



UK's Post-Brexit Economic Prospects in View of its Trade and Cooperation Agreement (TCA) with the EU

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Abstract

The socio-economic incentives of the EU membership approach with certain political responsibilities. Following a Eurosceptic approach, the UK had often been seeking a reduction in the obligations on its part as an EU member. Eventually, it decided to leave the membership in an attempt to 'take back control' of laws and borders. The economic cost of the Brexit for the UK has been widely debated since the country's referendum on the EU membership. Studies conducted in the midst of Brexit process mostly lacked a single-scenario analysis because the precarious Brexit talks made any estimation about the nature of UK-EU future relationship difficult. With the realization of both Brexit and the post-Brexit cooperation agreement between the parties, the phenomenon becomes much more lucid and demands a more focused and coherent analysis. The article examines UK's economic implications after Brexit in the light of Trade and Cooperation Agreement (TCA) that establishes a redefined economic partnership between the UK and the EU. It is argued that the Brexit will adversely affect the UK's economic performance in the medium to long term as the country loses unrestricted and comprehensive access to the EU market and does not have easy alternatives.

Keywords: Brexit, UK, economic prospects, free trade agreements

Introduction

Ever since its entry into the European Community in 1973, the United Kingdom (UK) had been seeking exemptions from the former's general policies. Consequently, it received a number of concessions such as rebate

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on the annual budget and opt-out from both euro and social charter of the EU. Still, the Euroscepticism in the UK remained unchecked and the debate on redefining relationship with the EU gradually assumed more importance. This debate translated into a concrete policy in January 2013 when the former British premier David Cameron declared, in his famous speech on Europe, to negotiate a new settlement with the EU and then hold an ‘in-out’ referendum. Accordingly, in his second tenure, Cameron negotiated a settlement with the EU in February 2016 and then held the historic Remain/Leave the EU referendum on June 23, 2016. Contrary to the dominant expectation, the ‘leave’ option got victory although by a narrow margin. This led to the Cameron’s ethical resignation as he campaigned for the ‘remain’ vote, and the start of a bumpy process of Brexit—Britain’s exit from the EU. Theresa May, as the next prime minister, made an explicit commitment to Brexit and formally invoked the Article 50 of EU’s Lisbon Treaty on March 29, 2017 to meet the ‘exit’ formalities in a period of two years. The Brexit agenda included two core objectives: withdrawal agreement and a new settlement for UK-EU future relationship. Settlement of the Irish border issue post-Brexit proved to be the crosscutting and the most complicated problem in all Brexit negotiations. Because of the Tories reservations over the Irish ‘backstop’ plan, May could not achieve parliamentary approval for the Brexit plan she finalized with the EU in November 2018. Failure to resolve this issue led to extension in the two year Brexit deadline thrice and finally May’s resignation from the premiership.

After assuming power as new prime minister in December 2019, Boris Johnson concluded a revised withdrawal agreement and got it ratified from the parliament rather quickly. With effect from January 31, 2020, the UK formally left the EU membership and entered the transition period to implement the withdrawal agreement and conclude a post-Brexit deal with the latter till December 31, 2020. Ultimately, Johnson earned remarkable success by concluding the Trade and Cooperation Agreement (TCA) with the EU on December 24, 2020 and thus ending the long and difficult Brexit process.

Brexit stands as a unique phenomenon in the European integration history and involves the competing economic and political interests of the UK and the EU. It has serious and far-reaching consequences for the individual as well as collective trajectories of both parties. The complicated Brexit process and the subsequent hard-earned post-Brexit deal are reflective of these

characteristics. Given the centrality of economic advantages of the EU membership, the Brexit discourse has mostly been focused on its economic consequences for the UK. However, the studies conducted on the subject could not offer a coherent findings because the nature of UK-EU future relationship remained inconclusive till the finalization of their bilateral agreement. Therefore, it is important and opportune to study the economic implications of Brexit for the UK in the light of TCA.

