WTO vs the EU:

an assessment of the relative merits of the UK's trade relationships, 1999-2018

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Introduction: the dispute and the method of assessment

One of the fundamental disputes during the three and half years of debate that followed the Brexit referendum was over the relative merits of the UK trading as a member of the EU and trading under WTO rules. It was set aside during the general election of December 2019, reignited briefly thereafter, until the coronavirus wiped everything else from our minds. Once the virus allows us to think of other things, this dispute will surely resume, in even sharper focus, and will probably continue until the end of the transition year, and perhaps beyond.

Since remaining in the EU is no longer a possibility, and other half-way houses, like EEA and EFTA membership, have been long forgotten, the last hurrah of disappointed Remain supporters will be for a trade agreement that keeps the UK as close as possible to membership of the EU, perhaps even including the level playing field proposed by the EU, and as far possible from trading under WTO rules. The Prime Minister has, for his part, made clear his determination[1] to leave both the Single Market and customs union, has ridiculed the notion of a level playing field, and even dismissed the idea that the UK and EU face a choice between deal and 'no deal'. He prefers to call it a choice between a trade relationship 'comparable to Canada's or more like Australia's'. Canada, of course, now has a trade deal with the EU while Australia does not. The latter trades with the EU under WTO rules, so an 'Australian trade relationship' in fact means WTO rules, though the Prime Minister prefers to describe it as Australian – and for good reasons, as we shall see.

Over the past three and a half years, this debate about the UK's the relative merits of EU membership and trading under WTO rules has, however, relied almost exclusively on speculative predictions about what might happen to the UK economy over the years to 2030 if the UK chose one or the other. It has paid little regard to the available evidence about the UK's past experience of these two trade relationships, which is readily accessible, comprehensive, and completely reliable. This analysis is written in the hope that the forthcoming debate about trade might now focus on this evidence. Drawing on the trade data released by the Office for National Statistics (ONS) since September 2019, it compares – for the first time – the UK's trading performance, in both goods and services, as a member of the EU with its trading performance under WTO rules, over the two decades from 1999 to 2018.

Obviously, we would have liked to go still further back, but ONS provides matching data for goods and services only from 1999. Moreover, the ONS datasets with full sectoral breakdowns by country – which will be needed to take the analysis forward, as we hope to do – also start only from 1998. Nevertheless, the advantages of these datasets are considerable. They enable a direct comparative evaluation of the UK's two principal trade relationships from 1999, by comparing UK trade with the then 14 other members of the EU until 2018 with that of the 14 countries to whom the UK has exported most goods and services under WTO rules over the same two decades. UK trade with these two groups has been roughly similar in value. In 2018, the EU14 accounted for 45% of UK goods exports and 36% of services exports, while the WTO14 accounted for 37% of goods exports and 40% of services exports, so together these 28 countries provide a comprehensive view of UK trade performance.

1.

Sub-zero and near-zero growth to other EU members

The first column of Table 1.1 shows the compound annual growth rate (CAGR) of UK goods exports to 14 other members of the EU Single Market from 1999 through to 2018, adjusted for inflation to 2016 prices. Eight of these 14 EU countries are highlighted in red because UK goods exports to them have in real terms declined over these two decades rather than grown. Taken collectively, however, goods exports to the 14 grew at a CAGR of 0.56%.

Thirteen present member countries of the EU are not included in the table because they were admitted after 1999. If, however, we imagine that the present 27 had all been members over the same period, the CAGR of UK goods exports to all 27 would have been slightly higher at 0.78%. The 14 EU members that are included here accounted for 92.6% of UK goods exports to the EU in 2018, and the thirteen newcomers, obviously, for the remainder.

The absence of any growth at all in UK exports to eight of the older EU members over these two decades, the near-zero growth to four of the others, and a real aggregate CAGR of just 0.56% are the first indication that membership of the EU Single Market and the customs union has not lived up to expectations for UK goods exports. Unfortunately, the truth is probably still worse, since these figures exaggerate the growth as a result of 'the Rotterdam effect': the recording of exports destined for other parts of the world, or other countries of the EU, as exports to the Netherlands because they are shipped via the port of Rotterdam.

Table 1.1: Trading goods within the EU
Real growth of UK exports of goods to 14 other members of the EU Single Market 1999-2018 & cumulative trade balance

Partner country	1. CAGR of UK exports %	2. Divergence from CAGR of partner's GDP %	3. 20 year Trade Balance £bn
Austria	0.67	–0.98	–24.75
Belgium	0.57	–0.99	–85.60
Denmark	–0.69	–1.95	–29.58
Finland	–2.09	–3.68	–26.35
France	–0.05	–1.45	–32.66
Germany	1.06	–0.32	–378.28
Greece	–2.30	–2.53	14.46
Ireland	1.53	–3.26	133.63
Italy	–0.37	–0.76	–87.50
Luxembourg	0.46	–2.47	–7.81
Netherlands	1.56	0.02	–137.99
Portugal	–2.82	–3.53	–8.58
Spain	–0.26	–2.12	–44.42
Sweden	–0.30	–2.59	–24.92
EU14	**0.56**	–0.80	–740.35
EU27	**0.78**	–0.76	–868.79

Source(s): https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradeallcountriesseasonallyadjusted with export deflator
https://www.ons.gov.uk/economy/grossdomesticproductgdp/ timeseries/ybfw/ukea#othertimeseries
https://data.worldbank.org/indicator/NY.GDP.MKTP.KD

There is no agreed measure of the proportion of exports to the Netherlands that are destined for markets outside the EU. ONS reviewed the possibilities in 2014[2] and decided that 'a more realistic assumption would be that 50% of trade with the Netherlands is destined for re-export to, or originated outside of the EU.' If we were to assume that the proportion remained constantly at that rate over the two decades, the real collective rate of growth of exports to the EU14 would fall to 0.48%, and to the EU27 to 0.72%.

Since there can be no Rotterdam effect in the trade of services, an attempt was made to estimate its impact by comparing the *per capita* imports of UK goods and services by the Netherlands with those of its near neighbours, in the hope that a disproportionate level of UK goods imports *per capita* to the Netherlands might indicate the size of Rotterdam effect. The attempt failed. The Netherlands and Belgium both import *per capita* between three and four times more UK goods and services than France and Germany. We are left therefore with the ONS estimate, and the certain knowledge that the effect is significant, but with no agreed method of measuring it. The published ONS figure must therefore stand, despite exaggerating UK goods exports to the EU.

To determine how good or bad these figures are, the results must be compared with the UK's non-EU trade over the same period, and in particular with UK trade conducted under WTO rules. The growth of UK goods exports to 14 countries with which the UK has been trading exclusively, or almost exclusively, under WTO rules since 1999 is shown in column 1 of Table 1.2. The chosen 14 countries were the WTO trading partners who received the highest value of UK goods exports in 2018 and there is no reason to think that the regulatory playing field with any of them was, in any sense, level. Canada was included and scraped into the 14 sample states because its agreement with the EU only came into force at the end of 2017 and is unlikely to have had much impact in 2018, the final year of this analysis.

