

UKTPO

UK TRADE POLICY
OBSERVATORY

Brexit: The Trade Policy Outlook

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Why not just liberalise completely?

- Brexit concerns more than just border measures
- But even if it were just border policies:
 - Huge administrative task – massively disruptive
 - Capacity shortages
 - Minimise disruption in short/medium term
 - Return to optimise policies later
 - Trade policy is an internal policy
 - Reduce internal political stresses
 - Negotiating tariff
 - Improve access elsewhere

Will Brexit happen? Very probably

- Collapse of political opposition in UK
 - HoC vote, press, ‘the people have spoken’
 - Brexiteers will not admit defeat or error
 - Breakdown in negotiations is acceptable to them
 - Only very severe economic stress likely to threaten
- Is Article 50 revocable? Who knows?
 - In the legal case, both sides stipulated not → untested
 - ECJ would have to rule on it
 - Essentially a political issue for EU members

Outline

- UK's position in WTO
- Negotiating a trade agreement with the EU
- Further trade agreements – including Australia

Options for UK relationships with:

- WTO (163 other members)
- EU27 (remainder of EU)
- Other countries (several different cases)
 - Before most countries will negotiate seriously, they want to know position with:
 - WTO – defines what signing an FTA avoids
 - EU27 – helps define value of access to UK market

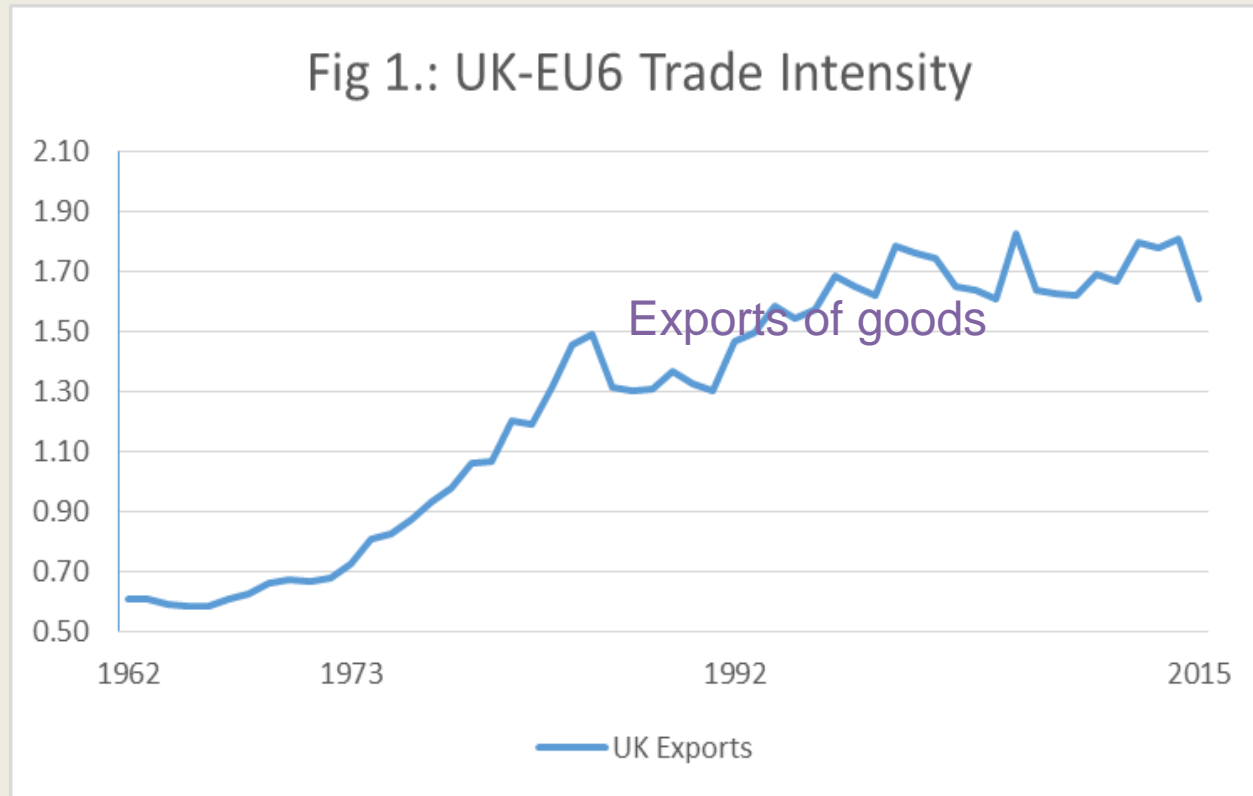
WTO: UK Schedules

- The UK is a full member of the WTO
- Obligations partly notified by the EU
- Re-label EU schedule – rectification
 - “do not alter the scope of a concession ... purely formal character” - made as certifications
 - Circulated (in arrears), 3 months for objections that
 - Do not correctly reflect the modifications
 - Not a rectification but a modification.
 - If objections, keep existing schedule – the EU one

Why Object?