This article is based on the qualitative data collected from both primary and secondary sources. The major source of data is the agreements reached between the EU and the UK as part of their post-Brexit deal. What extent, the post-Brexit deal secures or undermines the UK's economic interests compared with its erstwhile position as an EU member while taking into account the country's liberty to conclude free trade agreements (FTAs). It is structured into theoretical and analytical parts. The theoretical part explains the UK's departure from the EU membership in the light of realist approach on the relationship between states and international organizations. The analytical part first highlights the key points of the UK-EU post-Brexit deal to identify the salient features of future relationship between the two actors. This is followed by an analysis of the indicated provisions of the deal to identify their economic implications for the UK. Finally, it examines the UK's prospects for the FTAs which it views as a key alternative for the loss of free access to the European market.

Theoretical Perspective

The realist theoretical approach, particularly based on its three core concepts—statism, survival and self-help. These elements constitute the bedrock of Realism irrespective of its classical and modern variants.¹ Statism involves the centrality of state as an actor; all other actors are of less significance. Internally, a sovereign state seeks to establish an exclusive authority over its territory and population. Externally, it pursues more power and security in relation to other states, especially competitors, in an anarchic international system. The ultimate objective and the supreme national interest of any state is survival which is taken as 'security maximization' by

¹ Tim Dunne and Brian C. Schmidt, "Realism," in *The Globalization of World Politics: An Introduction to International Relations*, eds. John Baylis, Steve Smith and Patricia Owens (New York: Oxford University Press, 2008), 93.

the defensive realists and ‘power maximization’ by the offensive realists.² The world is majorly characterized by international anarchy, survival can only be achieved through self-help. No other actor—whether a state or an organization—can be trusted for this preeminent objective. By implication, realists view international organizations as instruments used by the powerful states to further their ‘relative’ gains. This indicates that a state would redefine its relationship with an international organization when its national interest is not being served optimally.

The above-defined realist approach better explains the UK’s ultimate decision to exit the EU and redefine the terms of engagement for a new relationship with it. Britain has always been wary of deeper European integration involving supranational institutions, favoring only an intergovernmental economic cooperation. This so-called Euroscepticism is not only rooted in UK’s unique geographical position and distinct history—glorious past, strong democratic tradition, Commonwealth, strong links with the US—but also shaped by its media and ruling elite. The country stood aside from the treaties which founded the European Coal and Steel Community (ECSC) and European Economic Community (EEC) in 1951 and 1957 respectively. In 1973, it eventually joined the EEC, the predecessor of the EU, in view of economic benefits of common market rather than political commitment to continental integration. Subsequently, it went along with increased European integration after securing important concessions and exemptions—rebate from EU budget as well as opt-outs from Euro, Schengen, justice and home affairs and Charter of Fundamental Rights. This special treatment did not diminish UK’s stature in the EU; rather, it remained at par with Germany and France in terms of influencing EU policies. Nevertheless, the UK mostly gave preference to the material considerations over its privileged position in the Union. Time and again, it sought to revise relationship with the EU to minimize the costs without compromising the benefits of access to the single European market (SEM).

The UK was dissatisfied with a number of EU policies. Foremost, it had serious reservations about EU’s policy regarding the free movement of people across member states. This policy led to huge immigration to the UK from other EU member countries, particularly from poorer Central and Eastern European countries and the Eurozone following the 2008 financial

² Glenn H. Snyder, “Mearsheimer’s World-Offensive Realism and the Struggle for Security: A Review Essay,” *International Security*, 27 (2002): 151.

crisis. Additionally, EU's lax border controls resulted in illegal immigration to the UK. Proponents of Brexit asserted that this mass immigration put strain on public services—housing, education and welfare—as well as labour market by affecting the wages and employment of native workers. Secondly, the UK was critical of EU's cumbersome regulations in various economic areas such as business, public finance, trade and investment. Brexit supporters complained that EU's over-regulation and red tape not only undermined UK's sovereign choices, these also cost economy and made goods and services more expensive. Thirdly, the UK contributed much more to the EU than it got back in the shape of both funds and rebates; it was the second largest net contributor to the EU budget. The UK received small share in EU funding for agriculture and poor regions for having a smaller farm sector and less poor regions. Lastly, the UK objected to the jurisdiction of the European Court of Justice (ECJ), which has powers to interpret and enforce EU law and can overrule the domestic courts of member states.

