Report on *Brexit and Trade Choices in Europe and Beyond*

CEPR, hosted by NIESR

London, 7 February 2018

INTRODUCTION

A conference on Brexit and Trade Choices was convened by CEPR and held at the National Institute of Economic and Social Research in London on 7 February 2018. Participants considered alternative frameworks for managing the movement of goods, services, capital and labour in the run-up to Brexit, as Brexit happens, and afterwards, and how these might relate to the global trade architecture.

What follows is an anonymised account of the discussions, following the Chatham House rule. The programme of the Conference can be found at https://cepr.org/2507. Links to some of the slides and papers presented can be found on that site.

The EU referendum result imparted an asymmetric shock on the UK, as compared with the remainder of the EU and the rest of the world. It is instigating a process in which the UK has begun seeking to change its relationship with the rest of the world. This process has created an expectation of decreased trade. It has also given rise to uncertainty, as the UK has yet to determine which model for the conduct of trade and commerce it proposes to adopt, or when it will be adopted. This policy uncertainty is leading to a delay in domestic investment, and is also diverting investment elsewhere.

However, there have also been fortunate circumstances in the global economy. The mechanisms compressing trade have been mitigated by growth in the rest of the world, which currently sits at approximately 4% annually, and is dispersed in a reasonably balanced fashion. Thus, the positive effect from overseas trade last year and into this year have meant that the economy continues to do reasonably well. Nonetheless, growth in the UK is projected to fall below that in the rest of the OECD, and it was suggested that the UK economy is now doing worse than it might have done otherwise.

SESSION 1: A FRAMEWORK FOR EVALUATING POLICY DIRECTIONS FOR THE NATIONAL BENEFIT

It was recognised at the outset of the discussion that all trade policy options available to the UK will be overlaid with political-economy considerations, and particularly, by the Irish border issue.

Against this background, it was suggested that the UK could adopt one of three options to trade policy issues.

(i) Continuing as it is by seeking to remain in the EU customs union and/or Single Market.

(ii) Withdrawing into a more protectionist environment but with market access/agreements with others outside of Europe.
(iii) Domestic liberalisation of borders, tariff reductions and opening of trade with both Europe and the rest of the world.

It was argued that option (ii) is problematic, due to the uncertainty, regulatory costs, and negotiation challenges that will be entailed. If these costs are sufficient to deter the UK from the protectionist route, that will push the UK either towards striving to maintain access to the EU customs union/Single Market or toward a more liberal trade environment.

It was noted that the effect of tariffs are, in themselves, very small. So it was suggested that additional tariffs, as a result of withdrawing from the Single Market and customs union, might lead to a decrease in GDP of a small amount — perhaps less than 1% — because applied tariffs on goods entering the EU are low for most commodities. In saying this, however, it was noted that the burden of tariffs is concentrated in certain sectors – most notably textiles and clothing, heavy industry (including motor vehicles), together with agriculture and certain processed agricultural products.

It was also argued that a substantial decline in productivity might come from closing markets in a protectionist manner. This, combined with loss of financial market openness and Passporting, would likely lead to severe difficulties of three kinds:

- a wedge on interest rates (increase in required returns on capital employed in the UK);
- a wedge in productivity in financial services; and
- a productivity decline in the UK economy overall.

Results were presented showing that a modelling of this approach, through the use of a comparative static computable general equilibrium model, suggests that it would lead to a fall in GDP of approximately 7% in the longer-run (that is, after the full adjustment of capital) is allowed for. Therefore, although the effects of tariffs taken on their own are relatively small at the national level, the broader effects of a more protectionist trade policy could be much larger.

The question was posed: 'What did the Single Market do to increase trade, and what was due to other factors, for instance technology'? This can be analysed by looking at cross-sectional data — do pairs of EU countries trade more with each other than with non-EU countries? Using standard econometric techniques, it was found that between half and two thirds of UK growth in real exports since 1992 is associated with EEA membership. Against this background, a further important question was posed: 'Will the UK go back to the counterfactual (that is, the 1992 benchmark), or will it retain some of those estimated gains?'

