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BREXIT AND FREE TRADE

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Abstract

This report investigates whether the UK would be better able to sign trade agreements with countries outside of Europe outside of the EU. A key consideration of this question is whether a larger domestic market confers a significant advantage when concluding trade negotiations. To this end I undertake two case studies in which I investigate the likely nature and scope of a potential British trade agreement with China and the US. These two countries are not only important trading partners of the UK, but their economic might directly tests whether Britain, with a smaller domestic market than the EU, would be able to conclude deep and comprehensive trade deals with substantially larger economic powers.

About the Author

Sam Winders recently graduated with a first class degree from Durham University and was subsequently awarded a Durham Master's Scholarship to conduct original research on the political economy of the early Islamic community. Since leaving academia he has worked at the Estates Gazette, a leading property magazine published by Reed Business International, and is currently undertaking a year's teaching at an independent secondary school in South London. He has published articles for Keep Calm Talk Law, an online law magazine, and has an option to study for a PhD in political Islam from September 2016.

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Introduction

Besides issues of national sovereignty, the most important question voters will ask themselves on 23rd June is whether the UK will be richer within or outside of the EU. The answer to this question in turn rests upon a further subsidiary question: if we are convinced by the relative dynamism of the economies of the United States, the Anglosphere and the developing world compared with the stasis of much of the EU, how is the UK most able to profitably engage with these countries? This research paper will explore a central part of this question: Would a post-Brexit UK be nimbler and thus more able to negotiate free trade agreements with the rest of the world?

Those in opposition to Brexit believe that this is better achieved within the EU, they argue that its economic might and market of 500 million potential customers grants more bargaining power and a stronger negotiating position than the UK acting alone. This is the central argument of such august publications as the *Economist*[1] and the *Financial Times*[2] and most recently by the French Economy Minister, Emmanuel Marcon[3]. Whilst broadly speaking it seems likely that a larger economy does grant an advantage in negotiations, it is equally true the EU is more bureaucratic and more instinctively protectionist than the more historically free-trade orientated UK. It also has the perhaps impossible task of balancing the competing interests of 28 nations - each at differing stages of economic development and with different competitive advantages - as well as the European Parliament and other institutional interests in Brussels. Such a diffusion of sovereignty also strengthens the hand of corporate lobbyists who are able to influence negotiations at multiple levels.

Apart from being less bureaucratic and more disposed to free trade, a post-Brexit UK would also have the advantage of being more able lobby for free trade internationally. Beyond the WTO, there are a host of intergovernmental organisations such as the United Nations Economic Commission for Europe or the World Customs Europe which work towards the elimination of regulatory and other non-tariff barriers to trade. Because Britain inside the EU is not properly represented at the real top table of decision making in these global forums, secession will allow the UK to influence the setting of the rules of international trade at the very highest level. The EU is not the top table it is a mere sub-regional entity accepting rules from world intergovernmental UN agencies. At present, the UK is represented by the EU Commission on these bodies. The EU both views trade less favourably than the UK and is not answerable to Parliament.

However, perhaps Britain's most promising potential advantage if it were to leave the EU is that it could negotiate bespoke trade deals best suited to Britain's specialised economy. Britain has particular strengths in financial services which continues to be a key growth market, whilst our manufacturing base – which comprises less than 20% of GDP - tends to be niche and high margin and is still within the top 10[4] in the world. Because of the UK's small and efficient agricultural sector and because it has already lost many of the lower end manufacturing jobs which free trade with poorer countries tends to threaten, it would be able to open its economy much more quickly. In contrast, the EU must balance the demands of countries with comparatively large and uncompetitive agricultural sectors such as Greece, those such as Poland which retain a lot of jobs in heavy industry which could be threatened by lower tariff barriers and those of Germany whose economic growth is disproportionately driven by exports[5].

Perhaps because the EU is obliged to balance so many competing interests, the majority of EU Free Trade Agreements do not include provision for the free trade in services. Britain – 80% of whose economy is comprised of services - is therefore missing out on global opportunities to export to new markets. By comparison, Switzerland, which is free to negotiate its own trade deals and has similar expertise in services, has found the

1 http://www.economist.com/news/britain/21695544-it-would-be-hard-britain-negotiate-good-trade-deals-post-brexit-unfavourable-trade-winds
2 http://www.ft.com/cms/s/2/70d0bfd8-d1b3-11e5-831d-09f7778e7377.html#axzz45PHwYuuE
3 http://www.politico.eu/article/emmanuel-macron-uk-likely-to-pay-for-single-market-access-after-brexit-eu-referendum-date-june-23-united-kingdom-consequences/
4 http://www.brugesgroup.com/images/pdfs/BritainsGlobalLeadership.pdf
5 https://www.cia.gov/library/publications/the-world-factbook/geos/uk.html

ability to negotiate free trade in services highly beneficial. For instance, both trade agreements with Japan[6] and China[7] include provision for free trade in service.

If this were simply a question of who could sign the most free trade agreements, it seems certain that the UK, with its history of free trade, international outlook and its strong, centralised government and relatively corruption-free political class could move faster than the EU. Tellingly, though the EU has recently concluded negotiations with smaller economies such as Canada and Singapore (both are now awaiting ratification), there is currently no free trade agreement with the US and no comprehensive deal with China: though several agreements do exist, they mainly focus on allowing selected firms to clear customs more quickly.

Free trade agreements, however, are not just about quantity, but also quality. Because of this I will not only focus on the UK and EU's propensity to sign trade deals – it seems certain that the UK is more inclined to conclude agreements – but whether the UK could negotiate agreements of sufficient quality without the undeniable economic clout of the largest trading block in the world behind it.

One important issue which this paper does not directly address is the UK's future trading relationship with Europe, partly because it has been covered elsewhere – most systematically in a paper written for the Institute of Economic Affairs[8], but more importantly because the subject of Britain's trading relations with the rest of the world post-Brexit is worthy of attention in itself.

Accurately answering this question poses methodological difficulties. Even calculating the economic benefits of free trade agreements is hotly contested; and because economies are dynamic, what may be true of the economy today may be different in 6 months' time. Whilst elaborate models have been created to estimate the effects on GDP of a given deal – for instance it is estimated that TTIP could boost the EU and the US economies by around €100 billion[9] – a further evaluation of this finding stressed the difficulties of estimating the impact of an as yet incomplete treaty between such massive economies[10]. Estimating the probable benefits of a free trade deal between two potential trading partners adds even further uncertainty.

Another way to measure the quality or depth of trade agreements would be to analyse the percentage of goods on which tariffs have been reduced or eliminated. It would seem intuitively true that countries with smaller economies – who therefore have a smaller domestic market to potentially open up - are less able to reduce foreign tariff barriers than larger countries. An analysis of previous trade agreements could calculate the relationship between two countries' GDP and the percentage of tariffs reduced. This in turn would give an indication of how much more difficulty the UK would potentially experience outside the EU. Yet this too would be flawed. In the first instance, it fails to take into account the elimination of non-tariff barriers such as regulatory harmonisation which are an increasingly significant element in modern trade deals, especially those involving countries such as the UK with a dominant services sector. A more fundamental criticism, however, is that it assumes that trade agreements are simply about exports and ignores imports. On the contrary, if a deal eliminates tariffs against a country that more efficiently and more cheaply produces a given product than its existing trading partners, then consumers' will become more wealthy. In this respect, free trade agreements are as much about imports as well as exports.