Table 1.2: Trading goods under WTO rules
Growth of UK exports of goods to 14 countries 1999-2018
& cumulative trade balance by 2018

Partner country	1. CAGR of UK exports %	2. Divergence from CAGR of partner's GDP %	3. 20 year Trade Balance £bn
Australia	2.11	–0.85	31.04
Brazil	3.27	0.88	–6.55
Canada	2.73	0.6	–16.86
China	10.77	1.65	–325.73
Hong Kong	4.23	0.44	–56.05
India	4.50	–2.13	–20.33
Japan	1.52	0.6	–85.32
Nigeria	4.26	–1.53	4.38
Qatar	15.45	6.75	–4.95
Russia	6.38	2.69	–55.46
Saudi Arabia	3.23	–0.35	23.70
Singapore	3.82	–1.39	–1.51
UAE	6.20	1.97	56.45
United States	2.14	0.08	242.00
WTO14	**3.38**	0.3	–215.18

Source(s): https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradeallcountriesseasonallyadjusted https://data.worldbank.org/indicator/NY.GDP.MKTP.KD

Table 1.2 shows goods exports to all 14 WTO trade partners over the two decades. However, the figures for China and Hong Kong are not drawn, as all the others are, directly from the ONS dataset, and therefore require a brief word of explanation. The inclusion in recent years of exports of non-monetary gold in official figures of UK goods exports has attracted some attention, most notably in *The Times*.[3] It is thought that trade data now give a misleading impression of the true value of UK goods exports, since they include goods that are not 'manufactured' as such, but merely transactions within the international gold market, in which the UK acts as an important intermediary. Their impact on trade figures fluctuates considerably, but it is not trivial. They are high value multi-billion transactions, starting with the export of $5.9 billion to Hong Kong in 2013, peaking at $12 billion to China and Hong Kong taken together in 2015.

Since they are most probably shipped under HS code numbers 710811, 710812 and 710813, and the value of these UK 'exports' of these 'goods' is available in the UNComtrade database,[4] it seemed sensible to subtract their declared value over the years 2013-2018, after converting them to GBP, from the figures given in the ONS dataset. Who is engaging in these transactions remains a bit of a mystery. Other countries are also involved, especially Switzerland, but none that would seriously impair the credibility of Table 1.2.

After the trade in non-monetary gold has been subtracted from the entries for China and Hong Kong, the table shows, in sharp contrast to exports to the 14 EU members, that exports to all 14 WTO trade partners have grown rapidly over the two decades. None are highlighted in red because there are no cases – comparable to the eight EU countries – where UK goods exports have fallen in real terms since 1999. Their aggregate real CAGR of 3.38% shows UK goods exports to the UK's top 14 WTO trade partners have grown more than *six times faster* than exports to UK's original 14 EU partners from 1999.

By ONS records, the UK trades with a further 122 countries under WTO rules and the inflation-adjusted CAGR of UK goods exports to them was 3.30%, slightly less in other words than the 3.38% growth rate of UK goods exports to the UK's 14 largest WTO markets, though still far faster than exports to the 14 or 27 fellow EU members. These 122 countries contributed approximately 10% of the UK's non-EU goods exports in 2018, as compared to the 72.8% delivered by the WTO14 analysed here.

2.

Is the slow growth of EU GDP an explanation?

Since no government department or academic or private research body in the UK appears to have been monitoring the growth of UK exports to the EU over these decades, the lacklustre performance of UK goods exports within the EU has seldom attracted attention. There is therefore no literature, public or private, which has sought to explain the failure of UK goods exports in the EU Single Market or Customs Union to match their performance in global markets regulated only by WTO rules.

Occasionally, when this discrepancy in export performance has to be explained, it is argued that the difference reflects the fact that WTO countries, including China and other developing countries, inevitably have higher rates of GDP growth than the 14 more developed, mature EU economies. This is a fair point. Over the two decades analysed here, the aggregate compound annual growth rate (CAGR) of the GDP[5] of the 14 WTO countries was 3.53%, which was significantly higher than the 1.45% GDP growth of the EU14. These 14 WTO economies also performed better than the EU27, which had a 1.73% CAGR of their GDP during the same 20-year period.

To say, however, that the economies of the UK's top 14 WTO partners grew more than twice as fast as the GDP of the UK's EU14 partners hardly provides a satisfactory explanation of why the UK's goods exports to WTO partners grew *six times faster* than those to EU partners. Something more than the growth of partners' markets seems to be involved.

To try and understand what this might be, the CAGRs of the UK exports to all 28 countries were compared with those of the GDP of each partner country. The results are presented in column 2 of each table. In Table 1.1, they show that the growth of UK goods exports to the EU14 over these two decades fell *below* the growth of the GDP of all but one of the EU partner countries. The exception was the Netherlands where it exceeded GDP growth by a narrow margin. This exception is, however, a little suspect because of the 'Rotterdam effect', mentioned above. Perhaps it is just a coincidence that the EU country with the highest rate of growth of UK exports also happens to be the one that receives an unknown proportion of exports ultimately destined for other parts of the world.

The key point is that for the UK's EU trade, the aggregate CAGR of UK goods exports to the EU14 was also 0.80 percentage points *below* the aggregate rate of the GDP of the 14, and 0.76 ppts below that of the EU27. Despite frictionless tariff-free trade with the Single Market, UK goods exports have not kept pace with virtually all EU countries' own slow-growing economies.

By contrast, column 2 of Table 1.2 shows that UK goods exports have *grown faster* than the GDP growth in nine of the WTO markets, and fallen short in the other five. Since the nine include many of the largest WTO markets, aggregate UK exports to these 14 WTO markets have therefore exceeded their aggregate GDP growth. Direct comparisons are also revealing. While the UK's exports to Germany – frictionless and tariff free – have underperformed that country's GDP growth by 0.32 ppts exports to the US – under WTO rules – have exceeded US GDP growth by 0.08 ppts.

This finding is not consistent with the assertion that UK's poor export performance with respect to its EU partners simply reflects those partners' slow economic growth rates. From 1999-2018, UK goods exporters performed better with WTO trade partners than with EU partners, even after the trading partner's own economic growth rate is taken into account.

3.

Why did it happen? Why did no one see it coming?

There are as yet no plausible, or even halfway plausible, explanations of why UK goods exports to fellow EU members have grown so much slower than those to WTO partner countries which incur varied tariffs, non-tariff barriers (NTBs), fluctuating exchange rates, and are scattered around the globe.

Theorists of customs unions[6] have long recognised that members may not benefit equally and suggested that those with a high proportion of trade outside the union will benefit least of all. The EU internal scoreboard of market integration shows, as it happens, that one of the distinctive characteristics of the UK is that the proportion of its GDP dependent on trade in goods with other members is lower than that of the other 27 members.[7] The UK is therefore the 'least integrated in EU value chains of the 28 members'. Since it also shows that UK's trade in services with other members is also a very low proportion of its GDP, though not the lowest, it is also among the least integrated in EU services markets.

A cross-national study of the sales of 5,415 publicly-listed, non-financial firms across the EU over the years 1993–2010 (with a sub-sample of the largest 100 firms in Germany, France and the UK) suggests that British firms might well have deliberately chosen to be less integrated with the EU. It found that UK firms were distinguished by their 'consistently low level of commitment to European markets'[8] and their preference 'for markets primarily outside Europe'. Sales in 'Europe', as they somewhat confusingly put it, of the top 100 UK companies declined over the years 1993–2007 from 21% to 12% as a proportion of total sales, while those of the top 100 French companies rose from 18% to 30%, and those of the top 100 German companies rose from 26% to 31%.

