WPI 2017 TRADE PROSPECTS INDEX

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Heathrow

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FOREWORD

JOHN HOLLAND-KAYE, CEO - HEATHROW AIRPORT

For the past 150 years Britain has been a beacon for free trade. The ability to export food, cotton, coal and iron to all corners of the world helped Britain become the powerhouse economy of the world in the mid-19th century. In 2017, Britain can boast of world-leading, advanced manufacturing companies in sectors such as aerospace and defence. The UK is also the second biggest exporter of services in the world. We should all rightly be proud of Britain's history as a great, global trading nation.

Today, however, Britain finds itself at a cross-roads. Over the coming months and years, the country must grasp the opportunities that leaving the European Union presents. Striking trade deals with both friends in Europe and with countries across the world will form the cornerstone of future UK prosperity. Growing the volume of trade will have a direct impact on jobs, wages and prosperity right across the country.

Agreeing new deals will not be simple. There are a number of complex factors - diplomatic, economic and political - which will need to be addressed to avoid the cliff-edge of trade uncertainty for British businesses. It is an opportunity to forge new frameworks for free trade deals whilst being vital to prioritise deals which are not only achievable in a relatively short period of time, but which also deliver the most value to the UK economy. That is why we at Heathrow are delighted to be supporting WPI Economics' Trade Prospects Index.

Heathrow is already Britain's largest port by value, enabling the export of over £100 billion of goods per year to global partners; more than the seaports in Southampton and Felixstowe combined. From pharmaceuticals being flown to developing countries, components being flown to the next Formula One race or Scottish salmon being exported to China, Heathrow is by far the most common gateway for high value, time-sensitive British products being exported to foreign markets. With expansion, we plan to double our current cargo capacity, enabling businesses across the UK to increase their exports and realise the opportunities of Brexit; supporting British jobs and spreading British products and services around the world.

Connectivity will form part of the UK's ability to strike new trade deals, especially as many possible trade partners are more geographically remote than European partners. The recent agreement between the UK and China to double flights between the two countries demonstrates the positive approach the Government is adopting to use aviation to boost trade and build a confident global Britain. We already provide routes to each of the ten best trading prospects as identified in the research and expansion will result in Heathrow being able to increase the number of flights to these existing routes. On top of this, we will have increased capacity to establish direct connections to new and growing markets around the world where British companies can boost their trading potential.

Businesses trade up to 20 times more with emerging markets with direct daily flights to the UK than those without. The lack of a daily direct service to 10 emerging economies which are served by rival European airports represents potential lost trade of £1.2bn a year. Rectifying this situation and helping businesses of all sizes get out in to the world to support the UK in rediscovering its role as a global trading nation is something Heathrow is committed to achieving.

UK trade is an incredibly important component in determining the success of the nation. For Britain to succeed, the country must do more of what it is good at. Heathrow is a key national economic asset with the export infrastructure, the long term trade routes, and the airlines to help maximise the benefits from the UK's refreshed global outlook.

SUMMARY

"A Global Britain must be free to strike trade agreements with countries from outside the European Union."

Prime Minister Theresa May

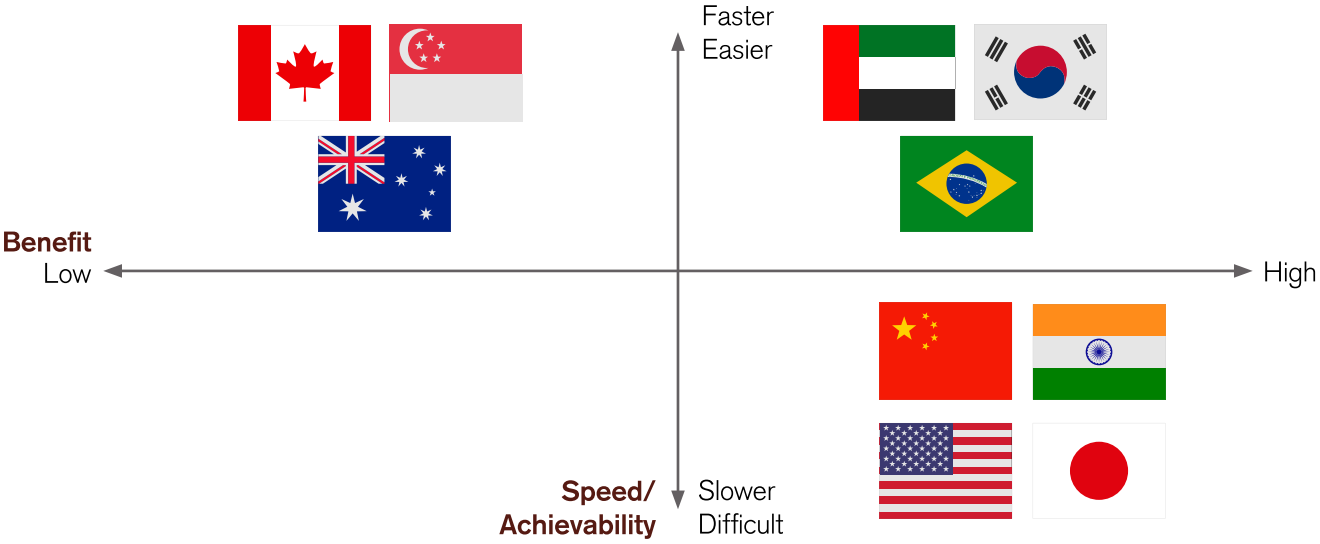
17th January 2017

With the UK's decision to leave the European Union and the single market, it now finds itself with the unique opportunity to reshape its place in the global economy. An independent United Kingdom will be more nimble than the European Union, and will need to use that strength to quickly and effectively build new trade agreements. Whether the UK is successful at striking these agreements in a timely manner may come to be one of the factors that decides how successful Brexit is.

This process will not be easy. Trade negotiations take a long time, and require complex trade-offs. Securing cheaper food imports for consumers may come at the expense of domestic farmers, and concessions may be required in policy areas ranging from immigration to agricultural subsidies. If the UK is to reach new agreements as quickly as possible, it will need to address these challenges promptly, decisively, and consistently. A failure to do so risks UK businesses being left behind compared to their European counterparts.