In view of above, the UK several times sought to redefine its relationship with the EU. In this pursuit, it cherished to maintain the economic benefits of common market but to minimize the burdens of membership. The most recent attempt in this direction was made by David Cameron, who used his pledge to hold an in/out referendum on EU membership as a mean to secure a favorable deal on UK's revised relationship with the EU in February 2016. The deal gave the British government not only significant concessions in concerned areas but also exemption from the 'ever closer union' objective of European integration. However, the UK lost this opportunity as the referendum result was in favour of leaving the EU.

Key Features of the UK-EU Trade and Cooperation Agreement

Trade and Cooperation Agreement (TCA) determines relationship between the parties following the UK's complete departure from the EU with effect from January 1, 2021. The UK-EU deal comprises three agreements: Trade and Cooperation Agreement, Nuclear Cooperation Agreement, and Agreement on Security Procedures for Exchanging and Protecting Classified Information.³ Of these, TCA is the most important achievement in terms of defining the UK's post-Brexit economic relationship with the EU. The Agreement is 1246 pages long document comprising areas of cooperation

³ "GOV.UK," last updated February 2, 2021, <https://www.gov.uk/government/publications/agreements-reached-between-the-united-kingdom-of-great-britain-and-northern-ireland-and-the-european-union>

divided into seven parts, and various annexures and protocols.⁴ Key features of the TCA are presented to subsequently analyze UK's economic prospects following the Brexit.

Basis of the Relationship

The TCA provides the 'basis for a broader relationship' between the UK and the EU that is characterized by mutual cooperation and respect for sovereignty. The relationship between the two parties would be based on international law, rather than the EU law. Further, a Partnership Council with a political mandate will oversee the Agreement and give strategic direction accordingly.

Trade in Goods

Part 2—Trade, Transport, Fisheries and Other Arrangements—is the key part of the TCA as it entails the areas in which the UK-EU talks were the most uncertain and difficult, viz., trade and fisheries. It provides for tariffs-free and quotas-free trade in goods between the parties if the goods meet the agreed rules of origin.⁵ The rules of origin mutually recognize the inputs from each other in manufacturing the goods eligible for free trade. However, both parties are free to apply non-tariff regulatory barriers such as conformity assessment, accreditation, standardization and marking and labelling.

Fishing

The EU will abandon the fishing rights in the UK waters by 25% over a period of five years; thereafter, the matter will be decided through annual negotiations.

Trade in Services

Contrary to the trade in goods, TCA does not provide for a liberal treatment in case of trade in services and investment.⁶ In the absence of an 'equivalence' provision in the agreement, financial services like banking have now lost the right of an automatic access to the respective markets.

⁴ "Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the One Part, and the United Kingdom of Great Britain and Northern Ireland, of the Other Part," *GOV.UK*, December 24, 2020, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/948119/EU-UK_Trade_and_Cooperation_Agreement_24.12.2020.pdf

⁵ "Trade and Cooperation Agreement," 18, 28.

⁶ "Trade and Cooperation Agreement," 74-90.

Likewise, professional qualifications such as that of doctors do not have automatic recognition in relation to one another. In addition, freedom of movement between the EU and the UK comes to an end while 90 days visa-free travel is available to specified occupations.

Fair Competition

For ensuring a level playing field conducive to fair and open competition, the UK and the EU commit to avoid distortions of trade and investment and adopt common standards related to workers' rights and social and environmental protection. This does not mean that the UK should follow the EU law, but it must ensure fair competition. In this regard, the parties will also ensure that only reasonable levels of state subsidies are provided to the companies. In case of any deviation by one party, the other can retaliate by imposing or raising tariffs, a measure that is then subject to settlement by an independent panel rather than the European Court of Justice.

Dispute Settlement

The Agreement lays down a detailed mechanism for the settlement of disputes between the parties.⁷ In case of emergence of a dispute between the UK and the EU regarding the breach of the TCA or any other mutually agreed agreement, they will seek solution through bilateral consultations. If this instrument fails, the complaining party can ask for the establishment of an arbitration tribunal. Upon the proof of any violation of the Agreement, the losing party should comply with the tribunal decision within a reasonable period of time. In case of failure, the winning party can undertake retaliatory measures including the withdrawal of benefits under the agreement or imposition of tariffs. Notably, the European Court of Justice does not have a role in the UK-EU dispute settlement procedure except in the case of Northern Ireland which will continue following many of the EU rules.

