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Syrrakos, Dimitrios , Shand, Rory  and Simpson, Kathryn  (2022) The impact of the EU-UK Free Trade Agreement on the UK economy. In: Doing Business After Brexit: A Practical Guide to the Legal Changes (2nd edition). Bloomsbury Professional, pp. 15-26. ISBN 9781526520364 (paperback); 9781526520395 (online); 9781526520388 (ebook)

**DOI:** <https://doi.org/10.5040/9781526520395.chapter-002>

**Publisher:** Bloomsbury Professional

**Version:** Accepted Version

**Downloaded from:** <https://e-space.mmu.ac.uk/628684/>

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**Additional Information:** This is an Accepted Manuscript of a book chapter which appears in Doing Business After Brexit: A Practical Guide to the Legal Changes (2nd edition), published by Bloomsbury.

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## CHAPTER 2

# The Impact of the EU-UK Free Trade Agreement on the UK Economy

Dimitrios Syrrakos, Rory Shand and Kathryn Simpson

## Introduction

The end of the Brexit transition period and the implementation of the EU-UK Free Trade and Cooperation Agreement has added to the UK heightened economic uncertainty caused by the pandemic lockdowns. The structural changes brought about by the agreement involve new regulations governing trade between the UK and the EU-27 based on zero tariffs and quotas in goods but with significant non-trade barriers such as extra administrative burdens caused by certifying rules of origin. Quite tellingly financial services are hardly covered in the Agreement.

The implementation hurdles to date point to a steep learning curve for both sides, as there is need for constant observance and surveillance of its practical applications and implications. Tensions from the implementation of the Northern Irish Protocol and demarcation of fishery territories for example are ongoing and have the potential to derail some of the Agreement's key principles. They have certainly frustrated the public in the Republic of Ireland and Northern Ireland and could potentially undermine the peace process in the island.

The Agreement forms a 'Very Hard Brexit' in terms of bilateral trade relations. The agreement exposes Great Britain's exports to the EU and Northern Ireland to non-tariff barriers.<sup>1</sup> The agreement, nevertheless, cushioned the UK economy from the implications of a chaotic no-deal Brexit and eliminated tariffs and quotas on goods in the short run. In this way, the accord preserves the minimum foundations of the EU-UK trade relations in goods by stripping away the customs union and single market provisions. Given the alternative of no-deal Brexit this in itself is satisfactory, and it has been welcomed by many industries including agriculture and automotive. The emphasis, however, has shift to scrutinising the impact of the deal. This chapter contributes to the evaluation of the Agreement by focusing primarily but not exclusively on its economic consequences and in doing so, the analysis draws on a qualitative paradigm. Quantitative assessments of its medium-term impacts are also made.

Notwithstanding the positive impact of having no tariffs and quotas applied in the short run, the agreement from a UK perspective features, apart from the differential treatment of Northern Ireland, four main drawbacks. These are the non-tariff barriers to trade usually showing in the form of enhanced red tape and administrative burdens, the limited way professional and business services are covered in the agreement, the minimum provisions for financial services and the potential for tariffs and quotas in the medium to the long run.

The chapter consists of four parts. The first focuses on evaluating the accord by means of comparison to other EU free trade arrangements and overall volumes of trade. The second part assesses the accord's provisions and their implications for professional and business services and the potential impact on financial services by paying particular attention to passporting rights. In the third part, the wider economic impacts of the agreement are assessed and in the fourth part the likely constitutional ramifications are set out. The fourth part draws on the main conclusions.

## 2.1 The EU-UK Free Trade Agreement

The agreement represents a steep regressive step in the evolution of the EU-UK trade relations in the post-2021 era, as shown in Table-1 below. The UK no longer has access to the EU's Single Market and Customs Union. The free trade accord ensures no internal tariffs and quotas are applied at least in the short-term thus eliminating the possibility of a cliff-edge materialising. Whilst this is very important in its own right, it has to be borne in mind that the potential for tariffs and quotas in the

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<sup>1</sup> Islam. 'What Boris Johnson's mistake tells us about our future' (BBC): [www.bbc.co.uk/news/business-55442982](http://www.bbc.co.uk/news/business-55442982).

medium to the long term has not been eliminated. The fact that the UK is no longer a party to the EU's customs union implies that it does not have to adopt common external tariffs and quotas with non-EU countries thus it can develop its own independent trade policies that could ultimately lead to trade agreements with non-EU countries. The UK however, whilst developing free trade arrangements with non-EU countries has to observe the EU's regulatory framework. This is the case, as the agreement offers market access provided there is a 'level playing field' in terms of EU regulations. Regulatory freedom has been re-gained in areas with no access to EU markets such as financial services. This implies that the UK can maintain existing trade arrangements the EU has with non-EU countries, as is the case with Turkey.

