would likely be seen as a significant political setback.”<sup>66</sup> Moreover, the U.K. government is in serious need of “something positive to point to” after such a difficult Brexit process, and a trade deal with the United States fits the bill.<sup>67</sup> Yet, such desires appear misplaced, as they stem from the dubious beliefs that a deal with the United States is not only possible but would be good for the United Kingdom. The following is an extensive yet incomplete list of eleven reasons why both of these beliefs are wrong.

1. The United States will require the United Kingdom to “remove itself” from the European Union’s “regulatory sphere” and “align with the U.S.’s regulatory model,” which is based on the “sound-science” approach, is decentralized, and relies on self-certification.<sup>68</sup> In other words, while the E.U. model errs on the side of caution and puts safety above business, the U.S. model attempts to provide adequate safety while still encouraging business. According to the Office of the U.S. Trade Representative, the United Kingdom’s current health and safety standards “unnecessarily restrict trade without furthering their safety objectives
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because they are not based on scientific principles, maintained with sufficient scientific evidence, or applied only to the extent necessary.”<sup>69</sup> Other U.S. officials have argued that the United Kingdom’s “onerous” and unnecessary health and safety regulations drive up costs and “detrimentally impact the ability of U.S. exporters to reallocate product” to the U.K. market.<sup>70</sup> For this reason, they have openly expressed their desire that the United Kingdom make its market more hospitable to American companies by scrapping altogether or seriously “relaxing its regulations on labelling, food safety, use of genetically-modified organisms,” chemicals, pharmaceuticals (thereby giving it “greater access” to the U.K. healthcare market), and “privacy protection in the digital arena,” all of which keep

“certain American goods” out of Britain and “distort” markets “to the detriment” of the United States.<sup>71</sup> During the Brexit process, the Remain campaign used such American desires to stoke fear among the British populace, that food standards would be made “more lax” or slashed, and they would soon be ingesting “foreign bodies in food,” like chlorinated chicken, irradiated beef, growth hormones, dangerous pesticides, “rat hairs and maggots.”<sup>72</sup> To reassure the public, which strongly opposes a reduction in standards,<sup>73</sup> the U.K government has repeatedly stated that it “will not compromise” and “will not lower existing product safety, environmental and animal welfare standards” in order to achieve a U.K.-U.S. FTA. Nor, it said, will British healthcare, guaranteed by the “closely-guarded” National Health Service, be in any way compromised.<sup>74</sup> Such protectionist statements by the British government, in light of assertions by U.S. officials, including Trump himself, that “everything” should be “on the table” when it comes to trade negotiations,<sup>75</sup> seem to preclude a comprehensive trade deal between the United States and the United Kingdom.

2. The relationship between the two countries is currently “hopelessly lopsided” and “weaker” than it has been in decades,<sup>76</sup> thanks to a steady decline in Britain’s political and economic “strategic value.”<sup>77</sup> Any trade negotiations “would be shaped by the power imbalance between them,” which stems from both size and experience.<sup>78</sup> The U.K. economy may be the world’s fifth largest, with a gross domestic product (GDP) of \$2.8 trillion in 2018,<sup>79</sup> but that is only one-fifth the size of the U.S. economy.<sup>80</sup> The United States is also economically “much more important” for the United Kingdom than vice versa. For example, the United States “accounts for around 15 percent of U.K. exports,” while the United Kingdom “accounts for just over 3 percent of U.S. exports,” amounting to only 0.7 percent of U.S. GDP.<sup>81</sup> Thus,
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Britain is a relatively small trading partner,<sup>82</sup> and the macroeconomic benefits of doing a trade deal with the British would also be “small” for the United States.<sup>83</sup> Simply, the United States does not have much to gain from a trade deal with the United Kingdom unless it can use its size and power to strongarm the British into making valuable concessions.<sup>84</sup>

Playing into U.S. hands in this regard, the United Kingdom also “lacks institutional capacity and experience in trade negotiations” because such negotiations were “outsourced” to the European Union “for the last several decades.”<sup>85</sup> The United Kingdom’s “relatively inexperienced negotiators in the newly formed Department of International Trade” will probably be outmatched by the highly experienced U.S. Trade Representative “sharks.”<sup>86</sup> Moreover, trade deals are games of bullying, and the biggest bully “typically gets their way.”<sup>87</sup> U.S. officials see Britain as “unusually vulnerable” and feel able to “treat the U.K. with a new disdain,”<sup>88</sup> facts illustrated by the U.S. commerce secretary’s assertion that Brexit is a “Godgiven opportunity” to take business from the United Kingdom while it is in a “period of confusion,” and by a U.S. trade representative’s observation that “it is now time for a more aggressive approach.”<sup>89</sup> For its part, the White House views Brexit “as an opportunity to renegotiate the relationship in its favor: a chance to boost American jobs and economic growth.”<sup>90</sup> Clearly, the “Anglosphere” and the “special relationship” will not alter the “hard-nosed reality of trade negotiations,” and British officials who might be relying on such sentimentalities “are in for a rude awakening.”<sup>91</sup> In this regard, Boris Johnson is at least a realist, telling Vice President Pence, “I know that you guys are pretty tough negotiators. So we’re going to work very hard to make sure that that free trade deal is one that works for all sides.”<sup>92</sup>