Because of these methodological problems, I will use a qualitative approach. In my first chapter I briefly outline the history of British trade policy from 1846 onwards. In doing so I hope to place Britain's current situation in its historical context and in doing so shed greater light on Britain's ability to conclude trade deals outside the EU. Having framed the question so, Chapter 2 will consist of a case study assessing Britain's ability to close a comprehensive trade deal with the US. Similarly Chapter 3 will consist of a study of a potential trade deal with China. The US and China have the benefit of being both economic giants - and thus prime targets for British trade agreements – as well as playing very different roles within the world and having very different relationships with

6 http://www.s-ge.com/sites/default/files/JSFTEPA_EN_0310_0.pdf
7 http://www.wenfei.com/fileadmin/pdfs/China_Publications/Wenfei_FTA_Publication_December_2013.pdf
8 http://www.iea.org.uk/sites/default/files/publications/files/Brexit%20Entry%20170_final_bio_web.pdf
9 http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf
10 https://www.ceps.eu/system/files/No%2093%20Appraisal%20of%20IA%20on%20TTIP.pdf

the UK. Whilst the US is Britain's most important ally and, despite its relative decline since its mid-20th century zenith, remains the world's foremost economic and political power; China, on the other hand, is a rising power and although it remains autocratic and is not amongst the UK's traditional allies, the two countries enjoy cordial diplomatic relations. In short, China and the US are respectively the most important developing and developed economies on the planet. Their political and economic differences - combined with their shared economic might - make them excellent test cases for whether Britain - with comparatively a much smaller economy - would be able to successfully negotiate comprehensive trade deals with the rest of the world. Presumably, if the UK can negotiate successful deals with the mighty United States and China, it is likely to be able to do so with others.

Usefully for the purposes of this research paper, the EU is currently negotiating a new trade deal with the US, beyond the limited ones already in place, and an investment treaty with China. Each case study, therefore, will analyse the current state of negotiations, explore each sides' offensive and defensive interests and then suggest whether Britain would be more or less able to conclude negotiations than the EU as whole. In both chapters I conclude that, contrary to the majority opinion in the media[11 12], in almost all areas examined, the UK outside of the EU would more successfully be able to negotiate free trade agreements and that, in many areas, the EU's protectionist instincts and differing political and economic priorities are actively hindering British economic interests.

From Cobden to the Common Market: A brief history of British trade

A recent article in the Economist[13] suggested Britain had an especially high opinion of the benefits of free trade. According to a YouGov poll, British net agreement that free trade is good for business stood at +40%, compared to +6% among Americans, +3% among Germans and -4% among the French. A poll by Pew Research Centre reached a similar conclusion: 65% of Britons support the proposed Transatlantic Trade and Investment Partnership (TTIP), compared to 50% of the French and only 39% of Germans.

Whilst left-leaning politicians decry free trade as a means of enriching corporations at the expense of the working classes[14], widespread British support for free trade dates back to at least the 19th century and the repeal of the Corn Laws in 1846. The purpose of the Corn Laws was to protect domestic agriculture at the expense of domestic food prices by placing prohibitively high tariffs on continental grain imports. Their repeal was the most dramatic instance of a broader movement towards unilateral free trade. It is significant that the impetus towards unilateral free trade stemmed from the growing conviction that cheap imports were essential to prosperity because they benefited the consumer, reduced business costs and allowed labour to be redirected to more productive parts of the economy, such as manufacturing. British commitment to free trade came to be one of the defining aspects of British domestic and foreign policy, surviving the Great War but finally being overturned in 1932[15] at the height of the Great Depression by the coalition National Government, headed by Ramsey MacDonald.

One of the central motivating beliefs of unilateralists such as Richard Cobden, who lead the Anti-Corn Law League, was that free trade would create economic interdependence between nations, bringing peace and prosperity to Britain and the world. There was an expectation that other European nations would follow Britain's lead as consumers and businesses on the continent demanded cheaper imports leading in turn to universal adoption of the policy[16]. Though this did not happen as quickly as was hoped, following an Anglo-French free trade treaty in 1860 which included a 'most favoured nation (MFN) clause' extending the lowest tariffs agreed to

11 http://blogs.spectator.co.uk/2016/04/boris-and-the-brexiteers-are-talking-nonsense-about-britains-trade-policies/
12 http://www.euractiv.com/section/global-europe/news/mandelson-brexit-renegotations-would-take-up-to-10-years/
13 http://www.economist.com/news/britain/21696516-despite-calls-protectionism-britain-remains-strikingly-comfortable-free-trade-land
14 http://www.ontheissues.org/2016/Bernie_Sanders_Free_Trade.htm
15 http://www.ehs.org.uk/dotAsset/11cabff5-3f6a-4d69-bba0-1086d69be6c7.pdf
16 A. C. Howe, Free Trade and Liberal England, 1846-1946 (Oxford: Clarendon Press, 1997).

all signatories of the clause, a multilateral and interlocking system of treaties came into existence. The current system of free trade agreements can trace its genealogy back to this era.

This period offers important lessons to advocates of free trade today. In the first instance, whilst the movement to unilateralism succeeded in reducing the price of goods, it failed to persuade other markets to open unilaterally to British imports. Ultimately, this lead to the creation of the reciprocal system of international trade treaties from 1860 onwards. However, within this system it appears that Britain's prior move to unilateral tariff reduction had weakened its negotiating position: precisely because Britain had already eliminated most of its tariff barriers, it had very little to offer in return for foreign concessions[17]. Future British trade negotiators and politicians should take note: an overzealous public commitment to free trade could harm Britain's negotiating position. It would be beneficial for even the most free trade orientated politician to appear to be a protectionist!

Despite Europe's reluctance to adopt free trade, it would be a mistake to consider the policy a failure. Although the terms of trade may have shifted against British manufacturing, allowing continental industry to develop behind tariff barriers, Britain successfully responded to its growing trade deficit with Europe in two main ways. In the first instance it sought new markets for its established textiles, coal and ferrous metals industries, especially in its colonies and Latin America[18]. The most significant effect of Britain's unilateral elimination of tariffs on food stuffs was the massive increase in demand for foreign agricultural produce. This in turn precipitated a huge expansion in international shipping and railroad building which was largely funded by British capital. In the late 19th century, it is estimated that around 70% of foreign securities issued in London were to fund railways and other overhead capital costs[19]. Though unilateral free trade may have exacerbated trade deficits with Europe and the United States, this was more than outweighed by the emergence of a truly global trading network which in turn facilitated and supported Britain's financial services sector.

