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Brexit and UK trade

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CEP Election Analysis: Brexit and UK trade

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- This briefing summarises the evidence about how leaving the European Union (EU) has affected UK trade. Overall, Brexit has had a negative effect on UK trade. But, so far, this effect has been smaller than economists expected.

- Total UK exports have grown at a similar rate to exports of other European economies since 2016. This is because strong growth in UK services exports has offset a relative decline in UK goods exports. But total UK imports have grown more slowly than the imports of other major economies, driven by slower growth in UK goods imports.

- In real terms, both UK exports and imports of goods are lower than in 2016, having shrunk by 1% and 2%, respectively.

- Focusing on trade with EU countries, the Trade and Cooperation Agreement (TCA) has reduced exports to the EU by around 30% for small firms, but it has had no effect on large firms' exports to the EU. Many small firms (perhaps around 20,000) have stopped exporting goods to the EU entirely under the TCA.

- The TCA has also reduced goods imports from the EU as firms have switched to sourcing more imports from non-EU countries. Evidence suggests that the TCA has had a smaller effect on services trade than goods trade. But more research on this question is needed.

- Brexit is still playing out. The UK continues to deviate from EU policy due to active and passive regulatory divergence, which further increases trade costs for UK businesses.

- New trade agreements with third countries cannot compensate for the reduced access to the EU's single market. 'Global Britain' as a strategy for international trade is a fantasy.

- The UK's proximity to the large consumer and input markets in EU countries will always present the greatest opportunity for trade. The UK therefore faces a basic trade-off: move closer to the EU to increase UK trade and living standards or remain distant from the EU and continue paying the price of new and emerging trade barriers.

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Introduction

Brexit caused major changes in UK trade policy, most notably Great Britain's exit from the European Union's (EU) single market and customs union at the start of 2021. Following this departure, UK-EU relations have been governed by the Trade and Cooperation Agreement (TCA). The TCA is a comprehensive free trade agreement that ensures zero tariffs and zero quotas on UK-EU goods trade. But the UK is now less deeply integrated with EU countries and there are costly new non-tariff barriers for UK firms trading with Europe.

To provide an evidence base for future UK trade policy, this briefing first, documents key facts about the current UK trade situation; second, describes changes in UK trade policy since the Brexit referendum; and third, reviews the research evidence on how Brexit and the TCA have affected UK trade. We draw two main conclusions from our analysis.

First, the impact of Brexit on aggregate UK trade has been relatively small, at least so far. The introduction of the TCA has led to a small reduction in goods exports and it has caused many importers to switch from sourcing goods from the EU to sourcing within the UK or from non-EU countries. In contrast, services trade has increased under the TCA.

Second, the limited aggregate effect masks considerable variation across firms. Small firms that export goods to the EU have suffered most from the new trade costs created by the TCA: many small firms have stopped exporting to the EU entirely, and those that still export have experienced large falls in EU exports. Larger firms, which account for the vast majority of trade, have been able to adapt to the new trade regime, even if such adaptation was costly.

These conclusions suggest that UK trade has so far proven more resilient than feared, especially in services. But we caution that the full effects of Brexit have not yet materialised. Not only is the economy still adapting to the new trade regime, but not all new trade barriers have come into effect. The UK is still in the process of phasing in customs checks on EU imports. And, if UK and EU economic regulations continue to diverge over time, the costs of UK-EU trade will increase further.

Before moving to our main analysis, it is worth remembering why trade matters for economic performance. International trade allows the UK economy to specialise in the activities it does best. Exporting to foreign buyers allows UK firms to increase their scale and make profitable investments in new technologies. Importing from foreign sellers allows UK firms to pDroduce at lower costs, as well as giving UK consumers direct access to international products. The gains from these trading opportunities can improve living standards in the UK. UK trade policy should focus on maximising opportunities for gains from trade by lowering trade costs.

Unfortunately, there are two objectives that often cloud the policy debate and that are ultimately misguided. The first is using trade policy to protect UK firms from foreign competition. The second is aiming for a low trade deficit (the difference between imports and exports).

Protection from imports should not be a policy goal because foreign competition is eventually beneficial for UK economic growth as it lowers prices and leads to firms' resources being reallocated to the most productive activities. Using trade policy to manipulate the trade deficit is a mercantilist impulse that is counterproductive because the trade deficit is ultimately determined by other factors, namely the balance between domestic savings and investment.

UK trade: the facts and broader trends

In 2023, the value of UK firms' exports was £864bn, or around £12,900 per person, which was equivalent to around 38% of GDP per capita. The value of UK imports was £898bn, around £13,400 per person, and 39% of GDP per capita.