Ever since the beginning of the Single Market in 1993, therefore, a significant and increasing proportion of large British firms have been indifferent to the alleged benefits of frictionless trade with the EU and preferred to export to diverse and distant WTO markets that incurred tariffs, NTBs, decidedly unlevel playing fields and multiple exchange rate fluctuations. They were, one might say, voting by their marketing and merger and acquisition decisions to turn away from the EU long before there was any government decision to hold a referendum – 'Brexit foretold' as the authors of the study put it. Or as they might have said, these companies preferred to leave the EU with no deal and to trade under WTO rules.

Their behaviour is interesting because it tends to undermine the notion, favoured and much-publicised by the Confederation of British Industry (CBI), that UK businesses today are benefiting so greatly from frictionless tariff-free trade within the EU that they would consider leaving without a trade deal as catastrophic. The CBI likes, of course, to think of itself as the voice of British business, but it leads one to wonder whether it has over all these years been presenting an altogether accurate picture of business opinion as regards the leaving the EU. Or maybe its membership is simply less representative of UK manufacturing exporters than is commonly assumed.

But neither this unusual comparative study, nor the isolated proposition of customs union theory takes us very far in understanding why the UK exporting goods under WTO rules has been so much more successful than exporting to other members of the EU despite all the advantages of membership and geography. It remains a profoundly counter-intuitive and baffling finding.

Only one question about it can be answered with some confidence. No one saw the failure of our exporters in the EU approaching because successive UK governments and trade associations decided, at the very start of membership in 1973, not to monitor its impact on UK trade. Besides, common sense assumptions about the removal of tariff barriers, along with economists' favourite gravity theory of trade, and the optimistic hopes and expectations that have always guided UK policy-makers, led everyone to expect economic benefits from membership. No one had any reason even to suspect things were going wrong. No one was looking, not even specialist economic publications like *The Economist* and the *Financial Times.* Why would anyone bother to come up with a theory or an explanation of a problem that no one knew existed?

4.

Evidence absent from the Brexit debate

On the eve of the referendum, *HM Treasury: Long term economic impact of EU membership and the alternatives*[9] offered authoritative reassurance of the widely accepted assumption that the EU Customs Union and Single Market benefited UK trade. The Treasury predicted that, over the fifteen years to 2030, UK trade would develop exactly as most economists expected. The UK would grow rapidly if it remained a member of the EU and traded under EU rules, whereas if the UK were to leave the EU, and to trade with EU under WTO rules, it could not grow at anything like the same rate, since the Treasury model showed '…EU membership boosts trade in goods by 115% relative to…WTO membership' (p. 163). Trading under WTO rules would therefore mean that UK GDP would be 7.5% smaller than it might otherwise have been by 2030, employment and incomes would be lower, as would tax receipts, and public services would necessarily suffer. An almost identical prediction was made in *EU Exit Analysis: Cross-Whitehall Briefing*[10] of January 2018, and repeated in *EU Exit: Long Term Economic Analysis* published by the government in November 2018.[11]

It is little wonder therefore that many of those participating in, or indeed leading, the debates over the three and a half years after the referendum have hoped to cling to the success and safety of the EU trade relationship as they perceive it. Quite rationally, they are desperate to avoid 'crashing out' of the Customs Union in a 'no deal' Brexit, and they have never had reason to doubt this view because they have relied on HM Treasury's economic predictions rather than the hard ONS data of UK's actual trade performance presented in Tables 1.1 and 1.2. They have preferred the authoritative headline-grabbing Treasury predictions of what will happen to the rather mundane ONS data series reporting what has happened.

Most contributors to parliamentary and public debate were therefore simply not aware that the EU has brought only near-zero or negative growth to UK exports over the past two decades. It will probably be something of a shock to them to learn that exports conducted under WTO rules have grown six times faster than exports to EU countries, and that exports to EU countries have grown significantly more slowly than EU trade partners' own economies.

They will be probably be still further shocked at the suggestion that trade with WTO partners must have created far more jobs in the UK since 1999 than EU trade could possibly have done — that is if EU trade has created any at all. Since UK goods exports to the EU have significantly underperformed both UK productivity growth rates and the growth of the GDP of EU economies, it is inherently unlikely that EU trade has, net, created a single UK job since 1999.

Furthermore, opinion formers/commentators have had no occasion to notice that UK exporters have demonstrated year after year that they have the skills and resources needed to take advantage of the opportunities presented by trading under WTO rules in more distant and difficult markets. The CEO of JCB Excavators and a few other companies who also trade in both EU and WTO markets have protested about the misleading stereotypes which the Treasury has done so much to construct and popularise.[12] The large British firms mentioned above who were turning away from European markets over the years 1993–2007 to focus their efforts elsewhere must have taken a similar view, and were evidently not in the least discouraged by tariffs, non-tariff barriers, distance and trading under WTO rules. The evidence in Table 1.1 and 1.2 suggests they may have been right to do so.

In any event, neither HM Treasury, nor the HMRC, nor the CBI ever thought of asking British businesses about the extra costs of full-friction trading under WTO rules and why they nonetheless have found it acceptable, even preferable to trade within the Single Market. The voices of successful, global UK businesses have not therefore been adequately heard during the post-referendum debate to contradict the Treasury's stereotypes of the stark difference between the two types of trade relationships.

Another overlooked body of evidence concerns the countries – developed and developing – that have always traded with the EU under WTO/GATT rules, and whose goods exports to the EU have been growing faster[13] than those of the UK. European Commission researchers were first bemused by this rather curious contrast as early as 2007.[14] Currently, they are best observed via IMF DOTS data on imports to[15] the EU by country from 1999-2018, all standardised in US dollars. The data is without any inflation adjustment and so the recorded compound annual growth rate (CAGR) of UK goods exports of 2.1%, and all the others, are higher than the real rate.

The recorded mean CAGR of all EU members exporting to other members is 5.34%, and the UK's 2.1% is the lowest of the 28, with France coming closest with a rate of 3.02%.

Japan is the only non-member OECD country which has been exporting to the EU under WTO/GATT rules over this period to have a lower rate of growth (0.01%) than the UK. The others are all higher: New Zealand on 2.46%, the United States on 2.97%, Australia on 3.30%, Canada (up to 2017) on 4.55%, and Korea (up to 2011) on 8.78%. All these countries faced not only tariffs and non-tariff barriers for most if not all of the two-decade period, but were, obviously, without the advantage of geographical proximity. This geographical advantage was, according to HM Treasury and many other UK analysts attracted by the gravity theory of trade, one more reason why there would be a rapid growth of UK trade with the EU up to 2030, if it remained a member of the EU, and one good reason why it should not contemplate leaving. If it really has been an advantage, of course, it would hardly matter whether the UK remained an EU member or not.

Had the experience of these countries ever been discussed in the UK, it would surely have allayed some fears about 'crashing out' with no trade deal and trading with the EU under WTO rules: they have been doing just that for decades, with more success than the UK and without apparent distress or complaint. The Prime Minister's decision to reject the term 'no deal', and refer instead to 'a trade relationship more like Australia's', therefore makes perfect sense. He had the insight, which his critics evidently lacked, to recognise that ′no deal′ had loaded the terms of debate. No deal sounds rather bleak and evokes images of empty supermarket shelves, of queues and tailbacks along motorways and has repeatedly prompted media to provide predictable pictures to accompany their stories. Australia's trade relationship with the EU is, by contrast, self-evidently viable, successful and not in the least bleak, with its goods exports to the EU growing at a rate that the UK would be delighted to achieve. Most Australians probably didn´t even notice that they did not have a trade agreement with the EU until negotiations started in 2018.