**Table-1 UK-EU Trade Relations Pre and Post 2021**

**#ArtworkB**

**Insert Table 2.1**

**#ArtworkE**

When, and if, UK policies diverge from the EU's regulatory framework, the EU could apply tariffs and quotas if the ruling of a newly established arbiter concludes that UK firms have gain an unfair advantage as a result.<sup>2 3</sup> The arbiter (dispute panels) though has to take into consideration EU laws and regulations and has similar enforcement powers as the European Court of Justice.<sup>4</sup> In many respects, this is a key demerit – if not the main – of the Agreement. Given the time and effort it has taken to reach the Agreement, it ultimately does not provide a sustainable resolution of trade issues and disputes between the two sides. In this way, the accord rather provides a short-term truce in order for the cliff edge to be avoided.

### ***2.1.1 Comparison with other EU trade agreements***

Notwithstanding external tariffs and agricultural products, in many respects the UK-EU Free Trade Agreement resembles the features of the EU-Turkey trade accord. As the UK-EU Agreement prevents the free movement of people, it is dissimilar to the EU-Norway accord that allows free movement in exchange for access to the EU's Single Market. Similarly, to the UK-EU Agreement, the EU-Turkey trade accord excludes services and public procurement. As the EU-Turkey trade accord is based on 'soft' customs union arrangements, the EU sets Turkish external tariffs with non-EU countries and thus it deprives the country from adopting an independent trade policy. The UK-EU Agreement also falls short of Theresa May's Comprehensive Free Trade Area that was based on the EU-Canada Trade Agreement (CETA). The latter eliminated tariffs and quotas on all industrial and most agricultural products and custom duties in exchange for EU and Canadian market access.<sup>5</sup> As CETA forms part of a 'soft' customs union, the former Prime Minister's comprehensive free trade agreement would have resolved the Irish issue, ensuring identical trade standards and regulations in Great Britain and Northern Ireland but it would have limited the UK's ability to engage in independent trade policies with non-EU countries.

## **2.2 Professional and Business Services and Financial Services**

The UK's total volume of trade stood at £1.412 trillion in 2019. This is the equivalent of 64% of the country's GDP reflecting the openness of the UK economy. Of those, £691 billion were exports and

<sup>2</sup> Fleming and Brunsden, 'Barnier warns post-Brexit border friction is the new normal' (*Financial Times*, 2021): [www.ft.com/content/4788c361-7b72-46e9-b861-1d29d0662ad2](http://www.ft.com/content/4788c361-7b72-46e9-b861-1d29d0662ad2).

<sup>3</sup> Parker, Foster, Fleming and Brunsden. 'Inside the Brexit deal: the agreement and the aftermath' (*Financial Times*, 2021): [www.ft.com/content/cc6b0d9a-d8cc-4ddb-8c57-726df018c10e](http://www.ft.com/content/cc6b0d9a-d8cc-4ddb-8c57-726df018c10e).

<sup>4</sup> Cable, 'Post-Brexit, the UK should become more European and increase manufacturing' (*The Independent*, 2020): [www.independent.co.uk/voices/brexit-european-manufacturing-eu-b1779916.html](http://www.independent.co.uk/voices/brexit-european-manufacturing-eu-b1779916.html).

<sup>5</sup> Theodore and Syrakos, 'The European Union and the Eurozone Under Stress: Challenges and Solutions for Repairing Fault Lines in the European Project' (Palgrave Macmillan, 2017): [www.palgrave.com/gp/book/9783319848679](http://www.palgrave.com/gp/book/9783319848679).

£721 billion imports<sup>6</sup>. The volume of exports, £691 billion was equal to 31% of the UK's GDP that reached £2.21 trillion in 2019. A summary of the data is presented in Table-2 below.