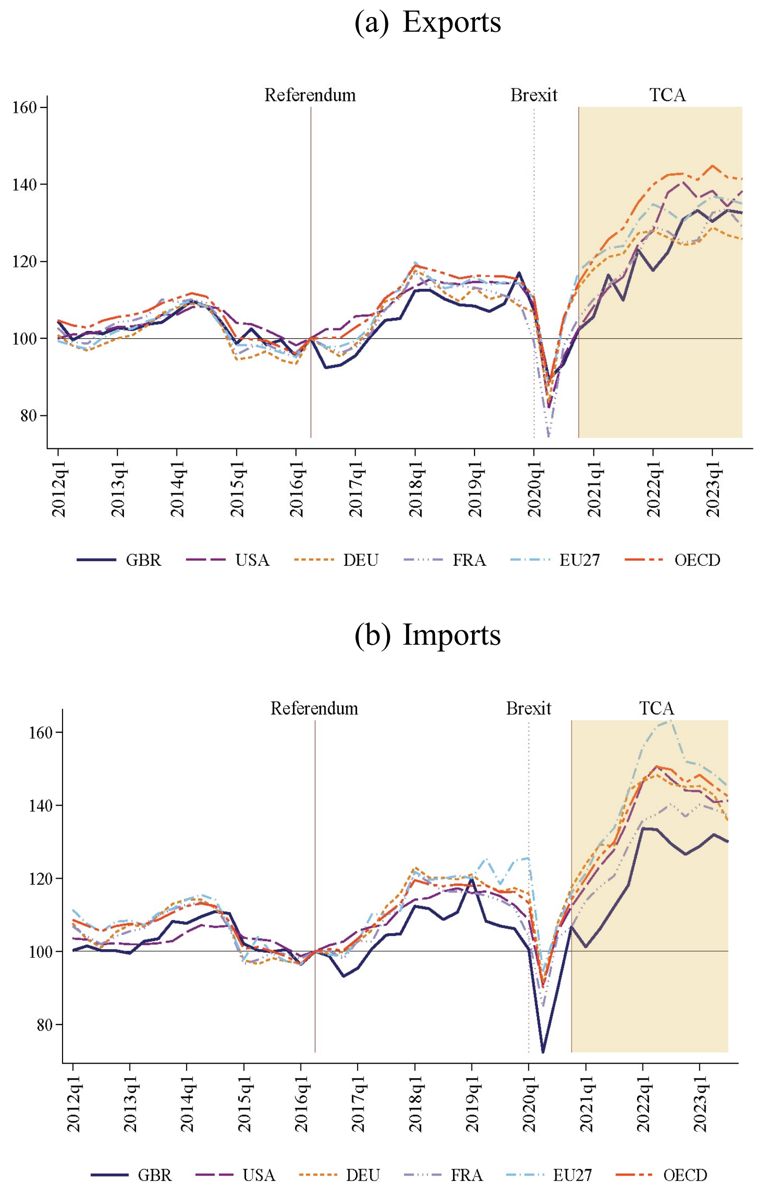
Quarterly trade data allow us to pick apart recent trends and see the distinct impacts of changes in UK trade policy and the Covid-19 pandemic. Trade has been volatile over the last eight years. Figure 1 compares changes in total trade across countries, benchmarking each series to its own level at the time of the Brexit vote in June 2016.

The first fact that jumps out is the large reduction in both exports and imports in the first and second quarters of 2020 for all countries, at the time of the pandemic. The second fact is the fast rebound in trade since then in all the geographies shown (the UK, the United States, Germany, France, the EU27 countries and the Organisation for Economic Cooperation and Development (OECD) countries).

The value of total UK exports has grown at a slightly slower rate than elsewhere since the depths of the pandemic, but the downturn had not been as severe for the UK. The average growth rate of UK exports over the 2016 to 2023 period was hence similar to the average growth rate for the EU27 countries.

The picture looks different for imports. While UK imports have grown since 2016, they have done so by less than for the EU27 countries. The UK suffered a larger downturn in imports around Covid-19 and has had a slower growth rate since then.

Figure 1: UK total trade in comparison, 2012-2023



Notes: Goods and services trade converted to US dollars and seasonally adjusted. Indices normalised to 100 in 2016 Q2. GBR = United Kingdom. USA = United States. DEU = Germany. FRA = France. EU27 = Aggregate EU27. OECD = Aggregate OECD. Source: OECD Balance of Payments Statistics.

One important caveat to Figure 1 is that it is in nominal terms, reflecting both prices and quantities. The ONS provides estimates of the quantity volumes of trade, by deflating total volumes to account for price increases.[2] While nominal exports and imports were 34% and 33% higher, respectively, in 2023 than in 2016, a large share of this increase is due to price rises. In real terms, exports were 12% higher and imports were 9% higher. For goods trade, UK exports are down by 1% in real terms since 2016, and UK imports are down by 2%.