Overall, the IMF-DOTS database conveys how spectacularly bad UK export performance in the EU has been over the past two decades. The UK ranks 150th when the 209 states and territories whose exports to the EU it records are ordinally ranked in a growth league table. It is sandwiched between El Salvador and Cameroon, and just ahead of several distant Pacific, African and Caribbean mini-states that participate rather fitfully and uncertainly in the world trading system.

It is somewhat mystifying to recall that members of the May government, including the Chancellor, and many members of parliament were desperate, even to the point of putting their own careers on the line, to see the UK withdraw from the EU in a way that would preserve this dismal trade relationship with the EU. As we shall probably discover in the coming months, some members of parliament are still desperate that it should do so. Perhaps they will be given the chance to explain why in the light of the ONS and IMF data.

5.

Have EU trade agreements made any difference?

The EU now has trade agreements with 70 other countries which refer to the 88 distinct jurisdictions of countries, states and territories separately identified in ONS and WTO-RTAIS records.[16] UK goods exports might therefore have benefited from EU trade policy, even though they have not benefited from frictionless trade with the EU itself. The growth of UK goods exports to all 88, irrespective of the depth, scope or duration of their trade agreement with the EU, provides a rough initial measure of the possible indirect benefit of EU membership for the UK.

These 88 trading partners must, however, first be put in perspective. They may be scattered across the globe, but in 2018 UK exports to them all totalled just 6.6% of total UK goods exports, and nearly two-thirds of these (64.6%) went to just four of them – to Norway, South Korea, Switzerland and Turkey. Exports to all 88 have been growing, over the two decades, at a real compound annual growth rate (CAGR) of 3.04%. This is a considerable improvement on UK exports to the EU itself, though it still falls short of 3.38% CAGR of goods exports to the WTO14, and further short of the 3.41% rate of growth of UK goods exports to the remaining 117 WTO markets.

UK goods exports to these 117 markets under WTO rules were not only growing faster than those to the EU 88 trading partners, but were also more than four times larger with a value in 2018 of £185.2bn versus exports to EU 88 trading partners of £41.8bn. Individual EU trade agreements might well, of course, have been of some benefit to the UK. Those agreements with Korea and Chile are often cited as the best examples. More detailed, smaller scale before/after studies of EU agreements[17] have shown, however, that only a minority of EU agreements (about a third) have been followed by any increase in the rate of growth of UK goods exports.

Pending the appearance of further detailed studies of the 88 EU partners' agreements, one has to rely on the gross ONS data. Since it shows that the growth of UK goods exports to these markets did not match exports to the WTO14, or to the other 117 markets with which the UK trades without any trade agreements and therefore under WTO rules, one has to conclude that outsourcing trade negotiations to the EU has been of no discernible benefit to the UK goods exporters. The EU's numerous trade agreements with smaller states around the world have been of no more benefit to the UK goods exports than membership itself. The EU's supposed negotiating 'clout' has been of no discernible benefit to UK goods exports.

6.

Towards the trillion pound deficit vs a modest manageable one

While the growth of UK exports to the EU has been near-zero, imports from the EU14 have been growing at a reasonable inflation-adjusted compound annual growth rate (CAGR) of 2.64%, and those from the EU27 at over 3%. In 1999, at the beginning of the period under review, UK trade in goods with the EU was fairly evenly balanced, 52% of its value being UK imports from the EU, and 48% UK exports. Over the 20 years of slow export growth, these proportions have necessarily steadily tilted towards faster-growing imports, and by 2018 were close to 60% imports and 40% exports.

The UK's trade balance has also shifted accordingly. In the year 2000, UK goods exports to the EU14 earned a small and unusual surplus, but otherwise 12 of the EU14 have been steadily incurring the deficits shown in Column 3 of Table 1.1, which have been increasing at a real aggregate CAGR from 2001 to 2018 of 14.7%. Greece and Ireland have been the two exceptions.

The Treasury and the Bank of England seemed unperturbed by the prospect in their reassuring predictions of the UK continuing as an EU member until 2030. And none of the many think tanks, financial institutions and other forecasters of the post-Brexit years drew attention to the trade deficit either. Their lack of concern is curious since at the present rate of growth the deficit with EU14 will reach £124.2bn in 2030 and equal 4.5% of UK GDP which by then, at its present rate of growth, will have reached £2758bn. And in 2030, the deficit with the EU27 will have reached £146.5bn which will be 5.3% of UK GDP at that date.

Perhaps they assume that with floating exchange rates, such concerns are those of another age, or that the economic theory[18] that argues that chronic trade deficits may be a constraint on the growth of GDP and productivity applies only to developing societies. Or maybe they believe that the growth of UK services exports and inward FDI, and the returns on the UK foreign assets, will always be sufficient to offset these deficits. Nevertheless, their indifference is surprising, and it will be interesting to see if it continues post-Covid-19. The present United States administration has always made its trade deficit a central target of policy, though it too, of course, has a floating exchange rate, offsetting services exports, foreign assets and inward FDI. *Per capita,* its deficit of $875bn in 2018[19] was rather lower than the £139bn deficit of the UK.

The UK also ran trade deficits in goods with ten of its 14 WTO partners, and imports from them have also grown faster than exports, though in their case the difference is comparatively narrow. While exports were growing at a CAGR of 3.38%, imports grew just 0.5ppts faster at 4.09%. Moreover, the UK has earned goods trade surpluses with four of the WTO countries (the United States, the United Arab Emirates, Saudi Arabia and Australia) and deficits with the other ten. With the exception of China, and perhaps Japan, these were all comparatively modest, and unlike those with the EU14, have not rapidly increased over time. The real CAGR of the aggregate deficit from 1999 to 2018 was a modest 4.1%, though most of the increase came over the first decade; the second was quite stable. Today, only half of the UK's non-EU deficit is owing to manufacturing. The rest is resources. Overall, the UK's balance of trade with the WTO14 partners is therefore healthy. It has grown in a fairly balanced manner over the two decades. Imports were 55% of its total value in 1999 and 53% in 2018.

The upshot of these differences is shown in the third column of each table which gives the cumulative trade balances over the 20 years for each country. By 2018, the cumulative deficit of trade in goods with the EU14 had passed £740 billion, and with the EU27 reached £868 billion. This is *per capita* the largest deficit of any country, member or non-member, trading with the EU, though in absolute terms the US surpassed it with a deficit over the 20 years of \$2408bn[20] in 2016 USD.[21]

At the present rate of growth, the UK cumulative deficit in goods will certainly exceed one trillion inflation-adjusted pounds by the end of the transition period in 2020. If one accepts the calculation of HM Treasury in Annex B of its pre-referendum predictions that the net annual contributions for access to this market have been 0.4% of UK GDP over the two decades 1999-2018, then it probably passed the trillion-pound milestone in 2019. Either way, for the UK, it's a figure that those negotiating with M. Barnier might bear in mind, as might M. Barnier himself, although he presumably will be endeavouring to hang on to a job-creating deficit of this size, and to see that it continues to grow over the next 20 years.

By comparison, the total value of the goods trade of the WTO14 with the UK is currently smaller, about 70% of that of the EU14, and as just noted, more balanced. For both reasons, the total cumulative deficit with these 14 countries is also considerably smaller than that with the EU. At the end of 2018, it was £215.18 billion.