The structure of Britain's economy which relied on its established industries, cheap imports and on a financial services sector dependant on free world trade, cemented her position as the most prosperous country in the world for much of the 19th century. However, by the 1930s foreign competition was eroding British market share in these traditional industries, whilst a world war and the Great Depression had shaken the international trading system which supported the City. In 1932 the decision was taken to dismantle free trade in favour of "Imperial Preference", a system of tariff controls which discriminated against non-British Empire or Commonwealth goods. This period of protectionism is broadly considered to have exacerbated the Great Depression and, because it shielded British business from foreign competition, hastened Britain's economic decline.

Neither did Britain return to unilateral free trade after the Second World War. Instead, the post war British economy, steered by Clement Attlee's Labour government, "was notable for cartelisation, nationalisation, weak competition policy, and protectionism[20]". Rather than returning to the policies which had provided the basis for British prosperity in the 19th century, the country instead focussed in vain on maintaining the value of the pound against the dollar and on halting the collapse of its empire. By the late 1970s, Britain had become the "sick man of Europe", dominated by badly managed nationalised companies which controlled the "commanding heights" of the economy and which were shielded from revitalised foreign competition by tariff barriers. Only with accession to the EEC in 1973 was British business once again forced to compete with more efficient foreign rivals. This return to competitiveness, which began with joining the common market, was accelerated and secured by Margaret Thatcher's economic reforms from 1979 onwards[21].

The central lesson of this brief sweep over British economic history concerns the benefits of free trade and the economic destructiveness which protectionism causes. Moreover, the experiences of unilateral free trade and

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17 P. T. Marsh, Bargaining on Europe: Britain and the First Common Market, 1860-93 (New Haven: Yale University, 1999)

18 P. J. Cain and A. G. Hopkins, British Imperialism: Expansion and Innovation, 1688-1914 (London: Longman, 1993)

19 http://www.deirdremccloskey.com/docs/graham/britain.pdf

20 http://www2.warwick.ac.uk/fac/soc/economics/research/centres/cage/onlinepublications/background-briefing-series/WAR__J850_CompetitionCured_08.13.pdf

21 https://www.pwc.co.uk/assets/pdf/ukmanufacturing-300309.pdf

accession to the Common Market suggest that, whilst having markets to export to is important, the greater benefits of free trade come from cheaper imports and the boost to competitiveness it delivers to domestic industry.

This offers a direct rebuke to those who argue that Britain would be in a substantially weakened position when negotiating trade agreements outside the EU. Though it is perhaps true – all things being equal – that a country with a larger economy will generally be more successfully able to pursue offensive interests against a country with a smaller economy, this ultimately misses the central point of the debate: the main purpose and benefit from free trade comes from cheaper imports and boosted competitiveness. Whilst Britain should strive to open up foreign markets as much as possible, even if it couldn't seal as advantageous a deal as the EU, it would still reap the majority of the benefits of an agreement. Moreover, if Britain – secure in the knowledge that cheaper imports and boosted competitiveness are of greater importance than export markets - was more willing to compromise with prospective negotiating partners, these deals could be signed much more quickly than the EU's protectionist approach to trade negotiations.

The flip side of this argument offers an implicit warning to the EU. When Britain joined the EEC in 1973 it effectively opened its market to a 6 country trading block which accounted for over 20% of the world economy, giving a massive jolt to the economy and competitiveness[22]. In 2016, though the 28 nations which now make up for the EU have a similar share of world GDP[23], this is forecast to fall significantly over the coming years. Moreover, the world trades much more freely than it did in 1970 and the EU has no compregensive free trade agreement with any of the other top 5 largest economies. Although it has several under negotiation, all are either making slow progress or have stalled. The EU must make sure that it does not begin to resemble the UK in the 1970s, a mature economy whose protectionist barriers caused its competitiveness to wither.

In summary, whilst negotiating tariff free access to foreign markets should be a priority for British trade negotiators, history has shown that even unilateral free trade is more likely to lead to prosperity than protectionism. Nevertheless, Britain's experience of unilateral free trade suggests that to maximise the benefit of any potential free trade deals, British negotiators must feign protectionism in order to gain concessions, but ultimately be willing to lower British tariff barriers almost completely. This suggests that Britain outside the EU would be much more able to sign free trade agreements than the EU as a whole. As a general rule, it would appear that a greater willingness to trade freely and reduce tariffs is much more important in concluding negotiations than the promise of a large potential market alone.

22 A. Maddison, Contours of the World Economy I-2030AD (Oxford University Press, 2007)
23 http://ec.europa.eu/eurostat/statistics-explained/index.php/The_EU_in_the_world_-_economy_and_finance

Case Study 1: The United States

Over the past century, the United States has been and continues to be Britain's most important ally. Indeed, despite being in the EU and the growth of the developing world, the United States remains the UK's most important trading partner, accounting in 2015 for over £45 billion of UK exports (12.7% of total) and over £36 billion of imports (6.8% of total)[24]. Moreover, both countries are the largest investors in each other's economies, with US Foreign Direct Investment (FDI) into the UK amounted to just under £380 billion in 2014[25], with £331 billion flowing into the United States in 2013[26]. In the event of Brexit, it therefore seems highly likely that the relative importance of the UK's relationship with the US would increase.

Importantly for the purpose of this paper, despite progress on the proposed Transatlantic Trade and Investment Partnership (TTIP), there is currently no free trade agreement between the EU and US, just minor agreements. This is perhaps all the more surprising considering their strength and interdependence: together they represent 60% of global GDP, 42% of world trade in services and 30% of world trade in goods[27]. Though TTIP has been under negotiation since June 2013, it has been dogged by protectionist concerns on both sides and, with the US Presidential election approaching in November of this year, it is looking increasingly likely that the proposed deal will be delayed even further.

This situation raises two important questions which we will now address. (1) Would a post-Brexit UK realistically be able to sign a deal with the US quickly should article 50 of the Lisbon Treaty be invoked and (2) how would that deal compare to the comprehensive scope of TTIP should it eventually come into force?

The Current State of Negotiations

A brief overview of the progress of TTIP over the 12 rounds of negotiations which have elapsed at the time of writing (April 2016), reveal that many of the EU's defensive interests are of little significance to the UK economy.

Apart from the sheer scale and systematic global importance of the EU and US economies, what makes the TTIP unique is that – even more so than the recently signed Trans Pacific Partnership TPP signed between the US and several Pacific countries – the focus will be on dismantling Non-Tariff Barriers (NTBs). Because tariff barriers have been gradually eroded by the growing number of bilateral trade agreements which in turn improve upon the status of MFN status under WTO rules, most of the proposed gains will come from tackling complex and sometimes politically charged issues such as intellectual property and environmental and labour rules. As modern economies become increasingly reliant on services and other industries such as pharmaceuticals and chemicals which require complex oversight and testing regimes, the benefits of harmonising these rules becomes even greater. Whilst calculating the exact benefits is difficult, it seems likely that TTIP could increase American and EU GDP by around 0.5%, with over 80% of the gains coming from the dismantling of NTBs[28].

