

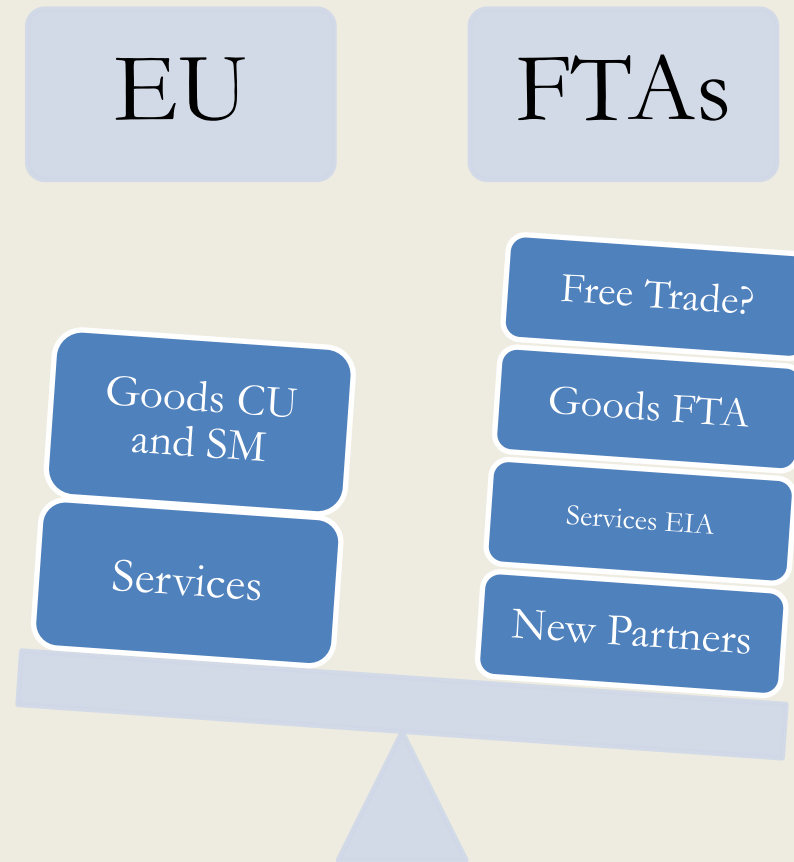


Trading with the World after Brexit: Evaluating the Options

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Are FTAs a trade substitute for the EU?



Outline

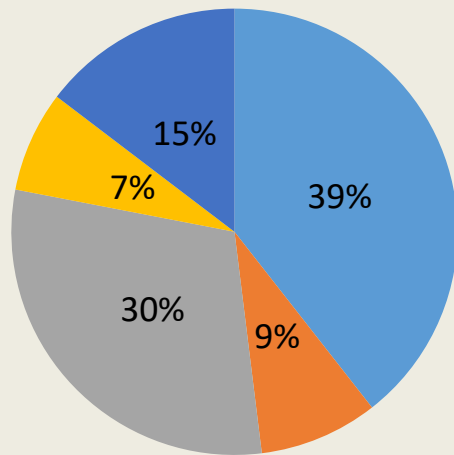
- Are FTAs a trade substitute for the EU?
 - Some Facts
 - Aggregate Estimates for different types of FTA
 - Services – where FTAs cannot reach
 - Taking the world by storm: a suite of FTA?
 - FTAs with non-EU partners
 - FTAs with new partners
 - Why not just abolish tariffs?

