‘Global Britain’: the trade strategies the UK could pursue after Brexit

One of the stated aims of Brexit is for Britain to forge new trade deals with the rest of the world. ***Linda Yueh (LSE IDEAS)*** *looks at the strategies the UK could adopt in an effort to become a global trading hub. Retaining and shadowing existing free trade agreements, particularly the FTA with Caribbean nations, is a crucial first step. Another sensible approach would be to offer tariff-free imports of agricultural products from developing countries.*

To be ‘Global Britain’ and realise the benefits of being an open economy that has allowed the UK to prosper through the years requires access to markets around the world. Of course, it’s possible to trade without specific free trade agreements (FTA) and instead operate under World Trade Organisation (WTO) rules, but that would be more restrictive and therefore more costly to export and import manufactured goods. It’s why there are a number of regional and bilateral trade agreements being pursued across the world, as countries recognise that there are gains from accessing global markets beyond what’s been liberalised under the WTO.

Even though the biggest economic entities in the world—the European Union, the United States, and China—do not have free trade agreements with each other, they are among each other’s largest trading partners. This shows there is still scope to expand world trade, which is why the EU is pursuing a trade deal with America and an investment treaty with China. Indeed, China doesn’t have many FTAs and its relatively closed markets are a perennial source of complaint by foreign companies. Therefore, how Britain manages its trade agreements with the rest of the world will have a significant impact on its post-Brexit economic future.

Coffee beans growing in Nicaragua. Photo: Caroline Gagne via a C-BY 2.0 licence

The multipolar world economy

Since the 2008 financial crisis emerging and developing countries have for the first time accounted for more of world GDP than advanced economies, according to the International Monetary Fund (IMF). Mirroring this trend, Britain now trades more with the rest of the global economy than with the world’s biggest economic bloc and its neighbour, the European Union.

One of the reasons is because that is where demand is growing quickly. In the past decade, the EU has had to contend with both the 2008 global financial crisis and the 2010 euro crisis, which depressed economic growth. By contrast, emerging economies were not as affected by these crises and have continued to grow, becoming more important than advanced economies in driving global demand. As these economies grow, their new middle class consumers will demand more goods, including services, which is a strength of Britain. Since the UK is the world's second biggest exporter of services after the US, the emergence of a new global middle class bodes well for both countries.

That's not to suggest that a trade deal with the EU is unimportant. The EU is on Britain's doorstep. With supply and distribution chains that permeate much of international manufacturing, greater trade with countries that are geographically close is expected. The EU also has the most liberalised services sector among economic blocs, even if further reform is needed. The bulk of the UK economy is comprised of services, so negotiating post-Brexit access to the EU market of half a billion consumers is important.

Services are also the next big global trade push. If the global market for services were as liberalised as the market for manufactured goods, then that would benefit Britain and other services-based economies as well as the world economy. This is what the European Union is pursuing. In 2013, they, together with the United States, launched the Trade in Services Agreement (TiSA) that could eventually open up world markets for services trade in the same way that the WTO regime opened up the trade in goods. Services account for 70% of both world GDP and the national output of the 28 nations of the European Union. Yet, services comprise just 25% of EU exports. If TiSA were to come to pass and become adopted as the next multilateral round of trade liberalisation, that would boost growth for rich economies, including Britain. Thus, supporting TiSA would fit well with Britain's post-Brexit trade strategy.

This is especially as the US, under President Trump's 'America First' policy is unlikely to continue to provide leadership on this global trade initiative. China is also unlikely to take a significant lead since its still developing services sector remains relatively protected, especially since segments of its financial sector remains state-dominated.

Therefore, there is scope for Britain to help shape the trade regime that will underpin an increasingly multipolar world economy. With less involvement by the biggest and second biggest economies, Britain, as the world's fifth biggest economy, can play a leading role in moving forward global initiatives such as TiSA. The UK is currently supporting TiSA from within the EU. It would certainly be possible for the UK to continue its current engagement on TiSA after it leaves the European Union.