Though negotiations began in earnest in June 2013, fast forward nearly three years to the end of the 12th round of negotiations and 5 major sticking points remain[29]:-

1. Regulatory cooperation

Although a harmonization of standards over products such as cars, pharmaceuticals and chemicals would shrink compliance costs for exporters, European negotiators are concerned that less rigorously tested US products could harm consumer safety. Whilst the EU adopts the precautionary principle and requires producers to prove

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24 https://www.uktradeinfo.com/Statistics/OverseasTradeStatistics/Pages/OTS.aspx
25 https://www.gov.uk/government/publications/ukti-inward-investment-report-2014-to-2015/ukti-inward-investment-report-2014-to-2015-online-viewing
26 http://www.ofii.org/sites/default/files/FDIUS2014.pdf
27 http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/
28 http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf
29 http://www.politico.eu/article/5-things-to-watch-on-ttip-eu-us-trade-european-commission/

that their product is safe[30], the US does not have such a legal obligation. This particularly applies to food safety and genetically modified US imports.

2. Protectionist American opt outs

In contrast to European worries about US food standards, European demands have run up against The Buy American Act, which requires in most cases for US government departments to favour American Products or services when purchasing equipment or awarding contracts. Currently only 32% of the US public procurement market is open to EU business. Whilst abolition of the act would be unlikely, European Commissioner for trade Cecilia Malmström says that she hopes for further "waivers and exceptions".

Whilst these may be achievable, it is perhaps of concern that the recently concluded TPP avoided opening up the US public procurement market. It also seems unlikely that any deal will open up much of the even larger procurement market below federal level, one of the European Commission's important offensive ambitions.[31]

3. Financial Service Regulation

Within the financial services industry, regulatory barriers are significant obstacles to trade. Indeed, the British Chambers of Commerce argue that EU NTBs amount to 11.3%, whilst US barriers stand at 32%[32]. Whilst there is strong support for the inclusion of financial services from within the industry, the US is concerned that such a deal could weaken the Dodd-Frank Act and insists that financial services are beyond the scope of a trade deal and are best agreed in international forums. Negotiations seem to have reached the paradoxical situation where the EU insists on harmonisation of financial rules in order to reduce the possibility of a future financial crisis, whilst the US refuses over fear of loosening its own domestic legislation. The EU will not allow any further access to its markets without progress on this front.

4. Protecting Geographical Indicators (GIs)

The US and Europe take very different approaches to how food is labelled. Europe has very strict GI legislation. A product – for instance Champagne or Parma Ham– may not be named such unless it is produced within a particular geographic area and is produced to very specific standards. Importantly, even using the GI alongside the product's actual place of origin or in conjunction with words such as "style" or "type" is forbidden. In contrast, the US system – and the system of labelling adopted in TPP – marks GIs through trademark law and does not protect marks that are generic terms for the product. As a result feta cheese, for instance, is made across the US and denotes a style of product and not a place of manufacture.

5. Investor-State Dispute Settlement (ISDS)

The purpose of ISDS is to grant legal protection to foreign investors concerned about appropriation or discrimination by the host country's government. Whilst it has been included in various forms in over 3,000 international agreements, it has become mired in controversy. Indeed, Cecilia Malmström has described ISDS as "now the most toxic acronym in Europe" and the issue has generated considerable opposition from NGOs and from mostly left wing politicians concerned that corporations could sue nation states. Faced with the prospect of having any future deal which allowed corporations to sue governments struck down by the European Parliament, Malmström proposed the establishment of a multilateral investment court similar to that which had been included in the EU - CANADA Comprehensive Economic and Trade Agreement (CETA). Unfortunately this proposal has been rejected by the US negotiating team leaving negotiations at an impasse.

How would a post-Brexit British trade team handle this stage of negotiations?

The current state of negotiations offers a unique insight into the concrete difficulties a British trade team would be likely to encounter were they to negotiate with the United States. Whilst this assumes a British team could have reached the same situation, it should be noted that many of the important aspects of the treaty already

30 http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R1907-20140410

31 http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/542226/IPOL_IDA(2015)542226_EN.pdf

32 http://www.policy-network.net/uploads/media/154/9344.PDF

signed - including harmonization of regulations surrounding cars, pharmaceuticals and medical devices as well as data protection and Intellectual Property – would be agreeable to British interests. Moreover, the remaining issues are the most controversial and are therefore the areas in which a British team with less economic clout than the EU would presumably be most likely to grant concessions to the US. In this respect they offer an excellent case study as to whether a more nimble UK would be better able to sign trade deals outside the EU.

One area where it seems likely that the EU's economic might would yield a more favourable deal is in pursuing access to the US's heavily protected public procurement market. As demonstrated in the Presidential Primaries in which protectionist candidates such as Trump and Sanders have exceeded expectations, nationalist sentiment in the US is strong and in the current climate any weakening of the Buy American Act would cost political capital. Moreover, this protectionist instinct seems to run within the US Administration. A recent report[33] by the European Parliament firmly blamed the "sluggishness" of negotiations on the US. Though there are strong similarities between the US and EU negotiating objectives – as set out in the EU negotiating directives and the US Trade Promotion Act (TPA) - there are divergences: "the political objectives described in the TPA Act are more assertive when it comes to US economic interests than are the demands in the EU mandate." The report also references the tough negotiating tactics used by the US and suggests that negotiating a "comprehensive trade and investment deal with a partner of a similar economic size" has caused "negotiating dynamics to differ". All things being equal it seems that the EU would be in a stronger position to pursue such offensive interests.

Yet on several other issues, particularly those pertaining to regulatory cooperation, it seems likely that the UK could much more easily reach agreement with the US than the EU. Indeed, post-Brexit, the UK would be in the unique position of being compelled to redraft much of the existing European legislation.

Where this reduction of EU regulations could be of particular benefit is in the area of agriculture and food safety, both of which have created serious obstacles to completing TTIP. Whilst secure regulations would have to be in place and the public assured of their efficacy, it seems likely that the UK – shorn of the powerful agricultural lobbies of France and Southern Europe - could much more easily be opened to US agricultural products allowing substantial savings to the consumer. Indeed, this could be of particular significance in the area of genetically modified (GM) crops, which are extensively produced in the US. Whilst France and Germany tend to oppose the expansion of GM food, Britain favours a more open approach which it would be free to pursue outside of Europe.[34]

A second area where EU regulations amount to a protectionist barrier against US agricultural imports is Geographic Indicators. Though the UK currently has 65 products with protected status[35], over 80% of the EU's GIs are registered with Italy, France, Spain, Greece, Portugal and Germany. Moreover, with the exception of Scotch Whisky which is already protected under US law[36], most of British GIs refer to very specific food stuffs such as "Yorkshire Forced Rhubarb" or "Jersey royal Potatoes" or else in the case of a relatively generic food such as Cumberland sausage which is specifically produced in Cumbria, is prefixed with the word "Traditional". Importantly, the UK possesses no GIs such as Feta Cheese, which have become generic names for food products in the US. It is these which the US views as a protectionist measure and which are causing disagreement. A British trade negotiation with the US could avoid the spectacle of a country such as Greece threatening to veto the agreement over insufficient protection for Feta Cheese, something it has repeatedly done over the CETA negotiations with Canada[37].

