

Nicolaides, Phedon A.; Roy, Thibault

**Article**

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Phedon A. Nicolaidis and Thibault Roy\*

## Brexit and Trade: Between Facts and Irrelevance

This paper examines four claims made by Brexit supporters regarding the United Kingdom's post-exit arrangement on trade with the EU. It reviews the nature and importance of UK-EU trade links and the possible impact on the UK of leaving the EU customs union. It argues that all four of the claims are based on incongruous arguments which are either logically inconsistent or ignore the extent of the commitment required by trade agreements that tackle regulatory barriers, not just tariffs and border restrictions. We demonstrate that the attractiveness of the UK market will progressively decline as the UK enters into additional bilateral agreements. We conclude by analysing the implications for the UK of "taking back control" of its trade policy.

Ever since the June 2016 referendum in the UK on withdrawal from the European Union, there has been almost daily speculation, commentary and analysis on the post-exit arrangements that may apply to trade between the UK and the EU.<sup>1</sup> The proponents of Brexit have made a number of claims purporting to show that in the field of trade, the UK will benefit from its new ability to set its own agenda and choose its own trade partners. The UK may indeed gain by not being a member of the EU. However, the mooted post-exit arrangements are fraught with serious drawbacks. The purpose of this paper is to analyse four of the Brexiters' main claims and show that they are either logically inconsistent or one-sided, as they all ignore significant negative effects.

Those claims are the following:

1. The EU accounts for less than 50% of UK trade.
2. The UK has little to lose by leaving the EU's customs union.
3. The UK has much to gain by concluding bilateral trade agreements independently.

\* The views presented here are strictly those of the authors and do not reflect the views of the institutions with which they are affiliated.

1 See, for example, C. Wyplosz (ed.): What To Do With the UK? EU Perspectives on Brexit, 24 October 2016, available at <http://voxeu.org/article/new-ebook-what-do-uk-eu-perspectives-brexit>; National Institute of Economic and Social Research: UK, Europe and devolution, available at <http://www.niesr.ac.uk/research-theme/uk-europe-and-devolution>; the Centre for European Reform: Britain & the EU, available at <http://www.cer.org.uk/hot-topics/britain-eu>; or Open Europe: Britain & the EU, available at <http://openeurope.org.uk/intelligence/category/britain-and-the-eu/>.

4. The UK will be able to pursue an open trade policy without being held back by the protectionist tendencies of other member states.

The paper concludes with an analysis of the consequences of the UK's attempt to "take back control" of its policies, including trade policy. Taking back control has been the emotionally powerful and, admittedly, successful slogan of the proponents of Brexit. We will argue, however, that since most modern trade agreements are not about border restrictions but about domestic regulation and market access, taking back control will leave the UK exposed to the vagaries of Brussels-based regulation that has international reach.

### Claim 1: The EU accounts for less than 50% of UK trade<sup>2</sup>

This is largely true. Eurostat data shows that in 2015 only 44% of UK exports went to other EU countries. This is the lowest figure in the EU, where the average is 63%. On the imports side, the EU was the origin of only 54% of the UK's total imports. Only Greece and the Netherlands had lower shares than the UK, with 53% and 46%, respectively. Nonetheless, the EU is the UK's largest trade partner, and the top ten trade partners of the UK were all EU member states, except for the US (14.5%), China (7%) and Switzerland (6%).

2 See, for example, A. Lilico: Britain's GDP could survive Brexit, CAPX, 25 April 2016, available at <https://capx.co/britains-gdp-could-survive-brexit/>, in which Andrew Lilico, the Chairman of "Economists for Britain", a group affiliated with "Economists for Brexit", writes that "whereas ten years ago, around 50% of UK trade was with the EU, that's now down to about 40%". Similarly, Patrick Minford, Chair of "Economists for Brexit", wrote that "a huge 70 per cent of current UK trade is in goods exported outside the EU and in services such as advertising, law and education, where there is no interference from the EU". See P. Minford: Brexit will boost our economy and cut the cost of BMWs and even brie, The Sun, 15 March 2016, available at <https://www.thesun.co.uk/archives/politics/1086319/brexit-will-boost-our-economy-and-cut-the-cost-of-bmws-and-even-brie/>.