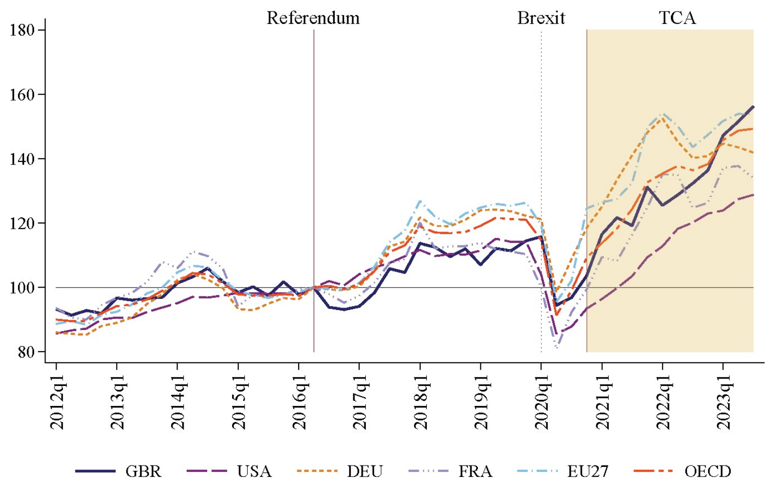
[2] The ONS data can be found here: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradegoodsandservicespublicationtables

Figure 2 shows more detail about services trade. UK services exports have grown at slightly faster rates than for other countries since 2019, whereas UK services imports have grown much faster but from a smaller base. Services now make up 54% of UK exports, but only 35% of UK imports.

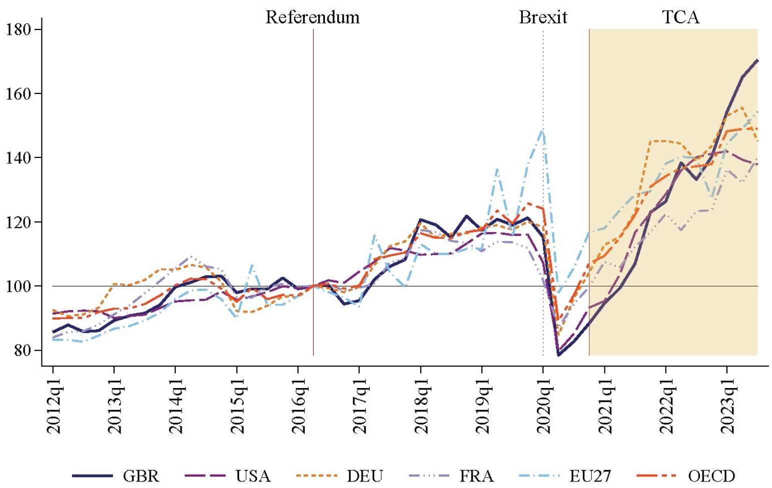
The fact that the UK exports more services than goods is new: it is only since 2020 that the value of services exports has started to exceed the value of goods exports. It reflects, in part, the growing share of UK output from services sectors but is also likely to be a reflection of how trade costs have evolved differently for goods and services in recent years as Brexit has, so far, mainly affected the costs of trading goods.

Figure 2: UK services trade in comparison, 2012-2023

(a) Exports



(b) Imports

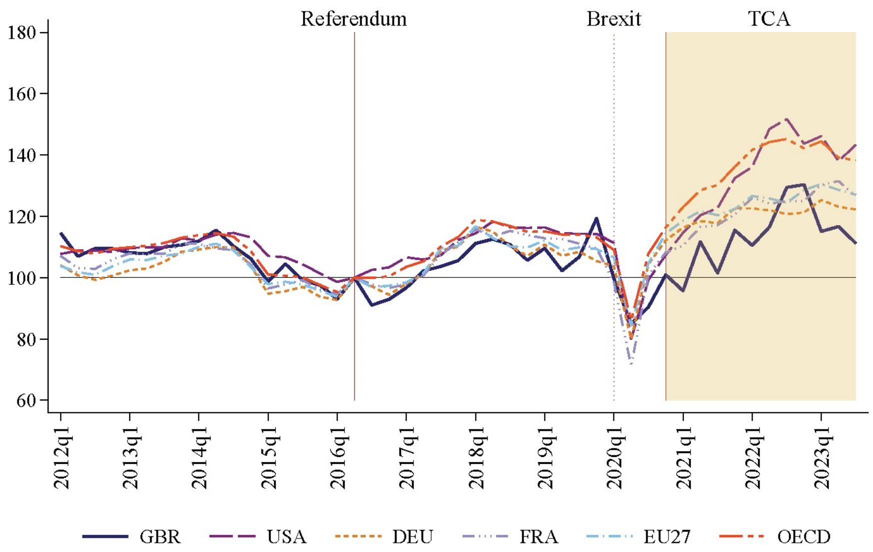


Notes: Services trade converted to US dollars and seasonally adjusted. Indices normalised to 100 in 2016 Q2. GBR = United Kingdom. USA = United States. DEU = Germany. FRA = France. EU27 = Aggregate EU27. OECD = Aggregate OECD. Source: OECD Balance of Payments Statistics.

