



Trading with the World after Brexit

L Alan Winters

Professor of Economics, University of Sussex

Director of UK Trade Policy Observatory

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Outline

- Are FTAs a trade substitute for the EU?
 - Why not just abolish tariffs?
 - Some Facts
 - Renewing the existing FTAs the UK has via the EU
 - FTAs with new partners

Why not just abolish tariffs?

- Tariffs are taxes
- Trade preferences (Free Trade Agreements) are just tax breaks for your friends
- In the long run – may be sensible to abolish
 - but benefits much smaller than Economists for Free Trade (EFT) estimates. They assume
 - Perfect substitutability,
 - Distance is irrelevant
 - Barriers in EU are equivalent to 20%

Abolish tariffs on Brexit-day?

- Not a substitute for the Single Market in goods, let alone in services
- Disruption of UK agriculture (externalities?) and manufacturing
- Negotiating FTAs – little to offer if we give away goods market access
 - FTA partners more likely to agree to liberalisation where they have a trade surplus with the UK

Signs of Partners' Balances with the UK

2014-16 Source: Pinkbook 2017, Chapter 9; 29 named partners

		Services	
		deficit	surplus
Goods	deficit	9	2
	surplus	13	5

China: Goods +£24 billion,

Services -£2 billion

USA: Goods -£11 billion,

Services -£24 billion

The UK in the WTO

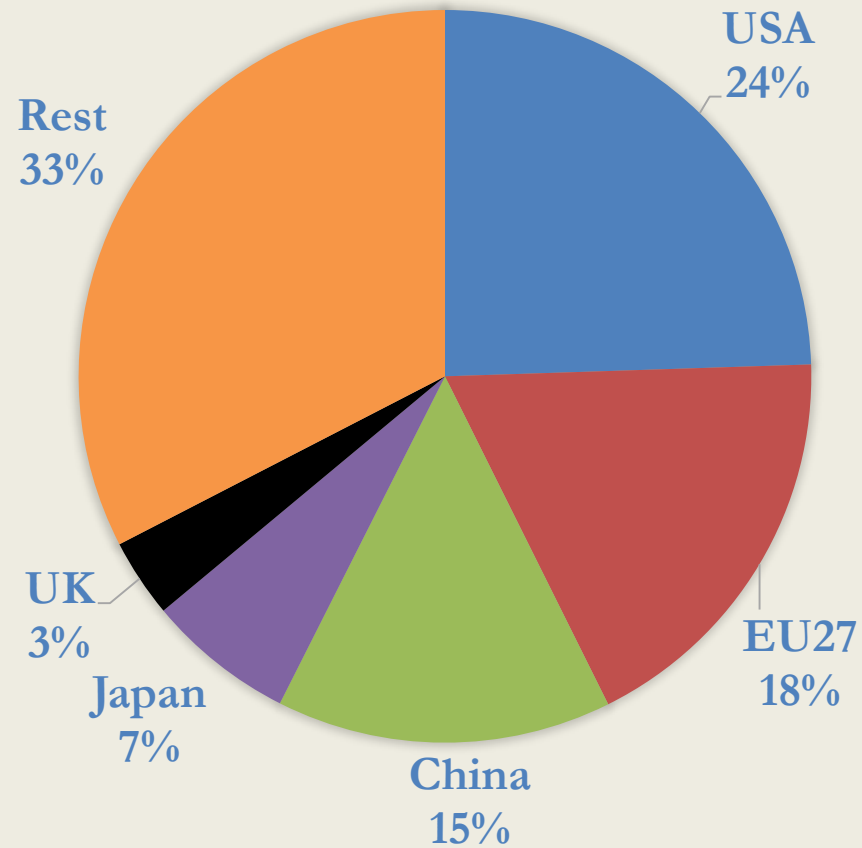
- Will a ‘liberated’ UK revive the WTO?

‘The UK ... clear leadership, to be a staunch defender of trading rights and freedoms, ... at the WTO

‘Moreover, we can help forge the way on the liberalisation of those areas of global trade where the WTO and other bodies have yet to extend their reach; services, digital trade and the knowledge economy.’

Liam Fox 18th February 2018

Shares of World GDP, 2016, \$US



UK Goods Trade 2013-2105

Partner	Exports		Imports	
	(\$B)	Share	(\$B)	Share
EU	226.9	45.1%	351.3	53.6%
EU FTA countries	87.2	17.3%	86.2	13.1%
EU under neg	96.3	19.1%	98.6	15.0%
Rest of World	92.9	18.5%	119.7	18.3%
TOTAL	503.2	100.0%	655.8	100.0%
UK possible FTA	108.5	21.6%	143.6	21.9%
LDCs	3.2	0.6%	7.5	1.1%

How deep is 'deep'?