3. Despite President Trump’s positive signals, including praise for what he called “the greatest alliance the world has ever known,” his actual interest in an FTA with the United Kingdom “remains unclear.”<sup>93</sup> What is clear is that Trump’s approach to trade, which is imbued with “a more protectionist sentiment,” does not create the “best environment for concluding a mutually beneficial comprehensive trade deal,”<sup>94</sup> but instead lends itself to a deal that is “demonstrably to the advantage of U.S. companies” and provides the greatest benefits to “American workers and American families.”<sup>95</sup> Moreover, his “America first” doctrine has manifested itself both in increased pressure for market access, designed to increase U.S. exports, and in a “Buy America” philosophy that does not bode well for U.K. exports.<sup>96</sup> As one analyst concluded, Trump is not looking for a “genuine partnership” but for a “vulnerable
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country” that he can abuse.<sup>97</sup> Other analysts have suggested that Trump wants Britain to be more of a “supplicant” or “vassal.”<sup>98</sup>

4. For many Americans, the two countries already have an adequate trade deal in place. Currently, trade is conducted under WTO-MFN rules, “which includes the imposition of tariffs,”<sup>99</sup> but at this point, 50 percent of U.K. exports to the United States meet with zero tariffs,<sup>100</sup> while the vast majority of the remainder face tariffs that are “quite low, about 3 %,” chemicals and agriculture being exceptions.<sup>101</sup> Certainly, tariffs have not damaged trade between the two nations, which has reportedly been “brisk.”<sup>102</sup> Because such “open and strong” bilateral trade relations already exist, noted one U.S. trade negotiator, “it is unclear how much more there is realistically to gain.”<sup>103</sup> Why put so much time and energy into an FTA when the gains “might be slim?” Such effort would be better spent on the ongoing tariff negotiations with China, an FTA with Japan, and a wheat deal with the European Union.<sup>104</sup> The United Kingdom might need a deal, but U.S. trade negotiators are feeling the pressure elsewhere.<sup>105</sup> Furthermore, the United Kingdom might have little more to gain financially from an Anglo-American FTA than the United States. In fact, the U.K. Treasury estimates that such a deal would only increase U.K. GDP by .2 percent in the long term.<sup>106</sup> If this is true, an FTA simply might not be worth it for either side.
  
  5. The United Kingdom must clarify its trade relationship with the European Union first,<sup>107</sup> a process that will likely take two to four years,<sup>108</sup> or much longer if “mixed competences” become involved (e.g., car emissions mix trade and environmental regulations), as these would require approval by approximately forty national and regional parliaments.<sup>109</sup> In November 2017, the U.K. secretary of state said that the government’s priority was clearly a European Union agreement, only after which “will we look at new FTAs.”<sup>110</sup> Since most components of a U.S.-U.K. trade deal “will be shaped by” and will depend on “the terms of the future trading relationship between the U.K. and the E.U.,” attempting to negotiate concurrently would be impractical at the least and quite possibly “impossible,” and this despite the British expressed desire to do exactly that. Once the U.K.-E.U. situation is solved, and only if the solution is to trade on WTO-MFN terms, then the United Kingdom can invite the United States to the negotiating table. For its part, the United States “takes on average 45 months to negotiate bilateral trade agreements.” So, any comprehensive Anglo-American trade deal is probably seven years out, and that is a conservative estimate.<sup>111</sup> Former U.S.
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Treasury Secretary Larry Summers concurs with this assessment, calling any thoughts of a near-term deal “delusional,”<sup>112</sup> as does the House of Commons International Trade Committee, which stated that “any deal will be complex, tough and probably take much longer than expected.”<sup>113</sup> In seven years, the social, political and economic landscapes will have greatly changed, including the fact that at least one of the proponents of an Anglo-American trade deal, President Trump, even if he is re-elected in 2020, will no longer be in power. And, if the pendulum effect holds, and if the current Democratic political campaign attitudes are any indication, then the prospect of a Democratic administration doing a trade deal with the United Kingdom is “minimal.”<sup>114</sup>