The TCA is indeed a remarkable development given that the UK-EU negotiations on the post-Brexit relationship have been uncertain and divisive throughout the years since the June 2016 referendum. In fact, David Cameron risked to announce the referendum to gain advantage in terms of his reelection as Prime Minister and redefining UK's terms of engagement with the EU without leaving its membership. Without having a well-planned Brexit programme. Consequently, the negotiations process was difficult for

⁷ "Trade And Cooperation Agreement," 383-97.

the UK, particularly over the future trade relationship with the EU and border management between Northern Ireland and Republic of Ireland given its economic and political stakes involved in these agendas. Theresa May had to resign from premiership because she failed to satisfy Conservative parliamentarians over the Irish ‘backstop’—the Northern Ireland Protocol—she agreed with the EU. Taking this backdrop into account, the UK-EU agreement on the future course of cooperation is a big achievement. It is characterized by a balanced approach that not only avoids the worst scenario of no-deal Brexit but also respects the major demands of both parties. The EU ensures the continuity of an open border between the Republic of Ireland and Northern Ireland and also keeps intact the indivisibility of four freedoms of its single market. The UK maintains free trade in goods with the bloc while it ‘takes back control’ of laws and policies from the EU. Nevertheless, the TCA determines a relationship between the parties fundamentally different from the previous membership-based association. As the UK abandons the EU membership after 47 years and establishes a new relationship with it, the phenomenon has deeper economic implications for the country and merits a critical investigation.

UK’s Post-Brexit Economic Prospects

As the Brexit has been materialized plus the UK-EU bilateral agreement has also been finalized, most of the underlying factors of the future relationship between the parties are much evident and, therefore, warrant a more precise analysis. In this regard, three factors help understand the economic implications of Brexit in a transparent way: Brexit uncertainty (2016-2020), nature of the UK-EU TCA and UK’s international trade agreements. Prior to the elaboration of these factors, it is pertinent to highlight the EU’s economic significance for the UK and the possible scenarios for the UK’s economic performance after Brexit.

EU’s Economic Importance for the UK

Over the years since its membership to the European Economic Community (EEC) in 1973, the UK’s economy turned integrated with and hugely dependent on the Single European Market (SEM) which functions under four freedoms—trade, services, capital and people—and supranational economic policies. Consequently, the EU, as a bloc, is the largest trading partner of the UK. In 2019, UK’s 47 percent trade took place with the EU including 43

percent of its exports and 52 percent of imports.⁸ These figures contain both trade in goods and trade in services. Separately, the EU accounted for UK's 46 percent of goods exports and 39 percent of services exports as well as 53 percent of its goods imports and 49 percent of services imports in the same year.⁹ Based on this data, the UK had a deficit of £97 billion in terms of trade in goods with the EU but it recorded a surplus of £18 billion regarding trade in services with the EU.¹⁰ Outside the EU, the US stands out as the largest trading partner of the UK by country. In 2019, it accounted for 16.3 percent of the UK's total trade including 20.4 percent of exports and 12.4 percent of imports.¹¹ In the same year, China stood as the 4th largest trading partner of the UK by country accounting for 6.1 percent of the UK's total trade with 5.3 percent of its exports and 6.9 percent of imports.¹²

These trade statistics demonstrate that almost half of the UK's pre-Brexit trade are with the EU, nearly three times higher than its trade with the US. This shows enormous economic importance of the European market for the UK resulting mainly from the easiness of trade relationship thanks to the SEM's four freedoms. Therefore, the UK's post-Brexit relationship with the EU carries deeper economic implications for the country while the TCA can serve its economic interests to a certain degree. In early 2016, Financial Times conducted a poll of more than 100 economists on the economic implications of the Brexit. Majority, more than three quarters, believed that Brexit would have an adverse effect on the UK's economic performance at least in the medium term.¹³

Possible Economic Scenarios

Three possible economic prospects may emerge from the Brexit. First, is an ideal Brexit consequence for the UK's economy. It does not create any short-term turmoil and results in medium and long term economic boom. This

⁸ Matthew Ward, *Statistics on UK-EU Trade* (Briefing Paper No. 7851) (London: House of Commons Library, 2020), 3, <https://commonslibrary.parliament.uk/research-briefings/cbp-7851/#:~:text=The%20EU%2C%20taken%20as%20a,2002%20to%2043%25%20in%202019.>

⁹ Ward, *Statistics on UK-EU Trade*, 4.