It was also suggested that that there is little evidence that by joining the EU the UK was put into a straightjacket that meant it could not trade with others. From this perspective, it does not then follow that leaving the EU, the UK would be freed from such a straightjacket.

Turning to trade policy options to ameliorate the disadvantageous outcome of Brexit, the potential net benefit of negotiating new free trade agreements (FTAs) was canvased and these were argued to be extremely small, for two key reasons. First, the cost of actually negotiating agreements is high, and it is time-consuming to do this. Second, the agreements would include productivity-sapping regulations to enforce preferences while take-up of negotiated market access preferences would only be partial. The conclusion was that the difficulties caused by leaving the Single Market and customs union, probably cannot be softened by negotiating new trade deals with countries such as Brazil, Russia, India China and South Africa (BRICS economies) or with the Anglosphere.

There was much discussion of the outlook for services. It was noted that commentaries based on traditional trade theory often focus on a goods trade-oriented world, while over the last 20 years there has been a shift in focus towards services trade, with the UK at the forefront of this. In terms of value added content, services today contribute more than half of the value of UK total exports of goods and services. The surplus net export of services from the UK also supports the deficit in the net import of goods to the UK. It was suggested that these two aspects of services trade makes the withdrawal of the UK from the Single Market a matter of concern, since the UK market is deep, multi-faceted, and highly effective at facilitating services provision and cross border trade. In numbers, it was noted that goods trade with the EU has increased approximately 60% since 1992, whilst services trade has multiplied three and a half times over the same period. Financial services make up a particularly large part of this growth, indicating that Passporting of financial service provision amongst members is important.

It was argued that most existing trade agreements are highly superficial when it comes to services. Furthermore, gravity analysis suggests that, even if the UK were to achieve deep, significant FTAs with non-EU economies, size matters (in terms of population and income) and so does the distance of trading partners. The EU is very large, wealthy and on the UK's doorstep. Others are mostly further away, small, poorer, or some combination of these three factors.

It was thus suggested that simple FTAs of the standard kind might not mitigate potential losses in any notable way at all. It was noted that this projection does not mean an agreement could not work, but that on average such agreements have not been effective in promoting services trade in the past while, as noted, significant advantages have been associated with membership of the European Single Market. These projections indicate that, unless the UK is very successful at negotiating services trade agreements, there is little reason to hope for any particular benefits from this avenue.

Overall, the econometric analysis indicates that moving to a WTO system (whereby the UK imposes tariffs on its imports from the EU and the EU imposes tariffs on its imports from the UK) would lead to a 33% drop in goods trade, and a 29 drop in services trade. Under the analysis, 'broad' FTAs were projected to limit the decline in goods trade to 18% in goods without any material change in the projected decline in services trade. An FTA with Anglosphere economies would be expected to cause a modest increase in goods trade relative to the counterfactual, a finding reflecting the relatively small share of these countries (the US, Canada, Australia and New Zealand) in total UK goods trade (currently running at 14%). There is no predicted change in services trade from such an

FTA. Similarly, a BRICS FTA was projected to lead to a modest increase in goods trade, but no change in services trade.
Some discussants argued that liberalising against the rest of the world on a unilateral, most-favoured nation (MFN) basis could be a more significant way of mitigating the negative effects of Brexit than the formation of FTAs. The best approach may be facing outwards towards the rapidly growing rest of the world and attempting to couple that with domestic reform efforts. However, others remained sceptical, noting that the UK's ability to compete on productivity itself within EU depends upon the fact that regulatory standards, including those relating to labour and the environment, are all mutually agreed. In response, it was emphasised that the aim of trade liberalisation, if pursued, should not be to simply cut costs and sell cheap goods, but to integrate with other markets. Looking forward ten or twenty years towards regions growing much more rapidly than Europe, it might be appropriate to face outwards towards those regions and attempt to couple this with domestic reform efforts.

In recognition of the nature and scale of adjustment that is likely with withdrawal of the UK from the EU, it was suggested that a there may be a need for a national policy review institution in which reform, both trade and domestic, can be assesses according to national interest criteria. For a number of participants this session underlined the point that the UK does not really have a trade policy. It was contended that just continuing what the UK is doing now but managing this domestically is not really a policy framework.

