Aspects for a post-brexit trade deal

What are the most important aspects ofa post-Brexit trade deal with the EU, from a UK perspective?

Brexit, the abbreviation of the two wordsBritain and Exit, is the result of the June 23 rd referendum in 2016 which decided the fate of Britain and its position to leave the Economic and political union – the European union. The unexpected result led to the sudden turmoil and uncertainty of the future of Britain and let to the resignation of the then current Prime Minister David Cameron, and the subsequent ‘ fall in the value of the Pound to its lowest level in 30 Years’ (Connington, 2018). In this essay, I will help ascertain and breakdown the impacts that ‘ Brexit’ will have for Britain, mainly focusing ontradeand how this will affect not only consumers and businesses, but the economy as a whole. From there, alternative trade models will be analysed to help decide a viable future that has Britain’s best interests at heart, before coming to a conclusion.

The EU and Trade Theory

Trade is theaction of how economic partners interact with each other while exchangingcommodities. (Economies of Trade 1970-1979). The European union is based on the propositionof ‘ Free Trade’ an argument proposed by David Ricardo a 19 th centuryEconomist who first developed the thought of comparative advantage whereby eachcountry produces what it specialises regardless of its absolute advantage, thusas a result world output is increased, and each country benefits the most itcan out of the situation. Free trade encourages economies of scale and reducesthe formation of oligopolies due to market liberalisation and the ability tosell to a wider market outside of their domestic space.

Current EU implications

The process toleave the EU, is a long and arduous one, taking many years and possibly even aslong as a decade before the process is complete, during that time the UK canstill take advantage of its benefits until new terms and conditions are met. TheEU, taken as a whole is the UK's largest trading partner. In 2016, UK exportsto the EU were £236 billion (43% of all UK exports). UK imports from the EUwere £318 billion (54% of all UK imports) (Ward and Webb, 2018). Evidently thisis hugely significant as the UK relies on its trading strengths with the EU tobe able to generate and sustain its economy.

The EU has over500 million people living in it, and accounts for 23% of the global GDP. Over adecade (1993-2003) the free market agreement has expanded the EU's GDP by over£588 billion, this equates to £3, 819 extra income per household (Webarchive. nationalarchives. gov. uk, 2018). The Free movement of people act, has created the emergence of a flexibleeconomy. Labour shortages, for example the manual jobs in Ireland and UK havebeen met due to the migration of eastern European workers. Migration has aidedcountries to reach productive capacity preventing wastage of raw materials, these migrants are often young people who are less of a drain on the health serviceand can contribute to the tax revenue of the host country. EU migrants cost theUK government £408. 12 per second in public expenditures and contribute £463. 35per second in revenue (Dustmann and Frattini, 2014) – this figure is set torise as more and more educated migrant workers choose to work in the UK, aprospect now able to happen with the help of the Erasmus programme., wherestudents can complete studies abroad and be able to utilise previousqualifications in the UK where they will be recognised universally (Webarchive. nationalarchives. gov. uk, 2018). The possibility to study abroad is consideredpositive by 84% of EU citizens Furthermore, inward investment grew by almost 8xin just over a decade reaching £106. 5 billion – the UK now being the 5 th largest source of inward investment and its attractiveness from Japanese firmslargely being created by its involvement in the single market.

However, there isan opportunity cost in the UK's involvement in the EU, and subsequentdrawbacks. Firstly, the UK contributed in 2017 a net contribution to the EU ofan estimated £8. 9 billion (Keep, 2018). This in simplest terms means the directmonetary value the EU receives from the UK is less than we receive – thisimmediately presents a large opportunity cost that could be better spentelsewhere. This leads onto the fact thatin order to generate such a large sum of money, the government will have toraise it from most likely consumer and corporate taxes, as of today spendingper head is currently at £126 per capita (BBC News, 2018).

Inefficient policiesare another criticism EU membership faces. Around 40% of the total EU Budget is spent on the common agriculturalpolicy (EPR Service, 2018), which ensures farmers continue to produce andsurvive through both volatile weather and market conditions – this is mostly donevia annual direct payments., the setting of minimum product prices, the buyingof any over-supply and the setting of import tariffs. This has caused farmersto produce far more than is necessary, with prices remaining at a set minimumand eventually the EU having to purchase the oversupply, this has led to anincreasing budget with it now totalling £200. 2bn, the period 2014-2020 with the UK receiving £20bn over the course of the seven-yearperiod (Civitas: Institute for the Study of Civil Society, 2018). Consumers, especially on lower incomes are faced with now having to purchase farm goods atset minimum prices, even if there is over supply – causing income inequality.

The annual cost ofthe burden EU regulations has brought to the UK now stands at an estimated£7. 4bn per annum. Red tape regulations have severely taken away the sovereigntyof individual decision making from host countries., even more so by theintroduction of Qualified Majority Voting, – a process by which decisions canbe made often against the public interest of a particular country, for example, in EU decision making, Luxembourg has one vote for every 200, 000 inhabitantswhist for Germany to get the same number of votes, 8 million people are needed (Euro-know. org, 2018).

The current alternatives

The Governmenthave a tough decision to make in the process of leaving the EU, it is paramountthat the UK still benefits from many of the EU's current offerings to staycompetitive. There are two options, adopt existing trade relationship models orcreate a bespoke model.