¹⁰ Ward, *Statistics on UK-EU Trade*, 4.

¹¹ Department for International Trade, *UK Trade in Numbers* (GOV.UK, Last updated February 25, 2021), 6, <https://www.gov.uk/government/statistics/uk-trade-in-numbers#history>

¹² Department for International Trade, *UK Trade in Numbers*, 6.

¹³ Chris Giles, "What are the Economic Consequences of Brexit?," *Financial Times*, February 16, 2016, <https://www.ft.com/content/70d0bfd8-d1b3-11e5-831d-09f7778e7377>

scenario is predicated on a number of assumptions regarding the Brexit effects: reduction in the regulatory burdens caused by the EU's business regime, immigration control and redemption of the budgetary contributions to the EU. In addition, the UK will conclude FTAs with the EU as well as the non-EU countries, particularly the US, China, Japan, Australia and India, to avail advantages of the flourishing global economy. However, a critical analysis of these assumptions questions the credibility of this scenario. In the first place, the cost of the loss of free access to the SEM outweighs the benefits of control over the trade policies and immigration given the degree of UK's economic reliance on the SEM. Secondly, it is not the international trade deals as such rather their quality that matters in economic terms. Negotiations on FTAs involve a complex process of bargaining and mostly take many years to reach any conclusion.

Second scenario anticipates transitional challenges for the UK's economy until the country establishes a new economic relationship with the EU and non-EU countries. These temporary problems would spring from the tariff and non-tariff barriers as well as the lack of experience of the civil servants and border authorities to deal with new trade-related regulatory requirements. Further, an uncertain economic environment in the UK will potentially lead to low investment, capital outflows and currency devaluation. The advocates of this scenario argue that UK's economy will ultimately prosper like other non-EU European countries, notably Norway and Switzerland. Loss in trade with the EU will be compensated by upgraded trade ties with other countries. Critics of this scenario contend that UK's economic stability following the transitional challenges is conditional upon its smooth economic relationship with both the EU and non-EU countries. Since such an outcome is not a surety, Brexit may bring long-term hardships for the UK's economy.

Third economic prospect of the Brexit is the worst-case scenario by which the UK's economy will suffer in the long-term. It is based on the assumption that the Brexit talks will create uncertainty and result in a loose trade deal between the EU and the UK giving the latter a weaker access to the SEM. Further, the UK would fail to conclude favorable trade deals with other countries. However, the Brexit supporters assert that such a scenario is only a remote possibility arguing that the UK-EU trade relationship will be fairly trouble-free given their trade interdependence. Moreover, the UK will be

able to sign beneficial trade deals with other countries owing to its significant influence worldwide.

Economic Cost of the Brexit Uncertainty

An uncertain Brexit process adversely affected the UK's economy in various ways. Due to uncertainty over the outcome of the Brexit negotiations, the UK's economic growth fell from 2.4 percent in 2015 to 1.2 percent in 2019.¹⁴ The British currency, pound sterling, declined from \$1.48 on the referendum day to \$1.36 the following day and remained constantly low onwards.¹⁵ London, the financial center of the UK, experienced a shrinking economic growth which was 1.4 percent in 2018 and around zero in 2019. Moreover, Brexit caused a decline of 11 percent in investment in the period between 2016 and 2019.¹⁶ Many international companies shifted their businesses partially or wholly from the UK to the EU states.

