



# 'Ask the Expert'

## Brexit and the future of UK Trade

Speaker:

**Dr Angus Armstrong**, National Institute of Economic and Social Research

Chair:

**Nigel Keohane**, Social Market Foundation

**Wi-Fi**

Network: **SMF**

Password: **SMF\_1989**



**@esrc @SMFthinktank #SMFask**

# Social Market Foundation

---

*'Ask the Expert'*

***Brexit and the future of UK trade***

Angus Armstrong

ESRC Senior Fellow *'UK in a changing EU'*

 @angusarmstrong8

23rd February, 2017



National Institute of Economic and Social Research

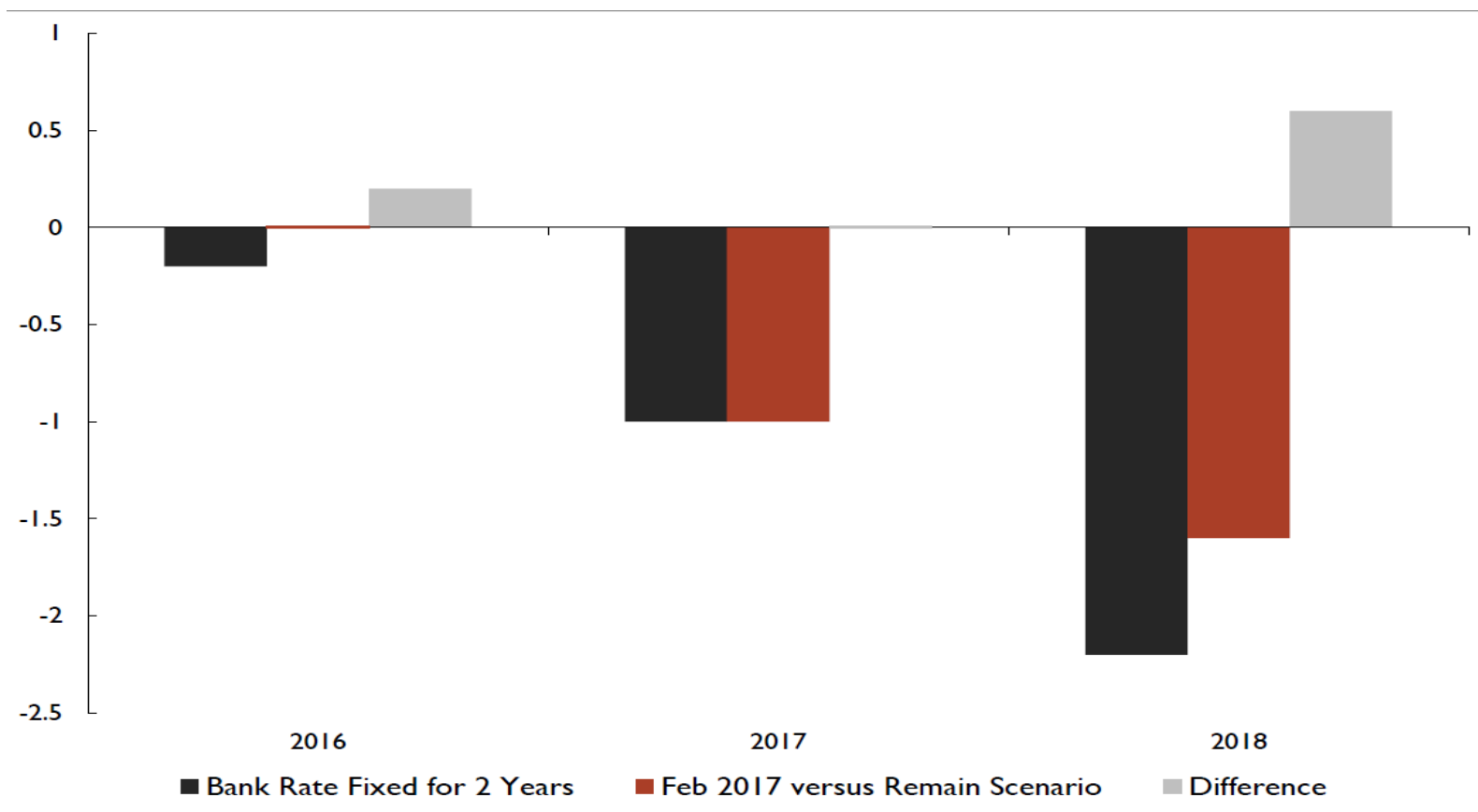
# Social Market Foundation

---

1. Forecasts
2. Trade priorities
3. Trade Agreements
4. Looking ahead



# 1. NIESR's short term forecasts

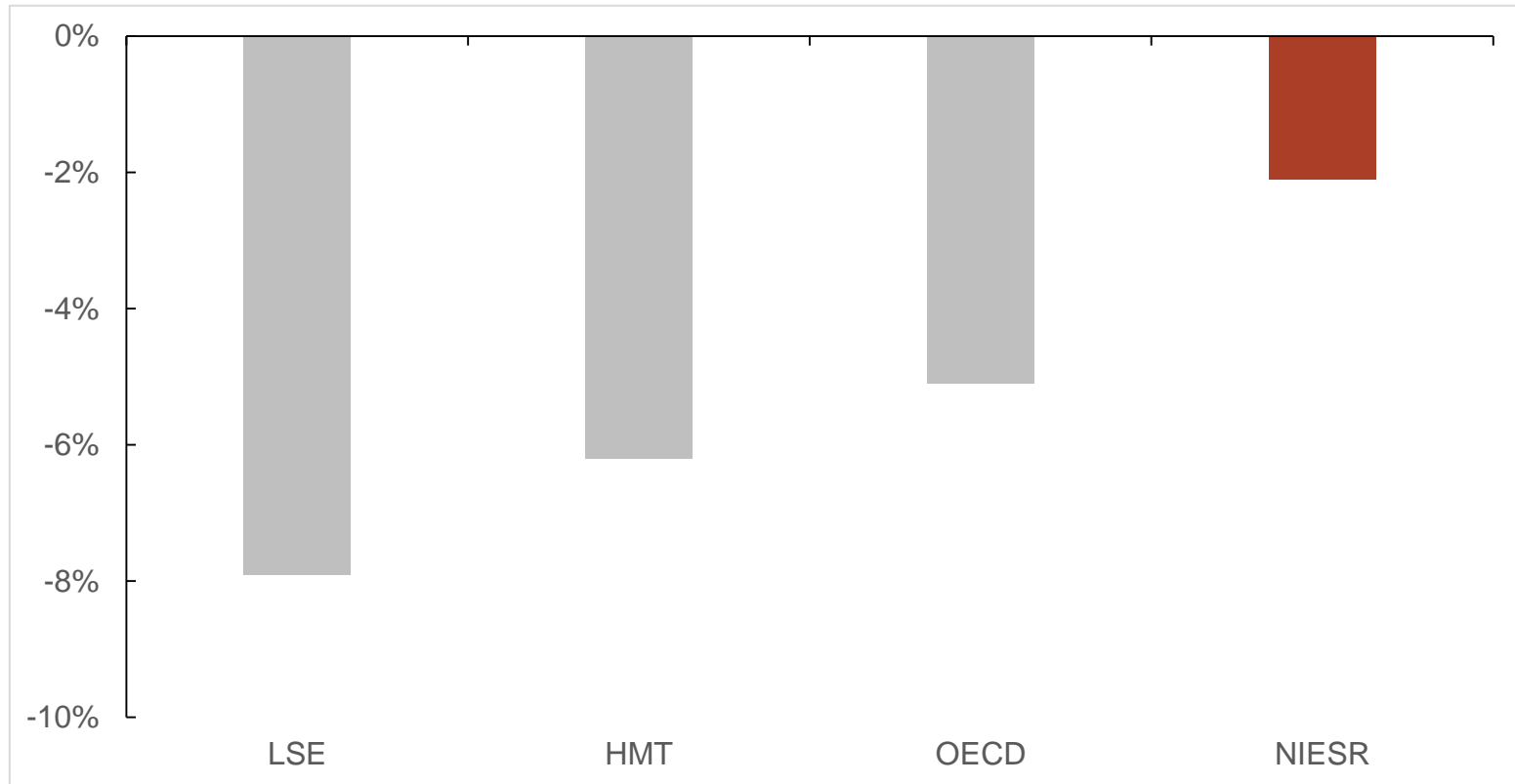


Source: National Institute Economic Review, May 2016 and February 2017