- Opportunism
- Market Segmentation
 - GATT provides access to a market not a guarantee of sales, but cannot infinitely divide with impunity.
- Subsidies and Tariff Rate Quotas (TRQs)
 - Both in agriculture
 - Fairly small
 - But always sensitive, and hugely complex
- Diplomacy is important

EU27 takes UK trade; excellent access



$$\frac{X_{UK,EU}/X_{.,EU}}{X_{UK,.}/X_{.,.}}$$

Close, rich, similar and very large → always a big market

Options

- The Promise
 - Regaining control of:
 - trade policy
 - regulations in general
 - Curbing immigration from Europe,
 - Cutting UK payments into the EU budget.
- The Implication
 - Leave Customs Union
 - Leave Single Market
 - Leave Single Market
 - But Hard (MFN) or
 - Soft (deep FTA)?

Negotiating with the EU-27

- But both sides' objectives/preferences matter
- EU: unity is paramount → 'no cherry-picking'
- Relative negotiating strength:
 - Average UK exporter sends $\approx 45\%$ to EU
 - Average EU exporters sends $< 7\%$ to UK
 - Default outcome is 'no deal' - MFN

Relaxing Red Lines?

- EU 27 might agree to FTA plus limited sectoral access to Single Market (SM) – as with other third parties already
- UK budgetary contributions? Positions hardening
- A bilateral dispute settlement tribunal with equal representation might avoid overt ECJ rulings on UK
 - But of course it influences anything in the EU
- More difficult: UK movement of labour or independent trade policy

And also, it takes time

- Article 50 – two years, EU decides by QMV
 - May or may not include trade agreement
 - EU currently says it won't talk trade for some time
- But trade agreement requires unanimity
- Trade agreements typically take a long time
- Therefore – need transitional agreements
 - Perhaps 5 years of trade very similar to present
 - Default to MFN (hard) if no agreement
- Again, the key is diplomacy !

Trading Partners

(2011, TiVA Dataset, Goods and Services)

Partner	Imports	Import	Exports	Export
	(\$billion)	Share %	(\$billion)	Share %
EU28	347.1	47.0	389.4	49.9
USA	109.4	14.8	88.5	11.4
China	26.2	3.5	58.4	7.5
India	19.0	2.6	24.8	3.2
Canada	18.4	2.5	13.3	1.7
Australia	16.7	2.3	7.7	1.0
Japan	16.4	2.2	17.1	2.2

Third countries

- Developing countries – offer same for 4 yrs
 - Early announcement, then renegotiate
- FTAs: 51 countries in existing FTAs, 2015,
 - Roll over? notify under GATT and GATS (Korea?)
 - But only if they agree – more negotiations
- New FTAs up to twenty - need to prioritise – how?

With Whom?

- Significant trade volume
 - High potential trade and high existing barriers
- Consistent with regulatory practices (deep)
 - E.g. treatment of risk in setting standards: EU or US?
- Consistent with political objectives
 - Big trade integration stems from political motives
- Cost, likelihood of achieving a good result
 - And getting it implemented

An Australia-UK FTA?

- UK may liberalise unilaterally in WTO
- Why an AUK-FTA?
 - For the UK:
 - prove feasibility, fairly low stakes, good practice
 - For Australia:
 - UK is smaller than EU
 - EU strictures about negotiations with UK

AUK-FTA Context

- How will Australia-EU interact with UK-EU trade arrangements? Or UK-USA?
 - Both have strong interest in UK agricultural imports
 - Either agreement might implicitly keep UK tariffs high
 - Regulatory convergence depends on what UK decides to do with US and/or EU.

AUK-FTA Content

- Trade in goods not major for either side
 - Gold, lead, wine; vehicles, medicines, whisky
 - UK is Australia's 9th largest partner; Australia is UK's 20th for exports and 36th for imports

AUK-FTA Content

- Services – relatively more important
 - UK Is Australia's 2nd market for **cross-border** service exports;
 - Australia is UK's 11th for exports; 12th for imports
 - Tourism – but not dependent on agreements
 - Transport – derived demand
 - Business services – large, dependent on regulation
 - Australian interest in access to UK – visas
 - Very difficult in current UK political context

AUK-FTA Completion

- Commercial presence (FDI)
 - Approx 1.7% of UK assets, 1.1% of liabilities;
- Issues will be regulatory – e.g. running care services, pilot training
- How quickly?
- Years, unless political imperative dominates

Brexit and EU Trade Policy

- A bit less liberal?
 - Trade Defence instruments
 - Agriculture – but don't over-estimate effect
 - UK not a huge force; budget; WTO-compliance
 - Largest effect in Trade and Development
 - UK big advocate
 - ACP group created to deal with British Commonwealth
 - ROOs, EPA more reciprocal

What does Brexit mean for the WTO?

- WTO pools sovereignty; is a focal point for co-operation
- WTO works only by consent
- Brexit could be an excuse for an acrimonious fight
 - But the stakes are pretty small, and at present
- WTO potentially faces an existential threat, via any of
 - Currency manipulation, 45% tariffs on China, 35% tariffs on Mexico, the border tax adjustment
- Brexit will distract the UK government for a decade
- Don't let it distract the members of the WTO

Thank you

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