UK Goods Trade 2013-2105

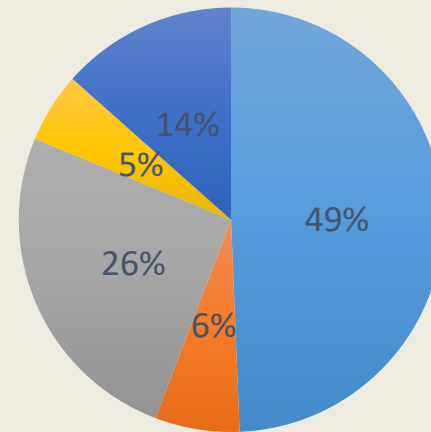
Partner	Exports		Imports	
	(\$B)	Share	(\$B)	Share
EU	226.9	45.1%	351.3	53.6%
EU FTA countries	87.2	17.3%	86.2	13.1%
EU under neg	96.3	19.1%	98.6	15.0%
Rest of World	92.9	18.5%	119.7	18.3%
TOTAL	503.2	100.0%	655.8	100.0%
UK possible FTA	108.5	21.6%	143.6	21.9%
LDCs	3.2	0.6%	7.5	1.1%

UK Trade in Services, 2016, %

Credits



Debits



■ EU total ■ FTA ■ Neg ■ RW ■ Unclass. ■ EU total ■ FTA ■ Neg ■ RW ■ Unclass.

Goods Trade Intensity with the EU27:

- Half of UK trade; currently very good access



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 • Cultural cooperation 	<ul style="list-style-type: none"> • Financial assistance • Health • Illegal immigration • Industrial cooperation • Mining • Nuclear safety • 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

'Depth' matters in FTAs

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

Table 6: Changes in UK's bilateral trade with the EU under different scenarios

	"Norway" scenario (36)	"average PTA" scenario (14)	"no-agreement" scenario (0)
Goods	-12%	-38%	-50%
Services	-16%	-48%	-62%

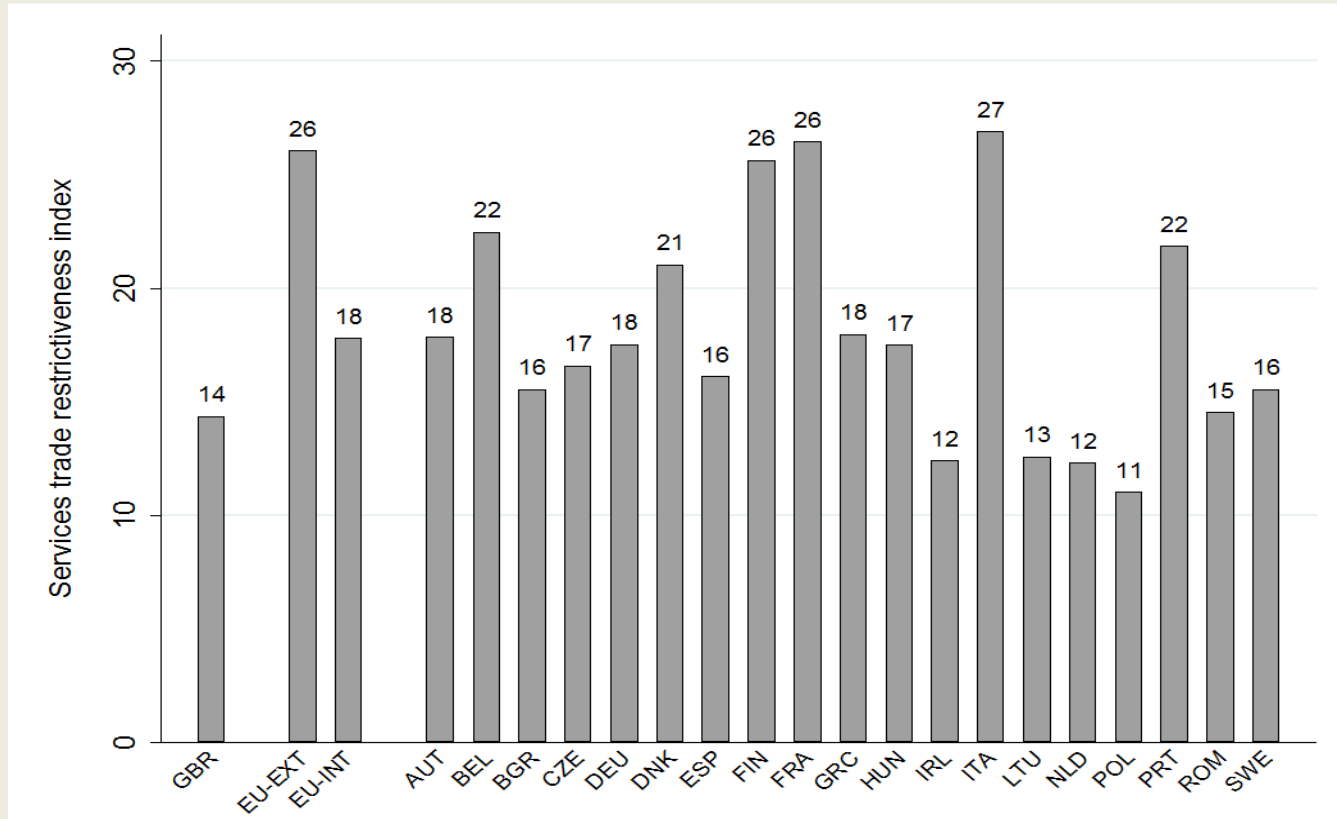
52 policy areas covered (WTO+ and WTO-X);

