

Brexit to complicate planned Australia-EU free trade talks

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IN BRIEF

Britain's decision to bid adieu to the European Union will likely impact its trade relations with Asia-Pacific nations such as Australia, which is preparing to negotiate a free trade agreement with the EU, analysts have told MLex. The EU and Australia said last November that they would begin negotiations on a free trade agreement.

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Analysts believe that Brexit will probably change the dynamics of the EU-Australia free trade talks, adding uncertainty around Australia's hopes of gaining easier access to the EU market.

Jane Drake-Brockman, an Australian former diplomat and currently director of the EU Centre for Global Affairs at the University of Adelaide, told MLex that Brexit might lead Australians to think of negotiating a free trade agreement with the UK before it does so with the EU.

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Britain is Australia's seventh-largest trading partner and the eighth-largest export market for Australia.

Several specialists attending an academic seminar* in Hong Kong said the trade negotiations would likely be delayed. For one thing, the UK does not even have high-level trade officials in London because all trade is currently conducted through Brussels, according to Patrick Messerlin, who once served as an adviser to former World Trade Organization Secretary General Mike Moore.

Messerlin, who is currently a professor of economics at Sciences Po in Paris, told MLex that Brexit would have tremendous consequences for Britain and the EU. Citing research conducted by the Organization of Economic Development and Corporation, he said Brexit would likely shave nearly 7 percent off Britain's GDP.

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The impact would likely to be most pronounced in the services sector, where Britain is probably the strongest of all EU countries, he said, adding that Britain is home to nearly three quarters of all service industry business in the EU.

Although Brexit might make things difficult for EU trade negotiators, companies in Australasia may see new obstacles arise in the new, post-Brexit reality, analysts said.

Pascal Kerneis, managing director at consulting firm European Services Forum, said Brexit might present fresh challenges to Australian corporations operating in the UK and vice versa. (In 2014, the EU was Australia's biggest source of foreign investment, attracting nearly \$170 billion, while Australian firms invested \$83.5 billion in EU the same year, according to figures from University of Adelaide.)

Yet once Brexit becomes official, most Australian firms operating in the UK will be left with no access to the EU market, according to Kerneis, and they will end up having to relocate to other EU jurisdictions if they are in financial services. Frankfurt appears to be a likely beneficiary.

With Britain accounting for the bulk of the EU's trade and investment with Australia, Brexit might also lead to more bargaining power for the Australians when negotiating a deal with the EU.

"They would now say, 'You need us more than we need you,'" said Shandre Thangavelu, a trade specialist at the University of Adelaide.

On the whole, analysts said much would depend on what sort of deal UK opts for as it exits the EU, and that this process would be a protracted one. Kerneis said it would likely take many years, perhaps even a decade, for Britain to negotiate a proper exit from the EU, adding that the near-term implications would probably be restricted to post-Brexit jitters on the financial markets.

It is possible that UK could benefit from an arrangement similar to, say, Norway's. The Scandinavian country is a member of the EU, but still enjoys preferential access to EU markets through its membership of the European Economic Area, Kerneis said.

Kerneis said Britain might end up choosing a Norway-style arrangement with the EU, which would end up forcing Britain to make a huge financial commitment to the bloc just for market access.

Despite Friday's vote, Thangavelu said it would be hard for the UK to be completely cut off from the EU, simply because of its geographical proximity, but that Brexit would give British institutions more sovereignty and independence.

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He also believed that Britain would still end up having an agreement of some sort that would give its companies some degree of access to EU markets.

However, the consensus among analysts is that the UK has set a dangerous precedent for other EU countries, and that now disgruntled segments of the populace in other EU countries might start calling for similar referenda.

Messerlin called the referendum unfortunate and an “abdication of the prime minister,” David Cameron, predicting that it might split the Conservative Party into two factions.

Asked what Brexit might mean to Asian nations, Yose Rizal Damuri, head of the economics department at Jakarta-based think-tank the Center for Strategic and International Studies, said that all economic unions were subject to push and pull between regulatory harmonization and sovereignty.

Although Brexit might give impetus to similar tendencies towards regulatory independence in Asia, Asian countries' free trade regimes were far weaker from that of the EU, meaning no such worries over members of Asian regional groupings such as the Association of Southeast Asian Nations, he said.

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