**Phedon A. Nicolaidis**, College of Europe, Bruges, Belgium.

**Thibault Roy**, College of Europe, Bruges, Belgium.

However, the trade data headline does not give the true picture of the extent of the UK's commercial dependence on the EU. Through the EU, the UK also has access to third countries with which the EU has signed trade agreements. These include Mexico, Chile, Algeria, South Africa, Singapore, South Korea, Turkey, and soon Vietnam and Canada. Since these countries account for a sizeable part (about 15-20%) of the UK's transactions with the rest of the world, it follows that the UK already trades with those countries via the EU agreements. In other words, the UK is preparing to abandon preferential trade arrangements that cover 60-65% of its trade in order to sign its own agreements with countries that account for the remaining 35-40% of its trade. It should be noted that these numbers do not include the current EU negotiations with countries such as Japan. Admittedly, Brexiters have also argued, without explaining how, that they will improve on existing bilateral agreements. It remains to be seen how this can be achieved.

The accuracy of the trade data has also been disputed because a large proportion of European trade with third countries passes through the ports of Rotterdam and Antwerp, which may exaggerate the importance of the EU as the origin or destination of the UK's trade. It is always difficult to pinpoint the origin or destination of goods that go through large ports. Transshipments are routine, especially given that traded products are carried by increasingly larger container ships which serve only the biggest ports. On this issue, the UK Office for National Statistics concluded that the size of pass-through trade may be about four per cent of the UK's imports from and exports to the EU.<sup>3</sup> Hence, even when the distorting effect of pass-through trade is taken into account, the EU still remains by far the UK's largest trade partner.

## Claim 2: The UK has little to lose by leaving the EU's customs union<sup>4</sup>

The EU's customs union is indispensable for internal free trade. If member states were free to sign their own agree-

3 UK Office for National Statistics: UK trade in goods estimates and the 'Rotterdam effect', 6 February 2015, available at <http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/december-2014/sty-trade-rotterdam-effect-.html>.

4 For example, Gerard Lyons, Chief Economic Advisor to Boris Johnson at the time of the Brexit campaign, said "[the UK] already trades extensively with many countries across the globe under the rules of the WTO and can continue to do so with EU countries in the future, in the same way that the U.S., Japan and China does". See S.S. Borelli: Boris Johnson's economic adviser launches pro-Brexit campaign, Politico, 28 April 2016, available at <http://www.politico.eu/article/boris-johnsons-economic-adviser-launches-pro-brexit-campaign/>; Patrick Minford, Chair of "Economists for Brexit", added in a Daily Telegraph article just two weeks before the referendum that "it is quite likely that the EU will wish to sign a free trade agreement with the UK of some sort since they sell so much to the UK, much more than we sell to them." See P. Minford: Britain must ditch its protectionist EU trade agreements, The Telegraph, 6 June 2016, available at <http://www.telegraph.co.uk/business/2016/06/06/britain-must-ditch-its-protectionist-eu-trade-agreement/>.

ments with third countries and set their own tariff rates, then it would be necessary to monitor internal frontiers to prevent third-country products from entering through the low-tariff member states. A free trade agreement between the UK and the EU will unbind the UK from the EU's common external tariff and enable it to negotiate and conclude bilateral trade deals. But Brexiters omit three consequences of this freedom.

First, there will have to be controls and formalities in bilateral trade. "Rules of origin" will have to be applied in order to determine which products should benefit from duty-free treatment. Rules of origin normally define the minimum value that has to be added to a product in order for that product to be considered as domestic and thereby benefit from free circulation in a free trade area. But these rules are both costly to comply with and costly to enforce. In April 2016, the "HM Treasury analysis on the long-term economic impact of EU membership and the alternatives" summarised the findings of several studies that estimated that rules of origin could add 3-15% extra cost to normal trade costs.<sup>5</sup>

Second, these rules of origin will also distort trade and investment decisions. This is particularly true in industries with long value chains where companies import a large proportion of their components. Box 1 provides an example which illustrates the distortionary effect of rules of origin.