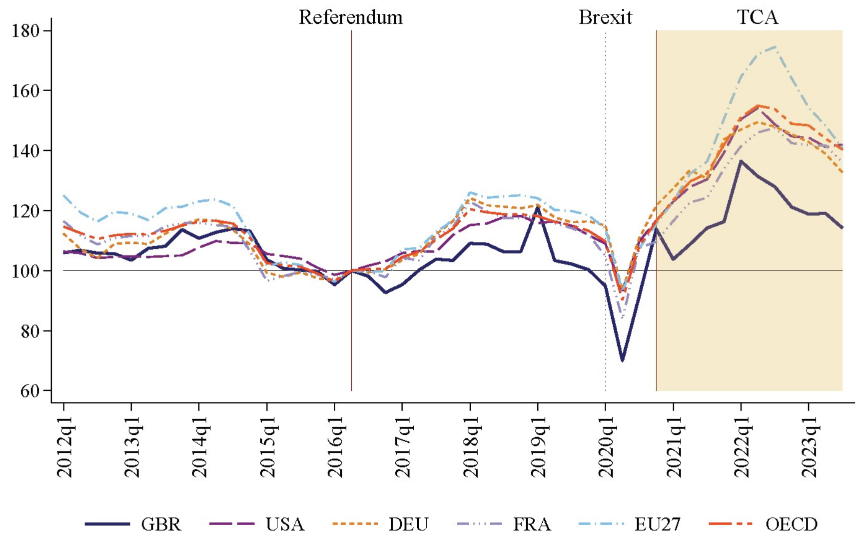
Figure 3 shows more detail about goods trade. UK exports and imports of goods have grown by less than for the EU27 countries (and for the United States and OECD) since 2016. This is not due to the downturn during Covid-19. The slower growth rates in UK goods trade became more pronounced after the introduction of the TCA at the start of 2021.

Figure 3: UK goods trade in comparison, 2012-2023

(a) Exports



(b) Imports



Notes: Goods trade converted to US dollars and seasonally adjusted. Indices normalised to 100 in 2016 Q2. GBR = United Kingdom. USA = United States. DEU = Germany. FRA = France. EU27 = Aggregate EU27. OECD = Aggregate OECD. Source: OECD Balance of Payments Statistics.

UK trade policy: changes since the Brexit vote

Key dates: exit from the single market and customs union, negotiating the TCA

So, what has actually changed since 2016? The Brexit referendum in June 2016 signalled that trade policy changes were coming, but the UK initially remained as a full EU member state. In March 2017, the UK government notified the EU of its intention to withdraw, and the UK formally left the EU on 31 January 2020. This triggered a transition period lasting until the end of 2020 during which the UK continued to be subject to EU law, still participated in the EU's single market and remained in the EU's customs union.

In March 2020, the UK government and the European Commission began negotiations on their future relationship. These negotiations were concluded in December 2020, resulting in the TCA, which came into force from January 2021.

Uncertainty for the economy in the post-Brexit period

The period after the Brexit referendum was characterised by heightened policy uncertainty for UK businesses and workers. The vote left the country guessing about the type of Brexit the UK would pursue – whether it would be a 'soft' form of Brexit similar to the arrangements of Norway or Switzerland, a 'hard' form of Brexit without any agreement, or an intermediate solution. Dhingra and Sampson (2022) review evidence on how the Leave vote affected the economy in the period before the UK left the EU and conclude that uncertainty and anticipation of Brexit led to lower economic growth.

In addition, the post-referendum period brought about an unusual degree of political uncertainty, with David Cameron resigning as prime minister on the morning after the referendum. He was followed by Theresa May, who fought a general election in June 2017 resulting in a hung parliament. The political deadlock was resolved through another general election in December 2019, with Boris Johnson winning a strong majority for the Conservatives on a clear pro-Brexit ticket.

Figure 4 shows the proportion of UK firms that cite Brexit as an important source of uncertainty. While this political uncertainty was unique to the UK, the country also faced the general uncertainty surrounding the pandemic.

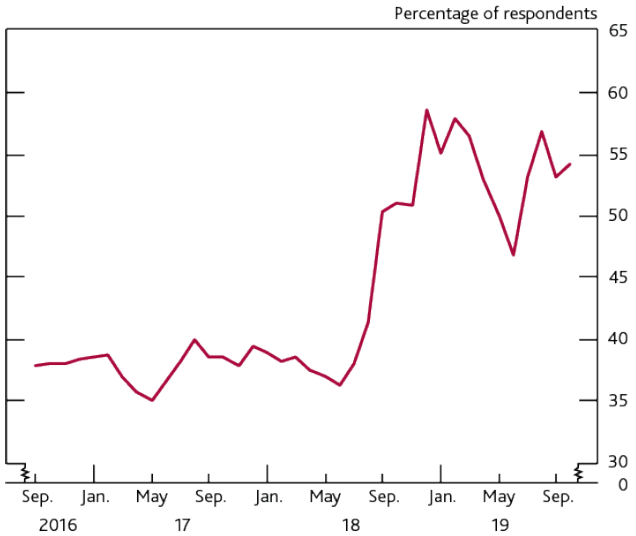
Post-Brexit policies affecting UK businesses

Leaving the EU's single market and customs union ushered in major policy changes for UK businesses. Leaving the single market meant the end of the 'four freedoms' – the free movement of goods, services, capital and labour – and with it the introduction of a customs and regulatory border between the UK and the EU.