Similarly, to seize the opportunities that expanding global trade provides the UK must ensure that its trade infrastructure is prepared for an increased volume of trade over time, and that our aviation, road, and rail capacity is sufficient to handle the increased flows of goods from across the world.

Above all else, the Government will have to be strategic about which deals it seeks, how it makes decisions, and over what timeframe. To assist this process, WPI Economics has analysed the UN Comtrade statistics and combined this with an original depth analysis of previous trading relationships. The result is our *Trade Prospects Index*, highlighting the 10 countries that we believe the UK should prioritise when seeking quick trade deals, and key issues that may affect negotiations.



There is significant work to be done. The Government will need to be strategic about where it targets its efforts, bold about deciding which trade-offs are acceptable, and decisive about facilitating increased trade flows from across the globe. Greater detail about these challenges will emerge as the process of leaving the European Union continues, but this Trade Prospects Index summarises the challenges, and the opportunities, that may come to define Britain's prosperity over the coming decades.

INTRODUCTION

Rarely, if ever, does a country have such a radical opportunity to reshape its place in the global economy, but that is where the UK now finds itself. Having made the decision to leave the single market, the UK will be able to negotiate its own trade deals for the first time since 1973. This presents obvious risks, but also significant opportunities to rewrite and improve the UK's economic relationships with the rest of the world.

Success would mean greater trade, an outward facing and confident UK economy and, ultimately, higher living standards for all UK citizens. Achieving this this will require, in the words of the Secretary of State for International Trade, the UK "…leading the charge again for freer and fairer global trade." Securing this objective will be possibly the greatest factor in determining whether we can make Brexit a success.

In 2015, non-EU trade accounted for 47% of UK imports and 56% of UK exports. Growing the volume of trade with non-EU partners by successfully striking trade deals will help boost growth and living standards, but a failure to replace, or replicate, existing deals that the UK has through the EU will mean increased barriers to trade, and lower levels of prosperity.

What this looks like in practice is less clear. Several analyses have pointed out that proximity is a key part of why we trade with certain countries, whilst other commentators have suggested that the UK should immediately signal its intent by signing deals with Commonwealth countries such as Australia. In reality there are a number of complex factors such as proximity, existing trade relationships, how the removal of tariffs will affect domestic industries, and the political will to take decisions with short-term costs but long-term benefits.

Trade is difficult. Doubly so when dealing with such a period of upheaval. Brexit could genuinely be the biggest opportunity in decades to revamp what the UK's relationship with the rest of the world looks like, but easy wins won't count for much if they don't materially benefit the UK economy.

Similarly, the Government will need to be wary of the trade-offs they will be forced to make decisions on. For example, trade agreements with Brazil may increase the living standards of the UK overall but endanger British agriculture; concessions on immigration policy and intellectual policy may be required by India; and British steel may be threatened by 'dumping' from cheaper Chinese producers.

These considerations may simply be the cost of doing business, but there is a wider question about which trade-offs and by extension which trade deals, should be prioritised. There are serious opportunities, but the Government will need all the help it can get, and we need to think strategically.

To help this process, WPI Economics has analysed the UK's trading statistics of combined goods and services with our largest non-EU partners, and combined this with an original depth analysis of previous trading relationships. The result is our Trade Prospects Index.

FREE TRADE: A PRIMER

WHAT ARE FREE TRADE AGREEMENTS?

Free trade agreements (FTAs) are international treaties that reduce barriers to trade and investment. They regulate imports and exports between countries and governments party to the agreement, and give them preferential market access.

They can be bilateral (between two countries) or multilateral (between many governments). Examples of bilateral FTAs include the New Zealand/Australia Closer Economic Relations Trade Agreement, whereas an example of a multilateral FTA is the North American Free Trade Agreement (NAFTA).

WHAT DO THEY COVER?

FTAs seek to reduce both tariff barriers (taxes imposed on imported goods and services) and non-tariff barriers (other restrictions, such as quotas or regulations).

WHAT IS THE UK'S CURRENT TRADE STATUS?

Since 1973 the UK has been a member of the European Union's customs union, ceding control over its trade policy to the bloc. The EU has a number of trade agreements with different countries, most recently the Comprehensive Economic and Trade Agreement (CETA) with Canada.

With the vote to leave the European Union, the UK will now exit the customs union. it may default to World Trade Organization rules as one of the 163 members, and will have to renegotiate deals with countries with EU trade deals, as well as gaining the opportunity to form its own new trade relationships.

HOW MUCH DOES THE UK TRADE?

According to the WTO, between 2013 and 2015 trade accounted for 29.4% of UK GDP.[i] In total in 2015, the UK imported £579.3bn worth of goods and exported £480.4bn worth of goods. Approximately 53% of imports were from EU trade, and 44% of exports.

Taking the UK's vital services sector, Non-EU exports accounted for 60.6% of total exported services in 2015, and Non-EU imports accounted for 50.6% of total imported services.

WHAT ARE THE OPPORTUNITIES NOW?

When the UK chooses to leave the customs union then negotiating its own trade deals will be a first priority. The UK will have the opportunity to eliminate tariff and non-tariff barriers to trade with economies outside the EU, gaining preferential access through independent trade deals with countries that are yet to develop agreements with the EU, such as India, China, or Brazil.

Ministers will have to carefully balance the economic gains with how quickly and easily trade deals can be secured, whilst minimising disruption. The rewards will be great, but so will the challenges. This report lays out the agreements that the UK may wish to pursue, and a recommended prioritisation.

i http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=GB

WHAT NEXT?

More than ever, it will be important for the UK to act strategically to seize the opportunities that expanding global trade provides. The UK will still maintain a close trading relationship with Europe due to close business ties and geographic proximity, but if it is to increase trade with non-EU partners it will need to both agree deals, and act decisively to ensure that potential gains from trade are realised by British businesses.

The first step will be the UK determining which trade partners to prioritise and the compromises it is willing to make. Trade deals are mutually beneficial and will result in British businesses selling more overseas, but the natural corollary of this is that British consumers and businesses also importing more from abroad, in some cases switching away from British suppliers. Exactly which industries are likely to be disrupted, what level of concessions are acceptable, and what policies will need to be implemented to mitigate the effects will be a crucial question that affect every area of UK policy.