Trade strategies

As a general approach to trade, retaining its current trade engagements could serve as a useful principle after Brexit for the UK. Of course, offering support for services liberalisation would not be as involved as forming new trade agreements, so the former is simpler. But, aiming to retain current trade relations after Brexit would be less disruptive and practical given limited negotiating capacity.

For comparison, the United States is said to have perhaps the most efficient trade negotiating team of some 200 people in the office of USTR (US Trade Representative) and they focus on one, and at most two, trade negotiations at a time. Since Britain would be leaving some 80 FTAs as a consequence of Brexit, adopting a continuation strategy to retain these FTAs in roughly their current form would be pragmatic.

Britain's newly formed Department for International Trade has indicated that it will try to adopt wholesale the existing free trade agreements that the UK is currently party to as a member of the European Union after Brexit. At present, the EU has 32 free trade agreements in place. There are another 43 which are partly in place while awaiting ratification. Another four are being updated, while 19 are being negotiated.

Negotiating some 100 trade deals from scratch isn't very feasible as it would take years for Britain to get back to its current position. Since the UK is already part of these trade agreements, retaining them would maintain the status quo and not be disruptive to businesses which are accustomed to these trade regimes. Pulling out of existing trade arrangements and re-negotiating them afresh would be far more challenging.

A retention policy would depend on its trading partners agreeing to “crossing out EU, writing in UK” on the existing trade agreements. Some may want to extract more concessions from Britain since it is a smaller market than the European Union. But, many are others are more open, such as Canada, who have indicated that they would be open to copying and pasting the existing provisions of CETA (Canada-European Union Trade Agreement) to form a UK-Canada FTA.

If there are issues with these existing trade agreements, then they can be addressed further down the line when Britain is past the immediate structural changes necessary to realise Brexit and would have greater capacity to re-examine trade relations. This approach would offer a ‘status quo’ transition whereby UK trade with non-EU markets would be unchanged.

In other words, right now, all of the UK's trade agreements are via the EU. So, if it retained all of its current FTAs, then there would be no change in this respect on the day after Brexit in March 2019 since all existing trade arrangements would remain in place. The UK could avoid a ‘two-step change’ of dropping out of a FTA and then renegotiating it, which would entail two sets of operational adjustments for British companies that are exporting to those markets.

The UK has already announced that it will maintain an EU trade deal that allows in duty-free, quota-free imports from 48 of the least developed countries in the world, including South Asian nations such as Bangladesh, African countries such as Ethiopia, and the Caribbean including Haiti. It benefits these developing countries to have uninterrupted access to the market of one of the world's biggest economies. Some small developing countries rely on British markets, e.g., nearly a quarter of Belize's exports go to the UK, while it's 10–20% of the exports from Mauritius, Gambia, Sri Lanka, and Bangladesh. For Britain, it helps to ensure undisrupted imports after Brexit – 79% of tea imports, 45% of clothing, and 22% of coffee come from these nations. The UK is exploring extending this deal to Ghana, Jamaica, and Pakistan, where tariffs are already zero on some goods.

Along these lines, if Britain replicated the EU-CARIFORUM trade deal, which is the 2008 EU FTA agreed with 16 Caribbean nations, the UK would retain cheap access to imported commodities, including mining products, minerals, and agricultural products such as bananas and sugar. The EU exports mainly cars, boats, telecoms equipment, and engine parts to the Caribbean. The trade is not negligible since the CARIFORUM nations are the EU's second largest trading partner after the United States. There are also efforts to integrate services sectors. Both higher tech manufacturing and services are strengths of the British economy, so maintaining the market access that the EU has spent years negotiating with the Caribbean and dozens of other countries would be a practical way forward for Britain as it contemplates its post-Brexit trade negotiating strategy.

If Britain can maintain its current trade arrangements, then that would cover some 80 countries. A related move would be to treat the 23 countries that the EU is currently negotiating with as ongoing talks after Brexit. In other words, take as the starting point the already agreed provisions in the EU negotiations with countries such as Japan, India, and the United States. Since Britain is party to these negotiations, it has already essentially accepted where these talks have progressed to. So, rather than starting talks afresh, the UK could consider adopting the EU negotiating stance as of March 2019 as the initial British position in forging new trade deals.

