

Post-Brexit, Australia's best option is a trade pact with EU

Written by Gabriele Suder, Principal Fellow, Faculty of Business & Economics/Melbourne Business School, University of Melbourne

Brexit already brings much [economic damage to the UK](#), and will do so to global economic growth as a whole. The UK's coveted AAA credit rating has now been downgraded by Standard & Poor's; uncertainty is hitting sharemarkets; and the pound sterling is at a 31-year low.

Impacts are not restricted to this. Australia has about 1500 UK-based companies as a "springboard" into the Single Market, using the UK due to close linguistic, institutional and historic linkages.

The UK has provided business access to the EU's 500 million-plus consumers across the continent, minimising red tape, offering harmonised standards, product testing, and unique conditions across a single bloc of 28 countries for various market stages and its participation in the global value chains.

The EU is the most advanced form of trade-liberalising economic integration and the fact the UK has failed at this means its capacity to lead the world or any part of it in the field of trade liberalisation is now doubtful.

Some Australian companies have already actioned their transition plans and begun de-merging from British counterparts. With the rest of the world, Australians will be keenly watching events at the European Council Summit, where outgoing [British prime minister David Cameron is explaining](#) the outcome of the referendum to his European counterparts.

It is still in Cameron's hands (and power) to [activate Article 50 swiftly](#) and to commence the talks towards the two-year period of exit negotiations.

The UK needs to provide clarity to its partners (and internally) and start negotiating its relationship status with continental Europe and the rest of the world.

Focus must be on an EU-Australia free trade agreement

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Autonomy from the EU means the UK will not be able to count on the joint negotiating power of 28 countries in multilateral negotiations with the World Trade Organisation – or in the free trade agreement negotiations with the world, including an FTA with Australia that it won't be part of, despite long-standing deep relations.

Autonomy - and the time it will take to reach it - will come at a very high price. The benefits of an [EU-Australia Free Trade Agreement](#) will accentuate disadvantage to British and non-EU organisations in the UK.

Negotiations for the FTA were expected to start in early 2017, yet may experience some minor delay to assess the specific conditions that will be negotiated without the UK: the focus may slightly modify - the goal will not.

This FTA with the EU now needs to be the very focus of Australia's attention. The somewhat nostalgic ideas of some that a British Commonwealth construct would re-emerge is not only erroneous and disconnected from geopolitical realities. It is also counter-productive as it diverts attention from applicable plans. The world is governed by a network of regionalised economic power centres.

The EU (as a whole) has been Australia's largest economic partner for more than 25 years. It remains Australia's third-largest merchandise trading partner, its second-largest source of imports (17% of total Australian imports) and fifth-largest market for exports. The EU is Australia's largest trading partner in services. Also, the EU is the largest investor in Australia.

While 48% of Australia's exports in services to the EU were via the UK, this pathway is changing. The UK will continue to abide by the current body of EU legislation for some time, yet it won't have a say in decision-making any longer: none of the remaining members of the EU would take UK advice as to its stance on specific European policy any longer.

And, hence, divestment will take Australian interests closer to the overall decision-maker, the European continent. Financial services, constituting 80% of the British economy and the large proportion of Australian export to the EU, are now exposed to significant longer-term uncertainty. The resignation of Lord Jonathan Hill, the EU Commissioner for Financial Stability, Financial Services and Capital Markets Union, directly illustrates that.

The huge task of unravelling ahead

This FTA will thus take shape while the UK will be in the midst of negotiating a new relationship with the EU, reshaping its policies and legislation and negotiating new bilateral ties with the remaining 27 EU countries and the rest of the world.

It must negotiate the new conditions for each component it delivers into the global value chains, each tariff or non-tariff condition it had benefited from via the EU. It will juggle internal and external forces to try to retain inward foreign (non-EU) investment into the UK and redefine those funding sources that, to date, were directly or indirectly linked to the EU.

In addition, the UK will be very busy negotiating internally. This will be run by a UK government that will have to deal with voters' disappointment, as "Leave" voters come to realise the truth about Brexit consequences – many had not done their homework prior to casting their vote.

If Brexit was about autonomy from EU decisions, then the UK has to decide what legislation will apply in the future, draft, decide and adopt them. What financial and economic regulations will apply? How to support the City in the transition? What status to provide the many EU and other foreign residents with? What access to the Common Market will still be possible – and accepted by the EU? How to deal with the outsider status and how to align to other political and economic structures in the world? How to deal with exit from the EU's multiple free trade agreements and their favourable conditions negotiated across the world?

At the same time, Scotland - and probably Northern Ireland - are bound to plan for a vote of their own people on leaving the UK and remaining in the EU. Could an independent Scotland provide an alternative for services? Yet, again, a long period of uncertainty will handicap any such move in the short - to- medium term.

Some speculate that Brexit will be the end of the EU and European integration. That it may be the end to Australia-EU FTA negotiations.

That is not likely: Rather, we will see a more integrated and more diverse Europe. Australia, as

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part of the FTA with the EU, will be stronger. Business advocates for certainty and for sustainable trade relations, as the EU offers them. Even if maybe other EU members would exit, those remaining will be stronger because their commitment is enhanced as Brexit turns into Bregrets.

This will be a more [open and dynamic Europe](#) in which members will support each other increasingly. Because with the UK – the “functionalist”- turning into an outsider, the usual barrier against deeper integration steps out of the way for the benefit of federalism.

Ultimately, the question is: Will the ‘United Kingdom’ survive?

And on a global level: What is the future for the multilateral approach to solving cross-border complex challenges? The FTA between the EU and Australia will be timely, effective, economically powerful and cohesive.

Gabriele Suder received funding from the European Union in a previous role.

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