Scope of the Trade and Cooperation Agreement

TCA entails free trade in goods between the EU and the UK but it excludes preferential economic cooperation in other areas. Foremost, the robust services sector of the UK loses free access to the EU market. The services sector accounts for about 80 percent of the UK's national economic output and 46 percent of its exports. Further, the EU was the destination of 41 percent of the service exports of the UK before Brexit.¹⁷ Following the Brexit, qualifications of the professional service providers from the UK should be recognized by the EU to operate in the European market. Likewise, financial services based in the UK have no more automatic passporting rights for operations in the EU. The financial service enterprises registered in the UK would only be eligible to operate across the EU if it grants regulations equivalence to the former. Alternatively, they should be registered under the EU laws. The UK-EU agreement on trade in service, even if finalized, is not likely to be much favourable to the UK as the EU finds an opportunity to

¹⁴ Office for National Statistics, "Gross Domestic Product: q-on-q4 growth rate CVM SA %," accessed March 6, 2021, <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyr/pn2>

¹⁵ Board of Governors of the Federal Reserve System, "Historical Rates for the U.K. Pound," accessed March 6, 2021, https://www.federalreserve.gov/releases/h10/hist/dat00_uk.htm

¹⁶ Mike Hope, *The Economic Impact of Brexit on London* (London: GLAECONOMICS, 2019), 13-14, <https://www.london.gov.uk/sites/default/files/brexit-analysis-final.pdf>

¹⁷ House of Commons Library, "Trade in Services and Brexit," accessed March 5, 2021, Trade in services and Brexit - House of Commons Library (parliament.uk)

cut-off dependence on the London-centered financial sector and develop its own competitive financial market. UK-based financial firms have already shifted significant business activity to the EU cities, particularly Amsterdam, Dublin, Luxembourg, Paris and Frankfurt. According to Ernst & Young (EY), London-based professional services network, financial firms operating in the UK had shifted £1.2 trillion capital and 7,500 jobs from London to the EU cities up to September 2020.¹⁸ In addition, Amsterdam surpassed London by early February 2021 in terms of stock exchange business activity.¹⁹ These factors indicate that Brexit has a huge cost for the UK's London-based financial sector that currently stands second largest global financial center.

The TCA includes free trade in goods between the UK and the EU as its key provision which adds much-needed stability to the post-Brexit relationship between the two parties. However, the degree of access to the SEM under the FTAs is much inferior to the level of access as an EU member. Under the TCA, UK-EU trade in goods is free in terms of tariffs and quotas but it is subject to non-tariff barriers including various regulations and the rules of origin. According to the UN Conference on Trade and Development, non-tariff measures account twice more than the tariff measures for market access restrictiveness.²⁰ The regulatory red-tapes associated with the goods' origin verification, export-import licensing requirement, and technical and administrative regulations would lead to a significant increase in costs and delays in the UK's businesses with the EU. The Wall Street Journal estimated these costs approximately £17 billion for the UK and £14 billion for the EU every year.²¹ In addition, the Northern Ireland Protocol agreed between the UK and the EU to avoid hard border between Northern Ireland and the Republic of Ireland, tends to create serious trade hurdles between the UK and its own part Northern Ireland. Inclusion of Northern Ireland in the EU

¹⁸ "City firms move £1.2tn and 7,500 jobs out of London – EY," *The Irish Times*, October 1, 2020, <https://www.irishtimes.com/business/financial-services/city-firms-move-1-2tn-and-7-500-jobs-out-of-london-ey-1.4369451>

¹⁹ Phillip Inman, Daniel Boffey and Kalyeena Makortoff, "London fights for its financial crown, but it will be a stretch," *The Guardian*, February 13, 2021, <https://www.theguardian.com/business/2021/feb/13/london-fights-for-its-financial-crown-but-it-will-be-a-stretch>

²⁰ "Brexit Brief: Non-Tariff Barriers," *Institute for Government*, accessed March 15, 2021, <https://www.instituteforgovernment.org.uk/printpdf/brexit/brexit-brief-non-tariff-barriers>

²¹ Alistair MacDonald, "Businesses Brace for Disruption Despite Post-Brexit Trade Deal," *The Wall Street Journal*, Updated December 25, 2020, <https://www.wsj.com/articles/businesses-brace-for-disruption-despite-post-brexit-trade-deal-11608920866>

regulatory regime under the Protocol would potentially move it away from the UK and closer to the Republic of Ireland. Finally, in the absence of an agreement on common standards of the products, the EU can unilaterally reduce the market access for the UK if it finds the latter in divergence with the standards followed across the SEM.