SESSION 2: THE CHANGING FACE OF TRADE AND INVESTMENT IN THE GLOBAL ECONOMY, AND THE HUB AND SPOKES APPROACHES TO LIBERALISATION

It was observed that assessments of the economics of the Single Market are confounded by institutional and political changes within — the market can be seen as a 'moving target'. Brexit is but one component of the story with other influences coming from regional autonomy movements and populist national political movements the have shifting stances towards Europe. There are also multiple overlapping 'Euro zones' in the Brexit landscape. These include the European customs union, the single free trade market with shared regulation, the Schengen Zone passport free travel area, the European Free Trade Area and trade agreements between the EU and third parties (such as Canada). Moreover, in services, competences rest with national and regional authorities meaning that post-Brexit agreements on services between the UK and EU members will need to be agreed on a state-to-state basis.

Against this background, the meeting was presented with survey-based data of cross-border linkages and gravity-based estimates of post-Brexit trade by which trade costs were assessed. These data indicate that the trade costs of Brexit are multidimensional and substantial. The potential loss of the advantages of Single Market access include: both the higher intra-EU trade costs, due to a weakening of European supply chain integration; and the erosion of the differential cost in the ease of accessing the market for intra-EU firms. In addition, losing market access for services is a large risk. As there are no EU-wide agreements on services by and large, the UK will have to negotiate services access on a bilateral basis with 27 other countries. Thirdly, non-tariff barriers once outside the EU are of large relative importance, particularly since the WTO has brought down MFN tariffs substantially such that they are now comparatively trivial.

The analysis presented focused on the effects of a hard Brexit, including reversion to MFN tariffs and extra-EU non-tariff costs. It assumes that the UK replicates EU agreements with other countries including Canada, Korea, and Japan. It also allows effects to be broken down to the regional level. The main takeaway from the assessment is that the biggest impact in terms of output is projected to be on heavy manufacturing industries, including, but not confined to, motor vehicles. These effects would come on top of the effects of increased competitive pressure from growth outside of Europe. At the regional level within the UK, a hard Brexit is projected to be negative for output in all regions, but worse for those geographically closer to the Single Market. For instance, London and the South East is projected to contract slightly more than Scotland and Northern Ireland.

There was also a discussion of how the UK might gain from post-Brexit trading opportunities. It was noted that 47% of UK exports last year were to the EU, from which the UK obtained 54% of its imports of goods. Furthermore, the UK, as part of the EU, already has free trade agreements with countries that make up 17% of the UK's exports of goods, countries from which the UK obtained 13% of its imports of goods. (These countries include the Republic of Korea, Canada, Singapore, and the countries in EFTA.) Furthermore, the EU is also currently negotiating FTAs with countries that make up another 19% of the UK's exports (countries from which the UK obtains 15% of its imports). Thus, may be little to gain from forming FTAs with countries outside of the UK, since only about 20% of the UK's total trade is not already covered.

Furthermore, it was observed that the Single Market is not just a collection of sectoral deals; it has an 'architecture' about it. There are three key features of this.

1. Common legal system and standards, applied universally as all disputes can end up at the same European Court of Justice.
2. Free movement of people — noting the ongoing value of face-to-face communication even in 2018.
3. Data transfers and associated stringent data protection regulations.

It was asked, 'How well could Britain expect to do in future negotiations'? With the UK contributing only about 3% of world gross product, it was suggested that other countries will not be concerned with UK trade or domestic policy, or would want to take the UK as the standard setter. A hub and spoke system with the UK as the hub would be entirely asymmetric, and thus, it is unclear whether trading partners would want to negotiate with the UK or how powerful the UK would be in any negotiations.

It was suggested that typically, trading partners are not seen as keen to sign trade agreements if they have a negative trade balance with the potential partner. It is then relevant that, of major trading partners outside the EU, there are only five countries with positive trade balances with the UK in both goods and services. Nine are negative on both, whilst 13 sell more goods to the UK but import more services. Thus, if the UK were to come to an arrangement that constrains its ability to sign goods agreements, such as committing to the EU customs union, the UK should not imagine that it could easily obtain agreements about services, since it would not be able to offer a quid pro quo for goods.

