

Brexit and its impact on trade between Belgium and the United Kingdom



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Due to the country's geographical proximity, the UK is one of Belgium's most important trading partners. 3,2% of Belgium's value added (goods and services combined) is generated by the UK's total final demand, with the UK being Belgium's fourth largest export destination for goods. However, the bilateral trade relationship is starkly imbalanced, as Belgium has a trade surplus in goods of €14,3 billion vis-à-vis the UK. This paper shows that this strong intertwinement leaves Belgium vulnerable to the negative economic impact of the UK's leave vote, something already made visible by the depreciation of the Pound Sterling. While one can only hope for an as deep as possible EU-UK economic integration to be negotiated after Brexit, it is of the utmost importance for businesses and certainly SMEs, which are very important for the Belgian economy, to prepare for all scenarios, including a 'cliff-edge', leading to BE-UK trade under WTO-rules.

Introduction: a short timeline of Brexit

What started as former PM David Cameron's political pledge intended to ease the existing EU-UK tensions in his Conservative party, in the meantime securing some extra 'opt-outs' for the country, ended with probably the single biggest political miscalculation of a generation.



With 51,9% of the voters effectively voting to leave¹, the country was left utterly divided after the Brexit referendum. During the ensuing Cabinet reshuffle Cameron resigned office and Theresa May, Cameron's Home Secretary and Remain-voter, was elected Prime Minister.

After a rather long domestic *reflection period*, PM May sent the 'letter of notification to leave the EU' to EU President Tusk on 29th March 2017. The first round of negotiations was held in Brussels in June 2017. The EU choose Michel Barnier, former French Minister for Agriculture and former EU commissioner for Internal Market and Services, to be its *chief negotiator* for the Brexit-talks. His UK-counterpart was David Davis, secretary of state for Exiting the European Union.

Both parties agreed to conduct negotiations following a monthly cycle of preparations, exchange of position papers, actual negotiations, and debriefing and press conferences. A first breakthrough was welcomed mid-December 2017, when the European Council decided 'sufficient progress²' was made on the main Phase I topics (citizens' rights, the Irish border issue and the UK's commitments to the EU budget), albeit only after last minute major UK-concessions. The second phase of the negotiations started February 2018 and covers the Phase I leftovers (including the Irish border conundrum) and the 'framework for a future EU-UK relationship'. On these topics, talks are still ongoing³.

The UK's leave vote triggered a chain of events that will eventually lead to the UK no longer being a member of the EU on March 30, 2019⁴. While *Brexit day* certainly will be a milestone in British history, it will also leave a mark on the Belgian economy, one of the most exposed economies of the European Union.

A closer look at the Belgian economic relationship with the UK

Historically, the UK always was one of Belgium's most important trading partners, certainly concerning trade in goods. This is explained by the geographical proximity and the fact that both countries border the North Sea, allowing for efficient trade via ports.

¹ https://www.bbc.com/news/politics/eu_referendum/results, accessed on 21/9/2018

² <http://www.consilium.europa.eu/media/32236/15-euco-art50-guidelines-en.pdf>, accessed on 8/8/2018

³ This paper was finished 15th October 2018

⁴ Unless 'article 50' is extended, meaning that the UK remains in the EU for some more time, but this scenario is unlikely as explained in the paper by H. Geeroms and W. Minnaert '*History does not always move forward*'.

As a destination for Belgian export, the UK currently (data for 2017) is Belgium's fourth largest market (after neighbouring countries The Netherlands, France and Germany), while the UK is the fifth biggest exporter to Belgium⁵ (after the Netherlands, Germany, France and the USA). Belgian export to the UK amounts to 8,7% of the total Belgian export, while import from the UK comprises 4,9% of total Belgian import (on average between 2014-2016).

The abovementioned rankings show that Belgium's economy is strongly intertwined with the UK's, but nevertheless hide a stark imbalance, being that concerning trade in goods, Belgium has a large trade surplus of about €14,3 bn vis-à-vis the UK. Table 17 provides a more detailed overview.

Table 1: Overview of Belgian goods trade with the UK, July 2017-June 2018 incl, millions of

euros

	Imports	Exports	Balance
Products			
I: Live animals; animal products	380	466	86
II: Vegetable products	146	512	366
IV: Prepared foodstuffs; beverages, spirits, tobacco	440	2.170	1.730
V: Mineral products	3.451	1.986	-1.465
VI: Products of the chemical or allied industries	3.060	5.934	2.874
VII: Plastics; rubber	1.024	2.261	1.237
IX: Wood and articles of wood	60	154	94
X: Pulp of wood or of other fibrous cellulosic material	151	300	148
XI: Textiles and textile articles	350	1.522	1.171
XII: Footwear, headgear, umbrella, walking-sticks, articles of human hair	116	911	795

⁵ <https://economie.fgov.be/nl/publicaties/voortgangsrapport-aan-de>

⁶ <https://economie.fgov.be/nl/publicaties/voortgangsrapport-aan-de>

⁷ <http://stat.nbb.be/index.aspx?lang=en&SubSessionId=6aa9c92a-cc5a-4d53-b3c4-f0ce8a322d22&themetreeid=19#>