# 1. NIESR's long term forecast

---



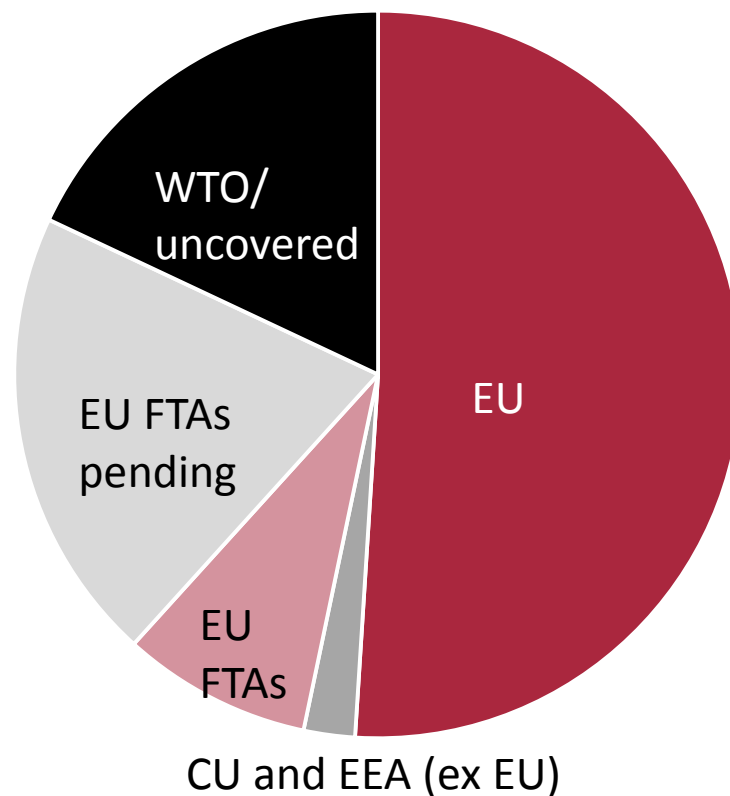
Source: National Institute Economic Review, May 2016



## 2. Trade priorities

---

Share of UK total trade



Source: IMF DOTS



## 2. Trade priorities

---

Global trade, measurement and policy have been transformed by technology and fragmentation of production process

- Distance matters: ‘doubling distance, halves trade’ and global value chains seem to make distance even more important
- Trade flow data give a misleading picture: ‘value added’ is better measure (but excludes a lot) for jobs and income
- Services are more important than goods for GDP and welfare
- Trade policy more about ‘behind the border’ than ‘at the border’ barriers
- ‘At the border’ barriers are increasingly non-tariff barrier transaction costs



## 2. How much does this matter?

### Projected reductions in GVA from leaving the European Union (per cent)

	Share of UK total value-added	EU share of exports	Reduction in GVA (EFTA scenario)	
			OPT	PESS
<b>Goods</b>	<b>11.0</b>	<b>49.1</b>	<b>1.7</b>	<b>2.3</b>
Manufacturing	9.4	46.2	1.3	1.8
Mining and Utilities	1.5	67.9	0.3	0.4
Agriculture	0.1	73.7	0.0	0.0
<b>Services</b>	<b>13.6</b>	<b>44.7</b>	<b>1.9</b>	<b>2.6</b>
Business sector services	12.3	43.5	1.7	2.2
FIRE and business services	7.9	42.8	1.0	1.4
Community services	1.2	56.6	0.2	0.3
Construction	0.1	50.1	0.0	0.0
<b>Total (taking account of GVA shares)</b>	<b>24.6</b>	<b>46.8</b>	<b>3.6</b>	<b>4.8</b>
<b>NIGEM GDP impact (not taking account of GVA shares)</b>			<b>1.9</b>	<b>2.3</b>