Returning to the issue of unilateral MFN liberalisation which was raised in the previous session, the question was asked, 'Why should the UK not abolish tariffs' entirely? In the long run, say 10 years or 30 years from now, it was suggested that this may well be sensible. It was also argued that placing a focusing on trade policy of this kind would be a diversion from trying to secure UK services trade, which requires that compromises are made with EU. Moreover, the abolition of tariffs could also come to be seen as an answer to problems it cannot solve as it could not be a substitute for the Single Market in goods and services. If the UK were to open up to complete free trade in goods in the immediate term, it was suggested that it would make it even more difficult to negotiate reciprocal access for specific sectors in FTAs. It was also contended that immediate removal of all tariff and other border protection would be disruptive particularly to some agricultural producers and to some manufacturing activities. Under this view, withdrawing tariff and other support from these industries without transition would be ill-advised, given the current fragile political situation in the UK.

Furthermore, it was noted that it is possible to shock an economy with such rapid and far-reaching changes that it completely falls apart, as was seen in parts of Eastern Europe in the 1990s. Under this view, if everything changes at once, the UK could not rely on current governance systems for the maintenance of economic and political stability. There is a strong general argument for a sequential approach, taking account of complementarities in reform and in adjustment pressures.

As background to this discussion, an analysis was presented that assessed how expansion of trade with low-wage economies has already affected regional and sectoral labour market outcomes in the UK. It was reported that in the last 20 years, goods imports from the world to the UK have doubled. From China these have risen fivefold, whilst from the Eastern European 'A8' (including Poland, Hungary and the Czech Republic), goods imports increased sixfold. These historical changes can be used to identify which sectors have seen the largest shift in import penetration. Broadly, the largest effects of Chinese imports were in computing, electrical, apparel, whilst from the A8 the changes were concentrated in electrical goods as well as some penetration into the car market. The analysis identified large changes in UK imports of manufactured goods per job in particular local labour markets — especially in the midlands, southern Wales, and southern Scotland.

To identify the labour market effects, the methodology of Autor, Dorn and Hansen (2013, AER) was followed. This entails asking where in the UK production occurred before trade liberalisation and what goods were now imported from China and the A8 economies. The labour market outcomes in those parts of the country since trade liberalisation were compared to outcomes in other parts of the country. An association was established between the change in the ratio of manufacturing jobs in particular regions and the change in UK imports per job. This effect was found to be significant for imports from China over the three sample periods 2000-01 to 2006-07, 2000-01 to 2010-11 and 2000-01 to 2014-15, and for the A8 countries in the latter two sample periods.

It was suggested, on the basis of this work, that rising import competition in the UK from low wage countries since 2000s has contributed to the decline of UK manufacturing. What was the response? The initial effects coming from China during the period 2000-01 to 2006-07 appear to have been associated with a significant correlation between unemployment in particular areas and areas of higher change in competing imports per job. However, for the period ending 2010-11, the unemployment effect had faded and was no longer significant.

These results still hold, even if account is taken both of growing export opportunities in China and of the availability of cheaper intermediate imports. In comparison, a similar analysis for Germany showed little net effect of Chinese import competition up until 2008. Trade between these two countries appears to be more of a two-way process.

It was questioned whether a partial and historically based analysis was a good indicator of future possibilities. Turning to services, as the UK has a services surplus with China and many other countries, the balance of effects could differ from that derived from a goods-based analysis. However, services trade is currently much smaller than goods trade with China, for instance, so the net effects of possible trade policy changes across goods and services is uncertain.

In response to this discussion, it was recalled that more than 50% of the value added in UK exports of manufactures is embodied services. Thus, competitive pressure on manufactures have flow-on effects for services. Further, when trade policy affecting services is discussed, it was observed that there is a tendency to focus on cross border flows, perhaps as there are statistics on these flows. However, it was suggested this overlooks 'mode three' impacts relating to the establishment of businesses, and therefore underestimates the potential for benefit from provisions in trade agreements that support business mobility.