In this respect Geographic Indicators represent a very useful tool in trade negotiations, with the rest of the world as well as the EU. On the one hand, a post Brexit UK would perhaps be able to open its markets to products such as "Feta Style" cheese or "American Parma" ham and lower costs and improve choice for consumers, or equally

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33 http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/549074/EXPO_IDA(2015)549074_EN.pdf
34 http://uk.reuters.com/article/us-food-europe-gmo-idUKKBN0KZ1OI201501
35 http://ec.europa.eu/agriculture/quality/door/list.html
36 https://www.law.cornell.edu/cfr/text/27/5.22
37 http://www.bbc.co.uk/news/world-europe-25363611

it could offer to continue to protect these GIs in exchange for accelerated membership of EFTA, which would probably be the favoured trading option with the EU post Brexit[38].

With regard to the complex negotiations over financial services, the main point on which both sides seem to have agreed so far is for "prudential carve-out" provisions, allowing governments to intervene and protect their financial systems in times of crisis. As discussed above, the two sides' negotiating positions regarding creating a harmonized regulatory regime seem incompatible and, with high level opposition from the US treasury and financial regulators[39], it seems likely that the major issues will have to be decided at a later date in international forums.

On the one hand, it seems that the impasse here has little bearing on whether Britain remains part of the EU. In either case the US is likely to want to negotiate financial services through international institutions of which the UK will be a member, whatever the outcome of the referendum. Yet a wider evaluation of the differing US and EU approaches to financial regulation reveals that they can largely be traced back to their different responses to the financial crisis. Whilst the US Congress passed the Dodd-Frank Act in 2010 in order to provide a comprehensive post-crisis regulatory framework[40], the EU took a much more piecemeal approach. Whilst rules on rating agencies and hedge funds were passed from 2009 onwards, further reform was slowed by the need to deal with the demands of the sovereign debt crisis in the Euro area from 2010 onwards[41]. This approach has been widely criticised in the financial press, with the Economist suggesting that the slow emergence of strict regulation encouraged chief bankers to "dither" and become overconfident that politicians "would sooner row back on regulation than force (banks) to retrench"[42]. That a fully sovereign UK undistracted by financial crises at the Eurozone's periphery would have allowed such regulatory divergence to emerge between itself and its most important trading partner seems unlikely.

Indeed, Professor Tim Congdon, one of Britain's leading economic commentators, goes so far as to suggest that "unsympathetic regulatory interventions from the EU" are one of the main barriers to further growth of the UK financial service industry. He cites in particular the growth of the European System of Financial Supervisors" which aims to create a "common regulatory culture" across all EU member states. Moreover, the power and scope of the ESFS bureaucracies - which have interfered extensively in the management of UK financial institutions – are determined by qualified majority voting in the EU's Council of Ministers leaving the UK with no veto. In this respect it seems certain that a more nimble post-Brexit UK could not only legislate more effectively and more precisely on the City's unique and specialist activities, but also do so in such a way as to bring it more closely in line with regulatory regimes of countries such as the US who have responded much more effectively to the financial crisis[43].

It is also probable that the UK could much more easily resolve the issues surrounding ISDS which has generated substantial opposition, particularly in Germany and the left leaning media[44][45]. Though ISDS typically works by providing legal redress for foreign corporations which are unfairly treated by host governments, concern that American companies will be able to unfairly sue European governments has caused Malmström to propose a new court to review such cases. Ultimately the EU would like to see the establishment of an international court to oversee all trade disputes.

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38 http://www.iea.org.uk/sites/default/files/publications/files/Brexit%20Entry%20170_final_bio_web.pdf

39 https://ustr.gov/about-us/policy-offices/press-office/press-releases/2013/july/readout-amf-barnie

40 J. T. Woolley and J. N. Ziegler, 'The two-tiered politics of financial reform in the United States', in R. Mayntz, (ed) Crisis and Control: Institutional Change in Financial Market Regulation. (Cologne: Max Planck Institute for the Study of Societies, 2012)

41 L. Quaglia, 'The European Union and the post-crisis multi-level reform of financial regulation', in R. Maynz (ed) Multilevel Governance of Financial Market Reform, (Cologne: Max Planck Institute for the Study of Societies, 2015)

42 http://www.economist.com/news/finance-and-economics/21674778-europes-dithering-banks-are-losing-ground-their-decisive-american-rivals-banking

43 http://www.brugesgroup.com/images/media_centre/papers/TheCityofLondoninRetreat.pdf

44 http://www.independent.co.uk/news/business/news/us-firms-could-make-billions-from-uk-via-secret-tribunals-9785924.html

45 http://www.theguardian.com/business/2015/jun/10/obscure-legal-system-lets-corportations-sue-states-ttip-icsid

A recent research paper outlines the main reasons for American opposition to such an international court. One key assumption is that it will be more objective than national judiciaries. In reality it seems that an international court will be even more open to conflicts of interest as states – particularly the 28 nations which make up the EU – may differ over which judges should sit on the court. Moreover, because signatory states are both defendants and the homes of investors, in one case they may wish to take legal action, whilst in another case foreign investors could criticise that action. Because arguments made by a signatory nation in one case will have implications for their own investors in another case, the "sincerity, integrity and quality of arguments made to the court could become impoverished" [46]. Perhaps the most important reason why the proposed establishment of an international court has concerned American trade negotiators and legislators[47], is that it will have no domestic democratic check on its authority and could weaken American sovereignty. Ultimately the United States is inherently suspicious of any international agreement or institution which could weaken its own political or judicial authority. A fact which shows the current US administration's strong support for the UK's membership of the EU to be at best self-serving and at worst condescending and hypocritical.

In many respects a prospective US-UK trade deal could sidestep many of the issues surrounding ISDS. Not only do the US and the UK arguably have the most respected legal systems in the world, but they share a similar legal culture including the supremacy of contact law and the common law tradition based of precedent. Considering that most ISDS agreements are between European countries and the majority of litigants are European corporations, it seems that much of the agitation against ISDS has a distinctly anti-American flavour which is much less strong in the UK than on the continent, especially Germany. Moreover, because British sovereignty resides primarily in a democratically elected parliament, it is much less at the whim of corporate lobbyists than the EU. Both the UK's established democracy and its highly respected legal system mean that any UK trade or investment agreement could be protected under existing domestic law without recourse to elaborate ISDS regulation.

Summary: Would a post-Brexit UK be more able to sign trade deals with the US?