Third, the Rotterdam-Antwerp effect mentioned earlier will come into play in a negative way. If, as Brexiters argue, the UK is less dependent on the EU because a significant proportion of its trade with the EU is accounted for by transshipments that pass through major ports, it also means that in the future, an equal amount of trade will be subject to customs formalities. The lower the dependence on the EU, the larger the transshipments – and thus the amount of trade subject to those formalities will also be larger.

In addition, at present, UK traded goods pass through the major European ports because it is more efficient for them to be transported first on very large vessels and then transhipped after they arrive in continental Europe. The same is true for exports: they are first sent to the big European ports before they are exported outside the EU. It follows that diverting that trade from those big ports and directly receiving goods from or sending goods to third countries

5 HM Government: HM Treasury analysis: the long-term economic impact of EU membership and the alternatives, 2016, p. 163, available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/517415/treasury\\_analysis\\_economic\\_impact\\_of\\_eu\\_membership\\_web.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517415/treasury_analysis_economic_impact_of_eu_membership_web.pdf).

## Box 1

**The distortionary impact of rules of origin on trade**

Assume a company based in a partner country makes a product using three inputs, each of which costs as follows: A = 30; B = 30; C (labour) = 45. Inputs A and B are imported from third countries into the partner country; A is from a country subject to no tariff and B is from a country that is subject to a 20% tariff. Therefore, the total cost to the company, after the tariff, is 111 (= 30 + 36 + 45). Further assume that this company is a price taker because it operates in a competitive market. Selling its product at 111 allows the company to just break even. It also means that its added value is 40% (= 45/111), which is the proportion of labour in the value (price) of the product.

Let the rule of origin be as follows in this particular case: A product is “domestic” (i.e. it can be imported from the partner country duty free) if the value added is at least 40%. If value added is below 40%, products which are imported from the partner country incur a tariff of 20%. In our particular case, the product in question can indeed be considered as domestic.

Now assume that the company can import an improved component B at a higher cost of 40 instead of 30 and save 50% of the labour costs of assembling the final product. The imported component costs 40 plus a tariff of 20%, which means that the total cost per unit is 100.5 (= 30 + 40 + 8 + 22.5). If the final consumer price remains 111, the company gains by making a profit of 10.5 per unit sold. However, there is a problem. The value added (labour of 22.5 plus profit of 10.5) is now just 30% (= 33/111). Since the value added is less than 40%, the product is no longer “domestic”, and when it is imported from the partner country it attracts a tariff. Let the tariff rate on the complete product also be 20%. The minimum price that the company can charge to domestic consumers, after the tariff, is 121 (= 100.5 + 20%). As a consequence, the company cannot sell anything.

However, in a customs union that includes the two countries, the total cost of that product is only 100.5 (= 30 + 48 + 22.5). The company would have been able to make a profit of 10.5. But in our case, the rules of origin that regulate trade within free trade areas force the company to move production inside the free trade area, find alternative inputs or locate in a country whose exports to the free trade area are not subject to tariffs. Thus, rules of origin affect location decisions not according to real costs but according to how tariffs are levied.

will become more costly, regardless of customs formalities. Brexiters thus clearly underestimate the costs that businesses will have to incur if the UK leaves the EU customs union.

**Claim 3: The UK has much to gain by concluding bilateral trade agreements<sup>6</sup>**

The statement that the EU’s customs union prevents member states from concluding individual trade agreements is true. The EU has exclusive competence in what Article 207 of the Treaty on the Functioning of the European Union defines as “the common commercial policy”. But the implications which are typically drawn are quite

off the mark. Regardless of the UK’s intentions, the ability of the UK to enter into many bilateral agreements with third countries will also depend on the willingness of other countries to remove their trade restrictions. It remains to be seen how many countries will be interested in spending time negotiating with a country whose economy is only a seventh of the EU’s size and whose consumers account for only an eighth of the EU’s total.

