



September 2020

## UK knocks on APEC's door

By: [Kristen Bondiitti](#) – Senior Trade Specialist, The Australian APEC Study Centre



*The United Kingdom (UK) is actively seeking closer trade ties with the Asia Pacific as it prepares to leave the European Union (EU). Recent months have seen the UK government focus on shoring up a plethora of new and continuing free trade agreements (FTAs) with several APEC economies. This reflects the strengths of the region's longstanding settings on trade policy, and recognition that open markets will play a key role in driving economic recovery.*

### **A new trade player**

The United Kingdom (UK) is actively seeking closer trade ties with the Asia Pacific as it prepares to leave the European Union (EU). Recent months have seen the UK government focus on shoring up a plethora of new and continuing free trade agreements (FTAs) with economies in the region.



Having completed 'continuity agreements' with major traders like Korea (that carry over the terms of existing EU agreements to which the UK is a party), and just finalised negotiations on an updated FTA with Japan, the UK is fleshing out the parameters of a deal with the United States, and moving forward on FTA talks with Australia and New Zealand. Agreements with other APEC economies - Singapore, Canada and Mexico are also on the cards. In addition, the UK announced in June that it would seek to join the Comprehensive Progressive Trans Pacific Partnership (CPTPP) Agreement that includes 11 APEC economies.

### **The region to trade in**

Why the UK's interest in Asia Pacific FTAs? First, there is an increasing need to bring certainty to trading arrangements post Brexit; there is less than six months until the UK is due to formally leave the EU. In the absence of FTAs, WTO trading arrangements will apply between the UK and third countries. This will affect existing trading relationships. How so is unclear in some areas, at least until an exit agreement between the UK and EU is reached.

Similarly, UK traders will be at a competitive disadvantage with their EU counterparts when they are shut out of existing EU preferential deals, such as those with Korea, Japan and Canada. There are also EU agreements that now extend into ASEAN, such as with Singapore and Vietnam. The EU is negotiating FTAs with Australia, New Zealand, Indonesia and Malaysia.

Alongside this, the current trade environment has intensified the UK's desire to secure trade relationships with major trading partners (US and Japan); strengthen those that are historically important (Australia, New Zealand, Canada and other commonwealth nations) and diversify to potential new partners, such as those within ASEAN.

While the US is already a major trade and investment partner of the UK (accounting for over [18 percent of the UK's exports](#), and its largest foreign investor) trade with other APEC economies is relatively small - [less than 3 percent](#) of UK exports are to Japan, and only slightly more to China. UK investment in Australia comprises only [2.5 percent](#) of all UK FDI. The UK's trade is overwhelmingly with the EU with which it is highly integrated – the EU takes [43 percent of UK exports](#) (particularly in services, which comprise almost half). This does not account for the substantial UK investment in EU production and supply chains that support trade with third countries.

All of the above are made more important by the need to support recovery in the post-COVID environment.



## Trade policy settings to support recovery

The UK's interest in the Asia Pacific also reflects the strengths of the region's longstanding settings on trade policy, and recognition that open markets will play a key role in driving economic recovery.

Recent trade agreements have set in place frameworks to support open trade, investment and data flows. The CPTPP provides a comprehensive body of rules that binds its members to open markets across a wide range of economic activity. The Regional Comprehensive Economic Partnership ([RCEP](#)) is set to be signed in November. Though less ambitious, RCEP will provide a consolidated regional framework to further advance liberalisation of services trade and investment.

Several economies are pushing forward with agreements to support digital trade, as connectivity becomes more important for cross-border economic activity. Singapore, Chile and New Zealand signed their [Digital Economic Partnership Agreement](#) in June. Australia and Singapore have concluded a [Digital Economy Agreement](#) to complement the existing FTA.

These agreements have also provided certainty to traders as governments have faced political pressure to protect their domestic industries to deal with the pandemic.

By and large, APEC economies have responded to the crisis with initiatives to build supply chain resilience and counter trade protectionism to assist recovery. APEC Ministers responsible for Trade for example, have [agreed](#) to specific actions to boost regional trade and to consider unilateral tariff concessions for 'essential' goods.

Others are moving ahead with updates to existing FTAs to further advance liberalisation efforts and modernise agreements to better manage the challenges of the current trading environment. Australia, New Zealand and ASEAN for example will begin to update their regional FTA this year.

This has been supported by APEC's work as an organisation, collaborating with the private sector to build more resilient supply chains, foster an environment for digital connectivity and better enable all APEC economies to open borders and reconnect with other economies as safely as possible.



## Mutual benefits

Drawing the UK in to this trade architecture will be mutually beneficial. It allows the UK to tap into Asian Pacific growth markets and FTA networks on potentially better terms than were possible previously through the EU. The UK has an opportunity to redefine its role in the world aligned with free trade and a rules-based international order.

The region can gain through closer integration with a major trader and financial centre with open and transparent policy settings on trade. The UK's participation in Asian Pacific legal trade frameworks enhances their legitimacy as de facto standards in the absence of broader multilateral progress.

Business can benefit from wider market access opportunities in a large economy. The UK's reliance on and appreciation of the importance of services trade, data, and investment mobility should also encourage high standards in these areas that older FTAs and some APEC economies have been slow to address.

Of course, outcomes will depend on substance, and not just reach. The details matter – supply chains can be strengthened from more liberal access and consistent rules of origin, but they can also be hampered by complex and inconsistent rules.

In the short term, closer alignment of the UK with the region's frameworks for trade can support trade-led recovery. In the longer term it can strengthen continued efforts for open trade beyond Asian Pacific borders.