Additionally, it will be important to ensure that the UK has the relevant infrastructure for an expanded trade role. Agreements are important, but if the physical connections to new trade routes cannot be established quickly then only a small portion of the value will be realised. This is especially crucial as many of the UK's possible trade partners are more geographically remote than our European neighbours, meaning that goods will need to travel further, and efficient connections for air and sea freight on these trade routes will be of critical importance.

The UK must ensure that its infrastructure is prepared for the increased volume of goods and services that will follow as businesses take advantage of lower barriers to trade with partners further abroad. This means ensuring that there is capacity both for high-volume, low-value shipments through road and sea freight, and for low-volume and high-value goods, which are predominantly reliant on air freight routes.

It will be crucial to align UK trade policy to a number of key decisions, including whether there is enough rail and port capacity to transport high-volume goods to, and across the UK, and whether there are enough flight slots for high-value, high-speed trade to occur. Commitments ranging from the 2014 commitment to better connections for the Port of Liverpool, to the 2016 decision to double reciprocal routes between the UK and China are welcome, but more will need to be done. Above all else, the UK's infrastructure strategies, be they for ports, rail, or aviation, will need to have trade first and foremost in their minds.

Case Study: Expanding Airport Capacity

Air freight accounts for around 40% of the UK's imports and exports by value[ii], with around 2.3 million tonnes of freight being handled in 2015,[iii] over half of which is processed through Heathrow. Clearly, if the UK is to trade more, then increasing flight capacity is key.

Forecasts suggest that the expansion of Heathrow would permit over 1,100 more flights to India per year from the airport, and nearly 2,700 additional flights to Australia.[iv] This would represent a major increase in connections from the UK's main airport, and is exactly the type of step that is needed if the UK is serious about improving its trade position.

ii [1] http://content.tfl.gov.uk/air-freight-implications-from-new-capacity.pdf
iii [2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/576095/tsgb-2016-report-summaries.pdf
iv Analysis conducted by Frontier Economics on behalf of Heathrow Airport.

Ultimately it is crucial that the UK both acknowledges the possibilities that new trade relationships would bring, but also accepts that there is significant work to be done to realise the possibilities that Brexit will bring.

The path forward will require the UK Government to:

1. **Be smart about new trade deals:** Prioritising countries that are willing to act immediately, and focusing on trade deals that maximise value is the correct path to follow. Now is not the time to focus on symbolic wins, but on achieving the best deal for Britain.

2. **Be bold about deciding trade-offs:** Trade deals require compromise, and at some point UK industries will have to make sacrifices to secure a deal that is good for the UK as a whole. Working out what these are likely to be, and how losers can be compensated, will be key to securing the quick passage of trade agreements.

3. **Be prepared for increased trade flows:** Realising trade gains will require the UK to act swiftly on decisions ranging from approving infrastructure construction to facilitate trade to how and why industries should transition to new arrangements. Quick decisions on these items is important for both increasing certainty, and actually making trade work for the UK.

4. **Be realistic about immediate prospects:** Agreeing trade deals is a long and arduous process. This is even more likely to be the case when so much is at stake. The UK will need to temper its immediate expectations and realise that the gains from trade will take time, and will not be realised immediately.

METHODOLOGY

To create the Trade Prospects Index, four key factors were used to determine the extent to which a trade deal should be prioritised. These factors are not entirely objective, relying heavily on an in-depth analysis of the different economic and political factors affecting decision making by states.

Wherever possible we have collected data on the existing trade relationships that countries have with the UK. In particular, our analysis uses UN Comtrade figures to compare the sizes of the UK's non-EU trade relationships, and their relative ranks. This allows us to gauge the relative size and importance of each of the UK's non-EU trading relationships.

This is only part of the picture; the relative importance of a trade deals will come not just from the raw volume of trade, but also from the relative merits of the deals themselves and the practicality of reaching an agreement. Consequently, we have combined these figures with statements by political leaders and an analysis of previous trade deals to produce an analysis of the likely ease, value, and speed of agreeing trade deals.

We assign a value to each country using the following factors:

CURRENT TRADE

- The level of trade that a Country currently has with the United Kingdom, and the relative importance of this trade relationship.
- Countries that comprise a higher percentage of the UK's imports and exports receive higher scores.

LIKELY BENEFIT FROM A TRADE AGREEMENT

- The level that we might expect trade to increase by if a trade agreement were agreed. Determined by how high trade barriers that would repealed currently are.
- Countries that have higher current barriers to trade receive higher scores as the marginal gains from these being reduced would be higher.
- Barriers to realising trade, such as a lack of trade routes, may limit these benefits, whereas areas with greater trade route expansion or flexibility will have higher potential benefits.

FEASIBILITY OF AGREEING A TRADE AGREEMENT

- How likely it is that the UK and the trade partner will be able to reach a trade agreement.
- Countries with a track record of being unable to negotiate trade deals due to unresolvable conflicts, especially with the EU, receive lower scores.
- Where the UK might deviate from previous EU positions that prevented deals from being reached (e.g. agriculture), this is counted as making a deal more feasible.

SPEED OF AGREEING A TRADE AGREEMENT

- The relative speed that the UK and the trade partner will be able to reach a trade agreement
- Countries with a track record of quickly and easily agreeing trade deals receive higher scores, whereas those who take longer receive lower scores.
- Where the UK might use EU deals as a template to quickly reach agreement this is counted as increasing the speed of reaching a deal.

We combine these factors, counting them equally, and averaging the scores awarded. Where there are ties we apply analysis as to how stable the country's situation is and the relative preference UK policymakers have. The subsequent ranking balances these four criteria, and prioritises countries that may quickly and easily agree high value trade agreements with the UK.