**The nature of new trade agreements**

Trade agreements at present are hardly about tariffs and border restrictions. In most industrial countries, tariffs have long been lowered to the insignificant levels of a few percentage points. Now, trade agreements are “deep”, in the sense that they are mainly about such things as domestic product standards, health and safety rules, regulation of establishment, and investment and public procurement. A case in point is the recently concluded Comprehensive and Economic Trade Agreement (CETA) between Canada and the EU. It is 1600 pages long not because it defines lengthy lists of customs duties but because it covers mostly domestic regulations and pro-

<sup>6</sup> Boris Johnson, who coined the term “Britzerland”, argued that the UK could, like Switzerland, become a free-trade-only partner of the EU. That meant, in his view, not only adopting a series of bilateral UK-EU agreements but also working on agreements with non-EU countries. He also compared the UK out of the EU to Canada with regards to its supposed ability to conclude trade deals on its own, without being part of a regional bloc. See M. Mason: Boris Johnson on Brexit: ‘We can be like Canada’, The Guardian, 11 March 2016, available at <https://www.theguardian.com/politics/2016/mar/11/boris-johnson-on-brex-it-we-can-be-like-canada>.

cedures. It is a so-called “mixed” agreement, because it deals with issues which do not fall within the exclusive trade competence of the EU. This is also the reason why its signing had been delayed by the Walloon parliament.

Along with the EU-US Transatlantic Trade and Investment Partnership (TTIP), CETA has been the focal point of media coverage on modern trade deals. But these two agreements are just part of a growing trend in which customs duties are the least significant issue in trade agreements. For example, of the more than 1000 pages of the recently agreed EU-Singapore Free Trade Agreement, only ten are devoted to the elimination of customs duties. The very limited space, and therefore the very limited importance, devoted to customs duties is reflected in all the main trade agreements that the EU has been negotiating in the past five years – both finalised and ongoing – without exception.<sup>7</sup> They all include chapters on investment, services, establishment, industry-specific regulation, intellectual property and competition policy, among others. These issues are covered by agreements with both developed and developing countries, regardless of the geographic or cultural proximity of the countries. The so-called “free trade agreements” now contain extensive chapters on non-tariff issues, in addition to the provisions on tariff rates. A case in point is the increasing importance of trade in services. In terms of value added, the UK trades more in services than in goods. The UK Trade Policy Observatory of the University of Sussex recently stressed how Brexit could damage the UK’s trade in services both with EU and non-EU partners.<sup>8</sup>

Very recent research by the UK’s National Institute of Economic and Social Research has compared market access under the current single market rules (i.e. an EEA-type agreement) and under a “normal” free trade agreement that focuses on tariffs.<sup>9</sup> It concludes that the UK may experience a reduction of up to 45% in goods trade and up to 60% in services trade with the EU. The reason for these very large reductions is that the rules of the single market cover and prohibit non-tariff barriers such as internal taxes, divergent health and safety rules, incompatible technical standards, and non-recognition of professional certificates. Internal market rules also cover services. Trade

7 These agreements include TTIP, CETA, the EU-Singapore FTA, the EU-South Korea FTA, EPA, DCFTA and the EU-Vietnam FTA.

8 See I. Borchert: Services Trade in the UK: What is at Stake?, UK Trade Policy Observatory, Briefing Paper 6, University of Sussex, 2016, available at <https://www.sussex.ac.uk/webteam/gateway/file.php?name=briefing-paper-6-final.pdf&site=18>; and E. Lydgate, J. Rollo, R. Wilkinson: The UK Trade Landscape After Brexit, UK Trade Policy Observatory Briefing Paper, September 2016.

9 See M. Ebell: Assessing the Impact of Trade Agreements on Trade, in: National Institute Economic Review, Vol. 238, No. 1, 2016, pp. R31-R42.

agreements that focus on tariffs necessarily limit themselves to trade in goods, leaving out services. Ironically, it is in service sectors, such as finance, that the UK has a strong comparative advantage.

