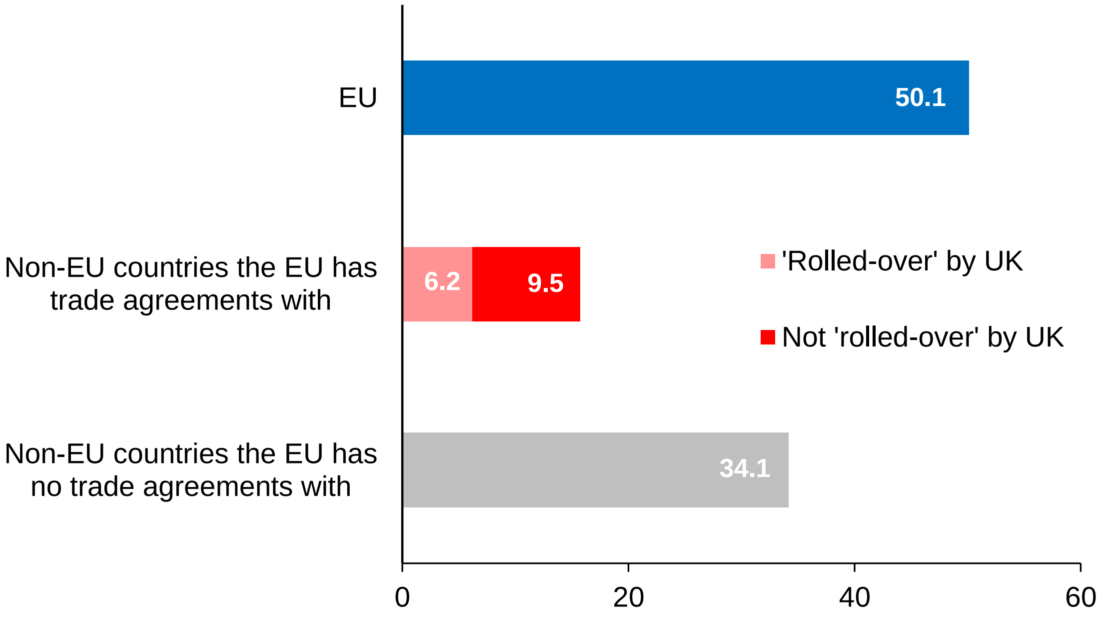
Undoing 46 years of UK integration with the EU was never going to be easy

UK trade (imports and exports) in goods, by partner, % of total



Source: European Commission, UK Department for International Trade, IMF DOTS, UniCredit Research

- Disentangling the UK economy from the EU was always going to be a mammoth task. Our *Chart of the Week* shows 66% of UK trade in goods is covered by trade agreements as a result of the UK's membership of the EU, either directly or indirectly. Trade with the EU accounts for 50% of UK trade, while the UK also currently benefits from the around 40 trade agreements that the EU has signed and applied with more than 70 countries, accounting for an additional 16% of UK trade in goods.

- In Autumn 2017, the UK Secretary of State for International Trade pledged that Britain will be in a position to roll-over all EU trade agreements "one second after midnight in March 2019". Well, March has past and so far the UK has only managed nine agreements[1], which on our calculations account for 6% of UK trade in goods. Negotiations with the other partners, accounting for 10% of UK trade, are either off-track or significantly off-track, including important agreements with Canada, Japan, South Korea and Turkey. And this does not even include EU trade agreements that are pending, such as EU-Singapore and EU-Vietnam.

- The reluctance of trading partners to roll-over existing agreements post-Brexit is two-fold. First, some countries simply want a better deal than they achieved with the EU (e.g. Japan), reflecting the UK's lower bargaining power. Second, many countries want to wait to see what future relationship the UK will have with the EU post-Brexit. This is because bilateral trade talks with the UK also depend on what the EU does, in several aspects. Indeed, some countries have agreed to regulatory alignment to the EU and would need to know whether the UK will do the same. Also, so-called "Rules of Origin" define the thresholds on local content for goods to be eligible for preferential tariffs, but so far the EU has not recognized UK-content as qualifying as local in its trade partners. In addition, how quotas on agricultural products will be split between the EU27 and UK market is a tricky issue as simply dividing existing EU quotas into two reduces the value of these quotas to the EU's trading

[1] The nine agreements are with CARIFORUM, Chile, Eastern and Southern Africa (ESA), Faroe Islands, Iceland and Norway, Israel, Pacific states, the Palestinian Authority, and Switzerland (https://www.gov.uk/guidance/signed-uk-trade-agreements-transitioned-from-the-eu).

partners (as they could lose the flexibility to switch sales between the EU27 and UK market). And, finally, many of the trade agreements the EU has signed include so-called MFN clauses (e.g. EU-Canada and EU-Korea), which means that if the UK were to subsequently grant better access in the future to another partner then it would have to offer the same benefit to those countries that it has already signed agreements with MFN clauses.

- It will likely take many years to disentangle the UK economy from the EU. And when it's complete, the UK is likely to be a (much) less open economy.

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