Challenges of Free Trade Agreements

In its cost-benefit analysis of departure from the EU, the UK has given key importance to FTAs to offset the economic losses in consequence of the Brexit. With a 'Global Britain' approach, the UK has been pursuing FTAs with economically important countries worldwide since the Brexit decision. In this regard, the UK has undertaken two significant measures. Foremost, it has signed 'rollover' FTAs with many countries to continue the trade agreements finalized by the EU before the Brexit. The EU had around 40 FTAs with more than 70 countries at the time of UK's departure from the Union. The UK has signed rollover agreements with 63 of these countries.²² Secondly, the UK has been negotiating its own FTAs with a number of countries since 2020. As a groundbreaking development, the UK signed an FTA with Japan in October 2020 that is different in some respects from the EU's existing FTA with the latter. The agreement is significant for the UK not only because it sets a tone for its independent FTAs but also because Japan is an important trading partner of the country. In 2019, Japan accounted for 2 percent of the UK's total world trade which amounted £31.6 billion as bilateral trade volume.²³ The UK is undertaking negotiations to conclude FTAs with other important countries, particularly the US, Australia and New Zealand. Moreover, it has formally applied for the membership of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) originally comprising 11 states.

While the UK views international trade deals as an opportunity to make up for the loss of free European market and stand as a global economic power in its own right, a critical analysis of this optimism is instructive. Firstly, free trade agreements provide far less market access than the EU members get through single European market which is based on four freedoms. Normally, free trade agreements are limited to trade liberalization through removal or reduction of tariffs. The single market also removes non-tariff barriers by

²² Tom Edgington, "Brexit: What Trade Deals has the UK done so far?," *BBC News*, February 8, 2021, <https://www.bbc.com/news/uk-47213842>

²³ Edgington, "Brexit."

adopting zero internal taxes, same qualitative and technical standards of products, and mutual recognition of professional qualifications—along with the elimination of tariffs.²⁴ In addition, trade agreements mostly comprise trade in goods involving no or some liberalization of trade in services, the area where the UK enjoys a notable comparative advantage. Free movement of capital and labour are not part of the FTAs.

Secondly, FTAs take long time, usually two to three years, to conclude as they involve a complex bargaining process. Trade negotiations become tough, prolonged and sometimes interrupted when a party is not willing to open up some of its sectors such as agriculture and pharmaceutical industry. For instance, EU-India negotiations on Bilateral Trade and Investment Agreement (BTIA) initiated in 2007 remain inconclusive to date. Another key factor in this regard is the settlement of non-tariff barriers (NTBs) such as product standards and health and safety regulations. NTBs are presently considered as making the international trade more restrictive and costlier than tariffs and, therefore, comprise major part of the FTAs. Comprehensive and Economic Trade Agreement (CETA) between EU and Canada is a case in point. CETA comprises more chapters that are focused on the non-tariff issues.²⁵ Notwithstanding the commitment and diplomatic efforts, the UK has not achieved much with regard to its own international trade agreements. So far, it has only signed the rollover trade agreements already negotiated and concluded by the EU with various states. Even UK-Japan trade agreement is much similar to the existing EU-Japan agreement except that it includes an additional chapter on digital trade.²⁶

Among its prospective trade accords, UK gives top priority to an FTA with the US because the latter stands out not only as its largest trading partner by country but also as the key political relationship. Trade negotiations initiated in May 2020 between the two countries have not yet produced any tangible outcome. Initially, the two parties hoped to achieve an FTA in a year through the US 'fast-track' legislation process. However, it now seems a remote possibility as the Biden administration prioritizes the resolution of a 16-year

²⁴ Phedon A. Nicolaidis and Thibault Roy, "Brexit and Trade: Between Facts and Irrelevance," *Intereconomics*, 52 (2017): 103. doi: 10.1007/s10272-017-0654-y

²⁵ European Commission, "CETA chapter by chapter," <https://ec.europa.eu/trade/policy/in-focus/ceta/ceta-chapter-by-chapter/>

²⁶ "Britain and Japan sign post-Brexit trade deal," *BBC News*, October 23, 2020, <https://www.bbc.com/news/business-54654814>

Airbus-Boeing dispute involving the US, UK and EU and president's fast-track authority expires on July 1, 2021.²⁷ Normal negotiations process would be much slower and see hurdles, particularly if the US demands the greater market access for its agricultural and pharmaceutical sectors.