**Table-2: Summary of UK-World & UK-EU Trade (£bn)**

#ArtworkB

Insert Table 2.2

#ArtworkE

Source: Ward (2020) - authors' summaries

As it can be observed in Table-2, of the £340.9 billion services exports, 36% or £125 billion were generated by the Professional and Business Services (PBS) sector.<sup>7</sup> PBS is the largest services export sector to the EU generating £41 billion in 2019, to be followed by the financial sector with £26 billion. The data reflects the importance of the PBS (and the financial services) sectors for the UK economy. It is surprising that very little (if anything) is mentioned in the Free Trade Agreement for these two sectors, which combined volume accounts for 54% of the UK's services exports to the EU.

The importance of the PBS sector for the UK economy cannot be overestimated. It includes a wide range of high-skilled, diverse, knowledge intensive, transferable services and associated support functions. The sector covers a wide range of professions that include legal services, accounting, advertising, research and development, architectural, engineering and other professional and support services. The PBS sector comprises primarily of SMEs, with more than 600,000 businesses employing fewer than four people. The PBS sector is one of the most competitive sectors of the UK economy based on trade surpluses, second only to financial services. In 2019, the sector registered a trade surplus of £12.4 billion with the EU, £10.6 billion with the US and £31.8 billion with the rest of world.<sup>8</sup> In the same year, the EU provided the largest export market of PBS with £39.8 billion worth of exports to be followed by the US with £27.7 billion.<sup>9</sup> In Q3 2019, PBS exports accounted for 32.2% of total services exports with financial services accounting 20%.<sup>10</sup>

The category of 'other business services' to the EU in 2019 generated exports worth £41 billion, accounting to a third of total service exports to the EU. This was followed by the 'financial services' category which generated exports worth £26 billion accounting for a fifth of service exports to the EU.<sup>11</sup> The wide range of professions included in the PBS sector led to its underrepresentation in the UK-EU negotiations. To some extent this is justified, as the initial focus in all trade agreements is on physical units of tradeable goods (eg number of automobiles), which are categorised under manufacturing. Notwithstanding the importance of manufacturing, it has to be borne in mind that roughly twice as many people are employed in the PBS sector.

## 2.2.1 The EU's Mutual Recognition Framework

Mutual recognition is a vital tool for the completion of the EU's Single Market. It derives from Articles 34–36 of the Treaty of the Functioning of the EU. It is further enshrined in Regulation (EU) 2019/515, applicable from April 2020, on firms' rights to lawfully market and sell their goods in other EU

<sup>6</sup> Ward, 'Statistics on UK-EU Trade', (House of Lords Library, 2020), Briefing Paper No 7851: <https://researchbriefings.files.parliament.uk/documents/CBP-7851/CBP-7851.pdf>.

<sup>7</sup> Office for National Statistics, 'UK total trade: all countries, non-seasonally adjusted': [www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/exportsandimportsstatisticsbycountryforuktradeinservices/julytoseptember2019](http://www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/exportsandimportsstatisticsbycountryforuktradeinservices/julytoseptember2019).

<sup>8</sup> House of Lords, 'The EU Services Sub-Committee hears evidence from trade experts on the future UK-EU relationship on professional and business services after Brexit: [www.parliament.uk/business/committees/committees-a-z/lords-select/eu-services/news/pbs-evidence-4006/](http://www.parliament.uk/business/committees/committees-a-z/lords-select/eu-services/news/pbs-evidence-4006/).

<sup>9</sup> *ibid*.

<sup>10</sup> Office for National Statistics (n 7).

<sup>11</sup> House of Commons Library, 'Economic Indicators': <https://researchbriefings.files.parliament.uk/documents/SN02815/SN02815.pdf>.

countries. It applies particularly to goods and it defines the rights and obligations for firms and authorities but it also extends to services.<sup>12</sup>

The governance of services in the EU has been regulated since 2006 ensuring professionals can work in all EU countries and provide services across borders.<sup>13</sup> The EU's professional qualifications recognition system, in place since 2013, facilitates automatic recognition of professional status by all EU Member States.<sup>14</sup> In effect, the professional qualifications recognition system facilitates the free movement of professionals, eg doctors, architects etc in the EU. Not all professions however come under the same category and as a result are not subjected to the same legislation.<sup>15</sup> For example, doctors (GPs and specialists), nurses, midwives, dentists, pharmacists, architects and veterinary surgeons enjoy automatic recognition based on the harmonised minimum training requirements.

Other professions fall under different legislation, which could be national laws and regulations. For example, lawyers and insurance intermediaries. Broadly, there are three different systems of registering qualifications.