RESULTS: WPI TRADE PROSPECTS INDEX 2017

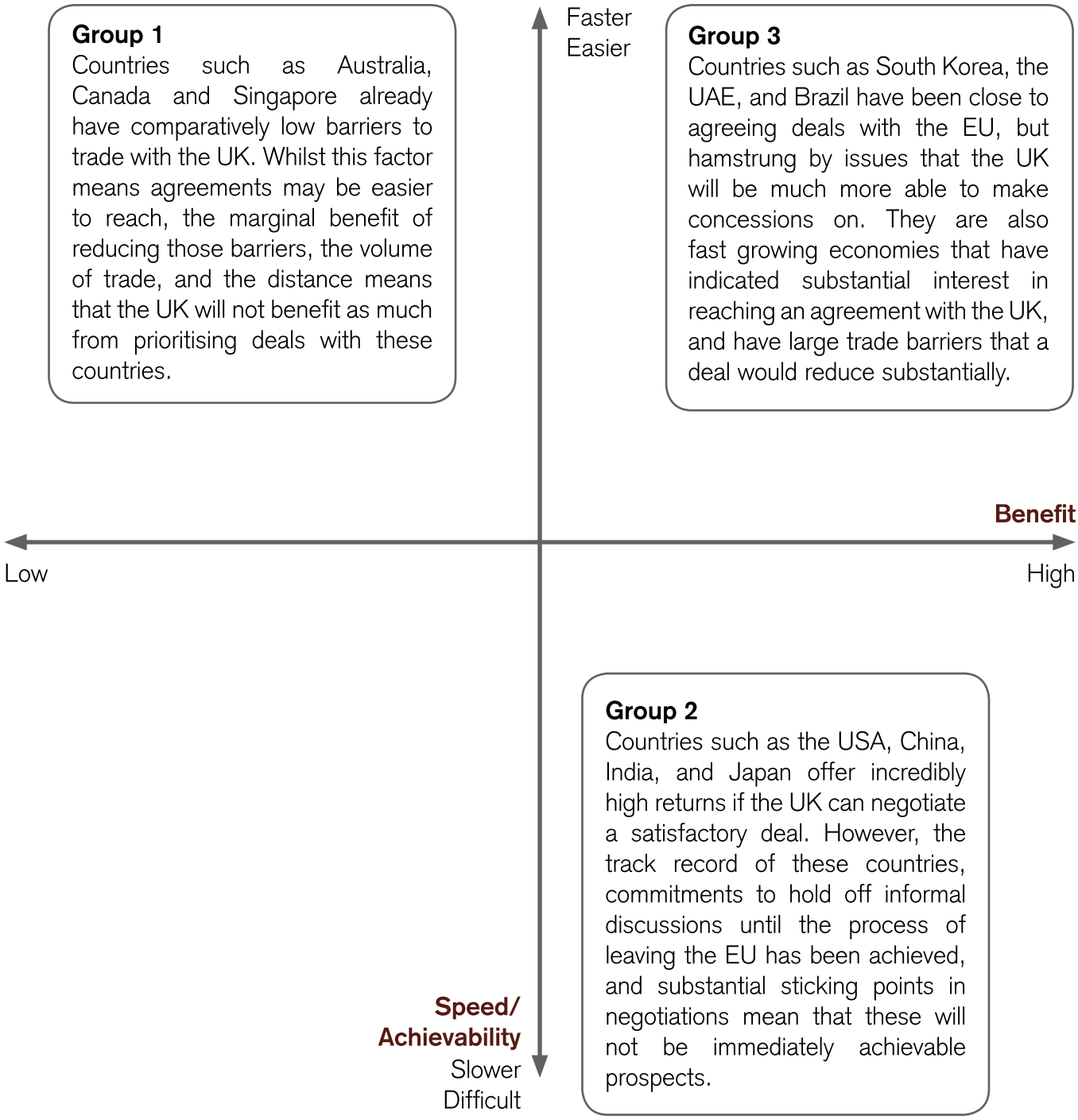
Rank/Country	Summary	Key Points
1. South Korea 	**High benefit** **Highly achievable** **Moderately quick**	• Statement of intent to seek a separate free trade deal with the UK; • Significant and consistent growth in the imports of financial and business services; • Previous sticking points have been over agriculture and IP, but the EU-South Korea deal leaves a good baseline for these to be reconciled.
2. USA 	**High benefit** **Moderately achievable** **Moderately slow**	• The US views the UK as a key ally, and the move towards bilateral trade agreements under the Trump administration bodes well for a post-Brexit UK; • Shared environmental and labour standards mean that there is likely to be a lot of common ground, although some issues over financial regulation may need to be reconciled; • However, there is substantial political uncertainty about how the US might approach the content of trade deals under the new administration.
3. Brazil 	**High benefit** **Moderately achievable** **Moderately quick**	• Demonstrated willingness to begin negotiations, and to use them as leverage for EU agreements; • Increased potential as the major sticking point with the EU has been agricultural tariffs, which the UK outside of the CAP has more flexibility on; • Tariffs are currently high. Combined with high economic growth this suggests a substantial marginal benefit from a Brazilian/Mercosur trade agreement.
4. China 	**Very high benefit** **Possibly achievable** **Moderately slow**	• Openness to discussions, but less of a definitive commitment than other jurisdictions; • New Zealand and Australian deals could offer a template, but the UK would have to consider sacrifices in areas such as anti-dumping protections; • The high value of a trade agreement with China makes it a high priority, but reaching agreement might be problematic if neither partner is willing to compromise.
5. Australia 	**Low benefit** **Extremely achievable** **Very quick**	• Signalled enthusiasm for a quick agreement and high level discussions have begun; • Benefits may be limited as both tariff and non-tariff barriers are already low, meaning a lower marginal benefit than alternative deals.

Rank/Country	Summary	Key Points
6. UAE	**Medium benefit** **Highly achievable** **Moderately quick**	• Statement of intent to begin working straight away with the United Kingdom, representative of an agreement with the wider Gulf cooperation Council; • Major sticking points in EU negotiations have been over Saudi export tariffs, but the UK could be positioned to make concessions in this area.
7. India	**High benefit** **Possibly acheivable** **Very slow**	• High level of interest, but several key barriers to reaching an agreement exist; • So far EU/Indian talks have been unable to reconcile these differences and it is not clear the UK would be more flexible; • However, the economic growth of India and the gains from trade mean the benefit would be high if an FTA could be agreed; • During a recent trade visit, India indicated that immigration concessions may be necessary, which is unlikely to be palatable to the UK.
8. Japan	**Medium benefit** **Moderately achievable** **Very slow**	• Japan has signalled openness to pursuing a bilateral trade negotiation, but its trade agreement with the EU is still pending and Tokyo will be reluctant to do anything to put that in immediate jeopardy; • Official statements have signalled the need for the UK to conclude exit negotiations with the EU prior to a deal being negotiated, and whilst there are significant benefits, agreements over agricultural and automobile markets may stymie progress.
9. Singapore	**Medium benefit** **Highly achievable** **Moderately quick**	• Singapore's Prime Minister is actively free trade and currently conducting negotiations with at least five other partners; • Singapore's nature as a relatively open service-based economy would mean the barriers to achieving a deal should be low, and optimism has been expressed about continuing to cultivate ties with Britain.
10. Canada	**Low benefit** **Moderately achievable** **Moderately quick**	• Canada is open to negotiating with the UK, but the agreement reached in CETA make this much less of a priority for the Canadian government than EU relations; • Trade with Canada already happens with relatively low barriers, with an average tariff of 0.8%, this means that an agreement with Canada might be a quick win, but the gains are likely to be small; • Disruption in Canadian agricultural markets are a key sticking point in negotiations with the EU, and how DEFRA and others respond in the aftermath of Brexit would shape trade prospects in this key area.