EU covers 44; typical EU FTA covers 25

The Single Market is not just a collection of sectoral deals: It has ‘Architecture’

- Three over-arching features support trade – especially for services
 - Common legal system and standard
 - Creates commercial confidence
 - Free movement of people
 - Face-to-face still very valuable
 - Data transfer –
 - General Data Protection Regulation (GDPR)

The Single Market and Services: Half Full or Half Empty?



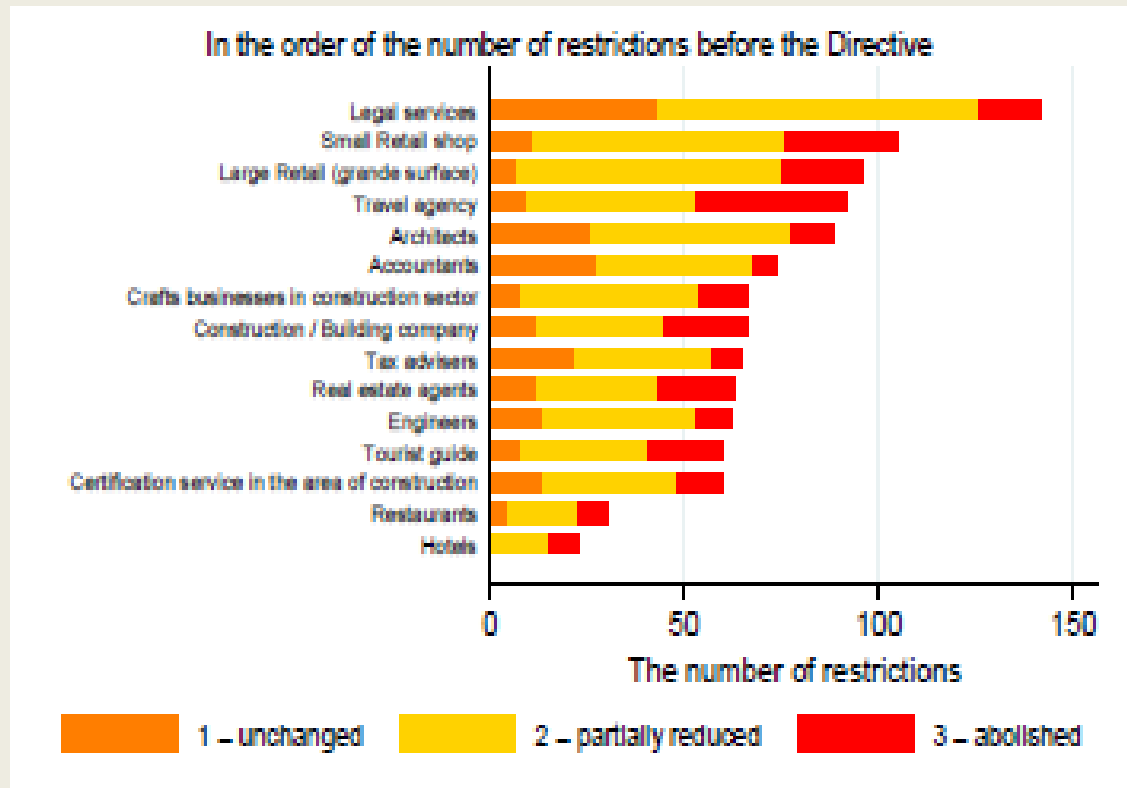
The Services Directive, 2006

- Governance of EU makes Commission the champion of integration
- Aimed to introduce Country of Origin principle
 - Essentially a parallel to Cassis du Dijon in goods