- (1) First, *automatic* recognition based on harmonised minimum training qualifications.
- (2) Second, a general system for other regulated professions such as teachers, translators and real estate agents.
- (3) Third, *automatic* recognition based on professional experience for specified professionals such as carpenters, beauticians etc.

The EU-UK free trade agreement reached does not protect many PBS sector jobs due to the restrictions in the free movement of people and the outright prohibition of trading in the Single Market due to lack of mutual recognition of professional qualifications. In essence, the automatic recognition in the first and third categories above is no longer available. The impact would vary from sector to sector but overall it could be very detrimental to PBS. Whilst advertising for example, may not be impacted as much, due to its international nature, auditing accountancy, legal and management consulting and creative industries would be significantly affected, as they are heavily dependent on exports to the EU Single Market and free movement of labour. Diversifying may be an option for these industries, in particular in the case a comprehensive free trade area with the US that includes services is realised, but there would certainly be a loss of trade in the short to the medium run.<sup>16</sup> In any case, a free trade agreement with the Biden Administration during the next couple of years, looks increasingly unlikely.

Professional qualifications in the agreement are defined as 'meaning qualifications attested by evidence of formal qualification, professional experience, or other attestation of competence' (p. 77). To start with, independent professionals refer to 'natural persons engaged in the supply of a service and established as self-employed in the territory of a Party who:

- (i) have not established in the territory of the other Party;
- (ii) have concluded a bona fide contract (other than through an agency for placement and supply services of personnel) for a period not exceeding 12 months to supply services to a final consumer in the other Party, requiring their presence on a temporary basis; and
- (iii) possess, on the date of their application for entry and temporary stay, at least six years professional experience in the relevant activity, a university degree or a qualification demonstrating knowledge of an equivalent level and the professional qualifications legally required to exercise that activity in the other Party.'

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<sup>12</sup> European Commission, 'Internal Market, Industry, Entrepreneurship and SMEs: Single Market and Standards': [https://ec.europa.eu/growth/single-market/goods/free-movement-sectors/mutual-recognition\\_en](https://ec.europa.eu/growth/single-market/goods/free-movement-sectors/mutual-recognition_en).

<sup>13</sup> Theodore and Syrrakos (n 5).

<sup>14</sup> European Commission (n 12).

<sup>15</sup> European Commission, 'Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions' Brussels, COM(191), Final: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM:2020:191:FIN>.

<sup>16</sup> House of Lords (n 8).

In footnotes 14 and 15 on page 87 of the agreement a clarification is stated 'where the degree or qualification has not been obtained in the Party where the service is supplied, that Party may evaluate whether this is equivalent to a university degree required in its territory'.

These footnotes carry vital implications. In practical terms, they provide the potential for national authorities of EU Member States to prevent market access to holders of three-year degrees awarded by UK-based higher education institutions (eg engineering, finance, accounting, economics, applied mathematics etc) on the basis that they do not conform to the four-five year degrees in most EU countries. In such circumstances, it could be the case that only holders of UK Masters qualifications in certain areas would be allowed to engage in activities in the Single Market. Furthermore, the continuing functioning of their subsidiaries in EU Member States could be severely undermined.

Equally important is the potential for licencing quotas. As stated in pages 96-97 of the EU-UK trade agreement:

'If the number of licences available for a given activity is limited because of the scarcity of available natural resources or technical capacity, a Party shall apply a selection procedure to potential candidates which provides full guarantees of impartiality, objectivity and transparency, including, in particular, adequate publicity about the launch, conduct and completion of the procedure. In establishing the rules for the selection procedure, a Party may take into account legitimate policy objectives, including considerations of *health, safety, the protection of the environment and the preservation of cultural heritage*.' [emphasis added].

This implies that access to Single Market activities could be disallowed due to quotas applied to certain markets caused by scarcity of available resources or technical issues. Access could be further restricted due to health and safety reasons, environmental protection obstacles or cultural heritage impediments.

In Article SERVIN.5.13: Professional qualifications, it is also stated:

'Nothing in this Article shall prevent a Party from requiring that natural persons possess the necessary professional qualifications specified in the territory where the activity is performed, for the concerned sector of activity. The professional bodies or authorities, which are relevant for the sector of activity concerned in their respective territories, may develop and provide joint recommendations on the recognition of professional qualifications to the Partnership Council. Such joint recommendations shall be supported by an evidence-based assessment of:

- (a) the economic value of an envisaged arrangement on the recognition of professional qualifications; and
- (b) the compatibility of the respective regimes, that is, the extent to which the requirements applied by each Party for the authorisation, licensing, operation and certification are compatible.'