KEY TAKEAWAYS

The countries listed in the index are just a small subset of the trade relations that the UK will need to consider if it leaves the customs union. Our Trade Prospects Index suggests that the UK will need to think much more strategically about what it is seeking to achieve as it navigates its exit from the European Union. In particular, when prioritising where the focus on developing trade relations should be, policymakers will have to consider the ease of negotiating a deal, as well as the speed at which it can be negotiated.

Broadly speaking, Countries split into three groups:



Our analysis suggests that the third group of countries should be prioritised in the short-to-medium term. Agreements with the first group would have a much lower overall benefit, and the second group are unlikely to be achievable in the next few years.

While grappling with these questions, the Government should consider:

- **The trade-off between speed and value**: Signing deals quickly is important to minimise disruption, but making sure the UK gets a good deal is much more important.

- **How UK agreements interact with EU relations**: Several countries have indicated a deal with the UK may be used to prompt the EU into making concessions. This may endanger European relations, and may make countries close to agreeing a deal with the EU less likely to negotiate with the UK.

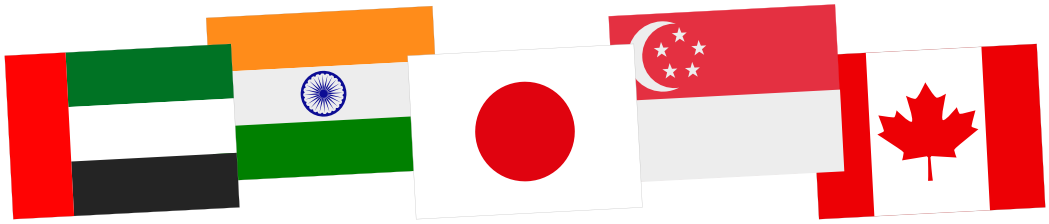
- **Which concessions are acceptable**: The UK will have to make some concessions. For example, EU negotiations with India have focused heavily on immigration and agricultural subsidies. Deciding what is up for negotiation, and when, will be a tricky political question.

Navigating these issues will be a task for the Department for International Trade to grapple with. The UK will need to focus on the value and ease of trade deals, alongside speed. It will also have to consider what the impacts of deals will be on the domestic economy, and make hard choices over different concessions. Since 1973 this has been a decision for the European Union, but now it is one for the UK to make.

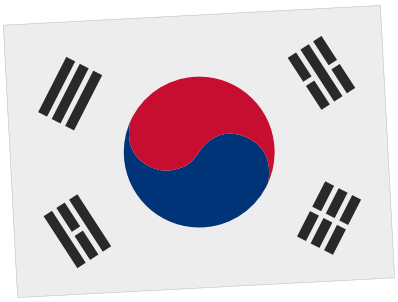
APPENDIX: COUNTRY PROFILES

To create the WPI Trade Prospects Index, a number of different data points were used, including macroeconomic data, statements from politicians indicating their views on UK trade deals, the extent to which trade routes and relationships are likely to change, and the likely relationship that a UK outside of the customs union will have with each country prior to agreeing a new trade relationship.

In the below country profiles, a selection of that information used is displayed. This is not intended to provide a comprehensive view into the exact factors that differentiated each country, but rather an additional level of insight into the challenges, and opportunities, that negotiating a trade agreement with each jurisdiction would bring.



1. SOUTH KOREA



GDP

$1.38tn

2.61%

ANNUAL GDP GROWTH

World Bank Databank, 2016

2,137

CONNECTIVITY

Existing connections with Heathrow (incoming and outgoing)

Data supplied by Heathrow Airport Limited

TOTAL VALUE ANNUAL TRADE WITH UK

$16.6bn

WPI Economics Analysis, UN Comtrade data, 2016

UK AS A NET EXPORTER

South Korean Trade as % of UK Trade (2014)	0.7% (25th)	1.1% (22nd)
UK Trade as % of South Korean Trade (2014)	1.6%	1%

WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

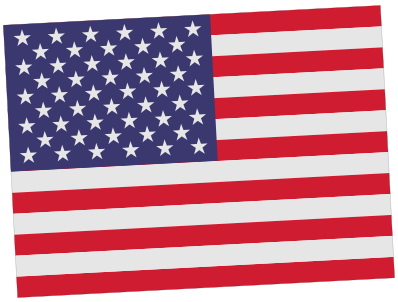
- In 2013 annual increase in exports of 5.6%, and 16% for non-oil exports.
- Exports are growing strongly, and the UK almost reached its 2020 doubling target by 2013.
- **UK has increased its exports by 192% since 2004.**

British Embassy Seoul, UK-Korea Goods Trade Analysis for 2013

KEY POINTS TO CONSIDER

- **Enthusiasm**: South Korea is one of the countries that has made the strongest overtures to the UK Government in the wake of Brexit. It also has a successful FTA with the EU, which negotiations could be based on.
- **Financial services**: South Korea has faced consistent growth in the imports of financial and business services; from 2009-2014, these rose 23%. This offers an opportunity for British exporters in a sector with a significant comparative advantage.
- **Intellectual Property**: The implementation and enforcement of intellectual property laws was an issue in EU negotiations as South Korea is one of the largest exporters of counterfeit goods in the world. However, most of these issues were addressed in the EU deal.
- **Rice**: South Korea has left rice tariffs out of previous deals with countries such as the United States to protect farmers. Whilst import caps were scrapped, tariffs have remained high to protect Korean rice producers.