Considering again the changing face of UK trade and investment after Brexit, it was suggested that the UK should be trying to plan an innovative trade policy that is consistent with domestic policy. In this context, it was suggested that it will be difficult to establish a policy environment that generates more trade between the UK and the EU than occurs now, or to replace this when the UK withdraws from the EU. In this circumstance, there is a need to think much more carefully about how changes in trade policy may feed back into domestic policy. Most crucial are distribution effects, which came to the fore in discussions after the Brexit vote itself. It was argued that these discussions need to focus on a set of trade policies that are in the interests of the community as a whole rather than sectional interests or the interests of the already well-off.

The changing face of trade in the global economy has structural implications for the UK economy. It was suggested, for example, that the emergence of China has made some activities and jobs redundant. What then matters is industrial and other policy responses, including 'flanking' policies such as those that manage the adverse effects of ongoing change. Attention was drawn to the experience of Germany for skills development in the labour force which it was suggested contributed to Germany having a greater balance of exports to and imports from

China, in contrast with the UK where the goods trading relation with China is dominated by imports to the UK.

Turning to agricultural reform, the meeting was asked to note that the EU has not reduced tariffs and other border assistance on agricultural products significantly. This could be an area of post-Brexit improvement — for instance, Australia and New Zealand would like access to the UK agricultural market. These sources may be favoured by trade agreement formation with the UK, however, it was also noted that unilateral free trade would see countries like Brazil, rather than Australia, supplying a greater share of the UK market such as in sugar. Accordingly, it was contended that the UK should carefully consider these interactive effects when looking at trade policy and possible free trade agreements.

SESSION 3: OPEN REGIONALISM, STRATEGIC COMPETITION IN ASIA FOR GROWTH

The session was introduced with the question: 'Why is Asia important for Brexit?' followed with the observation that the region holds more than half the world's population, with two thirds of global growth out to 2030 likely to be in Asia.

After the pessimism of parts of earlier sessions, there is a better story to come out of East Asia. In this region, we see trade integration on a par with Europe (as evaluated using a gravity model framework). However, this integration takes a different form, characterised by open regionalism**:** opening up economies through concerted unilateral integration on a MFN basis under the auspices of ASEAN, APEC and the WTO. Nevertheless, regional institutions are weak or loose due to a lack of political closeness and diversity in political and administrative systems. There is no supranational authority, with cooperation so far voluntary and non-binding. Thus, these arrangements rely on and support the global system, working through the WTO and its dispute resolution processes, and in an MFN way. In this setting, it was suggested that the WTO is holding the East Asian region together in terms of economic and political security.

Australian experience was offered as an example of how to renegotiate trade policy. It appears that there are certain misconceptions to avoid. First, unilateral reductions in tariffs do not necessarily imply immediate and absolute reductions. In Australia's experience, most changes were gradual and carefully designed. Second, it was not the case that Australia simply sought to reduce tariffs and border protection, in opening up to competition. Rather, these changes were accompanied by broader economic reforms for the benefit of all Australians, including those standing to be badly affected by trade reforms. This gave the proposed changes more political weight and eased the adjustment pressures.

What can be expected from the Asia Pacific region in the future? First, it was observed that the Regional Comprehensive Economic Partnership, or RCEP, an ASEAN+6 initiative, is coming to fruition. This agreement will be important in regional terms as a step towards binding, legally enforceable commitments. While the associated standards being embodied in the agreement are seen by some as lower than achieved in some other modern agreements, the diversity in membership is significant. Secondly, a TPP-11 agreement is now likely, one which keeps arrangements open to the US. In addition, it was noted that regional dialogue on social protections and spreading gains from trade and innovation is occurring under the auspices of RCEP negotiations and APEC.

One question that was raised concerned the picture that had been offered of Asia liberalising on an MFN basis and whether this is actually embodied in current agreement making. In this regard, it was noted that the RECP and the TPP-11, which seem to be modelled on something closer to preferential agreements, are the focus of current trade negotiation efforts. Does this represent a shift in orientation to what has been understood as the 'Asian way'?

It was suggested that the current primary area of potential improvement is in behind the border, non-tariff and services liberalisation. TPP and RCEP are looking at these kind of issues. In this sense, the priorities of negotiators have shifted orientation.