The footnote 24 on page-97 is telling as it states that:

'For greater certainty, such arrangements shall not lead to the automatic recognition of qualifications but shall set, in the mutual interest of both Parties, the conditions for the competent authorities granting recognition'

As it becomes apparent, the new arrangements deviate significantly from the ones EU Member States are enjoying for their PBS. This is the case, as under no circumstances is automatic recognition of qualifications allowed. This significantly undermines PBS exports sustainability to the EU and places the £40 billion exports under immediate threat.

## 2.3 Wider Economic Implications

According to the Office of Budget Responsibility, the agreement is going to cause a decline in the UK's 2020 GDP of between 4–6%.<sup>17</sup> This is the equivalent of £80–120 billion spread over the decade, an output loss of approximately 0.5% of GDP every year (excluding cumulative effects). The UK Government is confident that the spread of output loss over the long-run will cushion the UK

<sup>17</sup> Office for Budget Responsibility (2020) 'Economic and Fiscal Outlook' November 2020  
CCS1020397650-001\_OBR-November2020-EFO-v2-Web-accessible.pdf



economy, in particular as the positive impact of newly established trade agreements will materialise in the second half of the decade.

The agreement is going to cause an increase in unemployment. At present, it is impossible to predict the impact of the agreement on unemployment rates due to not having reached an agreement on financial services and the difficulty in differentiating between the unemployment caused by the lockdowns and the unemployment caused by the loss of trade. No significant impact is expected on the rates of inflation, with no consensus reached among economists over its long-term influence.

However, it has to be borne in mind that the output loss of between 4–6% mentioned above results from the loss of trade in *goods*. The analysis estimates that export of goods will decline by approximately £100 billion from £349.9 billion in 2019 to around £250 billion in 2029 because of limited access to the EU's Single Market. However, the analysis assumes no loss of trade from services. This assumption is no longer valid, as explained by the analysis on PBS in section-3. There is simply no guarantee that the EU would grant passporting or even equivalence rights to the UK's financial services firms whilst as explained automatic recognition of professional qualifications has already ceased.<sup>18</sup> London's loss of its supremacy status in share trading to Amsterdam in January and February this year, despite not causing an alarming shift in overall trade volumes, could be the initial stage of a protracted process. In this process, London's market shares are compromised by the loss of equivalence rights leading to partial market relocation to EU, US and Asian financial markets.<sup>19</sup> If this were the case, it could prompt the EU to maintain its 'wait-and-see' policy in an attempt to precipitate even more capital flows from London to EU markets. Indeed, the decline in London's euro derivatives trading in the same period could potentially reinforce the sense that there is more market loss to follow. Despite the fact that both the UK and the EU are committed to negotiations over a regulatory cooperation framework, the EU is not expected to grant equivalence status rights to UK trading venues any time soon.<sup>20</sup> In the meantime, the sense that London's market share decline is irreversible grows by the day.<sup>21</sup> Early indications point to a £110 billion cumulative decline in financial services trade with the EU since the 2016 Referendum in relation to the volumes of trade that would have materialised in the absence of the Brexit process (Noonan and Foster, 2021).<sup>22</sup>

Secondly, while the agreement minimises Brexit's damage on goods markets – at the same time the UK runs deficits with the EU in goods trade. The 'no tariffs and quotas' provisions of the agreement are subject to preserving the 'level playing field' implying that unfair competition would lead to tariffs and quotas. As a result, the EU does not risk a significant market loss in goods trade, as UK firms are not competitive in relation to EU firms and any attempts from the UK to undermine the EU's competitiveness are bound to fail due to the imposition of tariffs and quotas.

As the UK runs surpluses in services with the EU and there is no agreement currently reached, this will significantly disadvantage the UK's balance of payments up to 2025 at least, but of course the short-term considerations are dwarfed by the impact of the pandemic lockdowns. A significant loss of services exports, worth £340.9 billion, to the EU cannot be ruled out over the next couple of years, with the absence of an agreement in financial services.<sup>23</sup> The difficulty in reaching such an agreement partly derives from the lack of an offer from the part of the UK to the EU. The UK requests access for the City of London to the EU's Single Market. This is easily implemented and there are various ways and different levels of re-gaining access to the EU's Single Market, but it is not entirely clear what the

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<sup>18</sup> Stafford, Fletcher and Morris, 'London's sway in Europe put to test as rival hubs make trading inroads' (*Financial Times*, 2021): [www.ft.com/content/41215041-a703-4227-ab1a-42e0310511db](http://www.ft.com/content/41215041-a703-4227-ab1a-42e0310511db).