2. USA



$18.036tn

2.59%

ANNUAL GDP GROWTH

World Bank Databank, 2016

70,965

CONNECTIVITY

Existing connections with Heathrow (incoming and outgoing)

Data supplied by Heathrow Airport Limited

TOTAL VALUE ANNUAL TRADE WITH UK

$245.9bn

WPI Economics Analysis, UN Comtrade data, 2016

UK AS A NET EXPORTER

American Trade as % of UK Trade (2014)	10.7% (2nd)	16.3% (1st)
UK Trade as % of American Trade (2014)	5.2%	4.2%

WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

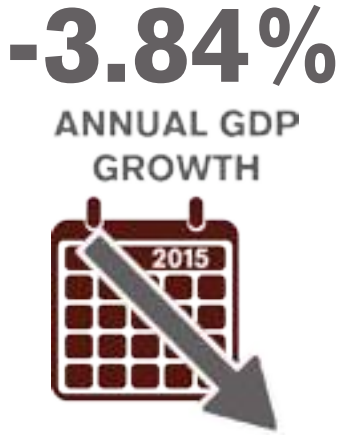
- Both exports to, and imports from, the US have steadily increased in the past decade;
- From 2005 to 2015, the UK has tended to import a greater proportion of goods than services;
- **The USA stands as the UK's largest trade partner by some distance.**

Office for National Statistics, The UK trade and investment relationship with the United States of America: 2015, 2016

KEY POINTS TO CONSIDER

- **The President**: President Donald Trump has indicated greater support for bilateral trade deals, an intention to move away from multilateral deals, and support for the UK leaving the European Union. Similarly, leaders such as Speaker Ryan are in favour of further trade links.
- **Lower enthusiasm for free trade**: Several key campaign pledges by the President focused on ensuring America got a better deal from, or could renegotiate, existing trade arrangements. As such, finding compromises in a new deal may be more difficult.
- **50 State solutions**: America's federal structure, and different levels of regulation between its 50 states act as a significant non-tariff barrier for British exporters that would need to be resolved as part of a bilateral trade deal.
- **Common standards**: The US and the UK share relatively common regulations and standards, including on labour and environmental issues. This would make integrating these areas and reaching a trade deal an easier prospect than other multilateral deals such as TPP or TTIP.

3. BRAZIL



2,132

CONNECTIVITY

Existing connections with Heathrow (incoming and outgoing)

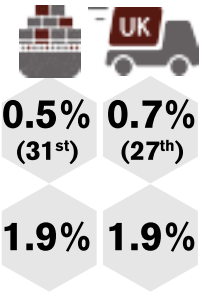
World Bank Databank, 2016

Data supplied by Heathrow Airport Limited

$11bn

WPI Economics Analysis, UN Comtrade data, 2016

UK AS A NET EXPORTER



WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

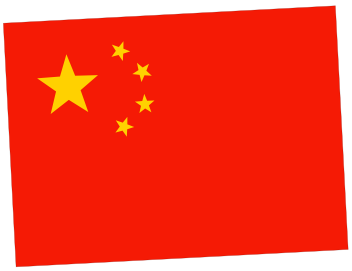
- "Since the beginning of the 1980s, Brazil has become a relatively more important market for UK goods."[i]
- UK investment in Brazil has more than doubled since 2010.[ii]
- **UK has increased its imports by 38% since 2004, and its exports by 279%.**[iii]

KEY POINTS TO CONSIDER

- **Economic and political situation**: Brazil is currently experiencing a recession and the President was impeached in late 2016. As such, whilst the fundamentals of a deal with Brazil may be appealing, achieving it in the short-term may be more difficult.
- **High value-add**: Tariffs on imports to Brazil are high and not currently covered by agreements the UK is party to. A trade deal with Brazil/MERCOSUR presents one of the largest value-add opportunities.
- **Agricultural concessions**: The EU has been anxious to give Brazil access to agricultural markets, fearing cheaper produce would compromise the CAP. The UK may need to make concessions in this area and consider the impact on domestic producers.
- **Negotiations with the EU**: Talks with the UK may be used as leverage for Brazil's negotiations with the EU. This means that the dynamics of the negotiation may change quickly depending on EU action.

i House of Commons Library, UK-Brazil trade statistics
ii ONS, 2016
iii WPI Economics Analysis, UN Comtrade data, 2016

4. CHINA



$11.01tn

6.91%

ANNUAL GDP GROWTH

World Bank Databank, 2016

5,720

CONNECTIVITY

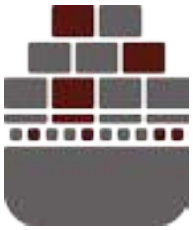
Existing connections with Heathrow (incoming and outgoing)

Data supplied by Heathrow Airport Limited

TOTAL VALUE ANNUAL TRADE WITH UK

$97.4bn

WPI Economics Analysis, UN Comtrade data, 2016



UK AS A NET IMPORTER

Chinese Trade as % of UK Trade (2014)	7.2% (3rd)	3.5% (7th)
UK Trade as % of Chinese Trade (2014)	1.3%	2.6%

WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

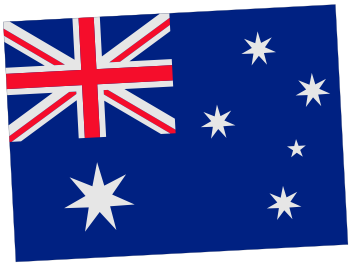
- 2013 estimates suggest that by 2030, UK exports to China will be worth over £30bn by 2020.
- With rebalancing of China's economy and an improvement in UK performance, this could increase to £46bn by 2020.[i]
- **UK has increased its imports by 115% since 2004, and its exports by 565%.**[ii]