While the TCA enshrined the continued absence of tariffs and quotas for trade in goods, it introduced new customs procedures. Non-tariff barriers in the form of sanitary and phytosanitary checks (health and safety checks for food, animals and plants) also started to be applied, which proved especially problematic for industries such as seafood exports.

In addition, changes in the application of VAT and other duties have been implemented. The EU introduced third-country customs checks for imports from the UK immediately from 2021 when the TCA took effect, while the UK has been phasing in checks over time and the full customs border for imports from the EU is not yet complete.

Figure 4: Proportion of UK firms citing Brexit as an important source of uncertainty, 2016-2019



Source: Bank of England Monetary Policy Report, November 2019.

There is considerable evidence from business surveys that customs checks have proven costly and burdensome for UK firms, especially in heavily affected sectors such as agriculture and chemicals, and especially for small and medium-sized firms (for example, see Bakker et al. 2022 on the impact on UK food prices).

The introduction of the TCA also changed many of the rules and regulations governing UK-EU trade in services. The abolition of the free movement of labour meant that the international provision of certain services that require the movement of workers across borders was suddenly in limbo, or that UK businesses had to apply for work visas to despatch their employees to the continent.

Various other regulatory hurdles were erected for services trade between the UK and the EU, for example so-called “passporting” rules for financial services trade. Another impediment was the end of mutual recognition of professional qualifications.

Brexit is not done yet: passive and active regulatory divergence

Although implementation of the TCA has now mostly been completed on both sides of the Channel, this does not mean that the UK-EU relationship has settled down. The reason is continuing divergence in regulation and economic policy between the UK and the EU. From the perspective of businesses, regulatory divergence leads to costly duplicate regulation, which, in turn, raises the costs of cross-border trade.

The EU issues new regulation at frequent intervals, for example, health and safety standards for food items and consumer products. This includes rules for the EU's Common Agricultural Policy and environmental regulation. A prominent example is the EU Carbon Border Adjustment Mechanism, which will take effect in 2026 and which the UK aims to mimic from 2027 in most relevant respects.

As an EU member state, the UK used to shape EU regulation and automatically absorb it into UK legislation. Under the TCA, this is no longer the case. Therefore, by not adopting EU regulation, the UK is passively diverging from the EU, raising trade costs.

In addition, the UK is also actively diverging from the EU by passing its own UK-specific regulation and by deciding on economic policy affecting areas such as subsidies, social policy and labour standards.[3]

The special status of Northern Ireland

The land border between Northern Ireland and the Republic of Ireland required special arrangements. Due to the unique historical circumstances and the Good Friday Agreement, the UK government and the EU wanted to avoid physical border checks (which would have meant a 'hard border').

It was therefore decided that from 2021, the rules of the EU's customs union rules and the free movement of goods with the EU should still apply to Northern Ireland although formally, Northern Ireland remains in the UK customs territory. The physical border between the EU and the UK is therefore de facto in the Irish Sea whenever goods pass from Northern Ireland to Great Britain, and vice versa.

It can therefore be argued that Northern Ireland has one foot in the EU goods market and another in the UK market. This ease of trading with the EU is a likely reason for the relatively strong economic performance of the Northern Irish economy since 2021 relative to Great Britain since the end of Covid-19.[4]

New UK trade agreements

By signing continuity agreements, the UK was able effectively to roll over and preserve trade agreements to which it had been party as an EU member state. Examples include Norway, Iceland and Liechtenstein as well as Mexico, Singapore, South Korea and Turkey.

In addition, the UK is free to negotiate new trade deals with third countries. The first such deal was an add-on agreement signed with Japan in October 2020 building on the EU-Japan

[3] The UK-EU Regulatory Divergence Tracker (2024) by the UK in a Changing Europe Initiative collects instances of passive and active divergence as well as procedural divergence.

[4] See https://www.bbc.co.uk/news/world-europe-66050860

agreement. This was followed by a new free trade agreement with Australia in December 2021 and with New Zealand in February 2022. The UK has also joined an existing trade pact with 11 Pacific Rim countries called CPTPP (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership).

Trade talks with India began in 2022 but have not concluded. The UK has formally suspended trade talks with Canada after two years of negotiations, mainly due to disagreements on agricultural products.

The UK in the EU orbit: 'Global Britain' is an unrealistic strategy for trade

While additional free trade agreements can help to promote UK trade, in terms of the magnitudes involved they cannot compensate for higher trade barriers with the EU. The reasons are threefold.

First, geographical proximity is crucial since international trade falls sharply with distance. The EU market is enormous and right on the UK doorstep, whereas the new UK trade agreements are with partner countries that are small, far away or both. In that sense, the idea of Global Britain is a fantasy and cannot serve as a viable alternative. Even an agreement with the United States (which seems elusive for the time being) would be unlikely to compensate for lost trade access with the EU.

