

WORLD TRADE DEAL

The complete pocket guide

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1. What do you mean by a ‘World Trade Deal’?

The Government would redirect its strategy from a singular focus on achieving an ideal, comprehensive and ‘deep and close’ relationship deal with the EU, at almost any cost, to a new focus of leaving the EU and embracing global free trade under World Trade Organisation (WTO) rules. Such a deal does not imply ‘walking away’ from the Brussels negotiations, as there are other aspects of the new EU-UK relationship – eg, airline landing rights - that need to be agreed.

2. Given the Chequers proposals, why is a World Trade Deal relevant?

Given the widespread opposition in the UK Parliament and outside to the Chequers proposals and the Government’s repeated position that the only options available are (1) the Chequers proposals or (2) leaving the EU without a deal on trade, attention is now turning toward the implications of the only way of exiting from the EU that guarantees a Clean Brexit - that is, a World Trade Deal under WTO rules.

WTO & TRADE

3. What is the WTO?

The WTO pursues negotiations amongst its 160+ member countries with the aim of achieving free trade amongst, policing the international trading system, adjudicating disputes and enforcing penalties where necessary.

4. What do we have to do to join the WTO?

Nothing. We were a founding member of the WTO and remain so independent of the EU.

5. If we were to operate under WTO rules, wouldn't this be a leap into the unknown?

No. It would be a leap into the normal as we already do the majority of our trade under WTO rules.

6. Wouldn't leaving without a trade deal leave us without a legal framework for trade?

No. It simply would mean that we would trade under WTO rules that are comprehensive and backed by a well-respected world legal system.

7. But – in practice – aren't there few 'pure' WTO deals? Is not most WTO trade done under Mutual Recognition Agreements?

This often is technically true and anti-Brexit campaigners make this claim, but the distinction is not very relevant - the central trading relationship is the same WTO rules deal.

8. Do non-EU countries perform well trading with the EU under WTO terms?

Yes. The four non-EU countries with the fastest growing exports to the EU all trade on WTO terms.

9. If we trade under WTO rules, what tariffs must we apply?

This is for us to decide. WTO rules require only that we not increase tariffs above the existing Common European Tariff rates and that we treat all countries equally, unless we have agreed a Free Trade Agreement (FTA) or customs union with them. We could, for example, eliminate all tariffs or impose zero tariffs on products we do not produce in the UK.

10. Does the WTO require physical customs checks, meaning lengthy delays at our ports and borders?

No. Specific WTO agreements and the Kyoto Convention of the World Customs Organisation commit to make border processing activities as streamlined as possible with no requirements for border checks and, if physical inspections are necessary, they be intelligence-led. Mobile and remote customs controls are permitted, and are already used widely for goods coming from outside the EU Customs Union. The UK currently checks only 4% of goods arriving in the UK from non-EU countries, and Ireland just 1%.

11. What about checks on food and animal products?

The WTO's Agreement on the Application of Sanitary and Phytosanitary (SPS) measures does allow for border checks to ensure the safety of imported food, but stipulates that such checks should not be used as a surreptitious means of inhibiting cross-border trade.

- 12. If we trade under WTO rules with the EU, does this stop us from having an FTA with other countries or the EU - for example, Canada +?**

No, quite the reverse.

- 13. Could we still negotiate a Canada+ FTA with the EU after we leave, having dropped the Chequers or 'Chequers minus' route?**

Yes - probably even more easily than during the Article 50 negotiations.

ECONOMIC IMPACT OF A WORLD TRADE DEAL

14. Is the game worth the candle? Are the long-term gains from a World Trade Deal worth all the hassle compared with the status quo?

Yes. The long-term gain to GDP would be about 7% over the next decade and a half, a half percentage point addition to the growth rate over this period. The average household would gain around 8%, while the poorest household will be 15% better off. The Treasury will receive about 10% extra revenue - around £80 billion.

15. Wouldn't WTO rules inevitably lead to tariff and other trade barriers between the EU and the UK thereby leading to a big reduction in our trade with the EU?

Not on a long-term basis.

16. Won't prices inevitably go up?

No, in the long-term, they will go down by a substantial amount.

17. This may be ok for the long-term but won't prices inevitably go up in the short-term?

Not likely – and a *de-minimis* impact with the right policy decisions.

18. Wouldn't Foreign Direct Investment (FDI) into the UK inevitably fall?

No.

19. Wouldn't opening the UK up to global competition spell disaster for British manufacturing?

No, quite the opposite.

20. Won't new free-trade deals pose a threat to British farming?

Not if sensible post-Brexit policies allowed by WTO rules are adopted.

21. Is it not vital to the City that there is a trade deal, preserving existing market access?

No. The City is the world's No 1 financial centre and there are two key elements in the City's future success: that its markets continue to be worldwide and the need for it to have an efficient pro-business regulatory system. In recent weeks, UK financial institutions appear to have come to terms with the likelihood that no special financial services deal is likely to be agreed and - in effect - are preparing for a World Trade Deal scenario.

22. What about market access for services in general?

As there never has been an EU 'single market' for services, there is not much to lose.

23. But, won't we be the economic losers relative to the EU?

No, to the contrary.

POTENTIAL PROBLEMS AFTER LEAVING

24. If we leave the EU “without a deal” won’t this bring chaos across a broad front of daily activities?

No. Having no trade deal is not the same as having no agreements on a wide range of non-trade areas where there have to be arrangements.

25. But, what about the short-term negative impacts reported daily in the media and even by some Government Ministers?

While short-term ‘speed bumps’ may be encountered in any major policy change of the magnitude of Brexit, they need to be placed in perspective and compared to the long-term strategic gains. Brexit will not depress our economy by up to 10% of GDP as forecasts based on absurd assumptions by the Treasury and other civil servants have claimed. Hysteria about ‘shortages’ of goods assumes the UK would create self-harming and illegal non-tariff barriers (that do not exist today) against the importation of goods from the EU27. Other non-EU countries have managed very well without EU membership and have dealt successfully with technical barriers to trade.

26. Would a World Trade Deal under WTO rules not mean that the EU would make it difficult for our trade by not agreeing to our product standards and complicating border procedures?

Not unless the Commission decides to violate international law.

27. What if - despite this - the Commission still wants to make a political point?

It is not impossible that elements of the EU Commission might try to behave badly, but it will be subject to a number of constraints including (1) international agreements to which the EU is party including WTO Agreements that form an integral part of the EU legal order, (2) practical reasons why the EU would not want to disrupt imports from the UK (eg, importation of drugs made in the UK), and (3) self-interest expressed by national governments and vested lobby groups within the EU that will act as a strong brake on cavalier actions affecting livelihoods and business interests.

28. But surely there will be problems over standards in the future as we and the EU change our standards?

Not really. Sovereignty over regulations for international partners is already widely recognised in all EU FTAs, Commission delegated powers exist to pass regulations that recognise non-EU goods as conforming to internal EU standards, ‘regulatory divergence’ is already being managed for EU trade deals to date, and export firms on both sides are quite used adapting to such changes all over the world where they have export markets; it is an accepted cost of doing export business. Our exporters will deal with these changes just as they do with standards changes in China, the US, Russia and the rest of the world.

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