<sup>19</sup> Davies, 'London's status as a financial centre isn't as secure as some might think' (*The Guardian*, 2021): [www.theguardian.com/commentisfree/2021/feb/13/london-financial-centre-future](http://www.theguardian.com/commentisfree/2021/feb/13/london-financial-centre-future).

<sup>20</sup> Brush and Chrysoloras, 'London Finance Firms Warned by EU Not to Expect Quick Market Access' (Bloomberg, 2021): [www.bloomberg.com/news/articles/2021-04-22/london-finance-warned-by-eu-not-to-expect-quick-market-access](http://www.bloomberg.com/news/articles/2021-04-22/london-finance-warned-by-eu-not-to-expect-quick-market-access).

<sup>21</sup> Davies (n 18).

<sup>22</sup> Noonan, L. and Foster, P. (2021) 'Brexit shrank UK services exports by £110bn, academics find' 31/05/2021, Brexit shrank UK services exports by £110bn, academics find | Financial Times ([ft.com](http://ft.com))

<sup>23</sup> Stafford and Hodgson, 'London's lost EU share trading could be gone for good, warn City figures' (*Financial Times*, 2020): [www.ft.com/content/586d32c3-ffc9-488b-9763-07dac3a30354](http://www.ft.com/content/586d32c3-ffc9-488b-9763-07dac3a30354).

UK would offer in return.<sup>24</sup> Put differently, it is not clear what the EU would achieve by committing to a negotiating process that would grant equivalence rights to UK's financial services.

## 2.4 Constitutional impacts – the cases of Scotland and Northern Ireland.

The devolution question also underpinned unresolved aspects of the highly divisive Brexit debate in the UK. For example, does Scotland feel closer to London or Brussels? The awkward partner thesis, conceptually, illustrates the UK as a key player in driving trade, though avoided joining the single currency, and related responses to the Eurozone crisis while as a Member State. One of the many policy uncertainties facing central and local government after the UK's exit from the EU is still that of economic development. Several of the cities or regions with the highest leave votes in the 2016 EU referendum, such as South Yorkshire or the Southwest, were also the highest recipients of EU funding; drawn from grants such as the European Regional Development Fund (ERDF) and European Social Fund (ESF), including Objective One funds. Meeting this challenge for government in the post-Brexit landscape will be to ensure that infrastructure and projects supported by such funding are maintained or replaced. Within this broad challenge, there are three underlying aspects. Firstly, the need to understand the high leave vote in areas that received high levels of EU funding; secondly, the need to ensure a fair distribution of funding between urban and rural areas; and thirdly, the need to engage communities in the economic development process to identify priorities for spend. These are governance as well as economic challenges, and we have seen in terms of devolution, the challenges that have arisen from the Scottish and Welsh cases demonstrated the need to address inequality across devolved areas, and to engage with identity, history and community engagement.<sup>25</sup> Globally and nationally, successful economic development initiatives require engaged governance processes, drawing together people, place and investment in policy implementation and creating a sustainable level of economic development as a result of trade deals, though for example investment in sectors such as the motor industry.

The UK Government finds itself needing to address domestic inequalities, as part of its levelling up agenda, planning new or revised bilateral international trade deals, as well as a shifting global position. Central to the UK Government's success in continuing economic development is securing such trade deals, as in the case of the several proposed US/UK trade deals around areas like food. Domestically, the UK Government also faces the issue of public opinion and pressure to replace funds in areas such as the Southwest, notably in policy areas such as agriculture. At a time when public opinion has recently called for increased spending on policing, healthcare, and the armed services, it is difficult for government to balance these views with trade uncertainties and pressure on budgets. Some argue the EU structural funds were originally intended for communities to decide how to distribute and fund, but were instead redistributed by central government from Westminster. However, this also raises questions around the distribution of funds to city regions, how strategic priorities are set and by (and for) whom. The varying trade deals, and policy areas such as agri, foodstuffs, and farming are all open to rapid change; the role of FDI in city regions, and there may also be a greater focus from the UK Government on the role of SMEs in driving economic development. The complexities of Brexit mean it is difficult to talk about economic development in splendid isolation from other policy spaces that are also currently in periods of transition or uncertainty. For example, the role of FDI may expand as part of trade relations with other nation states, as well as city regional and business development initiatives and priorities.

