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Brexit and the Menu of UK Trade Policy Choices

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Brexit and the Menu of UK Trade Policy Choices

Tim Josling
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Road Map

- UK and trade with EU
- UK and EFTA
- UK and WTO partners
- UK and EU bilaterals
- UK and US
- UK and other countries
- Global Impacts

UK and trade with EU

- Key issue is whether UK can keep free access into EU market
 - Soft Brexit: maintain membership of Single Market with opt-out for free labor movement. But what is in it for EU? Would other members move to this status? Two-speed Europe?
 - Hard Brexit: No concessions from EU. Need to rethink UK trade relations from scratch. Political and economic imperatives may conflict
- Access for EU goods into UK
 - Soft Brexit may involve keeping the EU tariff schedule (otherwise all manner of ROO problems)
 - Hard Brexit means UK could raise tariffs against EU goods (but subject to WTO protections) or could keep duty-free status
- Standards, etc.
 - Choice of keeping to EU standards or renationalizing them: Hard Brexit gives more scope for national standards

UK and EFTA partners

- UK could apply to revive its EFTA membership (now called the Vaduz Convention). Other members (Norway, Iceland, Liechtenstein, Switzerland) may welcome this
- UK could join “just” the EFTA/Vaduz Convention and would have access to all the EFTA bilaterals (if the other parties were to agree)
- But the UK would also be eligible for membership of the EEA. Norway, Iceland and Liechtenstein are members of EEA, essentially part of the Single Market (including free labor movement) but without voting rights and with negotiated budget contributions
- Switzerland offers another “model” with sector-by-sector access agreements and more limited budget payments to Brussels (still have agreed to free labor movement)
- EFTA option looks relatively easy, but EEA still involves free movement of labor from the EU (though not from other countries)
- Agricultural policy (and agricultural trade rules) are outside of EFTA (and EEA) agreement, though some service sectors are included.

UK and WTO partners

- Short of a very soft Brexit, UK would have to renegotiate its position as an independent WTO member
- Would have to establish a tariff schedule which could differ from the EU schedule
- Would need to negotiate with EU to sort out domestic support and TRQ allocations
- Rules about “leaving” a CU not elaborated in WTO
- Renegotiations may be involved if any tariffs increased
- Proponents of a WTO-only strategy also argue for a low-tariff UK policy: could make it easier to set up a UK schedule

UK and EU bilaterals

- More than 100 EU bilaterals have been negotiated: 1,100 total bilateral and multilateral agreements have been signed
- Soft Brexit could allow the UK to maintain membership in these FTAs
- For FTAs signed by EU Brexit would imply dropping out of such agreements from Brexit Day 1
- In the case of “mixed” competency agreements (most FTAs) UK is a co-signer with EU and could help it to stay “in” part of the agreements – but all 27 other countries need to ratify as well
- Can hope to keep terms same but other countries could see this as an opportunity to change: balance of interests will have changed
- Can ask for a “Stand Still” Clause to allow more time for renegotiation

Existing EU FTAs

- *List of EU FTA markets:* Mexico, Chile, Peru, Morocco, Algeria, Tunisia, Egypt, Jordan, Israel, Occupied Palestinian Territory, Lebanon, Syria, FYR Macedonia, Albania, Serbia, Montenegro, Bosnia and Herzegovina, Switzerland, **Korea**, Antigua, Barbuda, Belize, Bahamas, Barbados, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Colombia, Honduras, Nicaragua, Panama, Guatemala, Papua New Guinea, **South Africa**, Madagascar, Mauritius, Seychelles, Zimbabwe, Costa Rica, El Salvador, Fiji, Cameroon, **Georgia**, **Moldova**, **Ukraine**, EU Customs Union (Andorra, Monaco, San Marino, Turkey), EEA (Norway, Iceland, Liechtenstein).
- Annex – EU's Free Trade Agreements 45

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UK and US

- Best hope for a “New Agreement” may be with US
- US incoming Administration seems willing to negotiate bilaterals with countries that pose no employment threat: UK not seen as a major competitor
- UK-US FTA could be attractive to UK businesses in particular if EU market shrinks
- Could be easier way towards T-TIP, as it would avoid German political sensitivity
- UK NGOs would no-doubt take up the mantle of opposition
- Successful negotiation within four years?

UK and other countries

- UK Brexit supporters have suggested FTAs with other countries, such as India, China and Brazil: “end run” around FTAAP/RCEP, EU-Mercosur
- Others have focused on more traditional partners: Australia, Canada, New Zealand, etc. (A new Commonwealth?)
- Several countries that have no FTA with EU might be interested in the UK, particularly where agriculture has been a stumbling block
- But in general, UK market will be less interesting than would an EU market

Brexit, Trump and the Global trade rules

- Bigger question is whether Brexit + Trump spells the end of the post-war trend towards open markets, integration and firm trade rules
- Brexit could indirectly lead to a weakening of the process of regional integration by encouraging anti-trade parties
- Trump could weaken WTO through bilateral action on China and possibly evading WTO responsibilities (a lost panel case or two?)
- No Congressional majority in favor of trade agreements for the next decade?
- Loss of Asian leadership arising from TPP rejection (“Trexit”) could be most significant development in global trade policy – and Japan and China could be the biggest gainers

Thanks for listening

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