

Staying on the plane

Blog post by Associate Adviser Guillaume Ferlet, 18 August 2016

Alok Sharma's first visit to China this week as the UK's new Minister for Asia and the Pacific has been somewhat overshadowed by tensions over the Hinkley point investment. Sharma will no doubt have gone equipped with reassurances that the UK is still committed to a strong relationship with China, including the promise that new Prime Minister Theresa May will make the trip to the G20 in Hangzhou next month. But Sharma will also have been charged with laying some of the preliminary groundwork for a possible future trade deal with Beijing after the UK has exited the EU. UK Development Minister Priti Patel was in India earlier this week with a similar message about the UK's appetite for future trade relations.

GC chief economist Gregor Irwin has just published a report on how the UK might prioritise resources in targeting its trade policy after Brexit. It has interesting messages for both Patel and Sharma. He points out that China should probably be at the top of any UK list for two simple reasons: it is the market where UK exports pay the highest tariffs and the market in which UK exporters appear to have fallen furthest behind their main European peers.

On India, Gregor thinks the incentives to seek a deal are a lot less clear. Although Indian tariffs are particularly high, Delhi has also traditionally been very reluctant to commit to liberalisation. It is also likely that India's main demands in a UK-India FTA would be related to visa liberalisation for Indian workers, and, whatever the trade benefits offered in return, this has always been a difficult point for the UK government. Given the Brexit debate on migration, this issue would probably be even more sensitive.

Even in China, potential value does not mean an easy deal. As Gregor notes, China's tariffs are high for a political reason, and the UK will need to have a clear sense of what it has to offer to buy their removal. How Beijing will assess the export value of the UK as a market of 65 million consumers, rather than part of a market of 500 million remains to be seen. There are plenty of ways that London can draw Beijing closer - allowing it to invest in major UK infrastructure projects, for example. But a trade deal may not be the simplest.

Another message of the GC analysis is that both Sharma and Patel might want to think about staying on the plane just a little longer given the potential value in Japan and ASEAN for UK exporters. UK corporate asset acquisition is growing in both markets, which implies new opportunities, but also the need for engagement with local policymakers to improve both the operational conditions for UK exporters and conditions for trade linked to this investment. These are also markets where UK strengths in areas such as financial services have been most in evidence in growing export values. Combine Japan and the rest of non-Chinese Asia and you have a market comparable to China or the US.