After Brexit, What Trade Policy Should The UK Pursue?

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ABSTRACT
When Britain voted to leave the European Union on the 23rd of June 2016, it left the UK as well as the EU in shock. Questions that seemed far away only hours before suddenly became very pressing. Among the most important Britain found itself confronted with was that concerning the trade policies the UK should thereafter pursue. The following article deals with this question, showing different options Britain may find itself choosing from in the future. The article presents four generalized paths the UK may take – among them, it seems most likely that this new situation will force decision makers to resort to business relations with trade-established countries such as the USA and Japan, as well as with new or less established partners like Russia or China.

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THE LEAVING PROCESS
Until the 23rd of June 2016, the UK has been part of the European Trade Market, which gave the country's firms within the goods and service sectors the opportunity to trade quota and tariff-free with other countries that belong to this market.¹ This is especially important to Britain - the EU being its largest trading partner, the UK itself exports 44% of its goods and services to these countries, with a value of over 220 billion pounds out of a total of 550 billion in 2016.²

The chart below shows that despite UK exports purchased by EU countries having decreased since 2008, they still make a significantly large portion of the UK’s total exports. Post-Brexit, the UK must meet the demands of this trade market and make new arrangements, but which arrangements will prove most efficient for Britain, and how can the British economy achieve them? First, the UK must leave the European Union within two years - however, according Article 50 (2) there should be a framework for its future relationship with the European Union.³ In regard to leaving the EU, Britain may choose between two ways - the so-called “Soft” or “Hard” Brexits.

The “Hard Brexit” is generally favoured by those who voted for leaving the EU. Britain would in this case give up full access to the EU single market and customs union. Furthermore, the UK would attain full control over its own borders, setting up new trade deals and applying legislation within its own territory. The implication of this is that the UK would adopt WTO rules for trading with the EU again.⁴ There are different opinions on the “Hard Brexit” - while some say it would assist the UK in becoming a trade nation again, others are afraid that this will lead to tariffs of up to 10% on goods and services purchased by Britain. Furthermore, it could lead to increased bureaucratic hassle and the resultant higher costs.

The “Soft Brexit” is favoured by those who voted for remaining in the EU, as it would preserve the relationship between Britain and the EU as statically as possible, though the UK would still lose its MEPs and its seat in the council.⁵ The question the UK has to deal with further on is how best to address these issues and how to

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¹ (The Guardian, 2016)
² (ONS, 2017)
³ (Emily Lydgate, Jim Rollo and Rorden Wilkinson, 2016)
⁴ (Emily Lydgate, Jim Alexandra Sims, 2016)
⁵ (Emily Lydgate, Jim Alexandra Sims, 2016)
correspondingly determine its trading policy within the next one and a half year.

**UK Exports of Goods and Services to other EU Countries and extra-EU countries, as % of total Exports**

There are various options Britain can choose from now, though they can all mean Britain suffering economic and financial competitive disadvantages. Around the world there are several trading agreements and production standards,
which are officially required and endorsed by countries and economic communities. 6

The table above sums up the different trading arrangements that the UK could sensibly consider and thus make.

Britain could either follow the “Norway Model”, according to which it would still be part of the Single Market without restrictions and tariffs - however, it is unlikely that Britain will adopt this, as it would then be required to implement Single Market policies. In such case, Britain would not be able to decide which policies the country and its officials pursue. As EU policies were some of the main reasons why the referendum was organized by critics in the first place, this is a very unlikely scenario.

Second, the UK could adopt “Bilateral Agreements”, which right now are considered to be legally binding by Switzerland. In this case the UK would profit from the free movement of people, goods, and services - the country would also be able to negotiate independent trade deals with the EU. In that case, however, Britain will need to adopt EU rules and decision making; furthermore, there is no existing agreement on trading services as of yet. This is especially important to the British economy, as it barely produces goods itself, and 80% of the country’s gross production is generated in the service sector. Without suitable regulation in regards to trading services, it is highly unlikely for Britain and its trading partners to join such an agreement.

Third, Britain could adopt the “EFTA” system, which allows free trade with the EU, and would give them the opportunity to negotiate trade deals with the EU independently, without the need to adopt their policies or regulations. However, this would mean no free movement for British people within the EU, and once again, there is as of yet no agreement on the service sector yet and hence the UK would face serious socioeconomic and financial problems.