XIV: precious or semi-precious stones, precious metals, coin	776	601	-175
XV: Base metals and articles of base metal	648	1.510	862
XVI: Machinery and mechanical appliances; electrical equipment	1.993	2.501	507
XVII: Vehicles, aircraft, vessels	3.665	9.271	5.606
XVIII: Optical, medical instruments and apparatus; clocks; musical instruments	829	1.070	241
XX: Miscellaneous manufactured articles	119	395	276
00: Total	17.210	31.564	14.355

Note: 5 categories for a total of 225.801 imports and 522.001 exports (both x 1000) not included. 3 largest export products in blue, 3 largest import products in purple

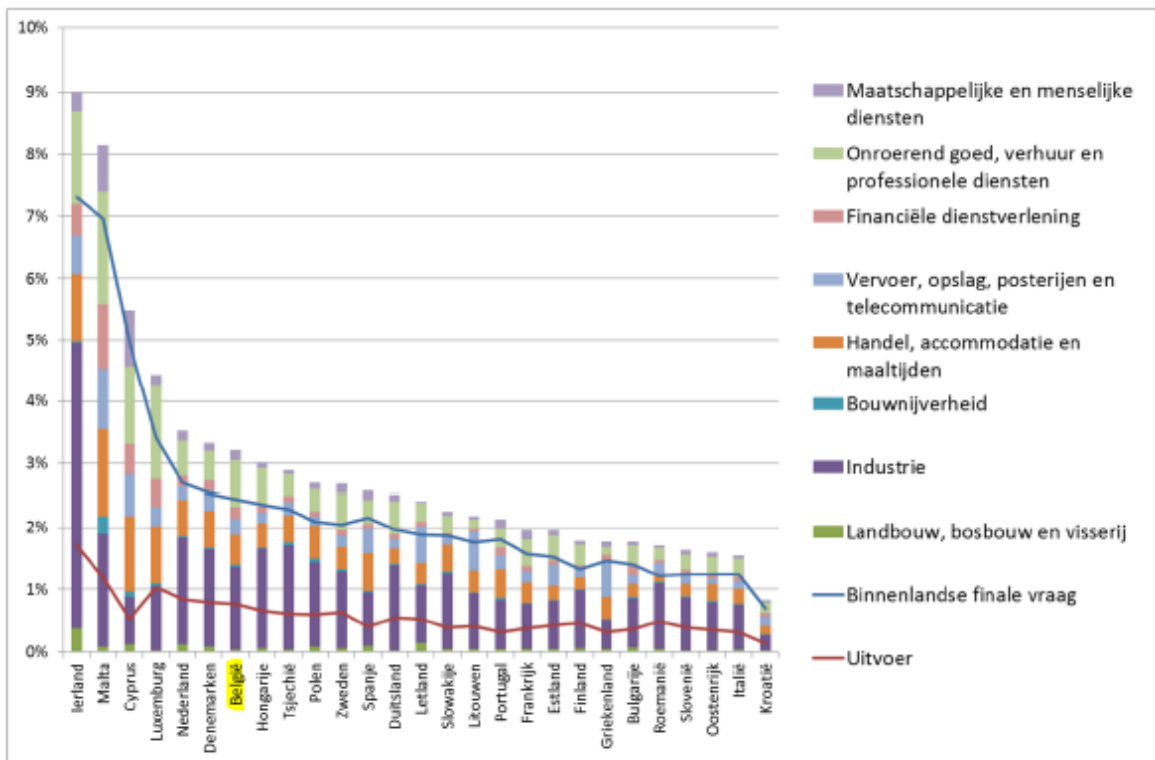
Source: NBB

The most important exporting sectors are vehicles, machinery and chemical products (in blue), together representing about half of Belgian exports to the UK, and about two-thirds of Belgium's significant trade surplus in goods of €14,3bn. Major import categories (in purple) are vehicles, chemical products and mineral products. It is nonetheless clear that Belgium has a trade surplus vis-à-vis the UK in almost every product category, except for gems and mineral products.

Table 2 further illustrates the strong entanglement of the Belgian and UK economies, both for trade in goods and services. A more sophisticated indicator than just trade flows is used, namely the value added of an economy generated by the UK's total final demand. In 2011 (the last available number), Belgian value added by the UK's total final demand amounted to 3,2% (1,3% by the Belgian industry and 1,9% by the services sector) of valued added in the UK's total final demand, making it the 7th most exposed Member State. Compared to Belgium's neighbouring countries, Belgium ranks 3rd, in the same range as the Netherlands, and about 1%pt behind Luxemburg.

Table 2: Importance of the United Kingdom for EU Member States⁸

(Percentage of Belgian value added generated by the total final UK demand, 2011⁹)



Bron: OESO (TiVA).