### Global regulatory competition and convergence

When trade agreements were mostly concerned with the reduction of tariffs, it made sense, within the logic of reciprocal liberalisation, to negotiate bilateral tariff reduction schedules. A country would reduce its customs duties in response to the reduction of the duties of another country.

When it comes to domestic regulation, the object of bilateral agreements is either mutual recognition or harmonisation of the rules enforced within the jurisdictions (i.e. territories) of the parties to the agreement. Mutual recognition can indeed be subject to a reciprocal arrangement, and different reciprocal agreements can be agreed sequentially. Further, all of them can coexist. But harmonisation can proceed in a sequential manner only if trade partners converge one-by-one to the standard of one country, which in this case would be the UK. It is simply not possible to harmonise regulations with different partners in a way that all such agreements can coexist.

How likely is it that all potential partners will want to adopt UK rules? The answer is that it is very unlikely. In fact, recent research has shown that most countries in the global trade system are converging to EU standards and regulations. This has been aptly branded the “Brussels effect”.<sup>10</sup> The reason is that the EU pursues an active regulatory policy and has the largest single market in the world in terms of commercial size. No company can afford to be locked out of the EU market, and therefore every company manufactures its products and tailors its services to comply with EU rules. Hence, the belief that the UK will be able to sign many “deep” trade agreements is rather illusory.

In the long run, the only way for the UK to sign deep trade agreements with third countries is to cling to EU rules. But it will then have lost, as a result of Brexit, all negotiating power to define new EU rules. Ultimately, the UK will have less influence over the rules governing its trade structure, which will surely frustrate the Brexiters’ wish to regain the ability to “take back control” and frame their own rules.

### Negotiating power

The “Brussels effect” is not the only hurdle for the UK. With the recent trend towards comprehensive agree-

10 See A. Bradford: The Brussels Effect, in: Northwestern University Law Review, Vol. 107, No. 1, 2012, pp. 1-67.

Table 1

**EU trade agreements that have recently been signed or are currently being negotiated**

	Transatlantic Trade and Investment Partnership (TTIP)	EU-Canada Comprehensive Economic and Trade Agreement (CETA)	EU-Singapore Free Trade Agreement (EUSFTA)	EU-South Korea Free Trade Agreement	EU-Japan Free Trade Agreement and Economic Partnership Agreement (EPA)	EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA), as part of the Association Agreement	EU-Vietnam Free Trade Agreement
Current status	Being negotiated	Being ratified	Being ratified	Applies provisionally since 2011	Being negotiated	Applies provisionally since January 2016	Being ratified
Length of agreement (some numbers are estimates)	At least 250 pages, plus appendixes and annexes	1600 pages	Over 1000 pages	1432 pages	Information not available	600 pages (Title IV of the Association Agreement + protocols)	Over 500 pages
Length of negotiations and number of rounds	15 rounds since July 2013	13 rounds from April 2009	From March 2010 to October 2014	7 rounds from May 2007 to October 2009	17 rounds from November 2012	From July 2008 to December 2011, with remaining provisions signed in June 2014	14 rounds from June 2012 to January 2016

Source: Authors' elaboration, based on information from the Directorate General for Trade of the European Commission, available at <http://ec.europa.eu/trade/policy/countries-and-regions/agreements/>.

ments, negotiations require more time to come to fruition. As shown in Table 1, the EU and Canada have finalised CETA after more than seven years. The negotiations for the EU-Japan Free Trade and Economic Partnership Agreement have already been through a staggering 17 rounds of negotiations with no certainty of reaching a compromise any time soon. This does not auger well for the UK. First of all, the negotiations can easily extend beyond the mandate of the present government. A new government may have other priorities. This uncertainty may deter potential trade partners from entering into negotiations. Ironically, the EU benefits in this matter from its greater political inertia. The three main political groups in the European Parliament – the EPP, the S&D and ALDE – form a relatively stable majority.