 - a product lawfully marketable in one Member State should be freely marketable in another
- This was rejected – liberalisation weakened, but not destroyed

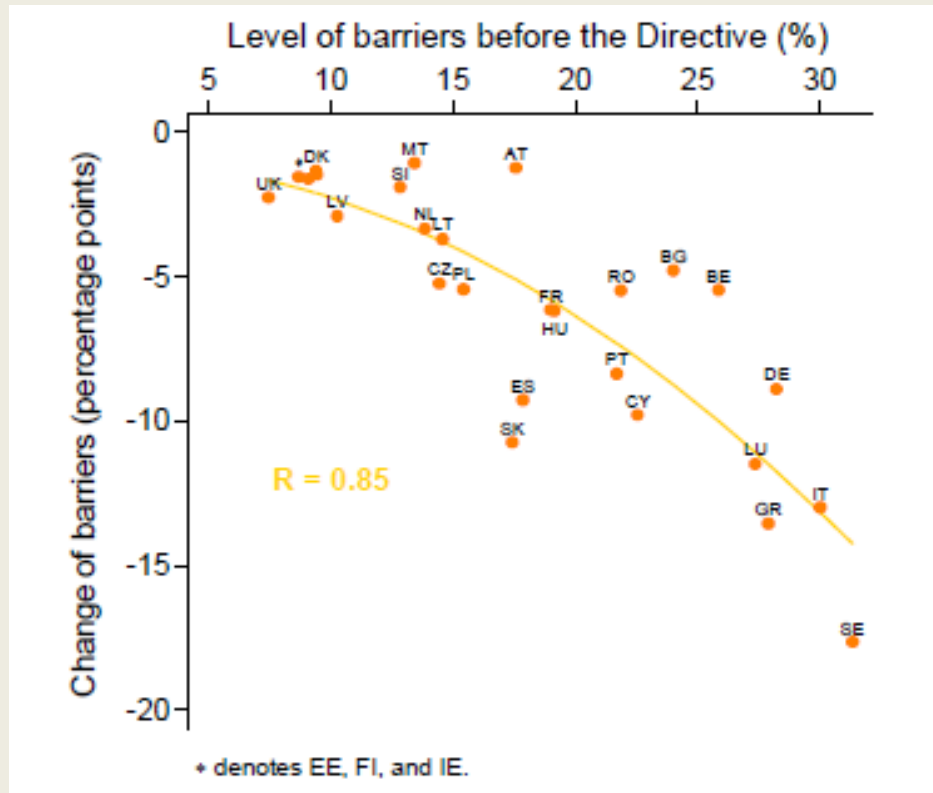
The Services Directive, 2006

Josefa Monteagudo, Aleksander Rutkowski and Dimitri Lorenzani (2012) *The economic impact of the Services Directive: A first assessment following implementation*, EC Economic Papers 456

- Study of 27 countries, 20 ‘regulations’ in 15 sectors
- Covers approx. 20% of GDP, 2011



The Services Directive, 2006



- Via trade, FDI, productivity; Increase in GDP estimated at 0.8%

What can we expect from FTAs?

