

“Global Britain”: a moment of truth

Economic commentary

9 June 2021

Key points

- As Britain nears agreement with Australia on a free trade agreement (FTA), UK farming interests are up in arms about the prospect of liberalized trade in agricultural products, especially beef. This is no surprise, given that any deal with Australia will likely shape subsequent FTAs with other major agricultural exporters.
 - Yet Australia is the obvious starting-point for the UK's first stand-alone trade agreement since Brexit. The UK enjoys a surplus on the trade, which is heavily skewed towards services, especially business and professional services, finance, travel, and tourism.
 - The question for the UK government is whether its haste to strike FTAs is in the best interest of British businesses, and whether the rush to tilt its commercial and diplomatic stance towards the Indo-Pacific region will cause too much ground to be given to hardened trade negotiators.
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Since the EU referendum in 2016, “global Britain” has become a favoured catchphrase of government ministers. It's a convenient slogan to describe a shift in the focus of the UK's commercial and diplomatic activity, away from Europe towards more distant parts of the world. In relation to commercial ties, “global Britain” is about the UK being able to conclude its own free trade agreements (FTAs) independently of the EU, enabling it to rebuild ties with members of the Commonwealth and to build new partnerships with fast-growing emerging economies.

Slogans and strategies are all very well. But there inevitably comes a moment when the rhetoric has to be backed up by real-world action and difficult choices. In the field of trading relations, that moment has now arrived in the form of a potential FTA between the UK and Australia. The UK Government is keen to reach an agreement in principle by the time the G7 summit is held in Cornwall from 11-13 June. Britain's wine-drinkers may be pleased that their favourite Aussie tipples might be a little cheaper, but the prospect of liberalized trade in agricultural products has prompted howls of protest from farmers and the organizations which represent them.

This, then, is the moment when the true meaning of “global Britain” will be revealed. If an FTA can be concluded with Australia, then it will set the scene for others that the British government hopes to conclude in the years to come, with the United States being the biggest prize. Australian governments have pursued an activist approach to trade liberalization over many years, during which it has struck many FTAs, including with China and the United States. Among the world's significant non-EU economies, Australia is probably one of the best-fitted for a trade deal with the UK. Put it another way, the British government will know full well that if it can't get this FTA done, then “global Britain” will have fallen at the first hurdle: the stakes are therefore high, and both sides know it.

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The UK has left the EU with plenty of FTAs in place. But these are agreements that were concluded between various countries and the EU while the UK was an EU member-state. The agreements have simply been rolled over, with a few tweaks here and there. In time, the UK government aims to renegotiate many of these FTAs, with a deal with the European Economic Area countries (principally Norway and Iceland) having been announced last week, and Canada and Mexico likely to be next on the list. But this process will take many years, and some potential partner countries are keener than others on trade liberalization. Another consideration, for some, is that the UK is not as big a potential market as is the EU. Some may also regret the terms they signed up to with the EU, and won't want to repeat what they now regard as mistakes.

A free trade agreement with Australia is therefore hugely significant, as it would be the first entirely new deal concluded by the UK since it departed the EU. There has never been an FTA between Australia and the EU, so negotiators have been able to start with a blank canvas. But other countries will be watching closely to see how liberal the UK is prepared to be, especially in the always-sensitive area of agriculture. Whatever Australia negotiates, other exporters of agricultural produce, especially the United States, Canada, New Zealand, and the Mercosur countries of South America, will want as well.

One of the worrying aspects of the UK's rush to sign trade deals is that it conveys a whiff of desperation. Trade negotiations are not some gentle diplomatic game, but rather a cut-and-thrust exercise in the pursuit of naked commercial self-interest. Signs of weakness will be ruthlessly exploited, and the likes of Australia and the USA are well-versed in the arts of extracting maximum concessions.

More about services than beef

Though not a major prize on the scale of the USA, Australia is an important trading partner; it is also a close and long-standing ally, and in addition has Her Majesty the Queen as their head of state. So, as the UK strikes out to fashion its own trade policy, after more than forty years as a member of the EU, Australia is an obvious starting-point. It ranked as the UK's 13th-largest export market in 2019, with sales of goods and services worth £12.0 billion. From a British perspective, the trading relationship is also unusual in that it generates a sizeable surplus, amounting to £5.5 billion in 2019, which is one more reason why Australia is a suitable candidate for a trade deal. Australia is also the UK's largest export market in the Commonwealth, coming ahead of Singapore and Canada, though when imports are added, the UK's total flows of trade with India and Canada are bigger.