Thus far, the ONS data we have considered has defined the UK's trade relationship with the EU as a failure, unexpected perhaps, but unmistakeable. UK goods exports to other members have not only grown more slowly than those of any other member country, but more slowly than many other countries trading with the EU under WTO rules, and in all probability, have failed to create any jobs since 1999. And although the UK is the least integrated member country of the EU, its deficits from intra-EU trade are nonetheless the largest – an astonishing combination – and they have been increasing quite rapidly.

On all counts, the trade relationships shaped by WTO rules seems to have been more successful: faster growth, creating more jobs and incurring smaller deficits, and of course without burdensome economic and political costs. The data thus far, however, has referred only to goods, to one half of the two trade relationships. So, we must now see how far the export of services offsets deficits in goods, and whether in other respects it leaves a different impression of their respective merits.

7.

Services exports grow at a faster rate

Column 1 of Table 7.1 shows UK exports of services to the EU14 over the past 20 years have been growing much faster than exports of goods to every single one of them. The inflation-adjusted aggregate compound annual growth rate (CAGR) of 4.85% is many times faster than that of goods exports, and the rate for the 27 is slightly higher at 4.98%. Moreover, the rate of growth to all of the 14 EU partner countries comfortably exceeds the growth rates of their partners' GDP, as therefore do the aggregate rates of both the EU14 and EU27. The ONS data on UK services exports, therefore leaves a different, and altogether better, impression than the data on goods exports.

That said, however, it is immediately clear that service exports to the EU14 cannot offset the deficit on goods, since as shown in column 3, only nine of the EU14 earned a surplus over the 20 years. Four of the other five are popular UK holiday destinations and have 'travel services' exports larger than their imports of UK services. In one year of the twenty (2000) the aggregate surplus of the 14 completely offset their goods deficits, but that was a remarkable exception. In the other nineteen years, their surpluses were too small and, as shown in column 4, sufficient to offset their goods deficit over the twenty years only in the case of Luxembourg and Sweden. Ireland is a unique trading partner in the EU for the UK, being the only one where the UK has earned a surplus on trade in both goods and services over the twenty years. And the size of the surplus is itself remarkable, since it equals about half the deficit in the trade of both goods and services with the other 13 over the two decades.

Table 7.1: Trading services within the EU
Growth of UK exports to 14 other members of the EU Single Market 1999-2018 & cumulative trade balance

Partner country	1. CAGR of UK services exports %	2. Divergence from WTO partner's GDP %	3, 20 year trade balance services £bn	4. 20 year trade balance gds & serv £bn
Austria	3.37	1.72	–4.40	–29.15
Belgium	2.71	1.15	34.93	–50.67
Denmark	4.97	3.71	27.55	–2.03
Finland	1.81	0.22	17.04	–14.71
France	4.51	3.11	–10.84	–43.50
Germany	4.44	3.06	93.67	–284.61
Greece	0.62	0.39	–26.83	–12.37
Ireland	6.69	1.90	95.68	229.31
Italy	4.40	4.01	18.75	–68.75
Luxembourg	11.44	8.51	28.21	**20.4**
Netherlands	5.81	4.27	131.54	–6.45
Portugal	2.15	1.44	–22.43	–31.01
Spain	4.46	2.60	–135.77	–180.19
Sweden	4.08	1.79	34.86	9.94
EU14	**4.79**	3.42	**281.97**	–460.38
EU27	**4.98**	3.44	**267.11**	–601.68

Source(s): https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/ datasets/ uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted
https://data.worldbank.org/indicator/NY.GDP.MKTP.KD 2010

Table 7.2 allows us to compare the performance of services exports in the EU14 with that in the 14 countries with which the UK has been trading under WTO rules. The total value of exports to these 14 countries is, as we noted earlier, a rather larger proportion of all UK world services exports than that to the EU14, some 40% versus 36%, but their inflation-adjusted rates of growth have been very similar. To be precise, the CAGR of UK exports of services to the EU14, has been 0.02%, and to the EU27 0.21%, *higher* than those to the WTO14.

Table 7.2: Trading services under WTO rules
Growth of UK exports to 14 WTO partners 1999-2018 & cumulative trade balances

Partner country	**1. CAGR of UK exports %**	**2. Divergence from WTO partner's GDP %**	**3, 20 year trade balance services £bn**	**4. 20 year trade balance gds & serv £bn**
Australia	4.70	1.74	47.31	78.36
Brazil	3.77	1.38	12.26	5.71
Canada	4.66	2.53	39.68	22.81
China	10.61	1.49	28.12	–297.61
Hong Kong	4.13	0.34	11.95	–44.10
India	6.30	–0.33	–14.39	–34.72
Japan	2.22	1.3	50.49	–34.82
Nigeria	9.70	3.91	12.93	17.31
Qatar	7.98	–0.72	9.58	4.63
Russia	9.73	6.04	24.03	–31.43
Saudi Arabia	2.34	–1.24	64.93	88.63
Singapore	4.05	–1.16	33.26	31.75
UA Emirates	9.30	5.07	18.67	75.12
United States	4.76	2.7	429.04	671.04
WTO14	**4.77**	1.49	**767.86**	**552.68**

Source(s): https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/ datasets/ uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted
https://data.worldbank.org/indicator/NY.GDP.MKTP.KD 2010

One noticeable difference from exports to the EU14 is that exports to four of these WTO countries, highlighted in red in column 2, have failed to keep pace with the more rapid CAGR of the GDP of their partner countries, whereas exports to the EU14 surpassed the lower GDP growth of their partner country in every single case. This might be evidence of the merits of the Single Market for UK services exports. The overall growth rate may be virtually the same, but exports to fellow members have always exceeded the GDP growth, while those to the WTO14 have not always done so. It must be said, however, that three of the four WTO partners in which UK exports failed to keep pace with their partner's GDP had exceptionally high CAGRs: India 6.63%, Qatar 8.70% and Singapore 5.21%.

Nonetheless, since statistical evidence of the past economic benefits of EU membership for the UK is difficult to find, this possible instance deserves close examination. The best test would probably be to look at the services exports to the EU of a selection of other countries, especially those trading with the EU14 solely under WTO rules over the same two decades and collected by the same protocol as that of ONS, to see if the record of the UK is in any way distinctive. For the moment, however, the best available data is that of Eurostat[22] which shows the services *imports* of the EU, though only over the nine years 2010-2018.

Services imports by the other 27 from the UK over those years grew at CAGR, in current value euros, of 6.47%, but imports from the 'rest of the world' in aggregate (which were, of course, very much larger in value than those from the UK) grew at a slightly faster rate of 6.63%, as did the considerably larger value imports from the United States, which grew at a rate of 6.59%. Many other non-member countries, whose imports were of a smaller value than those of the UK, also grew faster, such as Mexico which has a services trade agreement with the EU, Israel which does not, and China, Hong Kong and India, which have no trade agreement at all. Services imports from Singapore grew at a CAGR of 12.76% over the nine years, before the agreement with the EU came into force, which is almost twice as fast as the UK, and with a per capita value almost double that of the UK. In the light of these figures, it seems improbable that the 6.47% current value growth rate of UK services exports to the EU14 is an indication of the benefits of the Single Market in services.