- Merely changing tariffs creates/changes distortions
 - There are trade-offs to make
 - Trade diversion is not a mere theoretical curiosity (Magee)
 - Tariffs with major partners
 - 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

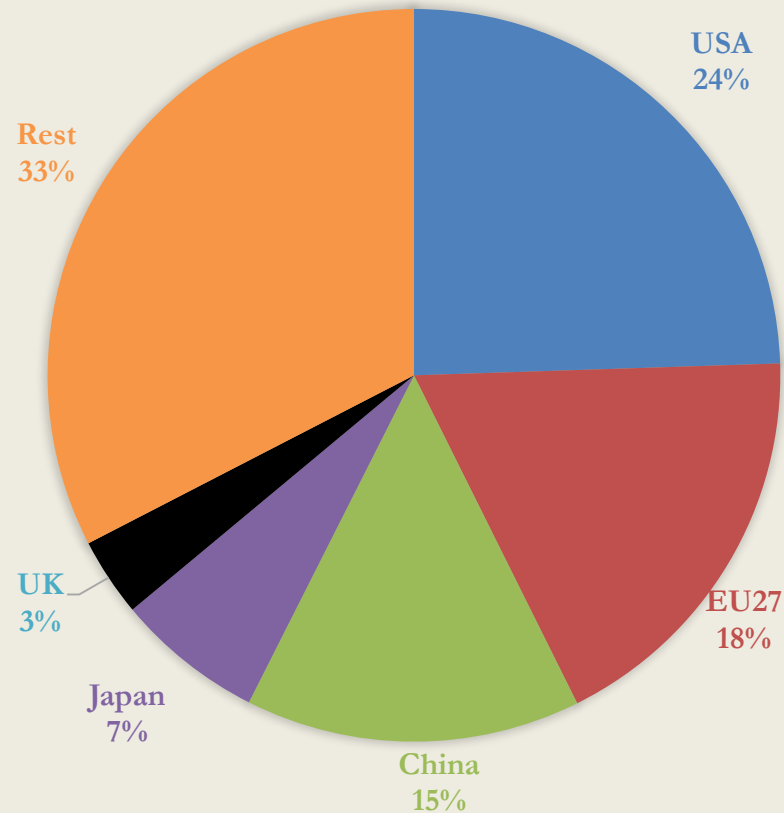
Agreement	WTO+LE (14)	WTO_X LE (38)
ASEAN-Australia-New Zealand	11	5
Australia-New Zealand (ANZCERTA)	6	1
Australia-Singapore	11	4
Australia-Thailand	11	2
Chile-Australia	13	6
US-Australia	13	5
Japan - Australia	10	4
Malaysia - Australia	10	3
Australia - Papua New Guinea (PATCRA)	3	0
Korea, Republic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