The second effect of the trend towards deep agreements is that the costs of negotiations in terms of personnel have escalated. The UK will have to bear these costs alone, and its negotiators will be on a very steep learning curve.

### Size of the market

Another factor that will temper the UK's ability to conclude many bilateral arrangements is the fact that every trade deal makes the UK less attractive for potential new partner countries. Indeed, as the UK concludes an agreement and the products of the partner country in question gain access to the UK's market, there will be fewer opportunities for potential new entrants, and each additional partner country receives progressively smaller benefits.

### Claim 4: The UK will be able to pursue an open trade policy without being held back by the protectionist tendencies of other member states<sup>11</sup>

The UK has built a reputation for its liberal stance and pro-market contributions to deliberations in Brussels on issues ranging from product safety to banking regulation to industrial subsidies. This does not necessarily mean, however, that outside the EU, the UK will show the same enthusiasm for liberal trade policy. In fact, recent press reports reveal that a vigorous debate has erupted within the cabinet of Prime Minister Theresa May on the industries and sectors that should be favoured in any post-EU trade deal.<sup>12</sup> The debate within Prime Minister May's cabinet demonstrates the logical incoherence between the free-trade-in-all-sectors discourse of Brexiters during the referendum campaign and the current, more nuanced reality.

Bilateral deals lead to trade liberalisation only if the other country agrees to open its economy. The other country will be willing to do so only if it gains preferential access to the UK market. Therefore, bilateral deals work because they discriminate against outside parties. This is not consistent with a policy of free trade. As argued in the previous section, bilateral trade deals become progressively

<sup>11</sup> See P. Minford: Understanding UK trade agreements with the EU and other countries, Working Paper No. E2016/1, Cardiff Economics, available at [http://patrickminford.net/wp/E2016\\_1.pdf](http://patrickminford.net/wp/E2016_1.pdf).

<sup>12</sup> See, for example, M. Sandhu: Why sector-by-sector Brexit will not work, Financial Times, 1 November 2016, available at <https://www.ft.com/content/5f3006fa-a019-11e6-891e-abe238dee8e2>.

less attractive. This means that potential trade partners will eventually be less willing to open their economies, as the UK market will progressively become less attractive after the first trade agreements, unless the UK unilaterally removes its remaining barriers and restrictions to foreign goods and services. The eagerness of the UK to do this is not immediately obvious.

Shortly before the referendum, the Economists for Brexit group emerged to advocate both exit from the EU and the pursuit of a policy of unilateral free trade.<sup>13</sup> These arguments, however, are based on an outdated view of trade. They presume that trade, investment and establishment are mostly affected by border restrictions. But as explained earlier, most of these custom duties are very low, and domestic regulation is now the largest hindrance to cross-border trade. But because Economists for Brexit also believe that the EU is over-regulated, the group expects British industry and service sectors to flourish outside the EU. While some regulation in the EU is admittedly excessive, the group is probably wrong to think that the EU is over-regulated across the board, that the UK will choose to discard all EU rules already incorporated in domestic UK legislation and that UK companies will ignore the aforementioned Brussels effect. The Brussels effect is not the outcome of negotiated deals but rather the pulling power of the largest single market in the world. Since UK companies have already incurred the extra costs of regulation, it would be irrational for them to abandon a market they already know and for which they have absorbed entry costs. In addition, the EU is actually quite advanced in terms of trade liberalisation in services.<sup>14</sup> By leaving the EU, the UK would face the risk of joining the WTO's much less liberalisation-enhancing General Agreement on Trade in Services.

### Shifting from liberal to more protectionist policies

However, an issue that has not yet been examined in the literature is whether a country such as the UK that has traditionally advocated a liberal policy as a member of the EU could become more protectionist when it leaves the EU. The slowly emerging evidence from Prime Minister May's contacts with various industry leaders suggests that she is not an ideological free trader but a pragmatist who would rather protect selected industries. Of course, at this stage, the outcome of future negotiations is speculative.

