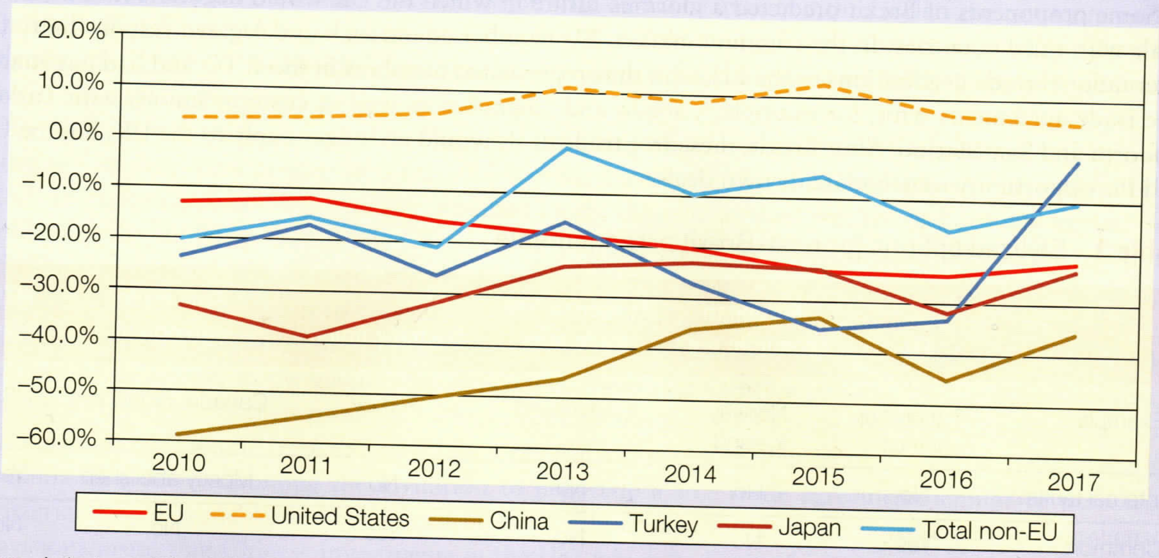
Figure 4 Trade in goods: balance with key trading partners

Trade surplus (deficit) as percentage of trade volume



Source: Author's calculations based on data downloaded from UK Office of National Statistics, 2018. Calculated as: Trade surplus = (Exports − Imports)/(Exports + Imports).

FUTURE TRADE REGIMES

After the decision to leave the EU, uncertainty prevailed regarding the trading arrangement of the UK with the EU and with other partners in the future. Principally, there were six options (Table 1 overleaf). The UK could remain within the EU common market and negotiate arrangements similar to those with Norway or Switzerland. These arrangements would allow the UK to set its own external tariffs while securing tariff-free access to the EU market, though country-of-origin rules would apply and there would have to be documents when goods were shipped across the border into the EU. However, these agreements did not include free trade of services, which was a concern in particular to the financial services industry in London. Moreover, under these arrangements, the UK would have to commit to the EU regulatory regime without having a voice in the EU Commission or the EU Parliament where these regulations are written. Therefore, leading proponents of Brexit found these options unacceptable. The UK could also form a customs union with the EU, similar to that between Turkey and the EU, which it could negotiate with a less integrative bilateral free trade agreement or leave completely and hence rely on WTO rules with respect to its trade relationships.

Key trade-offs concerned border controls on goods shipments: if the UK wanted to set its own tariffs and negotiate free trade agreements with third countries, then border controls and paperwork would need to be checked for the origins of shipments.[2] If the UK wanted to establish regulation or product standards other than those of the EU, then in addition border controls would need to check that products shipped to the EU meet EU standards, which requires exporters to provide another set of paperwork. These checks at the border were a major concern to businesses as they could substantially delay shipments of goods – even if lorry drivers carry all the appropriate documents. Moreover, what processes should be applied at the border between Ireland and Northern Ireland? And, how would the port of Dover build the required customs facilities within a very short time and in very limited space?[3]

If no deal was reached with the EU, then WTO rules would apply. Critically, this included the most-favoured nation (MFN) principle. This rule establishes that apart from approved free trade agreements, countries cannot discriminate tariffs between trading partners. In other words, the EU and the UK would