KEY POINTS TO CONSIDER

- **Ease of agreement**: The EU has faltered on agreeing a trade deal with China for years, with non-tariff barriers and labour costs being key issues. However, recent FTAs agreed with New Zealand provide a strong platform from which to negotiate.
- **Dumping**: A key issue in negotiations has been whether to agree to reductions in protections for businesses vulnerable to ultra-low price exports ('dumping') from China. Concessions required from the UK would be especially sensitive in industries such as steel.
- **Mismatched goals**: EU trade positions, and by proxy the UK, has strongly focused on non-tariff barriers and regulations, whereas China focuses primarily on removing barriers to market access. This may make determining the focus and details of the agreement difficult.
- **High value-add**: Trade with China has been growing strongly and consistently. Tariffs on UK exports are high compared to domestically produced goods or services, and the demand for services will only increase as the economy moves further up the value chain.

i Foreign and Commonwealth Office, 2013
ii WPI Economics Analysis, UN Comtrade data, 2016

5. AUSTRALIA



$1.34tn

2.24%

ANNUAL GDP GROWTH

World Bank Databank, 2016

2,172

CONNECTIVITY

Existing connections with Heathrow (incoming and outgoing)

Data supplied by Heathrow Airport Limited

TOTAL VALUE ANNUAL TRADE WITH UK

$20.7bn

WPI Economics Analysis, UN Comtrade data, 2016

UK AS A NET EXPORTER

		UK
Australian Trade as % of UK Trade (2014)	0.8% (22nd)	1.5% (15th)
UK Trade as % of Australian Trade (2014)	4.7%	2.4%

WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

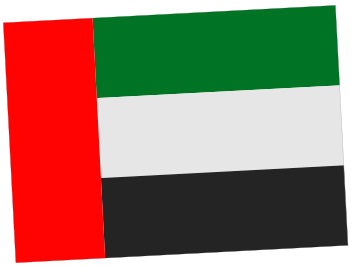
- In 2014 the UK was Australia's top export market within the EU, accounting for 37.4% of total exports to the EU.
- In the same year there was a 13% year-on-year increase in the number of Australian firms exporting to the UK.[i]
- **UK has increased its exports by 231% since 2004.**[ii]

KEY POINTS TO CONSIDER

- **Enthusiasm**: Australia has been one of the countries most interested in signing an trade deal with the UK promptly. Despite a public commitment to not do so until Brexit is finalised, it is clear that Australia is one of the most willing partners.
- **Low barriers to agreeing a deal**: Australia has strong regulatory protection for products that align well with UK regulation, and there are already strong business links between the two countries. This should make agreeing a deal, and realising those trade gains, easier.
- **Agricultural markets**: A key issue in the Australian-US trade discussions was that Australia was widely perceived to be getting a poor deal with access to US agricultural markets. This is likely to be an issue again in EU-Australian negotiations, but the UK may be able to provide an easier path for Australia by being more lenient on agricultural exports.
- **Low barriers to trade**: Tariffs between the two countries are already low, and so the comparative benefit for the UK may be significantly lower than for other options.

i Australian Trade and Investment Commission, 2015
ii WPI Economics Analysis, UN Comtrade data, 2016

6. UAE



GDP

$0.37tn

3.76%

ANNUAL GDP GROWTH

9,365

CONNECTIVITY

Existing connections with Heathrow (incoming and outgoing)

World Bank Databank, 2016

Data supplied by Heathrow Airport Limited

TOTAL VALUE ANNUAL TRADE WITH UK

$19.5bn

WPI Economics Analysis, UN Comtrade data, 2016

UK AS A NET EXPORTER

UAE Trade as % of UK Trade (2014)	**0.5%** (35th)	**1.7%** (13th)
UK Trade as % of UAE Trade (2014)	**4.1%**	**1.1%**

WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

- Bilateral trade between the UK and UAE reached £12.4bn in 2013.[i]
- The UAE and UK have agreed a target to double this to £25bn by 2020.[ii]

KEY POINTS TO CONSIDER

- **More than one partner**: The UAE is a member of the Gulf Cooperation Council (GCC). This means that it would be negotiating with a bloc of six countries rather than just the UAE. Whilst the interests of these countries are broadly aligned, it would add complications.
- **Enthusiasm**: There has been clear and rapid movement between the UK and the GCC, with the UAE being the main negotiating arm for the member states. Out of all partners, the UAE is one of the countries most keen to move quickly.
- **Petrochemical export tariffs**: A key area in EU negotiations was over Saudi export tariffs, due to their desire to be able to claw back subsidies given to domestic producers. Reaching an agreement on this sticking point will be vital.
- **EU-GCC trade agreement delays**: Despite substantial attempts the EU and the GCC are yet to reach a trade agreement. European leaders have often preferred to deal bilaterally with their GCC counterparts, suggesting UK negotiations may be well received.

i Department for international Trade, 2016
ii British Embassy Abu Dhabi, 2015

7. INDIA

GDP

2015

$2.095tn

7.55%

ANNUAL GDP GROWTH

2015

10,814

CONNECTIVITY

Existing connections with Heathrow (incoming and outgoing)

World Bank Databank, 2016

Data supplied by Heathrow Airport Limited

TOTAL VALUE ANNUAL TRADE WITH UK

$24.5bn

15th

WPI Economics Analysis, UN Comtrade data, 2016

UK AS A NET IMPORTER

		UK
Indian Trade as % of UK Trade (2014)	1.1% (16th)	1.6% (19th)
UK Trade as % of Indian Trade (2014)	1.9%	3%

WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

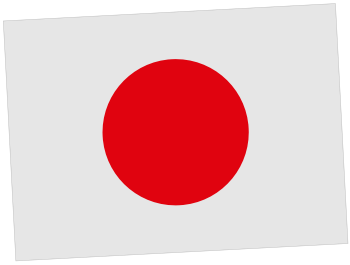
- Tariff reduction to an average of 13% in 2014/5 from 71% in 1993;[i]
- Opening up of import markets and reduction of quantitative restrictions in 2001.
- UK has increased its imports by 160% since 2004, and its exports by 90%.[ii]

KEY POINTS TO CONSIDER

- **Immigration**: A sticking point in India/EU negotiations is increased mobility of labour for skilled professionals under Mode 4. This was repeated by India as a key demand during the Prime Minister's trade visit.
- **Subsidised agricultural goods**: Indian fears of subsidised agricultural goods flooding the Indian market has been a barrier to agreeing an EU/India trade deal. How this interacts with DEFRA policy and subsidies in the aftermath of Brexit will be key.
- **Liberalization of FDI in primary financial sectors**: Foreign investment in financial sectors, meaning that exports and integration with UK financial services will be restricted, or substantial Indian domestic reforms will be needed.
- **Indian tariffs on automobiles, wines, and spirits**: High tariffs on these goods are critical revenue sources for the Indian government. The current tariffs affect how viable it is to export these goods to India.