Of course, one must wait on better-matched data, but it would be stretching the point to argue that because UK services exports to the EU14 marginally surpassed their partners' modest rates of GDP growth over these two decades, while those to the higher growth rates of the WTO14 did not always do so, we have at last found an economic benefit of membership of the EU single market in services. Overall, it is surely the similarity between the growth rates to the sets of trading partners that prompts the more basic question, namely whether the Single Market in services has been of any benefit at all to UK exporters, or indeed, whether it even exists.

The EU's own preferred index of market integration – the ratio of intra- to extra-EU trade as a proportion of GDP – has long suggested that this Single Market had only a marginal impact on services trade among member countries, other than perhaps for France, it being the only one of 12 EU countries in an early 2002-2012 study, whose intra-EU services exports or 'dispatches' grew faster than its extra-EU exports. The inaugural Trade in Services Agreements talks in Geneva in 2013[23] revealed numerous intra-EU non-tariff barriers, and the services trade restrictiveness index[24] of the

OECD shows they have not been disappearing since. The ONS data presented here, showing that UK services exports to 14 fellow EU members have not grown significantly faster than those to 14 WTO partners, provides a simpler *ex post* measure, which strongly reinforces the view that the much vaunted benefits of the single market in services have, for the UK at least, been largely imaginary.

8.

Have trade agreements made a difference to services exports?

When examining goods exports, we sought to discover whether UK exports might have benefited indirectly from EU trade agreements by seeing whether exports to 88 partner countries and territories having agreements with the EU had grown more rapidly than those with which the UK traded under WTO rules. They hadn't. As noted above, they had grown more slowly.

A similar comparison between UK services exports to the same partner countries and territories would not be appropriate, since the WTO-RTAIS database shows that EU service trade agreements cover only 38 countries and territories. Moreover, 11 of these are British overseas territories and jurisdictions, and together they have always accounted for around a half of the total value of UK services exports to the 38, amounting to 46.1% in 2018. Plainly, UK services exports to these 11 cannot be included in the search for the benefits of EU membership. Thus, there remain 27 partner countries and territories with which the EU has concluded a services agreement from which UK service exporters might have felt some benefit. They cover a tiny percentage of UK services exports to the world, 2.41% in 2018, up from 2.30% in 1999.

The massive imbalance between the number and coverage of EU goods and services agreements provides the clearest possible demonstration that over these decades the European Commission did not feel inclined to use its negotiating clout (which Mr Blair among others so admired) on behalf of its members with significant services exports, and in particular for its number one services exporter, the UK. Why it was reluctant to do so, no one has ever explained. This is one of many examples which shows that the trade policy of the EU was not accountable to anyone. Two of the four British trade commissioners, Mandelson and Ashton, who were in office over these years are still alive, so we might yet, perhaps, be provided with an explanation.

Although the proportion of total services exports affected is small, it is nonetheless worth asking, since no one has asked before, whether it is possible to detect any possible benefit from EU negotiating efforts. Services exports to the EU14 grew, as we saw in Table 7.1, at a real CAGR of 4.79%, and to the EU27 at a slighter better 4.98%, while those to the 27 countries, territories and jurisdictions subject to an EU agreement grew at a real CAGR of 5.19%. So yes, it is just possible that EU agreements helped UK services exports a little, since UK services exports to the remaining 154 countries not counted elsewhere, and having no agreements with the EU, grew at a real growth rate of 4.98%, though that, as we have just seen, is at exactly the same rate as exports to the EU27. Further research would be required to show whether EU agreements had much to do with this marginal improvement of 0.21ppts. It seems highly unlikely, since UK services exports to 11 British territories and jurisdictions, which could hardly have benefited from the intervention of EU negotiators, grew over the same two decades at a real CAGR of 7.17%.

9.

Deficits that can be offset and those that can't

The most significant difference between UK services exports to the EU14 and to the 14 WTO countries revealed in Tables 7.1 and 7.2 is that the latter were more likely to earn a surplus. As column 3 in each table shows, while only 9 of the EU14 did so, thirteen of the WTO countries were in surplus every single year, India being the solitary exception in the other direction. The UK has incurred a deficit in services trade with India in every one of the last 20 years. Moreover, exports to the WTO14 are not only more likely to earn a surplus, but those surpluses are large enough to more than offset the deficits on goods trade with them, as can be seen by comparing column 4 of Table 7.1 and Table 7.2.

Services exports to the WTO14 have, over the 20 years, earned an inflation-adjusted surplus of £767.9bn, which is three times larger than the surplus on services exports to the EU14. After offsetting the deficit in goods with them, it leaves a final surplus on trade with the 14 WTO countries of £552.7 billion over the 20 years. The smaller surplus on services with the EU14 offsetting the deficit in goods with them left a final surplus on trade with the 14 WTO countries of £552.7 billion over the 20 years. The smaller surplus on services with the EU14 offsets only a small part of UK's much larger deficit on trade in goods with them, and the UK ended the two decades with an overall deficit of £463.3 billion.

Thus, the final comparison of the two trade relationships over these two decades reveals a stark contrast and runs counter to received economic wisdom. Trade under WTO14 terms earned a surplus of £552.7 billion, while trading with the EU14 was a double failure of near-stagnant growth and a deficit of £463.3 billion. While growth to the EU27, of both goods and services, was marginally faster, the cumulative deficit was larger at £601.8bn. Trade with the 13 new members who have joined the EU since 1999 has not fundamentally changed the unsatisfactory features of the UK trade relationship with the EU14.

Put simply, trade under WTO terms has paid its way, grown rapidly, created new jobs, and earned a substantial surplus over the past two decades, while trade with the EU on its supposedly-level playing field has done none of these things. Instead, it has created huge trade deficits, which the large surpluses earned on the services exports under WTO rules have helped to offset, and kept at a tolerable level.

10.

A recap of the main items of evidence

1. Over the two decades 1999-2018, UK export of goods to most of the 14 other EU members have declined, but the collective real compound annual rate of growth (CAGR) to the 14 was 0.56%. A year-by-year analysis reveals that this growth took place in the first decade of the period. Near-static trade with EU partners could hardly have created any new jobs in the UK.

2. Goods exports to 14 countries under WTO rules have increased six times faster than goods exports to the EU, at a real rate of 3.38% per annum. Hence trade with WTO partners has created more new jobs in the UK over these two decades.

3. The striking contrast in export performance under these two trade relationships suggests that the advantages of frictionless trade with the EU and/or the disadvantages of distant partners incurring tariffs and non-tariff barriers, have been greatly exaggerated in UK debate.

4. There is no reason to suppose this contrast can be explained by differences in the rate of growth of the GDP of the EU14 and the WTO14.

5. There is no half-way plausible explanation of this profoundly counter-intuitive finding. From the beginning, expectations and promises of significant economic benefits from EEC and EU membership have been high, and no political leader of the UK thought it necessary to monitor and measure them. There has therefore been no occasion, or incentive, to explain what went wrong.

6. Services exports to 14 other EU members have grown much faster than goods exports, but at almost exactly the same rate as those to 14 WTO partners over these two decades. This similarity throws doubt on the benefits of membership of the Single Market in services, and even on its existence. Moreover, the value of services exports to non- EU markets in 2018 at £166.7bn were considerably larger than the £116.7bn value of exports to EU markets.

7. There is no evidence that the 70 trade agreements in goods negotiated by the EU have been of any benefit to UK goods exporters over the past two decades. UK goods exports to the 88 countries and jurisdictions covered by them have grown at a slightly lower rate than exports to 117 countries with which the UK trades under WTO rules.