Turning to the largest economy in the region, it was asked: 'What does the future of the Chinese economy look like?' It was suggested that there might not be any big changes, which could be both 'good' and 'bad' news. Though there has been pessimism over the last few years, relatively stable economic growth has been maintained. In the coming two to three years, it was suggested that China might well meet the government target of 6.5% annual growth. Despite non-performing loans and accumulated government debt, China is unlikely to have a 'Lehman Brothers' type financial crisis as the government owns the major financial institutions.

However, it was remarked that this constancy may also be bad news. In the planning report presented at the 18th Party Congress in 2016, over 200 ambitious reforms were listed including reform of SOEs, the rural land system, and the monopoly sector. However, nothing has happened. It appears that Xi Jinping will delay advancing these reforms until after the 19th and 20th Party Congresses. The year 2020 is critical because the government has repeatedly announced that year as its target year by which to have constructed a 'well-off society'. This is the reason for the current 6.5% annual economic growth target. To play it safe, it was suggested that Xi will wait to hit this target before taking the foreshadowed reforms forward.

It was suggested that China tends to have an optimistic view of global integration. In particular, joining the WTO is viewed as a very successful story by most Chinese. The One Belt, One Road initiative should also be viewed as evidence that China is becoming more flexible and pragmatic.

How then are bilateral economic relations between China and the UK best understood? It was suggested that if the UK wishes to prepare for what is coming after Brexit by linking to growing countries like China, the UK needs to build a closer relationship with China, and to plan its strategy accordingly. The onus appears to be on the UK to define its own role and then come up with specific practical ideas about which it can convince Chinese policymakers.

For instance, services are important for the UK and China continues to open its financial sector. But what next? It appears unlikely that the sector will be opened up in the near term, as the financial sector is government-controlled. It was also noted that financial markets in China are quite sophisticated, so to do well in these markets, businesses need to understand the nature of the situation and the attributes of potential clients. There are huge opportunities, but it was argued that the UK needs to think carefully about how to unleash this potential by working with the leverage it has.

It was queried why would China be interested in continuing to liaise with the UK? In this regard, it was suggested that China's outlook is 'traditional' in the sense that when it talks about 'globalisation', it is talking about market access for Chinese goods. This may be contrasted with an understanding of globalisation as the 'new rules of the game' which some other countries hold. Given the alternative views of what globalisation may imply, if the UK were to work out a form of globalisation that was assessed as being fairer and more sustainable, it could invite China to adopt the formulation and have influence through such a process.

In the broader discussion, it was observed that global standards are being harmonised and these standards are likely to have a big influence on the conditions of trade for the UK. From this perspective, it was suggested that when negotiating with other parties, the UK must consider what it can and should accept. There is certainly scope for the UK to look at free trade with other countries, but in doing so, it should also be born in mind that as the UK makes its agreement with Europe, this is likely to flow though to influence broader global trade standards. The UK could well set trends for further trade liberalisation. The UK has until recently had a large influence in international forums, punching beyond its global economic weight. It has tended to speak clearly, with a strong sense of purpose. This fact should be remembered.

With regard to financial market regulation, it was suggested that such matters cannot be incorporated into FTAs and would more likely be based on regulator-to-regulator agreements. Such agreements might be of a type that could be amongst the first to be formed and could set a trend for future liberalisation.

While the prospect of substantial economic benefits from FTA formation is not encouraging, others will be looking carefully at UK negotiations, as these could set the tone for future liberalisation efforts. It was said that this could be a potential positive consequence of Brexit.

SESSION 4: THE UNITED KINGDOM'S TRADE CHOICES IN GLOBAL PERSPECTIVE

At the commencement of the discussion, it was suggested that there be a focus on the basics, with there being just two things that are powerful explainers of international trade in an open economy:

- the size of the partner you are trading with; and
- the distance/proximity from that partner.

It was noted that the UK is extremely lucky on these counts when it comes to trade with Europe. This is clear from how large the trade numbers are, as well as the deep integration seen across the Single Market, particularly in the financial sector.

Turning to the significance of Brexit for the world, it was suggested that the UK is a key economy in terms of strategic importance. Though an extremely preoccupied place politically at the moment, it was suggested, however, that there are some grounds for optimism if the circumstances are managed carefully. Balanced against this, Brexit, as well as other events such as the election of Donald Trump, could herald a retreat to protectionism. The situation is still evolving.