i Department for international Trade, 2016
ii WPI Economics Analysis, UN Comtrade data, 2016

8. JAPAN



World Bank Databank, 2016

3,085

CONNECTIVITY

Existing connections with Heathrow (incoming and outgoing)

Data supplied by Heathrow Airport Limited

$31.6bn

WPI Economics Analysis, UN Comtrade data, 2016

UK AS A NET EXPORTER

		UK
Japanese Trade as % of UK Trade (2014)	**1.6%** (15th)	**1.8%** (11th)
UK Trade as % of Japanese Trade (2014)	**1.7%**	**1.7%**

WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

- Trade to Japan has grown less quickly than to other countries. For example, in 1999 Japan accounted for 4.1% of UK service export destinations, whereas in 2015 it only accounted for 2.6%.
- UK has decreased its imports by 46% since 2004, but increased its exports by 25%.

IFS, 2016

KEY POINTS TO CONSIDER

- **Food and drink imports**: The largest sticking point in EU-Japan negotiations has been the demand that Japan open its markets to EU food and drink imports. Japan is sensitive about doing so to protect domestic producers, backed by the politically powerful lobbies.
- **Auto manufacturing**: This was eventually traded for more access to EU markets for Japanese auto manufacturers. The UK would have to consider how important the balance between these industries is in negotiating a bilateral deal.
- **Timing of EU agreement**: Japan's trade agreement with the EU is still pending and Tokyo will be reluctant to do anything to put that in immediate jeopardy.
- **Cautious enthusiasm**: Official statements from Japan have been cautious and highlighted the need for exit negotiations to be concluded before bilateral talks can commence. London should watch for movement on the Japan-EU agreement, as this will determine Japan's level of enthusiasm for a bilateral agreement.

9. SINGAPORE

GDP

$0.29tn

2%

ANNUAL GDP GROWTH

World Bank Databank, 2016

3,610

CONNECTIVITY

Existing connections with Heathrow (incoming and outgoing)

Data supplied by Heathrow Airport Limited

TOTAL VALUE ANNUAL TRADE WITH UK

$15.5bn

WPI Economics Analysis, UN Comtrade data, 2016

UK AS A NET EXPORTER

Singaporean Trade as % of UK Trade (2014)	**0.6%** (28th)	**1.1%** (20th)
UK Trade as % of Singaporean Trade (2014)	**1.9%**	**1%**

WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

- The EU has consistently received just over 22% of Singapore's services exports by region between 2004 and 2014. Of this, the UK was the top country market, at 41% of services exported to the EU.
- UK has decreased its imports by 25% since 2004, but increased its exports by 83%.

Singapore Department of Statistics, 2016

KEY POINTS TO CONSIDER

- **Current EU Agreements**: The signed EU/Singapore FTA has stalled pending an ECJ ruling on the European Commission's competency to pass the deal. Should this fail and the EU/Singapore FTA be further delayed, there would likely be an increased impetus for Singapore to sign its own bilateral FTA with the UK.
- **A pro-Free Trade Agenda**: Singapore is actively conducting negotiations with at least 5 other partners. The PM is actively pro-free trade and has heavily supported the Trans-Pacific Partnership. There is widespread support within the government to continue signing both bilateral and multilateral FTAs.
- **Compatibility**: Singapore is a relatively open, service-based economy. Though the EU deal has stalled due to internal EU bureaucratic difficulties, a FTA between the UK and Singapore should be easy to negotiate. Though no Singapore officials have openly courted the UK as of yet, all parties have expressed optimism for the relationship going forward.

10. CANADA

GDP

2015

$1.55tn

1.08%

ANNUAL GDP GROWTH

2015

World Bank Databank, 2016

10,593

CONNECTIVITY

Existing connections with Heathrow (incoming and outgoing)

Data supplied by Heathrow Airport Limited

TOTAL VALUE ANNUAL TRADE WITH UK

$28.5bn

14th

WPI Economics Analysis, UN Comtrade data, 2016

UK AS A NET IMPORTER

		UK
Canadian Trade as % of UK Trade (2014)	1.8% (11th)	1.3% (16th)
UK Trade as % of Canadian Trade (2014)	2%	2.9%

WPI Economics Analysis, UN Comtrade data, 2016

TREND OF TRADE

- The UK ranks as Canada's 3rd largest export destination and 6th largest source of imports.[i]
- The UK has increased its imports by 81% since 2004, and its exports by 37%.[ii]

KEY POINTS TO CONSIDER

- **CETA**: UK/Canadian trade relationships will be heavily impacted by the EU-Canadian trade agreement. The UK accounts for, by far, the largest proportion of Canada's trade with the EU, but if the deal holds and ratification is completed then other EU countries may become more comparatively attractive than the UK.
- **Low existing barriers**: Whilst total trade flows between the UK and Canada are high, average tariffs are low, around 0.8% for all products. Non-tariff barriers are also low. Consequently, the trade gains from an FTA may be fairly minor, apart from providing parity with European competitors.
- **Agricultural exports**: Previous sticking points for CETA included tariff barriers for Canadian beef and other agricultural products, and EU food safety standards which are higher than Canadian ones. Free of the Common Agricultural Policy, the UK will have to decide the level of market access it wishes to allow.

i British Columbia Statistics, 2017
ii WPI Economics Analysis, UN Comtrade data, 2016

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WPI Trade Prospects Index

With the UK's decision to leave the European Union and the single market, it now finds itself with the unique opportunity to reshape its place in the global economy. An independent United Kingdom may be more nimble than the European Union, but it will also face an uphill battle to quickly and effectively build new trade agreements. Whether the UK is successful at striking these agreements in a timely manner may come to be one of the factors that decides how successful Brexit is.

To help this process, WPI Economics has analysed the UK's trading statistics of combined goods and services with our largest non-EU partners, and combined this with an original depth analysis of previous trading relationships. The result is our Trade Prospects Index.

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