Second, the EU's single market is the most comprehensive trading arrangement on the global stage. The reason is its unparalleled depth, governing not only trade in goods and services but also many other aspects of regulation such as product standards and professional qualifications, not least the free movement of capital and labour. All these are attractive and cost-saving features for the international operation of UK businesses.

Third, in practice, global trading standards are set by the big three players – the EU, the United States and China. Given the lack of an agreement with the United States and political differences with China, the EU is left as the only realistic alternative if the UK wishes to be closely aligned with the latest global regulation, let alone shape it.

Brexit and UK-EU trade: detailed evidence

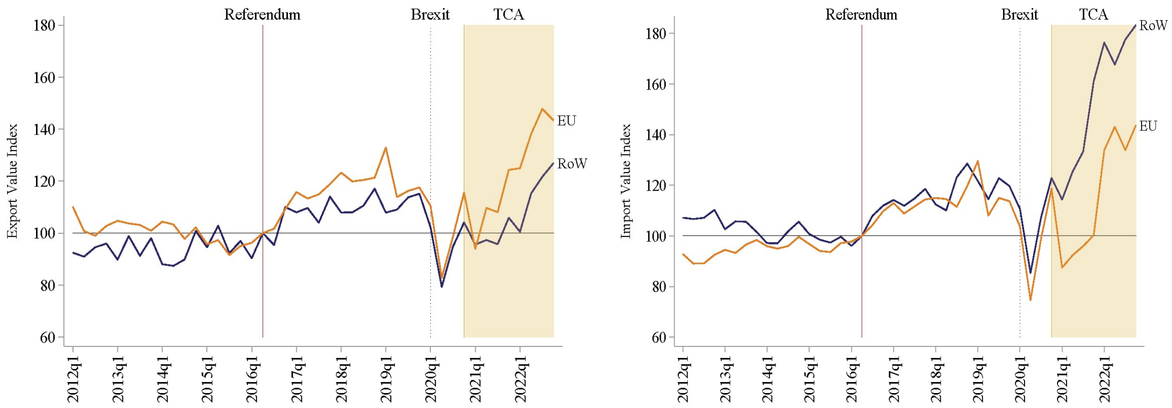
Economists predicted that the TCA would reduce UK trade with the EU by around 30% after 10 years and have little effect on trade with the rest of the world (Dhingra et al. 2017, Sampson 2017, Bevington et al. 2019). How much of the aggregate changes in UK trade shown in Figures 1 to 3 are due to leaving the EU?

A natural starting point when looking for the trade effects of Brexit is to compare changes in UK trade with the EU to changes in UK trade with the rest of the world (RoW). This comparison disentangles Brexit effects on EU trade from other factors that affect trade with all countries such as Covid-19, economic growth, inflation and supply chain shocks. Given the contrasting relative trends in Figures 2 and 3 above, we consider goods and services separately.

Figure 5 plots the value of aggregate goods exports (left-hand panel) and goods imports (right-hand panel) with the EU and the RoW by quarter from 2012-2022. All series are normalised to 100 in the quarter immediately before the Brexit referendum (2016 Q2).

Looking at exports first, the figure shows that prior to the implementation of the TCA in 2021, exports to both the EU and the RoW grew at similar rates. But starting in 2021, EU exports increased slightly more quickly than RoW exports. For imports, the figure also shows parallel behaviour before 2021, but under the TCA, imports from the RoW grow faster than EU imports.

Figure 5: UK aggregate goods trade with the EU and the RoW, 2012-2022



(a) Exports (b) Imports

Notes: Indices normalised to 100 in 2016 Q2. Excludes trade in non-monetary gold. Source: HMRC Overseas Trade Statistics.

Nonetheless, it would be a mistake immediately to conclude that Brexit is responsible for the patterns evident in Figure 5. There are several other possibilities. Energy price shocks that are unrelated to Brexit could have had large differential effects on trade with different regions. Likewise, differential supply and demand growth in the EU versus the RoW could explain differential trade growth.

And, perhaps most importantly, on leaving the EU, the UK changed the methodology used to collect statistics on its trade with the EU. This change in methodology increased the sample of firms that report data on EU trade, leading to a jump upwards in measured trade with the EU.

The ONS estimates that this change increased reported exports to the EU by around 5% from 2021 onwards and reported imports by around 6% from 2022 onwards (ONS 2024). There was also some double counting of EU imports in the first half of 2022 due to the staged introduction of customs controls.

