



**講演2**  
**Presentation 2**  
**Handout**

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# The easiest trade agreement in history?

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- “The free trade agreement that we will have to do with the European Union should be one of the easiest in human history.”



Liam Fox, 20 July 2017

- “Getting out of Europe can be quick and easy – we hold all the cards”



John Redwood, 17 July 2016

# Why wasn't it so easy?

- It never was – pure fantasy
  - Forty-five years of integration is difficult to unpick without massive collateral damage
- Views of Brexit ill-formed and diverse (all levels)
  - No national conversation to try to consolidate views
- But Brexit not only about trade policy/economics
  - In fact, economics has not been central to the process

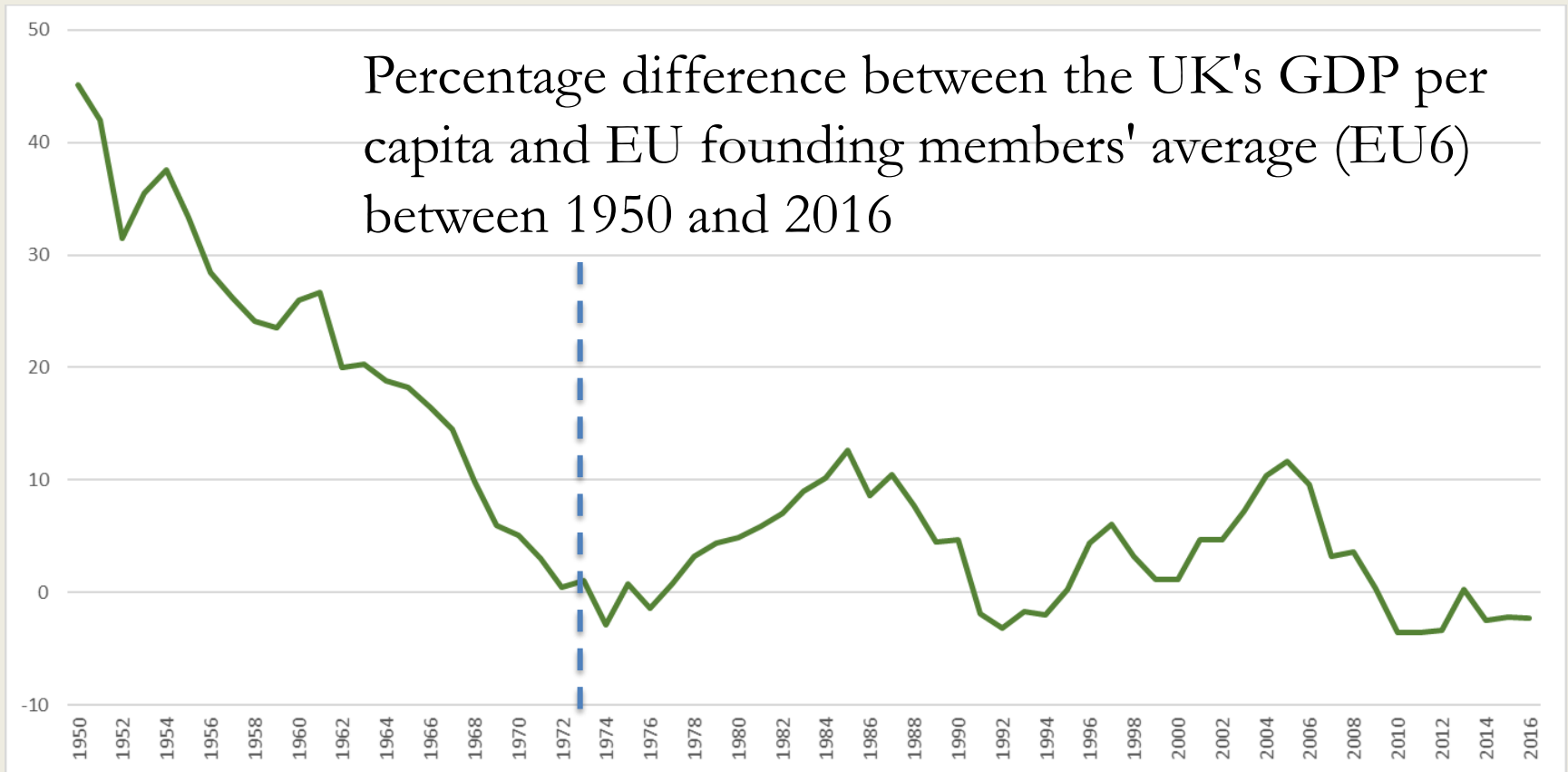
# Outline

- Balancing economics and politics
- How we got here
- The Agreement
- Trade consequences of the Agreement
- What next?
- Some other ‘easy trade agreements’

# The terms of the debate so far

- Economics:
  - Mercantilist focus on exports
  - Deep suspicion of experts – economists and others
  - Mostly pure wishful thinking by political players
- Politics
  - No attempt to listen or bridge differences
  - Increasing focus on short run survival
  - Now, solving the backstop issue is the only issue

# EU Membership has been good for the UK economy



Source: Nauro Campos

# Brexit is bad economics

**Figure 1: Forecast long-term impact of Brexit on GDP, relative to remaining in the EU**



Source: Institute for Government analysis

CEP – Centre for Economic Performance, CPB – Netherlands Bureau for Economic Policy Analysis, EFT – Economists for Free Trade, HMG – HM Government, NIESR – National Institute of Economic and Social Research, OE – Open Europe, Oxford – Oxford Economics



# Where are we **now** economically?

- No recession, (world economy strong and BoE stimulus), but, relative to counterfactuals
  - GDP down by  $\sim 2.5\%$
  - Export earning (US\$) down by  $\sim 15\%$
  - FDI down by  $\sim 16-20\%$
  - Financial assets leaving for EU
  - Net migration from EU negative.
- Reputation – ‘strong and stable’? Pragmatism?

# It has also been bad politics

- Treated as ideological
- Self-delusion – or worse
- Disregard for contrary views and disregard for expertise
- It was always going to be very complex/subtle
- Decisions taken on short-term political grounds
  - A brief history