Finally, Britain could strengthen its agreements with the WTO, as they would then be able to negotiate trade deals independently as an autonomous entity. The country would obviously not be required to adopt EU economic policies or contribute to the EU budget. However, the country’s trade with the EU would be subject to WTO guidelines, which do not automatically guarantee access to the EU markets e.g. for service products.

6 (Swati Dhingra and Thomas Sampson, 2016)

The author believes that these arrangements do not bode particularly well for the UK; given that renegotiation with the EU is liable to involve a great deal of bureaucratic contention and uncertainty, in may be in the best interests of the UK to explore options of independent trade with other nations.

INDEPENDENT TRADE DEALS

This article will explore in further depth the possibility for independent negotiation with potential trading partners below. One way to find new trading partners would be to find out which nations’ import values have been increasing most within the last few years.

According to data collected by the CEIC, the USA, followed by China, are the countries that have experienced the highest increases in the values of their imports within the last few years. As this growth trend has the potential to continue in the coming years, it may be advantageous for the UK to make trading arrangements with them - especially the US, which has in recent history maintained close ties with the UK.7

Furthermore, it may be important to note which nations hold the highest tariffs on UK imports, so that UK officials can either make arrangements of leniency with these countries, or otherwise consider renegotiation with them.

The figures, as listed above, show how UK imports are tariffed by different countries. China as well as India should be contacted to try and reach more mutually profitable trading arrangements, given both the sizes of their respective economies as well as their tariff rates on UK imports being not insignificant (13% weighted average applied tariff, according to the CEIC). On the other hand, the US, as the UK’s most important trading partner, has already very low tariffs at a meagre 1%, which has long supported UK good exports - as such, there is little British delegated officials could do to further enhance profitability and growth purely through tariff lifting. Thus, it might be more sensible to contact those countries whose economic data has displayed a sharper downfall in UK exports over the last few years, focusing again on those trading partners who are important for the country, to stimulate growth rates once again. During the last few years however, Britain has had the problem of failing to exploit its opportunities and now, being independent of the EU, will need to increase their

7 (Peter S. Rashish, 2016)
exports to those countries which were once more important as trading partners for them.

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<th>Table 1: Options for the UK outside the EU</th>
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<td>Bilateral agreements – the Swiss model</td>
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Especially when studying data on China and Russia, a shortfall in trades can be detected over the last years - hence, the UK will need to expand its trade with them once again, as they may eventually prove important as trading partners for the country’s economic growth. Another important factor to be considered for making more efficacious trading arrangements is how many British assets are held overseas and how they have been multiplied over the last years. The US and Japan especially have held a large portion of these assets and are thus vital for the UK in this regard. Such assets normally correlate with direct investments of a country and thus can lead to a supply chain between some nations. Exploiting these supply chains is essential for trading and trading arrangements.

Lastly, the UK will need to focus on countries which import the country’s most important goods – its services, especially financial and business services.

Again, Japan and the USA are highest ranked, and hence, should be of primary importance to the UK, as for Britain it is essential that they sell these services, as well as attaining the appropriate financial and administrative know how, especially in light of the country’s disproportionate and increasingly risky financial sector.

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8 (Gregor Irwin, 2016)
CONCLUSION

In summary, in a very short time, Britain will need to decide with whom the country wishes to negotiate trade deals, and to determine who have been their main independent, non-EU partners over the last years; in short, will who be the best growth-drivers for Britain and the British people in future.

Hence, despite perhaps not being directly involved in the EU decision process any longer, and in spite of not being situated in the centre of the EU or of Europe, the socioeconomic position of the UK might eventually be positive in terms of the country’s wellbeing, since this new situation forces decision makers to resort to business relations with established countries such as the USA and Japan, as well as with new or less established partners like Russia or China.

At the end of the day, however, it seems to be very likely that the UK needs to make trading arrangements with many different countries, groups of counties, and economic groups, thus meeting the demands of these new or established economic partners since already most of the country’s existing trading agreements mirror the risks and vagaries of a relatively huge service sector with little productive investment and hence further potential job losses, and along with these, the ensuing problems of the resulting decreasing purchasing power.

BIBLIOGRAPHY


9 (Peter S. Rashish, 2016)
10 (Peter S. Rashish, 2016)
11 (Gregor Irwin, 2016)
12 (Gregor Irwin, 2016)