Moreover, the nascent days of the trade deal saw issues at borders and ports exacerbated by the COVID-19 pandemic. Much publicised delays at UK ports, notably Dover, demonstrated the overlapping problems wrought by the pandemic as haulage drivers waited in lengthy backlogs amid confusion over COVID-19 testing in the days preceding Christmas 2020. This dramatic demonstration of the disruptive potential of changes to governance arrangements during a pandemic did little to sow public confidence that future trade relations would be harmonious. Moreover, relations between Westminster and Brussels have been further soured over the deployment of COVID-19 vaccines, and

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<sup>24</sup> Shrimpsley, 'The equivalence tussle is giving UK a lesson in Brexit power politics' (*Financial Times*, 2021): [www.ft.com/content/3a7bc26f-80e8-474a-a374-52882d0930fe](https://www.ft.com/content/3a7bc26f-80e8-474a-a374-52882d0930fe).

<sup>25</sup> Howell and Shand, 'Welsh Devolution and Leadership: Power, Discourse and Identity' (2015) 36(5) *Policy Studies* 507–521.



concerns from small businesses over their viability given the new costs needed to meet bureaucracy associated with the new trade relationship between the UK and EU.

Practical and conceptual implications are still emerging from the UK-EU Free Trade Agreement. The UK's role in multilevel governance<sup>26</sup> may conceivably change, as cooperation with the EU shifts from that of a member to that of a partner. However, economically, as the UK emerges from the pandemic, the mooted greener turn by the UK Government<sup>27</sup> is likely to entail cooperation with a range of other nation states, including European 'environmental pioneers'<sup>28</sup> and green industry leaders, embedding a different type of cooperation.

## 2.5 Conclusions

The UK-EU Free Trade Agreement represents the minimum platform of what the two parties could agree in goods trade. It could provide the basis for future enhanced trade relations but equally it can provide the way to further disintegration in trade conditions, as the agreement can be brought to an end with a year's notice in the case of trade disputes that cannot be resolved by arbitration. In this way, the agreement does not offer a sustainable resolution to trade relations in the post-Brexit era. It certainly does not provide any certainty over financial trade.

It is important to note that the share of the UK's exports to the EU has declined from 54% to 45% in the last 15 years. More importantly though this decline has been primarily caused by a decline in goods rather than services.<sup>29</sup> This implies that the EU has granted limited access to UK firms to its Single Market expecting a minimum loss of its market share.

It is a rather good deal for the UK's goods exports to the EU in terms of eliminating tariffs and quotas in the short run thus preventing a cliff-edge. The avoidance of a cliff-edge did not prevent though the volume of exports to the EU sharply reduced by 68% in January 2021 on an annual basis. This is not expected to be a permanent decline as exports to the EU increased in February and March as firms gradually adapted to the new environment but equally exports have not – and will not – return to their pre-Brexit levels. The imposition of import controls to EU exports to the UK will provide the next test to the agreement. Overall, the EU has achieved its two main objectives in the UK-EU negotiations as reflected in the Trade Agreement reached. First, on the political front, it has demonstrated discretion and flexibility in allowing UK goods exports to be available in its Single Market. Second, it has allowed such an access to take place in a manner that ensures that its comparative advantage in these goods markets cannot be undermined. On the other hand, the UK has achieved its main political objective namely regaining 'independence'. Apart from the avoidance of a cliff-edge, it is not entirely clear what else has the UK achieved from an economic perspective.

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<sup>26</sup> Bache and Flinders, *Themes and issues in Multilevel Governance* (Oxford University Press, 2005).

<sup>27</sup> HM Government, 'Green Economy Council': [www.gov.uk/government/groups/green-economy-council](http://www.gov.uk/government/groups/green-economy-council) accessed 20 April 2021.

<sup>28</sup> Hanf, K. & Jansen, A. (Eds.). (1998). *Governance and Environment in Western Europe: Politics, Policy and Administration* (1st ed.) Abingdon: Routledge.

<sup>29</sup> House of Commons Library, 'Economic Indicators': <https://researchbriefings.files.parliament.uk/documents/SN02815/SN02815.pdf>.