The first option, is the Swiss model, whereby bilateral agreements have been negotiated betweenthe EU and Switzerland. This entitles the country to be a part of the singlemarket for goods, but not services. Switzerland also has to negotiate extremelyfrequently with the EU, regarding matters such as the 2014 immigration quota, to ensure Switzerland's rules are in line with the EU's from enforcement viathe European court of justice. London accounts for 51% of the financial serviceincome for the UK economy (Tyler, 2018), so entering into an agreement with theEU that does not allow for it to be part of the single market for services isextremely unlikely as it would damage the economy of thecapital far too greatly.

The joining of thecustoms union, much like Turkey has done, comes with the same drawbacks as theSwiss arrangement. Not only would the UK not have any access to the servicemarkets, but it would not have any in the setting of the tariffs it is boundto., furthermore any arrangements the EU forms with other parts of the worldwould remain inaccessible.

A perhaps morelikely situation, however not without its problems is a Free Trade Agreement. Afree trade agreement is simply an improved version of the World TradeOrganisations rules i. e. lower tariffs. However free trade agreements such asthe Canada template offer very little access to the service market, and do notset our regulatory procurement guidelines for the country to follow. If the UKwas to somehow create a more developed agreement, EU member nations wouldinsist on ensuring the UK’s adoption of European rules. Furthermore, ‘ Therecently leaked UK government analysis concludes that, under such a deal, UKgross domestic product might be 5 percentage points lower than it wouldotherwise be, after 15 years — a loss of about a fifth of the potentialincrease in output by that time’ (Tyler, 2018).

Trade under theWTO rules would mean that the UK would be subject to the common externaltariff. and UK firms would lose their comparative advantage. Domestic firmssuch as the construction, aerospace and retail would find costs would risedramatically causing cost push inflation for the consumers. Even though thataccounts for only 20% of the UK’s GDP, it is still a dramatic effect. The WTOhas also made very little progress in the deconstruction of the EU's serviceindustry, so again free market access for the UK would be hindered.

Bespoke Models

The " cake and eatit" model was first proposed by Boris Johnson and Theresa May. Its focus was ona deal that " allowed preferential access to the EU market, but with clearcompromises over issues like immigration and the role of European Courts" (Ft. com, 2018). This model would allow the UK to benefit from both goods and servicesfree trade, be able to help cut the detrimental ' red tape' bureaucracy that iscosting the UK economy almost £8 billion a year and banish membership paymentsto the EU. Its success however was short lived, Brussels chief negotiatorMichel Barnier told a conference in the Belgian capital that the " EU wants tooffer its " most ambitious free trade agreement" to the UK but warned that therewas no question of Britain " cherry picking" elements of the single market whichit wanted to keep" (Porritt, 2018).

The Florence Modelrefers to the speech that Theresa may's speech and proposed options given inSeptember 2017. The model outlines that the UK will ensure that payments intothe EU budget up until 2020 will still be paid as well as honouring anycommitments in that time. EU citizens living in the UK and vice versa, willhave their rights protected and the European Court of Justice will still haveconsiderable weighting.

Canada plus model followsthe same ideas as the ' Comprehensive economic and Trade Agreement' i. e. theCanada model, however it has been altered and expanded to cater for the UK'sneeds. The removal of goods tariffs, access to the single market is granted, but at the same time control of immigration rules and not having to contributeto the EU's budget. Theresa may hailed this model quoting " This agreementshould allow for the freest possible trade in goods and services betweenBritain and the EU's member states. It should give British companies themaximum freedom to trade with and operate within European markets" (Martin, 2018).

The final bespokeapproach is a " strongly mitigated no deal". This is whereby no deal is reached, and both parties cannot come to a ' compromise', instead the UK would no longerhave access to the single market and trade under WTO rules. Oxford economicshave recently published that his would be a detrimental outcome, and the " UKstood to lose an estimated £75bn in trade directly from exports and another£50m from supply chain impacts by 2020" (Supply Management, 2018). Thegovernment is looking for every possibility to not adopt this model, howeverwith the looming 29 th of march 2019 getting closer, with the EUrejecting appeals to extend it, it may be an option that the UK is forced totake.

Conclusion

The UK is in adifficult position, with the UK economy almost completely founded on theservice sector currently, it is vital that a deal can be met that allows foraccess into the single market in terms of services. Secondly, with the UK beinga consumer nation, with very little manufacturing, the retail and food industryrelies upon the current EU agreement to maintain competitive price and supplylevels. Without this, the consumer would be faced with ever increasingexpenditure on goods, as the UK is forced to pay tariffs. Whilst currentimmigrants living in the UK will have their rights protected future immigrantsand their ability to work and live in the UK is uncertain. This could impactskills transfer into the UK economy and lead to future labour shortages. Foreign direct investment is another big issue, with many foreign firmslocating to London in order to benefit from access to the single market, ifthis was taken away, attractiveness of future and current firms in London willbe diminished potentially leading to relocation. Swiss Banking Giant UBS hasrecently stated that “ As many as 15% of EU companies with operations in Britainplan to move all of their UK staff out of the country after Brexit” (Martin, 2018) The two-scenario’s looking most likely (Switzerland/Canada) are not thebest situation for either the UK or the EU, on the on hand, moving towards aSwitzerland type approach creates a loss of democratic control, whilst taking aCanada route, would mean restriction of market access, therefore a balancebetween sovereignty and EU laws needs to be met to be in the best interests ofthe UK.

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