UK-Australia trade flows in 2019

UK Exports of goods and services	£ million	11,993
Share of UK total	%	1.7
Average annual increase, 2009-2019	%	5.1
UK Imports of goods and services	£ million	6,531
Share of UK total	%	0.9
Average annual increase, 2009-2019	%	5.4
Bilateral trade (exports plus imports)	£ million	18,524
UK surplus	£ million	5,462

Source: ONS, *The Pink Book*

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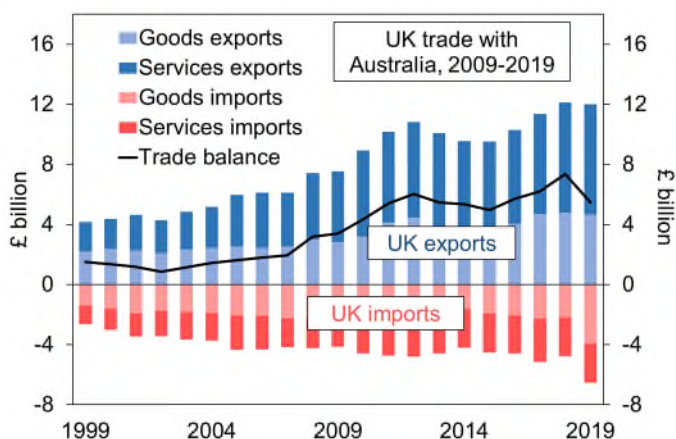
Despite Australia's strong economic performance in recent years, especially relative to some of the UK's close neighbours, its importance as an export market hasn't increased over the past two decades: the contribution to the UK's total exports of goods and services briefly reached 2% in the years from 2010 to 2012, before falling back, and standing at 1.7% in 2019. In value terms, however, exports have increased threefold since the late 1990s, and doubled between 2007 and the peak of £12.1 billion reached in 2018. A distinctive feature of Anglo-Australian trade is the heavy bias towards services in the mix of UK exports. This is not a new phenomenon, with services accounting for 60% or more of exports in seven of the ten years from 2010 to 2019. Sales of services in 2019 were worth £7.3 billion, representing 61% of the total.

An important category of exports, in both directions, is travel – that is, the money spent by visitors and tourists. Australians visiting Britain spent over £1.6 billion in 2019 (a UK export), while the flow in the other direction was worth nearly £800 million. After the United States, Australia is the second-largest non-EU source of travel earnings for the UK. But these flows can be volatile, with movements in the exchange rate influencing people's decisions about where to take 'gap years' and holidays. The size of the travel market means that transport (reported in the trade statistics as a separate category from 'travel') makes a correspondingly important contribution with UK export earnings worth over £1.3 billion in 2019. This likewise can fluctuate markedly, depending on visitor numbers and air fares, and movements in the oil price.

Notably absent from the list above is any mention of agricultural produce. It's true that they did once dominate Australia's exports to the UK, but that was 50 years ago. Back in 1965, the UK took 30% by value of Australia's exports of beef; that share is now just over 1%. In similar vein, there is virtually no Australian butter available on British supermarket shelves, whereas in 1965 the UK took two-thirds of all that was exported. Instead, Australia's exports now include a diverse range of manufactures, taking in chemicals, non-ferrous metals, machinery and equipment, and precision instruments. In 2020, wine was by far the most important agricultural export, valued at £289 million, a marked increase from the preceding year, which suggests that it has been a popular tippie for Brits during the various lockdowns, while beef amounted to a mere £13 million.

The pattern of Australia's exports to the UK is sensitive to trends in global commodity prices, which affects the income from transport services, as well as the value of trade in coal, petroleum and lead. But a much bigger source of fluctuation is the trade in non-monetary gold. In both 2019 and 2020, the amount shipped from Australia to the UK topped £6 billion. This relates to London's position as a major centre for the trade in

UK services exports contribute to a trade surplus with Australia



Source: ONS

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gold bullion, though much of this doesn't get reported in the Balance of Payments (BOP) trade statistics, due to there being no change in ownership. That's why the figure for non-monetary gold shipments in 2019 shown in the table below is just £1.9 billion. It's clearly an important aspect of the bilateral trade relationship, but is an area of trade statistics that's best described as "opaque".

What's the beef?

In view of the miniscule amount of beef which arrives into the UK from Australia, anybody not versed in the politics of international agricultural trade will struggle to appreciate why the prospect of removing tariffs on this trade should prompt such a strong response from the farming lobby. After all, the 1,767 tonnes which was imported in 2019 didn't even fill half the allocated tariff rate quota (TRQ) of around 4,650 tonnes. TRQs provide limited preferential access to particular countries where tariff rates are very high, and are applied to numerous food products by the EU. Following Brexit, the UK has inherited a proportion of many EU TRQs, which it is hoped will be phased out as wider-ranging FTAs are negotiated. In theory, Australia could send as much beef to the UK and the EU as they like, but the tariffs that would be charged on most of it would render the trade unviable. In practice, therefore, exporting countries tend not to exceed their TRQs.