# Squaring the Circle: Red lines, October 2016

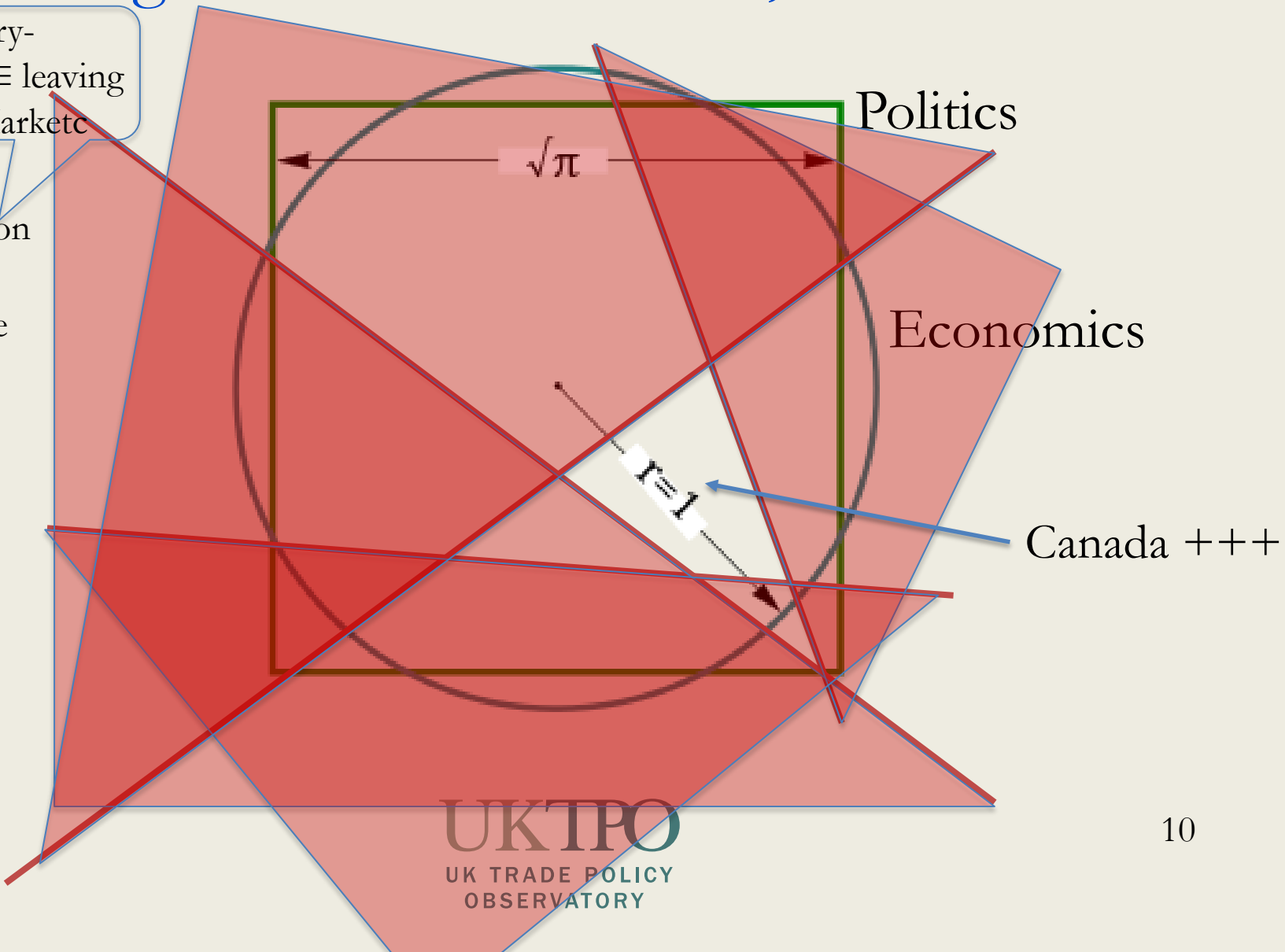
No cherry-picking  $\equiv$  leaving Single Market