8. Likewise, there is little evidence that the 38 EU trade agreements covering service agreements have benefited UK exporters, though exports to 27 of these was fractionally higher than that of UK exports to the 154 other countries under WTO rules. However, the other eleven agreements referred to British overseas jurisdictions, and they had by far the highest growth rate which is unlikely to have been the result of EU intervention.

9. There is therefore no evidence to show that the supposed negotiating 'clout' of the EU has ever been used to the benefit of UK goods or services exports over these decades, though individual agreements may of course have deviated from the norm.

10. Alongside the near static real growth rate of goods exports to the EU of 0.56%, imports of goods from the EU have grown at a real annual rate of 2.64% and created a deficit which has been increasing at a rapid rate. Although the surplus earned on services exports to the EU has partially offset this deficit, it is probably not sustainable in the long run. After two decades it amounted to a deficit of £463.3bn for the EU14, and to £601.8bn for the EU27.

11. Imports of goods from WTO partners have similarly created a deficit, but it is more modest and more than completely offset by services exports to these countries, leaving a substantial surplus over the two decades of £552.7bn.

12. Trade relationships conducted under WTO rules have proved the more successful for the UK over the two decades. They have paid their way, creating jobs and earning a substantial surplus. The trade relationship with the EU has entailed the significant costs and obligations of membership, has created few if any jobs in the UK and left the problem of a substantial trade deficit. It has entailed the outsourcing of trade negotiations which have been of no benefit to UK exporters.

Conclusion: implications for trade negotiations and policy

Negotiating priorities

All the evidence presented above suggests that the UK's future trade policy should build on its proven success of trading under WTO rules over the past two decades by precisely-targeted trade negotiations with existing WTO partners with whom trade has grown in the recent past, and whose own GDP growth promises rapid growth in the future.

Roll-over agreements with trading partners currently covered by EU agreements will also be helpful in the short term, since they will reduce disruption at the end of the transition period. Many have apparently already been agreed in principle. It is, however, worth remembering that the aggregate national evidence from ONS over two decades shows that these agreements have not helped to increase UK exports of either goods or services. In the longer run, therefore, these agreements deserve careful scrutiny, evaluation and improvement.

Equally clearly, it follows from the ONS evidence that UK's future trade policy should on no account be based on negotiating an agreement with the EU that tries to maintain a relationship resembling membership by a commitment to maintain a level playing field or some other means. Such an agreement would only make further decades of suband near-zero growth of UK goods exports to fellow EU members more likely, and the accumulation of another trillion-pound deficit.

A sensible future trade policy has to begin by recognising that the trade relationship with the EU has been an expensive failure. Since political leaders and opinion-formers in the UK have over many years been persuading themselves, and the rest of us, of the economic benefits of membership, this will not be easy. Moreover, even when the failure is recognised, it will, for a number of reasons, be difficult to address and resolve the problem.

Obstacles facing a bilateral EU-UK agreement

Few observers in the UK seem aware that UK goods exports to the EU have had sub- or near-zero or negative growth over the past two decades. There has been no occasion or incentive for anyone to try and explain what went wrong and why the Single Market failed to live up to expectations. Without a plausible explanation of the problem, it is hardly possible to devise effective policies, or negotiating stratagems, to address or solve it.

Another reason why it will be difficult to change this trade relationship is that the EU has given its negotiators what must be a unique mandate in the history of trade negotiations, which is to ensure that the UK emerges from the transition period with fewer benefits from the single market than it has enjoyed as a member. The European Commission apparently shares the mistaken view that the UK has benefited economically from membership. At an appropriate moment, Mr Frost might correct M. Barnier on this point, though whatever he may think, it seems likely that the EU will try to reduce UK exports to the EU, most probably by devising WTO-compliant non-tariff barriers to reduce UK services exports. If this were to happen, it would, of course, only increase the trade deficit with the EU.

It seems unlikely therefore that bilateral EU-UK negotiations will resolve the problem of sub- and near-zero growth of goods exports to the EU and an ever-mounting deficit. Hence, the better chance of improving this failed relationship with the EU is to be found in the trade policy that builds on the success of trade under WTO rules with well-targeted trade agreements with existing WTO partners around the world, especially the United States.

Such agreements would allow agricultural and other products that currently encounter prohibitive EU tariffs to enter the UK market at lower prices to the benefit of UK consumers. EU suppliers would then either have to compete with these prices or withdraw from the UK market. Since those agreements might, at the same time, extend existing markets or open new ones for exports of UK goods and services, there is a reasonable chance that, by one route or the other, UK dependence on EU imports would decline, and its trade deficit with the EU cease to climb relentlessly.

Preparations for the transition to trading under WTO rules

Trading with the EU under WTO rules will present difficult problems for some UK exporters, but it is important to face these squarely, and to prepare for them, rather than continuing to be distracted by the highly speculative predictions of HM Treasury before and since the referendum. In its scenarios of the future, trading under WTO rules would be the UK's worst possible trading option and entail widespread loss of jobs and incomes. This prompted much of the ill-informed parliamentary opposition to a 'No Deal Brexit'. Hopefully, the ONS evidence will persuade many observers that HM Treasury got things the wrong way round, and that over the past two decades trading under WTO rules has proved to be a far better option than frictionless and tariff-free trade with the EU.

The ONS evidence is important not only because it shows the rapid growth of UK goods exports to WTO partners, but also because it reminds us that there is a considerable body of expertise and experience in the UK about trading under WTO rules with countries around the world. According to HMRC estimates, there are 93,000 UK firms who do not trade with the EU the majority of whom must be trading under WTO rules, and a further 74,000 firms who have both EU and non-EU customers.[25]

Their voices were seldom if ever heard during the debates about Mrs May's agreement. Astonishingly, no government department, neither HM Treasury, nor HM Revenue & Customs, nor the Department of Business, Energy & Industrial Strategy, nor the Department for Exiting the EU, nor the Department of International Trade thought it might be worth surveying a sample of them to see what they made of trading under WTO rules and whether they found it quite as bad as HM Treasury's model said it was. What we can say is that for 167,000 UK firms at least, the transition to trading under WTO rules with the EU will hardly be a cliff-edge, or lead to M20 tailbacks and chaos, as the former Chancellor and others claimed.

Presumably, with the support of the trade associations, business schools, forwarding agents, the Institute of Export and International Trade and others regularly involved, as well as the Department of International Trade, it will be fairly easy to pass some of the knowhow and experience that the 167,000 have earned on to the 149,000 UK firms who have no export experience other than frictionless trade within the EU.

The experience of those currently doing so

There is, moreover, the further reassuring evidence mentioned above, from Eurostat and IMF-DOTS, about the many countries, including the United States, Australia, Canada, India, and Singapore, who have been trading with the EU under WTO rules for many years. That evidence showed that, if the rate of growth of their exports be taken as a measure, several of them have benefited more from their access to the Single Market than the UK has managed with the advantages of frictionless tariff-free trade, and proximity. Moreover, they have done so without incurring any of the significant obligations and costs of membership. Exporters from these countries have, obviously, complied with the regulatory standards of the EU, but their taxpayers have not paid an annual subscription to the EU, nor have their other businesses been obliged to abide by EU regulations or to accept the jurisdiction of the Court of Justice of the European Union.