It is remarkable that Belgian exports to the UK remain robust after Brexit and that the trade surplus even increased further during the period June 2017 – July 2018, despite the significant weakening of the Pound Sterling.

⁸ <https://economie.fgov.be/nl/publicaties/voortgangsrapport-aan-de>

⁹ Last available number, the total final UK demand comprises on the one hand the UK's domestic demand, and on the other hand the re-export of the UK to the rest of the world.

Chart 3: Evolution of Pound Sterling (GBP/EUR) (9-6-2017 until 25-9-2018)



Source: ECB¹⁰

While the GBP appreciated slightly the days before the referendum, probably anticipating a ‘remain’ vote, immediately after the ‘leave’ vote, the Pound depreciated almost 8%, never able to make up the loss since then, but rather depreciating some more.

The depreciation of the Pound placed a sudden burden on Belgian exporters, who seemingly preferred to reduce profit margins rather than losing market shares in the UK. The EU attaches great importance to the principle of level playing field after Brexit and intends to go at great lengths to prevent social, ecological and tax dumping, but the exchange rate can even more drastically bias competitiveness and the EU cannot and does not want to control the exchange rate.

¹⁰

https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-gbp.en.html#



Challenges for the Belgian economy after Brexit

With the UK being such an important trading partner for Belgium, we can only hope that negotiators agree upon a future relationship that keeps the economic integration with the EU as deep as possible. When the UK would remain a member of the EU's Single Market after Brexit day, which is unlikely as it was already ruled out multiple times by PM May, current trade flows could remain in place, as no duties would be due at the border for goods, and no regulation would change concerning trade in goods and services. Belgium would probably be able to trade with the UK just as it does today. On the other hand, other forms of economic relationship would prove more disruptive to bilateral BE-UK trade. A Canada-style (CETA) free trade agreement for example, would require businesses to produce a rules of origin compliance certificate at the border (necessitating border checks), while possibly erecting a tariff-barrier for certain goods, probably mostly concerning agri-foods. Trade in services (including trade in financial services) mostly falls out of the scope of almost all free trade agreements, leaving only WTO-rules as a basis for regulated trade in services.

The most disruptive scenario for Belgian trade with the UK would evidently be a no deal leading to a 'cliff-edge' scenario, in which the UK crashes out of the EU and the BE/EU-UK relationship would be based on WTO commitments, making the UK a third country like the USA or China. While the UK and the EU could make some contingency arrangements regarding critical bilateral (trade) flows (e.g. aviation regulation, capital flows, medicines and so on), this would be far from certain and depend entirely on the goodwill of both the UK and the EU.

Preparing for the eventuality of a no deal leading to 'cliff-edge' is a daunting task, but necessary. This is even more so because in our country a disproportionately large number of SMEs is involved in Belgian-UK trade. The Brexit High Level Group estimates¹¹ that about 80% of the 18.500 Belgian businesses exporting to the UK (both goods and/or services) are SMEs which employ less than 50 FTEs. 30% of businesses exporting to the UK have no prior experience with trading outside the Single Market and are thus not familiar with customs administration probably needed after Brexit. The Belgian Customs Authority recently launched an outreach campaign targeting these inexperienced enterprises, to inform them on measures to take for Brexit.

¹¹ <https://economie.fgov.be/nl/publicaties/voortgangsrapport-aan-de>



Conclusion

It will take many years before one can assess the final impact of Brexit on the Belgian economy, but what is almost certain is that the impact will be negative, the extent strongly depending on the outcome of the ongoing Brexit negotiations between the EU and the UK. Furthermore, this paper showed that there already is a Brexit effect today, being a depreciated GBP negatively affecting the competitiveness of Belgian firms exporting to the UK. As the UK will remain an important trading partner for Belgium in the future, it would be good for the Belgian economy (and the EU's in general) that an as open as possible trade relationship is agreed upon. Negotiation progress has almost stalled however.

For one, due to using politicians' favorite kick-the-can-down-the-road-technique, the trickiest issues remain unsolved. These include finding a 'frictionless' customs arrangement for the Ireland – Northern Ireland border and governance and the jurisdiction of the European Court of Justice. Second, the UK still lacks clear position papers on some of the outstanding topics. The recent (July 12, 2018) publication of the UK's 'White Paper¹²' on the future relationship was welcomed by the EU as a step in the good direction, but the document left crucial questions unanswered. The Salzburg informal Summit subsequently encouraged Ms. May to rework certain parts of her White Paper proposal. Until now, the UK faces a united European Union, while the country becomes even more divided on the way forward and the position of PM May is unstable.

As time passes, uncertainty and complexity rise and an unexpected 'cliff-edge' scenario cannot be ruled out, either due to a breakdown of negotiations, failure to ratify a provisional withdrawal- or future relationship agreement, or a political crisis in the UK. Bearing in mind the March 2019 deadline, it is therefore of the utmost importance to step up preparations for all scenarios, at all levels.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/725288/The_future_relationship_between_the_United_Kingdom_and_the_European_Union.pdf, accessed on 9/8/2018