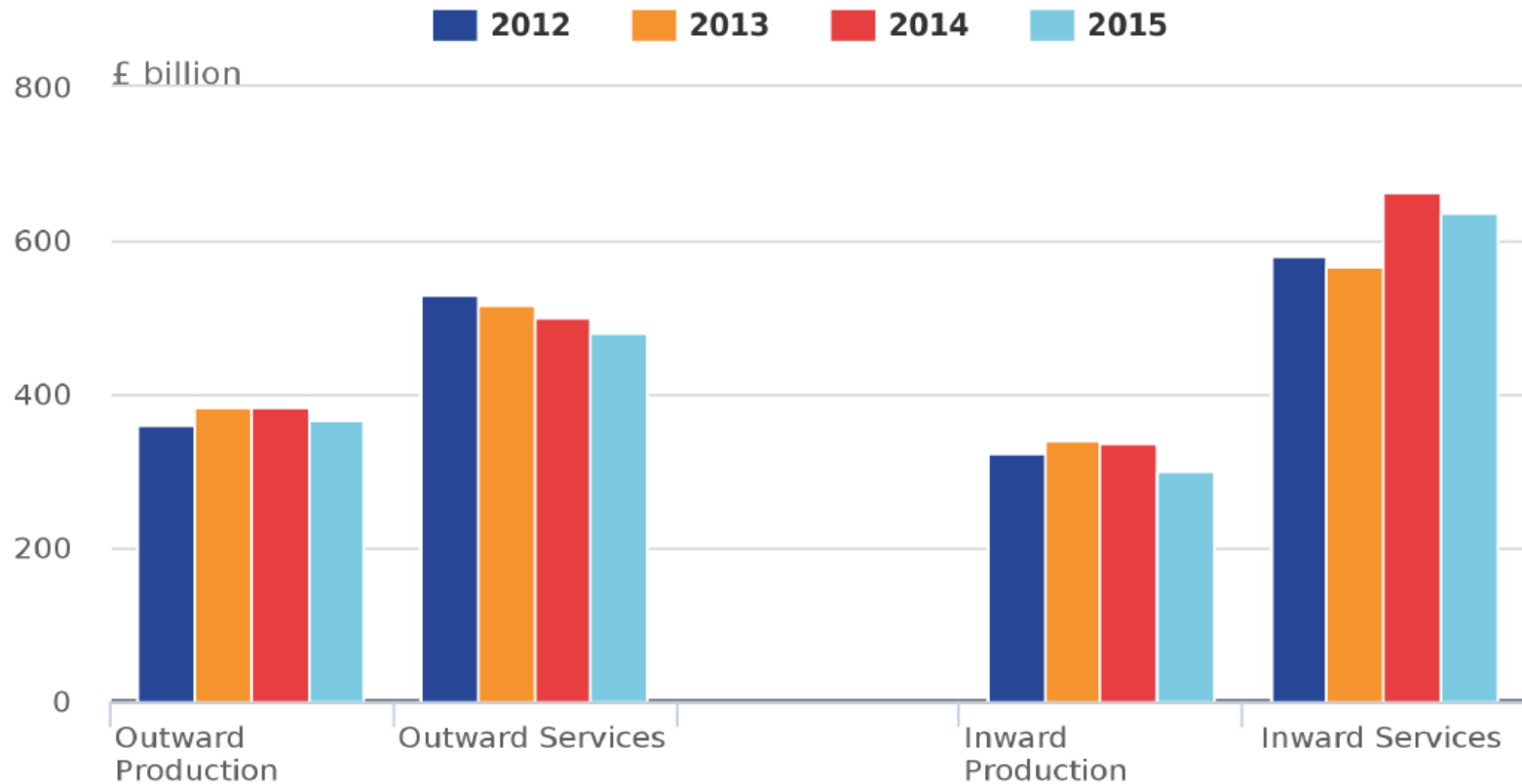
Source: OECD TIVO and National Institute Economic Review, May 2016