6. Whereas the European Union and the United Kingdom have adopted general data protection regulations (GDPR), which are generally considered strenuous, the United States takes a “light-touch” approach to data protection, which it believes is “more conducive to the data flows necessary to sustain innovation.”<sup>115</sup> If the United States wants a trade deal with the United Kingdom, it will likely have to uphold GDPR, which is not only more costly but has been known to constrain business.
  7. The United Kingdom is strongly considering a revenue tax on digital services, “in line with the French model,” as a way to “modernize antiquated international tax codes to account for the modern, digital economy.” Such plans, say U.S. trade negotiators, would be a “deal breaker” and must be “scrapped.”<sup>116</sup>
  8. The European Union and the United Kingdom have a “highly developed system of regulation” for “geographical indications,” intellectual property rights protections for food and drink, such as Cornish pasties or Scotch whisky, and they strive to protect them on the international market through FTAs. The United States, on the other hand, “does not grant rights on a geographical basis” but instead uses the “trademark system,” which protects “particular firms.”<sup>117</sup> Both the United Kingdom and the United States are well-entrenched in their current systems, making any concession unlikely.
  9. Any FTA between the United Kingdom and the United States, thanks to the decentralized nature of the U.S. federal system “which confers legislative powers” on states, would require the “agreement” of U.S. state governments, which greatly complicates trade negotiations and makes “significant concessions” on “critical regulations” unlikely.<sup>118</sup>
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10. "Article I, Section 8 of the U.S. Constitution gives Congress the ability to regulate commerce with foreign countries, and both chambers of Congress must approve any trade agreement that the president has introduced." Thus, Congress is the "crucial player," and it "remains divided on the possibility of a U.S.-U.K. free-trade deal," particularly over the question of Northern Ireland.<sup>119</sup> Senator Chuck Schumer "urged the Trump administration to 'stop over-promising' an unconditional and unrealistic post-Brexit trade agreement with the United Kingdom," stating that Congress has reservations, especially in regard to Northern Ireland.<sup>120</sup> Speaker of the House Nancy Pelosi said that if Brexit in any way "undermines the Good Friday Accord" by closing the Irish border, then there will be "no chance" of an FTA passing, an idea echoed by the chairman of the House Ways and Means Committee. However, if the Irish border "stays open," as the politicians demand, then an Anglo-American FTA simply "won't work," because goods could then pass tariff-free via Ireland from the European Union to the United States.<sup>121</sup> Moreover, British parliament also has to approve any FTA. It has been decades since it "has exercised control over trade negotiations or agreements" and "it could end up scrutinising the agreement . . . as a result of domestic constituency concerns."<sup>122</sup>
11. The United Kingdom is a "services-dominated economy, with services contributing approximately 80% of U.K. GDP and 44% of U.K. exports." In 2015, the United Kingdom exported £16 billion in financial services to the United States. For this reason, the United Kingdom sees an integral role for the financial services sector in any Anglo-American FTA, and it wants the FTA to break down barriers to U.S. financial services, which it claims "impede" trade, by rolling back financial legislation that the United States passed in response to the 2008-2009 global economic crisis, such as the Dodd-Frank Act. However, U.S. officials have absolutely "no desire" to "change elements" of American financial regulations and have "refused to entertain talks about financial services."<sup>123</sup>

Each one of these eleven reasons has the ability to derail an Anglo-American FTA, but taken *in totum*, they serve as a sizeable barrier against an agreement.

Brexit was a unique situation that put the United Kingdom in a difficult position. It marked the first time a developed country left "a major international institution without a military defeat or political revolution."<sup>124</sup> It was also a rare occasion where upholding democratic principles took precedence over economic well-being, as there exists no possible outcome in which the United

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Kingdom will be economically better off than before.<sup>125</sup> In fact, the European Union has repeatedly stressed that a non-member “cannot be better off outside the union than within.” Thus, the United Kingdom will “pay a price” for Brexit,<sup>126</sup> estimated to be between 1 and 5 percent of the United Kingdom’s 2015 GDP.<sup>127</sup> To make up for these losses, the United Kingdom will now seek to negotiate FTAs, both with the European Union and the United States, but differing regulations and standards make this virtually impossible, as the adoption of U.S. regulations and standards would “preclude the execution of a trade agreement” with the European Union.<sup>128</sup> Thus, the United Kingdom will have to choose between the two. This choice comes down to whom the United Kingdom needs more as a trading partner, and the answer is clearly the European Union, its “main market.”<sup>129</sup> The United Kingdom does “some \$800 billion of goods and services trade” with the European Union, compared to about \$262 billion with the United States.<sup>130</sup> In 2018, the European Union accounted for 46 percent of U.K. exports, while the United States only accounted for 19 percent.<sup>131</sup> And, an FTA with the European Union would be worth \$14 billion more than an FTA with the United States.<sup>132</sup> President Trump has suggested that an Anglo-American trade deal could make up for such deficits, but economists generally do not see how.<sup>133</sup>