Of course, it is unlikely to be that straightforward. Also, some of these trade talks, particularly the TTIP (Trans-Atlantic Trade and Investment Partnership) with the US, appear stalled. But there is also the possibility that some of these nations could find it easier to do a trade deal with Britain since it does not represent 28 different national interests. The challenge will be to prioritise trade talks with Britain since other countries, just like the UK, have negotiating capacity constraints so pursuing several FTAs at any one time is a stretch.

Britain as a hub

The global economy is characterised by overlapping regional trade agreements (e.g., NAFTA covers the U.S., Canada, and Mexico) and bilateral FTAs. This allows for the creation of trade 'hubs'. For instance, Mexico is in NAFTA and also has a FTA with the European Union, so it benefits from being a 'hub'. US car companies that manufacture in Mexico can sell into the EU tariff-free. The same car produced in America would be subject to a 10% tariff under WTO rules since there is no free trade agreement between the US and EU. Another example is Israel. Until the late 1990s, Israel was in the unique position of having a FTA with both the US and EU. It benefitted from its 'hub' status since trade was channelled through it in order to gain preferential access into American and European markets.

Britain has the potential of becoming a 'hub' into other major economies given its deep links with the EU and the US. Should the UK negotiate a preferential trade deal with the EU while also having FTAs with countries that the European Union does not have trade deals with, then that would make the UK an attractive 'hub' for international trade. Therefore, if Britain were to agree trade agreements with countries that don't have a FTA with the EU—a list which includes the biggest economies in the world such as the U.S., China, and India as well as Commonwealth countries with which the UK has historical links such as Australia, Malaysia, and Singapore—then it could serve as a "hub" for trade.

If Britain were to benefit from the 'special relationship' and forge a trade deal with the US, alongside a comprehensive trade agreement with the EU, it would be in an enviable position. The US has only 14 FTAs with 20 countries. None are in the European region; all bar three in the Asia Pacific (Australia, Korea, Singapore) are centred in the Americas and the Middle East. As a sizeable economy with a well-developed services sector to facilitate trade and investment, Britain would be an attractive hub for cross-Atlantic trade. Should the UK enter into a trade deal with China or India, then it would also be a 'hub' for Asian trade with the West.

This is a big 'if' given the discussion earlier about negotiating capacity and the intrinsic challenge of negotiating trade deals, especially with major economies. Trade is tied up with politics, so what looks like a simple deal often does not turn out to be straightforward. Nevertheless, realising the aims of 'Global Britain' will require a long-term strategic vision and positioning the UK as an important hub in a changing world economy.

Conclusion

None of this will happen overnight and there is a long road until Britain's post-Brexit economic path is clear. But strategically positioning itself in the world trade order would be an important part of the country's continued economic prosperity. Continuing to be a liberalising influence on global trade negotiations would be particularly beneficial given the latest initiatives that are centred on opening up the global services economy.

Pragmatically speaking, by retaining and shadowing EU trade agreements and ongoing talks, it may be possible for Britain to have trade deals with over 80 countries not too long after Brexit. By offering tariff-free imports of agricultural products from developing countries, the UK can also quickly notch up some limited trade agreements that helps preserve cheap access to foodstuffs. With that foundation, Britain would have trade deals with about half of the world's economies which could serve as a template with which to negotiate further FTAs. In deciding which countries to pursue, it would be advisable to consider which trade deals can help promote Britain as a 'hub' for international trade. That would help make the country 'Global Britain'.

This post represents the views of the author and not those of the Brexit blog, nor the LSE. It first appeared at Medium – LSE Ideas.

Linda Yueh is a Visiting Senior Fellow at LSE IDEAS, a Fellow in Economics at St Edmund Hall, University of Oxford and Adjunct Professor of Economics, London Business School. She was Visiting Professor of Economics at Peking University, and serves on the supervisory Policy Committee of the Centre for Economic Performance at LSE. Dr Yueh also serves on a number of boards, including the Coutts Foundation and the Royal Commonwealth Society.