## 2. Foreign direct investment

---



Source: ONS

---



# 3. New model trade agreements

---

First trade agreement in 1860 and led to MFN: formalisation of cooperation and imply shared sovereignty

Endowments are not fixed! Implies absolute advantage can also matter along with comparative advantage (RA Jones)

Global value chains: 80% of trade is now part of chains

Infrastructure matters: physical, electronic and legal

Advanced economies are largely service sector – not subject to a Common External Tariff but:

- Right of establishment
- Mutual recognition / sector exclusions
- Regulation / codes / licensing etc



# 3. Free trade agreements

---

Over 423 Regional Trade Agreements in force (FTAs, CUs, PTAs): roughly 240 are FTAs:

Canada – EU FTA is held-up as a model for UK

- Agricultural goods
- Non-agricultural
- Services and investment
- Government procurement
- Intellectual property
- Dispute resolution
- Sustainable development, environment and labour

Mixed agreement: eight years to complete and seven years to enact (15 years total)

---



# 3. Dispute resolution

---

Major concern of civil society. Key reason TTIP failed and for CETA objections. What would UK have to agree to?

Body	Institution	Countries	Cases per year (approx)
EU	European Court of Justice (ECJ)	28	1,700
European Economic Area (EEA)	European Free Trade Area Court (EFTA)	3	26
World Trade Organization (WTO)	Dispute Settlement Understanding (DSU)	160	25
Investor State Dispute Settlement (ISID)	International Court for Settlement of Investment Disputes (ICSID)		59

Source: NIESR



# 4. Emerging UK propositions

---

White Paper included indicators for EU proposition:

- Unbound by EU's Common External Tariff
- UK seeking 'rectification' of EU's WTO schedules
- Customs 'arrangement' for some industries (cars)
- A 'strategic partnership' for financial services
- Ensuring UK remains best place for science and technology
- Free to negotiate own FTAs with ROW

US White House has been encouraging (but consider that NAFTA is estimated to have created a 0.08% welfare gain – see Caliendo and Parro)

---



# 4. WTO EU tariff schedule

---

EU Import Tariffs		Simple average tariff rate (%)	Share of duty free lines (%)
Total		6.4	25
Agriculture		14.4	19
Non-agriculture		4.3	27
EU Trading Partners			
<b>USA</b>	Agriculture	7.1	24
	Non-agriculture	3.5	47
<b>Switzerland</b>	Agriculture	38.9	32
	Non-agriculture	1.8	99
<b>China</b>	Agriculture	15.2	9.2
	Non-agriculture	9.2	8.1

Source: WTO



# 4. Unilateral zero tariffs?

---

Economists<sup>4</sup>trade and influential think tanks argue UK 'should' take a 'zero tariff' position while ROW move other way. Claim:

- Maximises total income for society (NAFTA?)
- Tax cut for consumers
- May encourage zero tariff respons

BUT:

1. Primary effect on distribution of income – political question
  2. If not perfect competition - we are in a second best world
  3. Tariff = subsidy + consumer tax – we need an evaluation
  3. Regional (Scotland) inequalities and political legitimacy
- Must be a political discussion, not misled as 'positive economics'



# 4. Possible timescale

---

## Possible events and timing

- March-17: HM Government submits Article 50
- March-17: SNP Annual Conference – Indy Ref II?
- December-17: Completion of ‘Divorce’
- January-18: Start negotiations of EU FTA
- February-19: Transition agreement
- March-19: End of Article 50 process
- Later-19: Indy Ref II?
- 2020: General Election





# Social Market Foundation

---

*'Ask the Expert'*

***Brexit and the future of UK trade***

Angus Armstrong

ESRC Senior Fellow *'UK in a changing EU'*

 @angusarmstrong8

23rd February, 2017



National Institute of Economic and Social Research