Thirdly, the EU is long ago engaged in FTA negotiations with the countries the UK is currently engaged in talks for its own trade agreements. The EU and the US have been negotiating the Transatlantic Trade and Investment Partnership (TTIP) since 2013. Further, the EU launched trade negotiations with Australia in June 2018 while its negotiations with New Zealand have already resulted in significant developments regarding FTA between the two. It is important to underline that the EU is seven times larger than the UK in size of economy, and it is more than seven times bigger than the UK in terms of the consumers market.²⁸ The economic rationale leads to conclude that the EU is far more important for the countries with which the UK is seeking trade deals. The point here is not the zero-sum outcome, it is rather about the priority of the aforementioned countries in view of economic interest as the guiding principle. In addition, the EU shares some important strategic goals with these countries. For instance, the EU-US trade deal would help them achieve not only the post-COVID-19 economic recovery but also the global economic collaboration in competition with China's growing economic influence worldwide.²⁹

Conclusion

The EU offers unparalleled economic incentives to its members who have to comply with its law and contribute to its budget. Even some non-EU European states accept EU regulations and share its budget in return for free market access. The UK is the first member state that has withdrawn from the EU to follow its own law and policy compromising the greater market access. Since the Brexit decision, the UK has been pursuing a policy of minimizing the economic cost of leaving the EU. To this end, the country has undertaken two measures. Firstly, it has finalized Trade and Cooperation Agreement

²⁷ Aime Williams and George Parker, "US-UK trade deal talks set to miss crucial Washington deadline," *Financial Times*, March 26, 2021, <https://www.ft.com/content/3bc5e883-0a05-4f4f-b46e-ece31c8683ec>

²⁸ Nicolaides and Roy, "Brexit and Trade," 102.

²⁹ U.S. Library of Congress, Congressional Research Service, *U.S.-EU Trade Agreement Negotiations: Issues and Prospects*, by Shayerah I. Akhtar, Andres B. Schwarzenberg and Renée Johnson, IF11209 (2020), 2.

(TCA) with the EU. Secondly, it has adopted the EU's existing international trade agreements as continuity agreements and simultaneously started negotiations with key economic partners, particularly the US, to achieve its own FTAs.

Though the TCA entails tariffs-free and quotas-free trade in goods between the UK and EU, it is not comparable to the single European market in terms of the degree of market access. For free trade between UK and EU, the goods are subject to the rules of origin and a number of other non-tariff barriers such as licensing, standards and health and safety measures. Further, the agreement does not grant preferential treatment to the UK's robust services sector which is the country's dominant sector in respect of employment and economic output. Worse yet, the EU can unilaterally reduce the market access for the UK if the latter fails to maintain level playing field on standards such as labour rights, environmental protections and taxation. UK's policy of redeeming the economic cost of Brexit through its own international trade agreements has proved less promising so far. Free trade agreements (FTAs) involve complex negotiations on settling the issues related to tariff and non-tariff barriers and, therefore, take years to reach a conclusion. For instance, UK's efforts to achieve an earlier FTA with the US have not yet proved fruitful.

From the above factors illustrated and the degree of UK's commercial dependence on the European market, it is evident that the UK will experience a substantial decline in its economic performance over the years. As the Brexit comes into force with effect from January 1, 2021, UK's trade with the EU is becoming restrictive and costlier. While the TCA avoids the worst case scenario for the UK's economy, it will face disruptions and uncertainty in the short to medium term and some problems in the long term. Improvement of UK's economic performance will largely depend on the adjustment of its businesses with new realities and its FTAs with important economic partners, particularly the US.