The United States might very well attempt to cut in on the negotiation dance in which the United Kingdom and European Union are about to engage. In this case, much depends on U.S. intentions: “does it want to do Britain a favor or ply its advantage?”<sup>134</sup> Indications certainly suggest the latter. The Trump administration knows that Britain is desperate and has “no leverage,”<sup>135</sup> so it will probably make no compromises while demanding many.<sup>136</sup> Trump’s desire to “strongly defend the interests of farmers and corporate America” will lead the United States to demand “greater access” for American agricultural products as well as equal pricing for American pharmaceuticals, “both of which are surely political non-starters from the U.K. government’s perspective,” while at the same time rejecting the British desire for “greater access” to the American financial services industry.<sup>137</sup> In summary, note analysts, the United States will likely make a “take it or leave it” offer that greatly benefits the United States but is “not the deal the U.K. wants.”<sup>138</sup> It waits to be seen whether the Johnson administration and the British parliament will be desperate enough to take the United States up on this offer. If they listen to reason, then they probably will not. What they might do is continue to behave, at least in the short term, “as if negotiating an attractive deal with the U.S. remains a realistic possibility,” because such a deal was important to the “overall Brexit narrative . . . and specifically, to the case for leaving the Customs Union.”<sup>139</sup> In other words, the Johnson

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administration may continue to flirt with the Trump administration over an FTA in order to save political face.

More likely, the path for the United Kingdom, in relation to the European Union and the United States, is more convoluted and “fraught with all sorts of difficulties” than the likes of Prime Minister Boris Johnson and Secretary of State Dominic Raab would have the world believe.<sup>140</sup> A no-deal Brexit and a “reversion” to a WTO-MFN trade relationship with the European Union “would be the worst scenario, economically,” for the United Kingdom, as it would significantly increase tariffs (especially on agricultural products) and reduce E.U. investment inflows into the United Kingdom by approximately \$8 billion, resulting in a loss “equivalent to 4.7 percent of the 2015 UK GDP.” This is in comparison to a \$3.4 billion reduction with an FTA.<sup>141</sup> To ensure this does not happen, the U.K. government will probably be forced to extend the transition period until the end of 2022. Doing so will give British and European officials the time they need to hammer out what Theresa May once called a “bold and ambitious” trade deal,<sup>142</sup> as well as solve the pressing issues of expatriates and the Irish backstop. Or, if such a comprehensive deal proves illusive, an extended transition might give the United Kingdom the opportunity to pursue membership in the European Economic Area, the market under which Liechtenstein, Iceland and Norway operate, which still allows “freedom of movement of goods, services, capital and people.”<sup>143</sup> Once a deal with the European Union is concluded, then and only then can British officials turn their attention to a trade deal with the United States, because any Anglo-American trade deal is largely contingent on the standards and regulations incorporated into the U.K.-E.U. deal.<sup>144</sup> The United States generally favors a “sector by sector” approach to trade deals, but Britain has made it clear it wants a “comprehensive deal.” This would “require years” of negotiations and would have to overcome numerous trade and non-trade related barriers.<sup>145</sup> Despite the “stated . . . keenness . . . to do so with speed” coming from politicians on both sides of the Atlantic,<sup>146</sup> the odds are overwhelmingly against such a deal. “Experts with experience of such negotiations” have repeatedly expressed “skepticism that a deal of any significance can be achieved.”<sup>147</sup> Instead, WTO-MFN terms will most likely continue to govern Anglo-American trade,<sup>148</sup> which, as noted, is not necessarily negative.

Such a conclusion is drawn with one important caveat: “political will” is a powerful force that could still make an Anglo-American FTA a near-term reality.<sup>149</sup> The Americans and the British have a strong bond based on a “sense of shared history, values, [language] and culture,” as well as strong economic, foreign policy and military relations.<sup>150</sup> And, President Trump and Prime Minister Johnson see themselves as “political twins of a sort” who have a “special relationship.”<sup>151</sup> As the Australian

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ambassador to the United Kingdom said, “free trade negotiations depend on one thing. They don’t really depend on resolving difficult technical questions as much as they do on political will. If the political leadership really wants a free trade agreement, it will happen quite easily,” as they will “drive their negotiators to get a deal.”<sup>152</sup> Thus, if Trump remains “faithful” to Johnson, his so-called “best friend forever,”<sup>153</sup> then, as the two nations’ secretary of states agreed in January 2020, a deal could be done before the U.S. presidential election in November.<sup>154</sup>

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<sup>154</sup> Reuters, "Britain and U.S. Say a Trade Deal Can Be Done This Year," *New York Times*, 31 January 2020, <https://www.nytimes.com/reuters/2020/01/31/business/30reuters-britain-usa-trade.html>.

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