CETA – EU-Canada

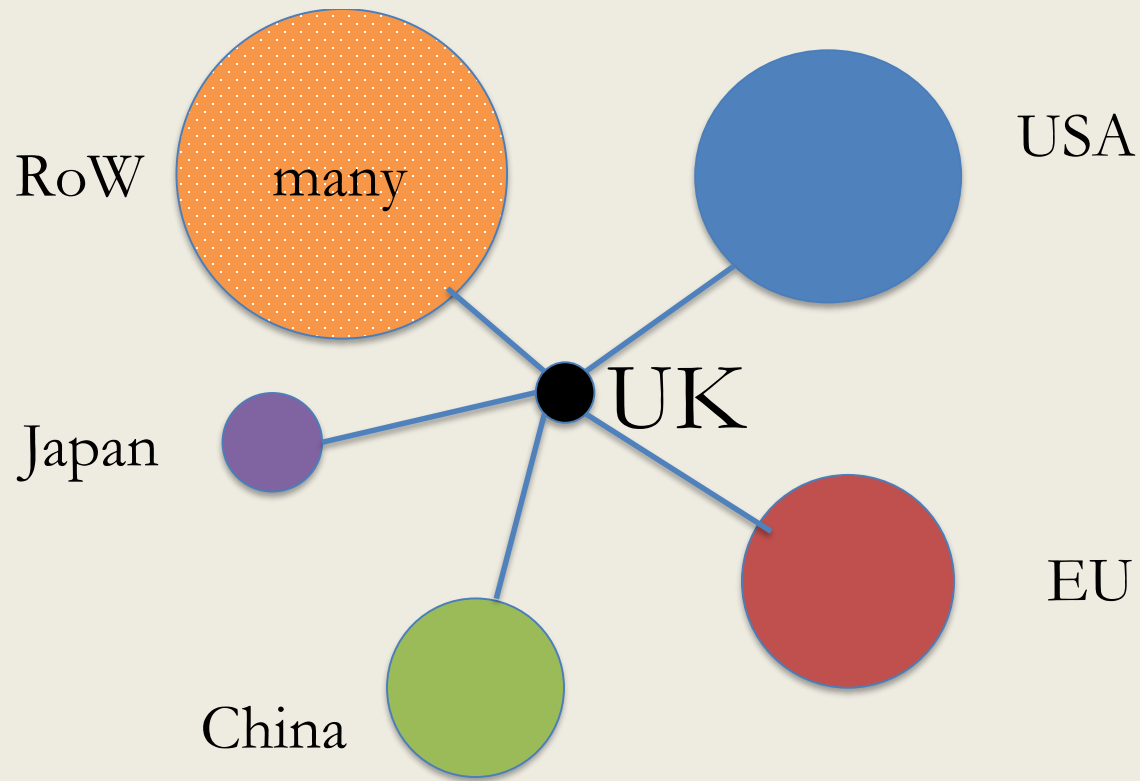
(EC “CETA – Summary of the Final Negotiating Results”)

- In limited number of sectors, ‘accept the results of conformity assessments made by an accredited assessment body in the other party’
- ‘CETA gives EU members improved access in particular to Canadian **maritime transport, postal services and telecoms** without a transition period. Canada [gets] access to **services related to mining, energy, environmental services and some professional services.**’

Shares of World GDP, 2016, \$US



The UK as a Hub



Signs of Partners' Balances with the UK,

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

'Negative' implies that the partners imports more from the UK than it exports to it.

		Services	
		negative	positive
Goods	negative	9	2
	positive	13	5

China: Goods +£24 billion,

Services -£2 billion

USA: Goods -£11 billion,

Services -£24 billion

Rolling over existing EU FTAs

- Over 30, around 67 countries
- UK drops out on Brexit or possibly end of transition
- Is it easy to grandfather these?
 - Requires agreement by exit day
 - So far, none has agreed – some have signalled willingness
 - These will be new FTAs, so
 - 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
 - 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
 - EU accumulates across all preference partners – 65%
 - But EU generally requires partners to adopt EU ROOs

Mutual Recognition Agreements

- Refer to laws and institutions at time of signature
- Hence do not easily roll over after Brexit.
- E.g. EU-Korea FTA Article 7.42

Each Party shall permit a financial service supplier of the other Party established in its territory to provide any new financial service that **the Party would permit its own financial service suppliers to supply, in like circumstances, under its domestic law, provided that the introduction of the new financial service does not require a new law or modification of an existing law.**

Political issues in rolling-over FTAs

- MFN Clauses in Korea EU FTA
 - If Korea offers UK something additional, 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

Why not just abolish tariffs?

- In the long run – may be sensible
 - but benefits much smaller than EFT estimates
 - Substitutability; distance;
- Abolish on Brexit-day?
 - Not a substitute for the SM in goods or services
 - Disruption of UK agriculture and manufacturing
 - Negotiating FTAs (outside EFT model market access does matter)

Thank you

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