To isolate the Brexit effect on trade from these alternatives, researchers have looked beyond the aggregate data shown in Figure 5. Gasiorek and Tamberi (2023) compare UK goods trade to that of other countries. They conclude first, that the referendum had no effect on UK-EU trade; second, that the TCA led to a temporary drop in exports to the EU, but this drop was not persistent; and third, that the TCA led to a sharp and persistent fall in imports from the EU. Using product-level data, they also find that the impact of the TCA on exports to the EU varied across industries with the agriculture and textile industries hit hardest.[5]

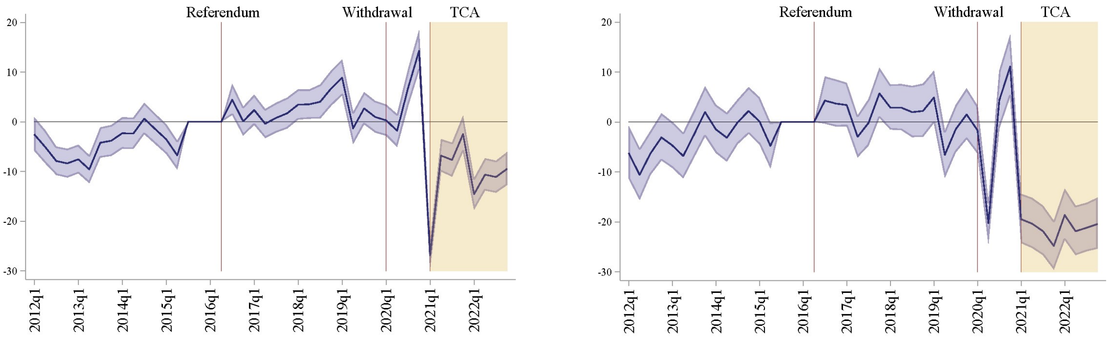
Going a step further, Freeman et al. (2024) use HMRC customs data to study the impact of Brexit on goods trade at the firm level. Exploiting this highly detailed data allows Freeman et al. to avoid biases caused by the change in the UK's data collection methodology and to analyse how different types of firms are affected by Brexit. To determine the Brexit effect on UK-EU trade, Freeman et al. estimate changes in EU versus RoW trade within individual firms after accounting for non-Brexit factors that could affect trade growth. Figure 6 plots Freeman et al.'s estimates of changes in trade with the EU versus the RoW relative to the period before the Brexit referendum. The estimates for exports are shown in the left-hand panel and for imports in the right-hand panel.

Consistent with both the aggregate data in Figure 6 and with Gasiorek and Tamberi's (2023) findings, Freeman et al. find no evidence that Brexit led to diversion of UK exports or imports away from the EU prior to the implementation of the TCA in 2021. But they also find that the TCA caused a sharp drop in both exports and imports with the EU relative to the RoW. They estimate that the TCA reduced EU exports by 14% for the average exporter in their sample and EU imports by 21% for the average importer.

These results provide the most detailed evidence that the increase in non-tariff trade barriers caused by leaving the EU's single market and customs union have reduced UK-EU trade.

[5] Studies using firm-level data from other countries tend to find negative effects of Brexit on trade with the UK, for instance see Fernandes and Winters (2021) and De Lucio et al. (2024). But these studies do not control for shocks to UK supply and demand that affect its trade with all partner countries.

Figure 6: Estimated changes in UK firm-level goods trade with the EU vs the RoW, 2012-2022



(a) Exports (b) Imports

Notes: Estimated percentage change in firm-level goods trade with the EU versus the RoW (relative to the four quarters before the Brexit referendum). Estimates obtained from event study specification controlling for firm-quarter, firm-region and region-season fixed effects, EU and RoW trade with countries other than the UK, real exchange rates and UK most-favoured nation tariffs. Source: Freeman et al. (2024).

Freeman et al. also study whether the Brexit effect varies according to firm size (measured by employment). They conclude that the TCA led to a much larger fall in exports to the EU for smaller firms. Their estimates imply that the TCA reduced exports to the EU by 29% for the smallest fifth of firms in their sample, whereas the impact for the largest fifth of firms is statistically indistinguishable from zero. This finding is important because it shows that the new export costs created by the TCA primarily hurt smaller firms, whereas large exporters were able to adapt to the new trading environment and maintain their export levels.

In addition, the firm size results provide a way to reconcile the negative effect of the TCA on firm-level exports shown in Figure 5 with the absence of a negative effect in the aggregate data and in Gasiorek and Tamberi's (2023) analysis. Because aggregate trade flows are dominated by large firms, a shock that only changes small firms' trade will have little effect on the aggregate numbers. In contrast, for imports Freeman et al. find the TCA effect is negative for both small and large firms, and this impact is evident in the aggregate data shown in Figure 4.

Not only have small firms' EU exports declined under the TCA, but many firms have stopped exporting to the EU entirely. Counting EU exporters is made complicated by the change in statistical methodology for EU trade discussed above. But HMRC data suggests that the number of firms exporting to the EU fell to approximately 100,000 under the TCA compared to approximately 120,000 in 2019 and earlier years, implying a loss of around 20,000 exporters (HMRC 2023).

This fall is entirely accounted for by small exporters with fewer than 10 employees. The drop in the number of small exporters is a concern as some of these firms would have been likely to grow large over time. Put differently, the pipeline of potential future UK star exporters has been diminished.