But, in principle, past conduct cannot be a guarantee that future strategy will follow the same line. When both the UK and the other member states engage in negotiations in Brussels, it is reasonable to presume that they do what

negotiators often do: overstate their positions and exaggerate the costs from any concessions so as to get the other side to back down first.

### The "Brussels mitigating effect"

A fact of life of policy formulation in Brussels is that decision-making procedures are complex and adopted legislation is always the result of compromises between different member states and different EU institutions. The compromises that enable the legislative machinery to function are presumed to lead to negative outcomes, but this is not necessarily so. The involvement of EU institutions may in fact temper protectionist tendencies in individual member states. Common decision-making prevents national policies from being determined by dominant local interests. After exit from the EU, the UK political system may become dominated by such strong local interests. According to press reports, industrial leaders are vying for influence in Downing Street.<sup>15</sup> It is impossible to know at this stage whether the lobbying outcome will be a wise balance of competing interests.

### The consequences of "taking back control"

Most recent EU trade agreements are "mixed", partly because they deal with issues that also fall within the competences of member states and partly because they are deep agreements addressing problems caused by discordant domestic regulations. As explained previously, the EU benefits from the "Brussels effect", through which international rules converge to standards set by the EU. What is likely to happen when the UK takes back control?

Assume that control over a policy can be measured on a scale from 0 (= no control) to 100 (= complete control). Further assume that countries agree to comply with the following reciprocal rule: "I control as much of your policy as you control of mine." For example, if I get to control 10 (out of 100) of your policy, you also get to control 10 (out of 100) of my policy. This implies that if you control 10 of my policy, then I control only 90 of mine and vice versa. This leads to two extremes: i) If I control 100 of my policy, then I control zero of your policy; ii) if I control zero of my policy, then I control 100 of your policy. It follows that, by wishing to take back control of its own policies, the UK will lose influence over other (EU) countries' policies. In short, the UK loses leverage both at the EU level and at the global level.

This loss of influence over others' policies is bound to be costly, even if it is difficult to quantify the benefits and

<sup>13</sup> [www.economistsforbrexit.co.uk](http://www.economistsforbrexit.co.uk).

<sup>14</sup> I. Borchert, op. cit.

<sup>15</sup> See, for example, J. Blitz: Queueing up behind Nissan, Financial Times, 31 October 2016, available at <https://www.ft.com/content/de671b3c-9f62-11e6-86d5-4e36b35c3550>.

costs for the UK from regaining policy independence. Conversely, it may be worthwhile to give up some control over one's own policies in order to benefit from shaping the policies of others. There can be no guarantee that complete policy independence is an optimum outcome in an interdependent world.

It is apt to conclude this section with an observation by Martin Sandbu. He notes that the emerging preference of the UK government to favour certain industries will mean that any trade agreement between the UK and the EU will result in some control being ceded back to the EU:

Brexit was sold to a majority of the electorate with the slogan "Take back control". A sector-by-sector approach to Brexit would amount to: "Take back control, except in sectors that we care particularly about, where we will give up the control we used to have as EU members (as well as anything else the EU negotiates in return for sectoral market access)." Good luck defending that to the public.<sup>16</sup>

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<sup>16</sup> M. Sandbu, *op. cit.*

## Conclusions

This paper has addressed four claims concerning the trade options of the UK after it leaves the EU. It has argued that all of these claims contain either logical inconsistencies or ignore inherently serious drawbacks. Exiting from the EU's customs union will free the UK to conclude its own trade agreements. However, this freedom is not costless. Companies trading with the EU will have to comply with rules of origin. In fact, given the "Brussels effect", UK companies may also choose to comply with EU regulations after the UK's formal withdrawal.

More significantly, it is plain wrong to believe that a sequence of trade agreements will be equally attractive to all potential trade partners.

The paper has also argued that in an interdependent world, taking back control of one's own policies is tantamount to losing control over others' policies. This is not necessarily the optimum outcome for the United Kingdom.