Table 1: List of provisions

WTO+	WTO-X	
<ul style="list-style-type: none"> • Tariffs Industrial goods • Tariffs agricultural goods • Customs administration • Export taxes • SPS measures • State trading enterprises • TBT measures • Countervailing measures • Anti-dumping • State aid • Public procurement • TRIMS measures • GATS • TRIPS 	<ul style="list-style-type: none"> • Anti-corruption • Competition policy • Environmental laws • IPR • Investment measures • Labor market regulation • Movement of capital • Consumer protection • Data protection • Agriculture • Approximation of legislation • Audiovisual • Civil protection • Innovation policies • Cultural cooperation 	<ul style="list-style-type: none"> • Financial assistance • Health • Human Rights • Illegal immigration • Illicit drugs • Industrial cooperation • Information society • Mining • Money laundering • Nuclear safety • Political dialogue • Public administration • Regional cooperation • Research and technology • SMEs • Social Matters
	<ul style="list-style-type: none"> • Economic policy dialogue • Education and training • Energy 	<ul style="list-style-type: none"> • Statistics • Taxation • Terrorism • Visa and asylum

Does ‘depth’ matter?

Source: Mulabdic, Alen; Osnago, Alberto; Ruta, Michele. 2017. Deep Integration and UK-EU Trade Relations. Policy Research Working Paper; No. 7947. World Bank

	(1)	(2)	(3)
	Total	Goods	Services
Depth	0.353*** (0.022)	0.522*** (0.036)	0.182*** (0.037)
Depth*UK exp/imp	0.017 (0.098)	0.128 (0.106)	0.693*** (0.145)

$$Trade_{ijt} = \exp\{\beta_1 Depth_{ijt} + \beta_2 Depth_{ijt} * UK_{ij} + \delta_{ij} + \delta_{it} + \delta_{jt}\} + \varepsilon_{ijt} \quad (1)$$

where $Trade_{ijt}$ is bilateral exports from country i to country j in year t , $Depth_{ijt}$ is the number of legally enforceable provisions in the PTA between i and j (normalized between 0 and 1), UK_{ij} is a dummy variable

Tariffs with major partners are mostly pretty low

Unweighted average applied tariff (WTO)

	agric.	non-agric
Singapore	1.1	0
Australia	1.2	2.7
USA	5.2	3.3
EU	10.7	4.2
China	15.6	9
India	32.7	10.1

The real benefits are from deep integration

- The challenging bit is getting it; e.g. Australia

Agreement	WTO+LE (14)	WTO_X LE (38)
ASEAN-Australia-New Zealand	11	5
Australia-New Zealand (ANZCERTA)	6	1
Australia-Singapore	11	4
Australia-Thailand	11	2
Chile-Australia	13	6
US-Australia	13	5
Japan - Australia	10	4
Malaysia - Australia	10	3
Australia - Papua New Guinea (PATCRA)	3	0
Korea, Republic of - Australia	10	3

Can we roll over existing EU FTAs?

- Over 30, around 67 countries
 - For transition, “The Union will **notify** the other parties to these agreements that during the transition period, the United Kingdom **is to be treated** as a Member State for the purposes of these agreements.” Their agreement is **NOT** assured
 - For longer run, none has agreed – some have signalled willingness
 - Partner will have processes to approve
 - Need to take to WTO – possible debate (disputes?)

Technical Issues in rolling-over FTAs

- Tariff-Rate Quotas (Agriculture)
 - Need to split between UK and EU27
 - Merely splitting same quantity reduces benefit of the TRQ
- Rules of Origin
 - Condition for getting tariff-free access
 - Proving origin – bureaucracy, partner views
 - Two examples

Rules of Origin 1

- Suppose Korean, EU and UK adopt ROO of 50% local content for access
- Consider an export to Korea which has content:
UK 30%, EU 45%, US 25%
- Access is OK at present because $30+45 > 50$
- After Brexit neither UK nor EU satisfies the ROO.

Rules of Origin 2

- Consider a UK export to EU
 - UK 30%, USA 35%, Korea 35%;
 - OK now with CU
 - After Brexit, Korea could still export to EU directly (because of FTA), not via UK because ROO is failed
- Solution – Diagonal Cumulation – needs EU to agree
 - EU accumulates across all preference partners – 65%
 - But EU generally requires partners to adopt EU ROOs

Political issues in rolling-over FTAs

- MFN Clauses in Canada-EU CETA (and others)
 - If Canada offers UK something additional in services, it also goes to the EU (for nothing!)
 - Similarly if the EU offers something ...
- Partners' benefit from EU FTA declines
 - Especially if UK diverges from EU (two standards etc.)
- Partners' political power is greatest at this stage

Existing FTAs Summary

- Roll-over is not easy
- It clearly requires partners to agree
- It potentially involves dealing with WTO
- It requires cooperation with the EU
- It is urgent:
 - Exit from the FTAs occurs with exit from the EU
 - It is unlikely to be avoidable by a UK-EU transitional deal. Certainly not without EU cooperation

What about new FTAs?

- UK capacity to negotiate?
- Will anyone sign before EU and WTO settled?
- EU relationship is critical
 - Rules of origin – is cumulation feasible?
 - If UK is to have ‘free circulation’, MRAs must be acceptable to EU – basically to EU standard; if not,
 - Border inspections for goods
 - Bans for services where inspection impossible

- Easier ones are small – New Zealand, Australia
- Big ones are difficult
 - USA - agriculture and food standards, public services, financial services, ISDS
 - China - manufactures, little services access, IP,
 - India - services visas

Thank you

<https://blogs.sussex.ac.uk/uktpo/>