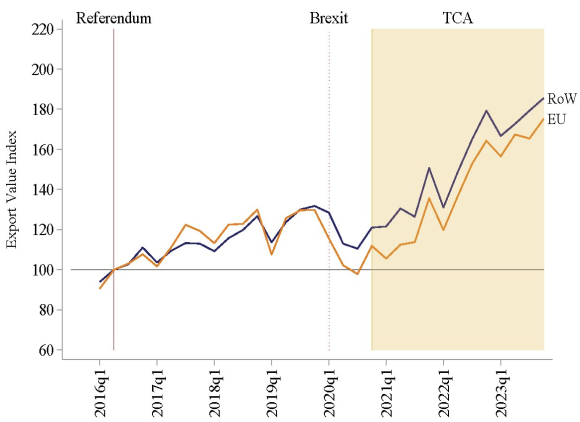
The above research seeks to estimate Brexit effects by comparing goods trade with the EU versus the RoW. A concern with this approach is that Brexit may also have affected UK trade with countries outside the EU. Freeman et al. (2024) examine this possibility. For exports, they find no evidence that Brexit has affected UK exports to the RoW, which implies that trends that affect UK exports to both the EU and the RoW are unlikely to be caused by the TCA. But for imports they find evidence that the TCA caused firms to switch from sourcing imports from the EU to sourcing imports from the RoW. This implies that the TCA increased RoW imports as well as decreasing EU imports.

Most studies of the trade effects of Brexit have concentrated on goods trade, probably because data quality is better for goods than services. But given the importance of services to UK trade, it would be a mistake to overlook the effect of Brexit on services trade.

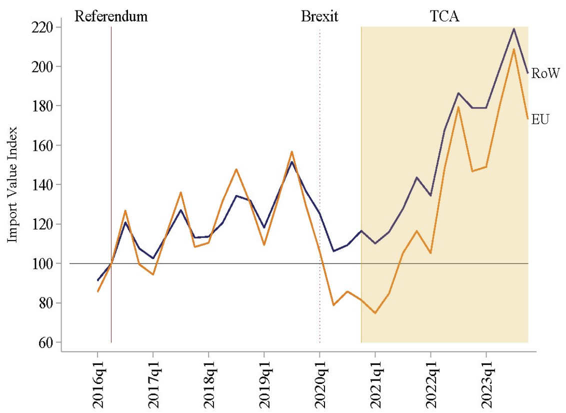
Figure 7 repeats Figure 5 above, but for services instead of goods. It plots the value of aggregate services exports (left-hand panel) and services imports (right-hand panel) with the EU and the RoW by quarter starting in 2016. Comparing Figure 7 to Figure 5, we see that services trade has grown more quickly than goods trade since the referendum.

Figure 7 also shows that, for both imports and exports, trade with the EU and the RoW grew at similar rates until the onset of Covid-19. During the pandemic, trade with the EU fell more than trade with the RoW and the gap that emerged in 2020 has persisted from 2021-23 under the TCA.

Figure 7: UK aggregate services trade with the EU and the RoW, 2016-2023



(a) Exports



(b) Imports

Notes: Indices normalised to 100 in 2016 Q2. Source: ONS UK trade in services: all countries, non-seasonally adjusted, April 2024.

A more disaggregated analysis is undertaken by Bhalotia et al. (2023), who study the impact of provisions in the TCA that restrict cross-border trade in services. Exploiting variation in trade restrictions at the country-product level, they find that although the TCA has had a negative effect on UK-EU services trade, the overall scale of the impact has been relatively small. For example, their estimates imply that the likelihood of exporting to the EU in services facing new restrictions was 5.5% lower in 2022 and 2023 compared with before Brexit. These findings suggest that services trade may have been less affected by the TCA than goods trade, and we need more research to investigate this pattern at the firm level.

Concluding remarks

In the aftermath of Brexit, the UK needs a new trade policy strategy. The political parties contesting the general election on 4 July should make their trade policy objectives clear so that voters can evaluate and compare their plans. Key questions that need addressing are:

- How will the UK reduce trade policy uncertainty and give firms the confidence to invest and grow?
- What steps, if any, will the UK take to mitigate or manage the new trade barriers created by the TCA?
- Will the UK proactively seek to avoid further passive and/or active regulatory divergence with the EU?
- Will the UK seek to modify the terms of the TCA? If so, how and what will they offer the EU?
- Does the UK plan to rejoin the EU's single market and/or its customs union?
- Will the UK prioritise EU relations or continue the Global Britain policy of seeking trade deals with non-EU countries?
- How will the UK respond to new industrial policies in other countries, such as US subsidies for green technology, as well as US and EU tariffs on imports of electric vehicles from China?

The analysis described in this briefing provides an evidence base to inform how the next government answers these questions. But whatever strategy is proposed, it is important to remember that for international trade, geography is destiny. The UK's proximity to the large consumer and input markets in EU countries will always present the greatest opportunity.

The UK therefore faces a basic trade-off: move closer to the EU to increase UK productivity and living standards or remain distant from the EU and continue paying the price of new and emerging trade barriers.

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