It was argued that prosperity in Asia is based on WTO principles and suggested that the key strategic necessity for the Asia-Pacific region is to protect the WTO system when it is challenged. It is under assault in spades now. The view was put that the TPP-11 and RCEP are being carefully developed with these geopolitical as well as economic implications in mind. If the Brexit denouement can be framed in ways that reinforce global standards then that will be so much the better.

The question was asked: 'What are the UK and the EU's rights and obligations under the WTO?' It was noted that the UK is a member of the WTO, and that after Brexit it will need to resume its own active role in the organisation, including independent negotiations and proposals. The UK is currently bound by EU schedules, but will need to establish its own procedures for dealing with the WTO. This is relatively simple from a WTO perspective for a customs union, but if a FTA path is followed then the process is more complex. Some particular areas that could create some problems include agriculture, with regard to the carrying over of tariff rate quotas from the EU. Even the transition itself might need to be discussed by WTO members, in the name of transparency, which could be a further complication.

What does the future hold in trade negotiations? It was advanced that there are some green shoots from the WTO ministerial conference in Buenos Aires, where like-minded countries came together over particular issues including electronic commerce, investment facilitation and SMEs. Such plurilateral arrangements could be a path for trade diplomacy in the WTO system in the future. It was suggested that it would be in the UK's interest to be involved and at the forefront of proponent groups for these initiatives.

Looking towards a future trade policy for the UK, it was argued that there is also a need for a wider frame of reference. In the 45 years that the UK has been in the EU, its relative productivity performance has worsened, and some other major economic indicators have worsened; these probably relate to why the public voted to leave the EU. Thus, as important as trade policy might be, past trade advances have not solved a number of the UKs deeper issues. Given this background, it was argued that there is a need to ask: 'What is the overall direction of UK industrial and domestic policies?'

It was pointed out that the situation will not remain static as Brexit plays out, and that UK policy makers should consider priorities from this wider perspective. For instance, it was noted that the UKs current account balance depends on domestic savings rate. If policy were to focus on raising the saving rate, more might be done for the future of the UK's trade position than considering Brexit alone. Global trading patterns also do not remain the same and changes should be expected. It may have not been thought 25 years ago that Germany's largest trade partner would be China. In this vein, it was suggested that there is a need for a policy focus on the prospects for other countries.

Perhaps the UK should consider a minister for China or a minister for India to prepare to make the most of some of the most attainable benefits.

Turning to projections of the impacts of the UK withdrawing from the EU, it was suggested that what matters is how the message is delivered. If commentators want to get through to people, they need to focus on the implications of breaking the four freedoms adopted by the EU. In this context, it could be helpful to say: 'If the UK limits immigration to the numbers discussed, this is how much it could cost the economy'. It was argued that such projections could have more force than talking about a generic 8% loss in GDP.

In terms of what economic cost may be accepted, it was also suggested that it is crucial to pivot the discussion of outcomes which are tangible to a non-specialist audience. As a result it is important to shift the focus of discussion from trade policy, including protectionism and the leaving of the customs union towards a discussion of what social spending, health and education can be afforded. Following on from this this suggestion, it was noted that lower national output and income would reduce the revenue base for the government budget and so constrain government policy options including in the areas of social spending, health and education. Whether the UK government considers a potential 'national policy review institution' or not, it was remarked that there is a need to focus on the core questions of: 'What is it that the UK really wants from trade and what is it that the UK wants to do?'

As a final remark, it was suggested that it is important for the UK to avoid an elementary mistake. There is a risk that, after Brexit, the UK causes the relationship between the UK and Europe to become a protectionist one, with all of its attendant economic costs. It would be very odd for the UK to do this in order to be able to negotiate a partial liberalisations of trade with a small number of other potential trading partners outside Europe. The discussion at this meeting indicates that the potential benefits of the UK doing this on its own would be very small. It is also known that the EU is in the process of attempting to form trading partnerships with many of these other countries. It was argued that it would be very strange for the UK to cut itself off from this.