

What are the economics of Britain walking away from the EU



without a trade [ROGER BOOTLE](#)

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The Prime Minister has said that no deal with the EU is better than a bad deal. The importance of this judgement has recently increased as the possibility of securing any deal, let alone a good one, seems to have receded.

We have been left with the impression that we are going to have to pay an enormous divorce settlement, agree to the continuing jurisdiction of the European Court of Justice and accept free movement, at least for a time, before the EU will even discuss a future trading arrangement with the UK, never mind the “bold and ambitious” free trade agreement (FTA) that Theresa May is seeking.

Perhaps unsurprisingly, the structure of the negotiations seems to be stacked against us. The two-year time deadline is a major disadvantage. As and when talks stall, the pressure will begin to build as time ticks away. Moreover, as the former Greek finance minister Yanis Varoufakis warned recently, the EU is a past master at intimidating others by deft use of agendas and timetables.

What we need is a well worked-out Plan B. If Plan A fails then there is something to fall back upon, but also, paradoxically, a viable Plan B would mean that we are more likely to succeed with Plan A.

Unless EU leaders see that we have an alternative and are prepared to walk away, not in fear and trepidation, but with a reasonable degree of confidence about our future, then they may well believe that it is in their interest not to give any ground to us. Above all, the Government must avoid the trap that David Cameron fell into. He asked for very little but got even less. His mistake was to make it clear that however little he got he would still support staying in the EU.

But is there a plausible Plan B? Not according to erstwhile Remainers and their sympathisers, who often use lurid language to describe our plight if we leave without a deal.

You might well think that economics is a dry subject, not open to hyperbole. In fact, when it comes to areas of uncertainty, and especially when there are sharp differences of opinion, language is important.

In the debates running up to the referendum, politicians and businesspeople talked about the overriding importance of having “access to the single market”. This conjured up the image of some precious restricted space, with entry possible only through a locked door, perhaps closely guarded by a bibulous Jean-Claude Juncker, carefully checking membership cards.

I think this particular penny has now dropped. As I and others pointed out all along, every country in the world has “access” to the single market. It is just a matter of

having to pay the EU's tariffs and abiding by its various rules and regulations governing product quality, for example, just as we have to when we sell into any market in the world. That's why countries all around the world that are not members of the single market have managed to export into it so successfully. "Access to the single market", so powerful as an image, is in fact a chimera.

So it is with regard to the subject of the UK's exit. Some politicians and businesspeople talk of the UK "crashing out" of the EU. Another metaphor is of British business facing "a cliff-edge". They say that without a deal, the UK would "fall into the clutches of the WTO".

It is as if the World Trade Organisation (WTO) were some sort of monster that devours its members – especially juicy new ones like us. In fact, the UK helped to set up the WTO in the first place and has remained a member all along, albeit with our seat vacant because our trade policy has been run by the EU. On leaving the EU, we would simply take up our seat once again.

Mind you, Remainers often portray trading "under WTO rules" as a disaster. At the very least, it supposedly represents a step into the unknown. Yet this simply means trading with countries without having an FTA and using WTO rules to govern trading practices. As part of the EU, the UK already trades under WTO rules with over 100 countries around the world, including the United States (our largest single export market), as well as China, India, Brazil and Singapore.

This arrangement is often described as the "WTO-only option". But because this sounds so Spartan and threatening I have suggested that we should instead refer to it as "the American option".

After all, without an FTA between the EU and the US, "WTO-only" is the basis on which trade between them takes place. Suddenly, it does not sound so threatening.

In saying this, I am not suggesting that there are no sorts of agreement that can and should be signed. In particular, there are various technical arrangements called Mutual Recognition Agreements (MRAs) without which goods trade is next to impossible.

The EU has such agreements with virtually all countries around the world, including those that are neither members of the single market nor have an FTA in place.

Getting such agreements should be a simple matter and should not cause our negotiators any problems, not least because such MRAs are already in place.

All the UK has to do is simply to carry them over into the new world. If the EU refused to agree MRAs with us, this would count as discrimination under WTO rules and would lead to huge fines.

If our leaders, senior officials and negotiators, as well as the majority of British businesspeople and the commentariat, can convince themselves that not having an FTA with the EU is a perfectly acceptable outcome, then the Government will be in a strong position to say no to a bad deal. Especially for a country like the UK, the open sea should hold no terrors.

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