Cutting immigration

Own trade policy

Budget

No ECJ



Politics

Economics

Canada +++

# And then we remembered Ireland

No cherry-picking  $\equiv$  leaving Single Market

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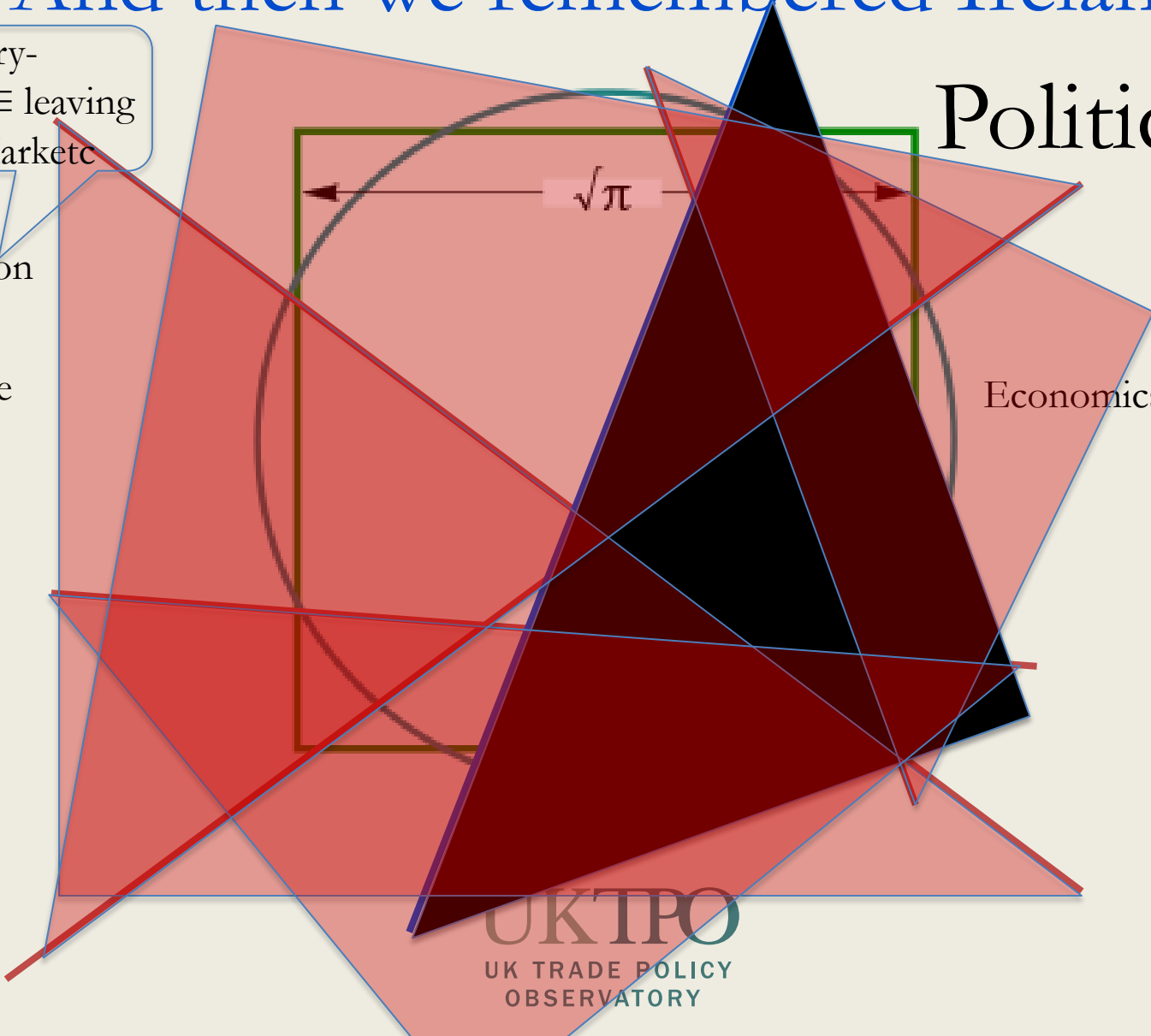
Budget

No ECJ

## Politics

Economics

$$\sqrt{\pi}$$



# The Negotiated Agreement

- UK government and EU agreed a legally binding Withdrawal Agreement
  - Citizens, budget, all-Ireland economy (Single Market)
  - Backstop for Northern Ireland
  - Dynamic alignment on state aids, cooperation on competition policy
  - Non-regression clauses on labour, environment
- Government returns to Brussels to renegotiate the backstop

**Rejected**  
**With Government encouragement!!**

# The not-yet negotiated agreement

- Trade is to be covered by a non-binding Political Declaration (PD)
  - Everything to be negotiated **after** Brexit
  - The PD permits almost any outcome for trade
  - UK (even Cabinet) divided about what goes into it.
  - Hence division and debilitating uncertainty will persist

# The Political Declaration and Trade I

- Free flow of goods with the EU?
  - ‘Should ensure’ tariff-free access
  - ‘Ambitious customs arrangements’
    - ‘All **available** ... technologies’ consistent with **protecting** ‘financial interests’ and ‘public policies’
  - ‘Preserving regulatory autonomy, ... avoiding **unnecessary** barriers’
  - UK will ‘**consider** aligning with Union rules in relevant areas’

# The Political Declaration and Trade II

- Trade agreements on goods with third countries
  - Has become a political icon for Brexiteers
- But depends on a nightmarish
  - ‘Facilitated Customs Arrangement’
    - Tariff on entry depends on ultimate destination
    - Requires traders to track imported goods
    - ROOs applied internally
    - Origin checks ‘around the country’ when  $t_{\text{UK}} > t_{\text{EU}}$  – which will occur with anti-dumping duties.