Within the British media, much has been made of the comments of Michael Froman, one of the US top trade representatives, who said that the US would not be interested in a trade deal with Britain[48]. The UK, he argues, "has a greater voice at the trade table being part of the EU, being part of a larger economic entity". The above case study overwhelmingly suggests that he is incorrect.

Whilst it is perhaps true that the EU is better placed when confronting defensive US interests, for instance those surrounding pubic procurement, across all the most contentious areas of the stalled TTIP agreement, the UK would be much more able to reach agreement acting outside of the EU. With regards to the harmonization of regulation across goods and services, it appears certain that an independent UK whose political traditions of limited government are much closer to those of the US could more quickly reach agreement than the EU, which is based on bureaucratic top down regulation. Significantly, the EU itself estimated that around 80% of the benefits of a proposed agreement will come from eliminating such NTBs, an area where London would surely be more proficient than Brussels.

Indeed, should the UK invoke Article 50 following a leave vote in June, it is conceivable that the UK could even conclude a trade deal with the US before the EU. The current pace of negotiations has been described as sluggish with significant gaps remaining between both sides' positions. In contrast, the UK has the benefit of being able to use the existing text as a template for its own negotiations. It has important markets in agriculture which it could offer to open up to the US and would be able to act unilaterally without having to achieve consensus with 27 other nations. Moreover, it is possible that the departure of the EU nation most committed to free trade could hinder the EU negotiating position. Germany under Angela Merkel has successfully been able to hold the centre

46 http://www.heritage.org/research/reports/2015/11/the-us-should-reject-the-european-commissions-proposed-investment-court

47 http://ttip2016.eu/blog/eu-will-have-to-concede-to-seal-ttip-deal-warns-us-campaigners.html

48 http://www.theguardian.com/politics/2015/oct/29/us-warns-britain-it-could-face-trade-barriers-if-it-leaves-eu

ground in EU politics, successfully mediating between (or successfully playing-off against each other!) the free trade orientated UK against the protectionist inclined nations of France and Southern Europe. Following Brexit the centre of gravity in Europe would probably shift towards greater protectionism, especially surrounding agriculture, which would further harden the EU's negotiating position and reduce the chances of quickly closing the deal.

It seems certain that a post-Brexit UK would be more nimble and could thus successfully and rapidly negotiate a deep and comprehensive trade deal with the US. Whilst it no doubt benefits the US to have a strong and powerful ally within the EU, confronted with the fact of Brexit it would be inconceivable that the US would spurn London to curry favour with Brussels. The UK remains America's most important ally, their economies are heavily interdependent and they share a history of promoting free trade. As the above chapter has illustrated, the interests of the US align much more closely with the UK than the EU. When one considers Britain and America's shared history it is remarkable that these two nations don't already trade freely. It seems highly likely that Europe has in fact hindered the emergence of a stronger trading relationship between Britain and the US.

In short, it is highly probable that the UK would not only be able to conclude a trade deal of equal, if not greater scope than the EU and be able to do so rapidly.

Case Study 2: China

The rise of China has arguably been the most important event thus far of the 21st century and continues to substantially alter the status quo in both geo-politics and the world economy. In the last twenty years its GDP has not only increased 11 fold to become the 2nd largest economy in the world[49], but since 2013 it has become the world's largest trading nation, trading over $4 trillion of goods[50]. Although concerns have been expressed over China's medium term growth prospects as it shifts from a growth model driven by investment to one driven by consumption, it seems certain that over the long term China retains massive capacity for further economic expansion. Indeed, for GDP per capita to reach current South Korean levels would require the economy to expand by a further 250%. How successfully the UK can exploit this emerging market will be a significant factor behind its continued economic success.

In 2014, for the first time, net UK trade was larger with countries outside the EU[51]. To a large extent this has been driven by the growth of emerging markets such as China and their increasing role in the world economy. Since 2004, China has become Britain's 4th largest import partner, following a growth of imports from £11.4 billion to £37.6 billion in 2014. Growth in exports, however, has been more subdued, increasing from £4 billion to £16.7 billion in the same period[52]. Though this is much less than France or Germany, It is hoped that as China's economy reforms and becomes increasingly reliant on domestic consumption, it will increasingly require many of the higher-end manufactures and services in which Britain specialises. Indeed, increasing UK exports to China has been identified as a priority in order to hit the UK's aspiration of exporting £1tn by 2020[53].

As part of this reform – and importantly for the purposes of this paper – the Chinese Government has signalled that it wishes to "accelerate the implementation of the free trade area strategy and construct a new open economic system", building upon and developing the 14 existing free trade agreements which it has already

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49 http://www.stats.gov.cn/english/PressRelease/201602/t20160229_132401

50 http://www.theguardian.com/business/2014/jan/10/china-surpasses-us-world-largest-trading-nation

51 http://researchbriefings.files.parliament.uk/documents/SN06091/SN06091.pdf

52 http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/international-transactions/outward-foreign-affiliates-statistics/how-important-is-china-to-the-uk-economy-/sty-china.html

53 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211157/UK_Exports_to_China_-_Now_and_in_the_future.pdf

signed[54]. As part of this strategy it has already negotiated and implemented a significant free trade agreement with Switzerland and has begun to negotiate a bilateral investment treaty (BIT) with the EU.

The Chinese economy is already very important to the UK, it possesses a potentially massive export market for British goods and services and it has signalled strongly its willingness to trade freely with the world. In this chapter I hope to answer two questions: (1) would a post-Brexit UK be able to successfully and rapidly negotiate a significant free trade agreement with China? And (2) how would this be likely to compare to a potential Sino-EU FTA?

China and Britain within the EU: Current progress on trading agreements.

The EU's economy is as a whole much more entwined with China's than the UK's. China is the EU's biggest source of imports by far and is its second largest export market with net trade totalling well over €1 billion a day[55]. Investment flows are also increasingly significant: the EU accounts for 20% of all inward FDI in China and although China accounts for 2-3% of investment in the EU, it is rising quickly from a low base. The significant Chinese investment in the proposed Hinkley Point C power station is indicative of the increasingly significant role China is likely to play in European investment over the coming years.

Despite their interdependence, China is still viewed as a tough place to do business. The value of the EU's service exports, for instance, is only 1/5th that of goods, partly due to market access barriers in China. More broadly, the EU is concerned by the weak rule of law, weak intellectual property rights as well as the significant and largely opaque role the Chinese government plays in the market and the dominant position of various state owned enterprises. A symptom of the distorting effect that the Chinese government's economic policies are having is currently playing out in the ongoing glut of steel in the market, largely stemming from significant Chinese overcapacity. Though China's economy offers large returns, its sheer size and the domineering role the government still plays has proven to be a potential threat to European businesses both inside and outside of the country.

