

Fantasy Economics

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News that the UK Government has officially lodged an application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)[\[1\]](#), a grouping of 11 countries[\[2\]](#) on the Pacific Rim can only be greeted with scepticism by this author.

The Government, ever so anxious to reap a Brexit dividend, hails this as a great move by the UK to champion “global free trade” which be of immeasurable benefit to UK businesses. Whilst business lobby organisations such as the CBI and the Federation of Small Business were quick to welcome the announcement as welcome to their members, we are entitled to be more questioning of the actual benefits of this gesture.

But perhaps this is of less significance than the political optics of being seen to deliver post-Brexit trade “deals”. After all, the Secretary of State for International Trade, Liz Truss never tires of mentioning the 60 non-EU countries[\[3\]](#) that the UK has “achieved” deals with since exiting the EU, conveniently omitting the fact that all of these deals are actually rollover agreements from existing deals that we were already party to as a (former) member of the EU.

And therein is the point. Despite all the hoopla accompanying the announcement of these trade deals, for those negotiated so far, there actually only can be very little additional benefit to rolling over an already existing trade agreement. The much-trumped trade agreement with Japan for example, it has been argued, will only boost UK GDP by 0.07%, however much Truss would extol it as a “ground-breaking, British-shaped deal”.[\[4\]](#)

For the language of trade “deals” with far-flung countries very conveniently ignores the fact that nations tend to trade most with their immediate neighbours, given the nature of international production. That is, the supply chains that form the dominant component of world trade run on the principles of lean production, which seek to reduce the costs of transport and storage and ensure just-in-time delivery of products.

So whilst joining the CPTPP would result in the elimination of tariffs on the export of motor vehicles made in the UK to fellow member countries and enable content manufactured in any CPTPP member state to be classed as “originating” for Rules of Origin purposes, the blunt reality is that the likes of Toyota are not going to dramatically increase exports from their UK operations to the Asia-Pacific when they already supply those markets from 14 production companies in the region^[5].

So it shouldn't be surprising then that the relative gains of CPTPP membership would be trivial, given that CPTPP countries account for less than 10% of the UK's exports. Add to the fact that the Government (again by dint of its previous EU membership) already has agreements in place with most of these countries and one can see why the net additional benefit is likely to be small.

Perhaps the UK Government (as some of their statements on the matter would infer) see CPTPP membership as a back-door route to getting a trade deal with the US, if Joe Biden reverses Donald Trump's withdrawal of the US from the bloc. However Biden has made it pretty clear that new trade agreements, whether with the UK or as part of a CPTPP are not a high priority, so this is unlikely to occur any time soon.

Indeed, to the extent that Biden pledged in his campaign to seek to add protections for workers and the environment as a precursor to the US re-joining the CPTPP^[6], it is distinctly possible that the US might not re-join at all, given that many of the member countries – with a patchy record at best in such areas – would probably object to such proposals. In any event, the UK Government's own analysis suggested that a trade deal with the US in itself would only add 0.16% to GDP over 15 years.^[7]

Meanwhile, concerning that 50% of our trade that is with our proximate neighbour, the EU, progress in terms of transitioning to the new trading reality has hardly been smooth. This is despite the best attempts of the Government to keep Brexit out of the news headlines by phasing in import checks, requiring hauliers travelling onwards to the EU to have a Kent Access Permit and setting up inland Border check points so as to prevent the lorries queuing up to Dover and the Channel Tunnel.

In the first week of January, stockpiling in the lead-up to exiting the Single Market and the dampening effects of Covid-19 on demand had combined to result in far lower activity than usual, with only a daily average of 1,584 trucks attempting border crossings at Dover. However, as the volume of movements approaches a more “normal” average in the order of 6,000 daily crossings, one could expect the volume of disruption to increase.[\[8\]](#)

However, Brexit has thrown up other disruptions, which far from being “teething problems” will result in a permanent increase to the costs of doing business across the Channel (and into Northern Ireland). The combined costs of customs declarations, enforcement of sanitary and phytosanitary standards and changes to the way VAT is collected will add billions to the costs of businesses in the UK.

Little wonder then Truss’s own Department for International Trade has advised UK-based businesses faced with a steep hike in the costs of doing business in their EU markets to establish subsidiary operations in the EU and relocate jobs and investment there so as to “avoid disruption”[\[9\]](#). This then is the true “Brexit Dividend”, but not one for the UK.

Perhaps this then is what the same civil service analysts foresaw when they estimated that a limited free trade agreement of the sort we now have with the EU would reduce UK GDP relative to having remained in the EU. With the costs of Johnson’s trade agreement being estimated to have direct impacts in terms of exports of value added forecast to decline by about 5.5% and GDP by 4.4% relative to EU membership over coming years[\[10\]](#), reality is about to bite. To put this in layperson’s terms, this translates to about a £1,200-£1,500 decline p.a. in earnings for the median worker.

However, none of this will have any resonance with a Government that is quite prepared to break eggs to get its Brexit omelette so as to realise its free-market utopia where we can “make our own laws”. No doubt we can all look forward to the day in the great CANZUK[\[11\]](#) federation when everyone has a 10G SmartPhone and maglev trains will tunnel effortlessly through the centre of the Earth to rapidly expedite us to our second homes on Bondi Beach Down Under.

Welcome to the land of fantasy economics.

[1] <https://www.gov.uk/government/news/uk-applies-to-join-huge-pacific-free-trade-area-cptpp>

[2] These countries are: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. See <https://www.bbc.co.uk/news/explainers-55858490>

[3] <https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries>

[4] <https://www.bbc.co.uk/news/business-54654814>

[5] https://www.toyota-global.com/company/history_of_toyota/75years/data/automotive_business/sales/activity/asia/index.html

[6] <https://www.cfr.org/in-brief/bidens-first-foreign-policy-move-reentering-international-agreements>

[7] <https://www.bbc.co.uk/news/uk-politics-51706802>

[8] <https://www.bloomberg.com/news/articles/2021-01-07/brexit-becomes-truckers-nightmare-as-red-tape-ties-up-drivers>

[9] <https://www.independent.co.uk/news/business/news/brexit-trade-eu-business-regulations-dit-defra-b1791944.html>

[10] <https://blogs.sussex.ac.uk/uktpo/publications/the-cost-of-brexit/>

[11] https://twitter.com/CANZUK?ref_src=twsrc%5Egoogle%7Ctwcamp%5Eserp%7Ctwgr%5Eauthor