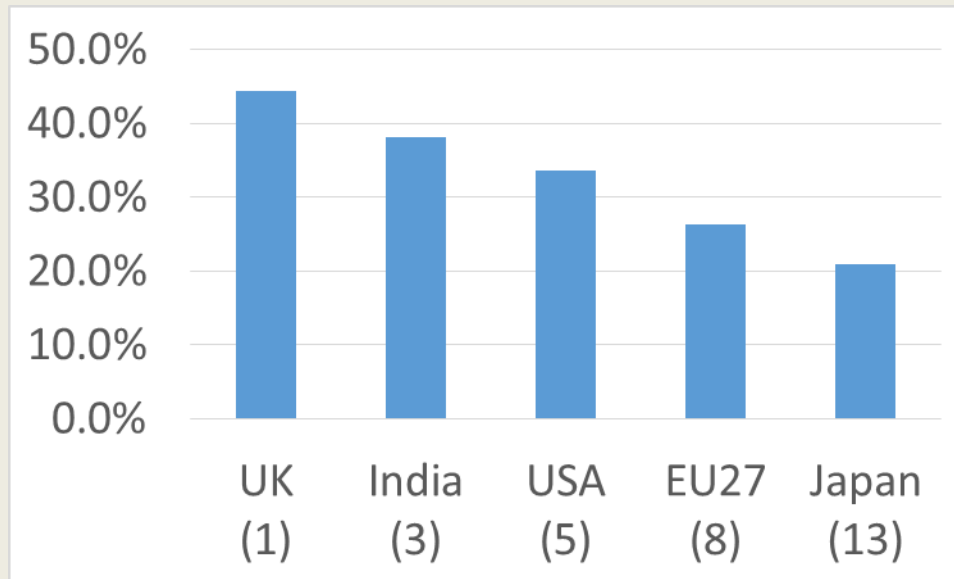
# The Political Declaration and Trade III

- Little concrete on services
  - Previously acknowledged that arrangements will not preserve current levels of access (White Paper, July 2018)
- ‘.... will ... cooperate on regulation, in a way that preserves regulatory flexibility for the UK, ....’\*
- ‘In line with best practice in FTAs, ... agree arrangements on their respective regulatory approaches that aim to prevent the introduction of unnecessary regulatory barriers. ....’\*

\* From UK ‘Explainer for the Political Declaration’

# The UK is a service economy

Shares of cross-border services in total exports



- 80% of UK value added (GDP) comes from services
- Services account for approx. 35% of the value of UK manufactured exports.

## Also

- Financial services: ‘equivalence decisions taken in **own interest**’.
- Carbon pricing: ‘**consider** cooperation’
- Fishing: should establish ‘new agreement on, *inter alia*, access to waters and quota shares’
- Labour mobility: treated as a matter of trade not of labour markets

What comes next?



# What comes next?

- As of 11<sup>th</sup> March – who knows?
- The (WA+PD) does not remove uncertainty
  - It starts a 4-year negotiation, still with no mandate
  - Inevitable change of UK leadership and Commission
- Only revoking Article 50 offers certainty
  - But will probably require a further referendum
  - And will not repair all the economic damage
- A short extension → a re-run of 2019 Q1

# Finally, some other easy trade agreements!

- The USA wants to talk:
  - About food standards, investment, excluding China, ...
- Continuity FTAs
  - Fox said ‘all will be completed by 29<sup>th</sup> March 2019’
  - Existing UK-EU agreements cover 14.4% of UK trade
  - Signed with countries covering 2.2% so far
  - Not a simple rolling over
    - All of them have elements we need to re-negotiate

# A UK-Japan EPA? Some questions?

- What are the substantive issues?
- What type of agreement:
  - i. a simple roll over
  - ii. EU-Japan EPA plus;
  - iii. A new agreement

# Some questions continued

- What sequence:
  - i. in parallel with joining CPTPP?;
  - ii. before or after?
  - iii. before UK-EU complete?
  - iv. before UK schedules in WTO settled?
- What can the UK realistically expect?



Thank you

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