Although numerous trade agreements exist between China and the EU, they are generally limited in scope and focus on allowing firms to more quickly clear customs. Although China has been proposing a comprehensive free trade agreement for several years, the issues noted above as well as concerns over China's human rights record have caused the EU to reject these overtures[56]. Instead negotiations have been under way since the end of 2013 on a Bilateral Investment Treaty in order to replace the 26 existing treaties which govern bilateral investment and to reciprocally open up the EU and China's markets. Currently all foreign investments into China must go through the Chinese government's examination and approval process. The EU is hoping to replace this blanket system of examinations with a negative list of specific industries where investment must be approved, though the scope and depth is still to be agreed.[57]

Though both sides insist that the negotiations are making good progress[58], it is uncertain if and when negotiations are likely to be brought to a conclusion. Moreover, the conclusion of this treaty which has been under negotiation for over two years is only the first step towards an FTA. Malström[59] has stated that the EU will only consider an "ambitious trade and investment agreement" on the conditions of a good outcome on the investment negotiations and when the Chinese state becomes a "regulator not an economic operator". In other words a fundamental reorganisation of the Chinese political economy is required before the EU will even consider free trade with China. With President Xi's economic reforms stalled, and the EU having difficulty

54 http://fta.mofcom.gov.cn/enarticle/enrelease/201603/31157_1.html
55 http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/
56 http://trade.ec.europa.eu/doclib/docs/2016/february/tradoc_154322.pdf
57 http://europesworld.org/2015/04/01/treading-carefully-minefield-eu-china-investment-treaty/#.VwP5BPkrLIU
58 http://www.euractiv.com/section/trade-society/interview/chinese-envoy-a-bilateral-investment-deal-with-the-eu-is-in-sight/
59 http://trade.ec.europa.eu/doclib/docs/2016/february/tradoc_154322.pdf

closing a deal with United States with whom its shares traditions of democracy, rule of law and a similar state of economic development, the chances of closing an FTA with China within a decade appear vanishingly small.

Would a post-Brexit UK be in a better position to trade freely with China?

Sino-British relations have been described by David Cameron as entering a “golden era”[60]; a marked contrast to the diplomatic chill between the EU and China over the former’s refusal to grant market status to the latter. Since recognising China’s direct rule over Tibet in 2008 and muting concern over human rights issues, Britain and China’s relationship seems to have steadily improved, culminating in President Xi’s visit to London last year in which significant agreements were reached on trade, technology and culture. Certainly, if Britain were to leave the EU, an already healthy diplomatic relationship exists with China.

Yet beyond cordial relations, China has also shown its willingness to sign treaties with other countries in EFTA. In 2013 China signed an FTA with Iceland which was followed in 2014 with a free trade agreement with Switzerland. Like the UK, Switzerland has an important financial centre, a strong pharmaceuticals industry and exports a significant volume of luxury goods to the Middle Kingdom. Over the next 10 years the deal will reduce tariffs on 96.5% of Swiss products and eliminate them entirely on 84.2%. In exchange, the Swiss will phase out tariffs on 99.7% of Chinese imports[61]. Not only will the deal reduce the cost of textiles, agricultural products and industrial goods for Swiss consumers, it is hoped that the deal will buoy the sale of important Swiss exports – such as luxury watches – and help them steal market share, particularly against EU producers who are still behind a high tariff wall. In this instance, a more nimble Switzerland has proved more able to sign significant free trade deals than the EU.

Though the Sino-Swiss deal would seem to be a good potential template for a post-Brexit UK, it has attracted criticism by those in the media who argue that it is unfairly weighted in China’s favour[62,63]. Because the Chinese economy is five times the size of Switzerland’s, critics argue that the Chinese forced tough concessions from the Swiss in order to close the deal: China eliminates less tariffs on Swiss products than vice versa and also introduces them more slowly. Britain, it is argued, would be better to negotiate as part of the combined might of the EU, than risk reaching an unfair and unsatisfactory deal on its own.

There are several important flaws in this argument. In the first instance, it makes the protectionist assumption that free trade negotiations are merely a brute contest over who can reduce the opponent’s trade barriers the most whilst lowering yours as little as possible. In reality, domestic consumers benefit heavily from the reduction in export tariffs. This is especially true in the case of complimentary economies such as that of the UK – whose competitive advantage is in high tech services and industry – and China’s more labour intensive economy. If the UK buys cheaper and more efficiently made goods from China instead of Eastern Europe then the consumer benefits without any threat to domestic industry.

Moreover, as we saw in chapter 1, trade begets more trade as stronger links grow between countries and further supporting industries and services emerge to support this growing trade. This was as true in the 19th century when Britain’s policy of unilateral free trade spurred the growth of its financial services industry, as it is in the 21st century where the Swiss are aiming to create a hub for trading the Renminbi, which in turn will generate further trade links. As China’s economy – especially its services sector - gradually opens up, those countries with already strong links will be best placed to capitalise.

That a good trade deal signed now is better than the possibility of an outstanding trade deal later is especially true if the prospect of that outstanding trade is likely to be decades away. Whilst a hypothetical free trade orientated EU would perhaps be able to negotiate a more balanced deal than the UK alone, as we saw earlier in the chapter, it seems unlikely that such a deal will even begin to be discussed anytime in the near future. In the

60 http://www.theguardian.com/business/2015/oct/24/britains-deals-with-china-billions-what-do-they-mean
61 http://www.china-briefing.com/news/2014/07/03/china-switzerland-free-trade-agreement-comes-force.html
62 http://blogs.spectator.co.uk/2016/04/boris-and-the-brexiteers-are-talking-nonsense-about-britains-trade-policies/
63 http://www.wsj.com/articles/brexit-would-make-u-k-trade-less-free-1456954539

meantime, China has signalled its willingness to negotiate mutually beneficial FTAs with independent European nations. An open, post-Brexit UK with strengths in many of the kinds of business services which China will increasingly need as it switches towards a more consumption driven growth model would surely be an obvious target for Chinese trade negotiators.

It is worth considering, however, to what extent the EU's concerns about trading freely with China would impact British interests. It is certainly true that China's government plays a significant role directing its economy, maintaining an economy at home which is difficult for foreign firms to enter, and pursuing industrial policies which may allow it to unfairly compete against foreign rivals abroad. With regard to Chinese exports undercutting foreign competitors, it is clear from the current threat to what remains of the UK steel industry that Britain would not be entirely immune to this possibility. Nevertheless, the UK – with its strengths in high end manufacturing and business services – would experience much less disruption than the more varied economies of the European Union.

At the root of the EU's concerns over human rights and China's closed economy, is China's autocratic style of government. Whilst a move towards greater liberalisation would benefit both the UK and the EU, it seems unlikely that withholding a free trade agreement from China will speed up its path towards liberalisation. Ultimately China will open up at its own speed, not in response to the prospect of a free trade agreement. In the meantime the EU's unwillingness to conclude even a partial deal is almost certainly hindering both China and the UK's economic development.