These countries demonstrate that the slogan 'access to the Single Market always comes with obligations' as the Institute for Government[26] puts it is incorrect, as is the notion that the UK has to make political or economic concessions, or agree to an imaginary 'level playing field', in return for access to the Single Market being granted by the EU. These ideas contradict fundamental WTO principles, and seem to have been proposed by the EU and its sympathisers in the hope that UK negotiators might accept the claims of HM Treasury about the benefits of frictionless trade within the Single Market, and concede to EU demands to ensure they continue.

As long as the EU remains a member of the WTO, the UK cannot be excluded from its Single Market, and access to it cannot be on terms any less advantageous than, or different from, those of any of the countries mentioned. Their trading experience also demonstrates that trading with the EU under WTO rules need not lead either to chaos, or to a precipitous decline in trade with the EU, which HM Treasury predictions led many UK parliamentarians and others to fear.

The primary task of supporting the minority at risk

There is, in reality, just one compelling reason why some UK exporters might not be able to match the performance of exporters from these countries under WTO rules, and that is the EU's Common External Tariff (CET) and its non-tariff barriers (NTBs). American, Australian, Canadian and other exporters to the EU have had time to incorporate these into their business models and marketing strategies, while UK exporters to the EU will face them overnight on January 1st 2021.

Fortunately, most of the tariffs imposed on UK goods exports to the EU on that date would, as we know from the MFN rates currently applied by EU members,[27] be below 10%. They would therefore be within the fluctuations in the value of sterling versus the euro since Brexit, and probably seen as an annoyance rather than a reason to abandon exports to the EU altogether. And any NTBs imposed will probably be familiar to these UK exporters since they will be the same as are applied to non-EU exporters to the UK, and part of UK exporters' own regulatory regime. If these exporters have problems on January 1st 2021, they will be primarily due to the failure to make adequate preparations rather than inherent problems of trading under WTO rules.

There is, however, an identifiable minority of UK exporters to the EU whose businesses have developed under, and still depend on, the protection provided by the

EU's common external tariff (CET). Some of them rarely compete in non-EU markets, and might find the CET imposed overnight on their exports to the EU a crippling blow to further sales. The products, and therefore the businesses, affected can be counted. If, for the sake of the argument, a prohibitive tariff is defined as 10% or more, we know that UK exporters in seven of the 22 product groups listed in the WTO tariff profiles[28] would currently face such a tariff. They are the exporters of agricultural, forestry & fishing products, of food products, of beverages and tobacco, and of wearing apparel. Not all sub-sectors within these sectors are equally at risk, but collectively, they constituted 11.7% of the value of all UK exports to the EU in 2019, and 5.4% of total UK exports.

In the absence of a UK-EU deal, trading with the EU under WTO rules in 2021 might present severe difficulties for some firms in these sectors, and for some of them, depending on their presence in other markets, might undoubtedly threaten the survival of their business. They will require, and deserve, support of some kind until they find alternative markets or alternative products.

Fortunately, those at most risk can be identified well in advance, and steps can therefore be taken to lessen, or perhaps circumvent, its impact. If the UK is to handle their problems effectively, it will first be necessary to identify, with the help of the WTO's *Consolidated Tariff Schedules* (CTS)[29] database, the sub-sectors that are likely to be most affected, and to, show with the help of ONS *ProdCom* and other sources[30] the value of their output, the number of their employees, their geographical clustering if any, the common external tariff to which its products will be subject, as well as trustworthy estimates of the *ad valorem* equivalents of the likely EU NTBs they will encounter.

The key characteristics of vulnerable firms are the proportion of their total output that is for domestic consumption, and the proportions exported to, and imported from, the EU, and non-EU or WTO countries, as well as their rates of growth in recent years. Since the value of EU imports of highly protected products almost invariably exceeds the value of UK exports of those products to the EU that will be at risk, reliable estimates of the prospects of lost exports substituting for lost EU imports will also be required. Food products, for instance, are heavily protected by EU tariffs, varying between 5% and 40%. The UK exported £13.6bn worth in 2019, roughly two thirds of which went to the EU, which puts the sector and the firms involved very much at risk. However, the UK also imported £31.6bn worth of food products, three quarters of which, £24.2bn, were from the EU. In the event of a mutually imposed tariff, therefore, a considerable degree of import substitution seems likely.

As a result of this research effort, the sectors and firms at risk should become the best-researched firms in the UK economy, and since their prospects have to be evaluated in world markets, they have also to be analysed in that context in the manner pioneered by the International Trade Centre.[31]

The data for such an analysis already exists, though in diverse places, and not in readily-reconciled classifications. It therefore has to be assembled as a single source of reference, so that it might inform decisions about the type of support that is most appropriate in specific cases after January 1st 2021. Clearly, it will have to be done quite quickly, if it is to reassure those affected as well as the wider interested public, and if it is to inform evidence-based policy responses to a transition to trading under WTO rules in 2021.

Some of the 149,000 UK exporters currently involved exclusively in trade with the EU – or their trade associations

– have no doubt already compiled the data relevant to their own circumstances in the event of having to trade under WTO rules. But it would be unrealistic to suppose many have done so while there is a chance of an agreement with the EU, and before they know the outcome of the negotiations with the EU.

The compilation of a comprehensive trade performance database of this kind is a task that properly belongs to HM Government for both practical and moral reasons: it can hardly wait until the outcome of the negotiations with the EU since that will probably only be known at the last moment and since it is, after all, a decision of government that will change the market conditions under which these exporters have to operate in the future. One might add that there are also good political reasons for the government responsible for the transition undertaking this task.

The Department for International Trade appears to be the most obvious candidate, especially as it will also be a major beneficiary of such a database, regardless of the outcome of negotiations with the EU and long after it has helped to handle problems arising from the transition. Once constructed, it will provide a secure research foundation for trade negotiations, trade promotion, and for an accountable UK trade policy, into the indefinite future.

Notes

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A fundamental issue at the heart of Britain's political discourse since the EU referendum has been the comparison of merits of trade as an EU member and those under WTO rules. In this report, Michael Burrage and Phil Radford compare UK trade as conducted within these two trade relationships, in both goods and services, over the two decades from 1999 to 2018.

By comparing UK trade with the 14 other EU members in 1999 in relation to that of the UK's 14 major export markets under WTO rules – a trade of an approximately similar value – the authors discern a series of significant trends, including:

- Over the two decades, UK goods exports to eight of the EU14 have fallen rather than grown. By contrast, goods exports have not fallen to any of the WTO14 and collectively have grown six times faster than exports to the EU14. It is emphatically trade with the WTO14 that has created jobs in the UK over these two decades, not trade with the EU.

- On individual EU agreements, aggregate trade data shows the real growth rate of UK goods exports to the 88 countries and jurisdictions covered by 70 such agreements was slightly below the real growth of exports to the remaining 117 countries of the world with which the UK trades under WTO rules.

- IMF data for 2010-2018 shows services imports to the EU from the United States and numerous other countries trading with the EU under WTO rules have grown faster than those of the UK, throwing doubt on the idea that UK services exports have benefited from EU membership.

Michael Burrage and Phil Radford conclude that future UK trade policy should not be based on an agreement with the EU which tries to stay close to the existing trade relationship, by a so-called level playing field or other commitments. That agreement would only perpetuate the problems of sub- and near-zero export growth and an ever-mounting deficit. Their report suggests that future UK trade policy should be built on the proven success of trade under WTO rules, and wherever possible negotiating well-targeted agreements to improve trade with existing WTO partners.

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