Even if Australian beef shipments were to expand tenfold, they would still have a share in the UK market of only about 1.5%. In any case, there is likely to be a long phasing-in process, with media reports suggesting that the Cabinet agreed on 20 May to offer Australia a 15-year run-in period during which tariffs would be gradually reduced. It would be surprising if the Australians are prepared to wait so long, but even so it's still unlikely that there will be tariff-free imports of beef in excess of current TRQs arriving from Australia, or anywhere else, before the late 2020s.

UK-Australia trade: main products and categories in 2019

UK Exports			UK Imports		
Product category	Value £ million	Share of UK total %	Product category	Value £ million	Share of UK total %
Machinery & motor vehicles	1872	15.6	Non-monetary gold	1931	29.6
Travel	1658	13.8	Other Business Services*	874	13.4
Other Business Services*	1360	11.3	Travel	793	12.1
Transport	1345	11.2	Material manufactures	494	7.6
Insurance and pension funds	1310	10.9	Machinery & motor vehicles	342	5.2
Miscellaneous manufactures	946	7.9	Miscellaneous manufactures	340	5.2
Chemicals	904	7.5	Transport	328	5.0
Financial services	703	5.9	Financial services	254	3.9

*includes legal, accountancy, management consulting, and marketing services

Source: ONS Pink Book



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The defences of domestic beef producers in the UK are provenance and standards. Can UK beef producers find ways to market their products to consumers, whether on the basis of geography (as in the case of Aberdeen Angus) or higher animal welfare and meat processing standards? That so much fuss has been made suggests a certain lack of confidence that this is the case, even though the UK government is highly unlikely to suddenly overturn the ban which has been in place since 1989 on growth-promoting hormones, which are widely used in Australia, and other non-EU producers. The use of hormones has been a long-standing source of disagreement in the world of international trade politics, with several cases being taken to the World Trade Organization (WTO). But irrespective of the legality (or otherwise) of the EU's long-standing ban, consumers in Europe, and in Britain, made up their minds back in the 1980s that they wanted nothing to do with hormone-fed beef, and that seems unlikely to change.

It's true that Australia is formidably competitive in the beef trade. In 2019 it exported over 1.3 million tonnes valued at \$7.5 billion. It ranks as one of the world's "big three" exporters, alongside the USA and Brazil, which between them account for around two-fifths of global exports. But it's also the case that, having been largely excluded from EU markets several decades ago, the Australians have turned their attention elsewhere, with around two-thirds of their beef exports destined for the USA, China, and Japan.

The UK tilts towards the Asia-Pacific region

By the UK government's own admission, the direct benefit to the UK economy from striking a free trade deal with Australia is minimal, amounting to an estimated 0.02% increase in GDP over 15 years. Yet there are wider issues involved, with the government being keen to foster closer ties with countries in the Asia-Pacific region. Representatives from Australia, India, and South Korea have been invited to join the upcoming G7 summit, and in the sphere of trade policy it was announced on 2 June that the UK would commence accession talks with the CPTPP (the re-jigged Trans Pacific Partnership without the USA). CPTPP is a significant new trade pact comprising eleven countries from Asia, Oceania and the Americas, and the UK is hoping to be the first member from outside the Pacific region.

Nonetheless, the more pertinent question that arises from the current negotiations with Australia is whether the British government has a strategy in place for developing its stand-alone trade policy, or whether it is just seeking to conclude as many trade agreements as quickly as possible. Is the UK taking a hard-headed approach, or is it simply acting like a lover who has jilted a long-standing partner, and is desperate to get into a new relationship as soon as it can?

Given the UK's long-standing comparative advantage in many services sectors, ranging from banking and insurance, to management consultancy, legal services, and education, the acid test of any deal struck with Australia, as well as the ones that will follow it, is whether they offer enhanced access for businesses involved in these sectors. Will it be easier for UK firms to set up operations in those countries with which FTAs are concluded? Will it be easier to move staff in and out of those countries? Will firms have flexibility on where they store client data? And will professional qualifications obtained in one country be recognized in the other? The UK is a global services powerhouse, being the second largest exporter after the United States. There will be little point in going to all the effort of reaching FTAs if this fact isn't recognized, and if it doesn't bring commercial advantages to British businesses.

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