Indeed, the benefits to the UK of such an agreement with China would be significant. Beyond lower tariffs for imports and wider market access for exporters, British firms would probably steal market share from European rivals. China, for instance, is the UK's 3rd largest market for car exports and Jaguar Land Rover the UK's most important exporter in China[64]. An FTA which reduced or eliminated tariffs on British car exports would make British cars more price effective. Similarly, if Britain were to also become part of EFTA, businesses would relocate part of supply chains in the UK in order to take advantage of Britain's low tariffs with the EU and the rest of the world. Several consultancy companies, including PWC, have already produced brochures advertising this possibility in Switzerland[65]. If Britain post-Brexit were able to eliminate tariff barriers with the EU and the rest of the world it may find that its manufacturing sector receives a considerable boost.

It seems certain therefore that an independent Britain's "nimbleness" is more likely to yield a trade deal with China than the relative "clout" of the EU. The two countries enjoy good diplomatic relations and China has already signed deals with two EFTA nations. Indeed, it in fact seems quite likely that the EU's uncompromising stance regarding free trade with China – borne out of its protectionist instincts and sheer economic size – will make China even keener to sign agreements with the UK as they provide a back door into the common market and act to force the Commission's hand.

Conclusion and Recommendations

This paper set out to investigate whether a post-Brexit UK would be more able to sign trade agreements with the rest of the world. One of the important assumptions made by some financial commentators - which has informed my investigation throughout – is that the UK is better placed negotiating as part of the EU because a larger potential market offers more bargaining power when trying to reduce foreign tariffs. Whilst, all things being equal, a larger domestic market probably does grant more bargaining power in trade negotiations, in the case of the UK and the EU I argue that not all things are equal. Whilst the EU does wield greater economic clout than the UK, Britain is significantly more disposed to free trade than Europe and, if unencumbered by the need

64 http://www.smmt.co.uk/2016/01/best-year-in-a-decade-for-british-car-manufacturing-as-exports-reach-record-high/
65 http://www.pwccustoms.com/en/recent-developments/assets/china-switzerland-fta-july2013fa.pdf

to balance the interests of 27 other nations, could move more "nimbly" to sign bespoke deals to benefit Britain's highly specialised economy.

The argument that the size of a country's domestic market is the crucial element in trade negotiations lies on the fallacious assumption that their primary purpose is to maximise exports. Though exports are important, an analysis of British economic history over the previous 2 centuries reveals that the main benefits of free trade have been cheaper imports and boosted competiveness for domestic industry. Though unilateral free trade would certainly be a better policy than a return to protectionism and shouldn't entirely be ruled out, bilateral and multilateral trade agreements remain important. In the first instance many of the gains of modern trade agreements come from the elimination of NTBs such as the harmonisation of regulations, something which can only be achieved through negotiations. In the second instance domestic tariff barriers are a useful negotiating tool when attempting to reduce foreign tariffs. To maximise the benefit of any potential free trade deals, British negotiators must feign protectionism in order to gain concessions, but ultimately be willing to lower British tariff barriers almost completely.

Having thus argued that Britain's greater willingness to trade freely and reduce tariffs is much more important in concluding negotiations than the promise of a large potential market alone, I test this thesis in two case studies focussing on potential British trade deals with China and the US. The US and China are not only important markets for the UK, but are the 2nd and third largest economies in the world after the EU's. If Britain can negotiate good agreements with these two economic giants, it suggests strongly that the UK acting outside of the EU would be more able to negotiate trade deals with the rest of the world. Moreover, if the UK were to re-enter the European Free Trade Association, it would immediately become party to a further 25 agreements covering 36 countries.

An analysis of the ongoing TTIP negotiations between the EU and the US, reveals that in 4 of the 5 main areas which are holding up negotiations, Britain could much more easily reach agreement with the US if it were acting independently. Whilst the greater economic clout of the EU may be more able to tackle defensive US interests such as its highly protected public procurement market, over issues such as regulatory harmonisation, contentious GIs, financial services and ISDS, the UK - whose traditions of limited government are much closer to America's – would be much more able to conclude negotiations than the EU. Whilst much has been made of US trade negotiator, Michael Froman's, stated preference for the UK remaining in the EU, it seems inconceivable that the US, faced with the fact of Brexit, would spurn its most important ally to curry favour with Brussels. With the current state of negotiations on TTIP described as "sluggish" by the European Parliament, it is conceivable that UK could not only negotiate a deal of greater scope but potentially also more quickly than the EU.

Similarly, China has shown itself very willing to negotiate trade deals with both the EU and other European countries. However, whilst Switzerland and Iceland have already concluded deals with China, the EU has rejected Chinese overtures on the grounds that China's economy is still too closed and is dominated by its government. This is another instance of the EU harming British growth prospects. Whilst it would no doubt be desirable for China to further liberalise its economy, these reforms will ultimately be driven by domestic pressures, not the prospect of a trade treaty. In the meantime, a good deal now is better than waiting for a potentially better deal decades hence. As the Sino-Swiss treaty has shown, a willingness to trade freely is a far more significant prerequisite to concluding a treaty than a large domestic market.

In summary, my case studies of China and the US argues conclusively that the UK would be much better able to negotiate trade deals with the rest of the world than the EU. Nevertheless, if Britain were to invoke Article 50, it would be faced with the prospect of having to negotiate trade deals on multiple fronts. Yet for a wealthy country such as Britain, this is surely not an insurmountable problem. It has a world leading legal and business services centre in the city which it could draw on and, just as it has chosen its current Governor of the Bank of England from Canada, so the UK could bring in international expertise from around the world.

What, however, of the EU's current trade agreements to which Britain is party? The Economist has suggested that the UK would lose its access to the existing network of EU trade deals and that it would be unlikely to be able to negotiate deals of similar comprehensiveness[66]. However, an analysis of the relevant legislation suggests that this is not the case: whilst the EU is responsible for the negotiation of trade agreements, most of these agreements must be signed by Member States as well as the EU[67] meaning that parties can simply agree to the agreement's continuation. This is supported by Article 34 of the Vienna Convention on the Succession of States in respect of Treaties which states unequivocally that "any treaty in force at the date of succession of States… continues in respect of each successor State formed" even if the predecessor State continues to exist. In short the UK would not need to renegotiate the EU's current trade deals. ll that is needed is for the parties to the treaties to agree to their continuance.

The picture that has consistently emerged throughout this research paper, is one of protectionist EU trade policies actively hindering UK trade. Though the UK's market is certainly smaller than the EU's, I have demonstrated that a more nimble Britain would almost certainly be able to negotiate deep and comprehensive deals with the largest economies in the world. Moreover, without having to balance the competing interests of 27 diverse economies, it could much more easily open its market to foreign imports such as agricultural imports and manufactured products. Not only would this significantly lower costs for consumers, but it would be a significant bargaining tool against countries as diverse as India, the US or the nations of South America; countries – in other words – whose long term growth prospects are much healthier than the EU's. This paper unequivocally supports the argument that Britain will be much stronger and more prosperous independent of the EU: outside of Brussel's restrictive embrace the world is the limit.

66 https://mail.google.com/mail/u/0/#inbox/1541aa3caccf6e06
67 http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Aai0034

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