

**XXXII**

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World Trade  
Organization

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# Outline of the World Trade Organization

*The General Agreement on Tariffs and Trade* (GATT) was created in 1947 as a result of the Second World War which forced nations to have an international cooperation due to the terrible damage and destruction that endless warfare had brought. Even though the GATT was a successful result causing an exceptional growth in world trade, it was not enough to address the large variety of problems presented in those years, so the *World Trade Organization* (WTO) was created from the 1986-94 negotiations called the *Uruguay Round*, established in 1994 under the *Marrakesh Agreement* and started operations in 1995.

Now, the *World Trade Organization* is the only international organization dealing with global rules of trade and has helped to create a strong and prosperous trading system which reinforces its main purpose; ensure that trade flows as smoothly, freely and predictably as possible throughout its agreements previously created in negotiations, signed by representatives of governments and ratified by their parliaments. For more than 15 years, it has been a forum where governments negotiate trade agreements, settle trade disputes and operate a system of trade rules, always under a non-discriminatory policy which spells out rights and obligations, guaranteeing that either exports or imports will be treated fairly and consistently in any member's market.

## **Topic A**

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Recognition of China as a new market economy and the different positions against it

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## ***Introduction***

China started being a member of the World Trade Organization, hereinafter referred to as WTO, on December 1st 2001, with the promise that 15 years later it would be recognized as a full market economy, status that is given to countries that have most goods and services privately-owned, competition, an efficient system of prices and a limited role of the government in the market. Once these 15 years concluded on December 2016, as stated in the agreement, China decided to plead its status, now the WTO is facing this issue since not all member states agree to recognize China as such. There are two postures to this issue, some countries like Australia had recognized China as a market economy throughout the years, yet some countries such as the United States of America and the European Union countries do not want to grant China this status. “Regretfully, the United States and the European Union have yet to fulfil this obligation. China reserves the right under WTO rules to resolutely defend its legal rights” (China’s Commerce Ministry, 2016) affirming that it is not an option but a duty to each member of the organization to acknowledge the Market Economy Status (MES). Meanwhile, Jack Lew, Secretary of the Treasury of the US, has declared that the Trade Department of his country will state if China will be recognized as the new market economy, whereas, the European parliament has also approved a resolution which states that China cannot be a market economy. If both US and the EU keep this position against China, this case will start with juridical action with the WTO that may last from two to three years.

## ***Anti-dumping measures***

The WTO knows that binding trade-tariffs and applying them equally to all trading partners are key to have a smooth flow of trade because they give a price advantage to locally-produced goods over similar ones which are imported and they raise revenues for governments. The WTO agreements uphold these principles but there are some issues that complicate trade between nations, such as dumping, because they break the accords previously stated . If a company or a country exports a product at a lower price than the normal charge of its own market it is said to be *dumping* the product and many nations take actions such as imposing duties against this issue in order to defend their own industries.

An important duty of the WTO is to focus on how governments can or cannot react to dumping, through the Anti-dumping Agreements the WTO seeks to grant the nation with the power to take actions against this phenomena, only when there is enough proof of injury to the competing domestic country and showing how much lower the export price is compared to the exporter’s home market price. On the other hand, it is also important to know that even if those

proofs are shown, the anti-dumping investigations must end immediately if the margin of antidumping is less than 2% of the export price of the product or the volume of dumped imports is negligible.

We've been in a need for a long time to modernize the anti-dumping system to respond to the changing patterns in the world, notably from China, but also other countries where the competition is not fair. We don't mind competition, competition is good, Europe is an open market but sometimes competition is not fair and we need to have the methodology to deal with this. (EU trade commissioner Cecilia Malmström, 2016)

In this case, China is being accused of causing a significant global oversupply of steel and aluminium, depressing their prices and difficulting trading conditions for other producers such as Australia's prices that cannot compete against Chinese. Over 85,000 European jobs in the steel sector have been lost the last couple of years and people is not comfortable with that issue, thus 10,000 people joined a march in Brussels calling for action to protect the industry and safeguard jobs.

### ***China position and situation***

For 50 years, China's economy has been growing at a huge rate, always above 10% per year, hence defending its place as the second largest economy of the world. However, this new issue arrives at a testing time for the country, which is experiencing its slowest economic growth in the last quarter-century. According to the Commerce Department, China reported that its economy grew about 6.7% for a third straight-quarter while the United States economy grew at a rate of 3.2% in the last quarter.

This rate has to ameliorate to previous levels, therefore it is important for all countries to recognize China as a market economy so that its trade potential increases, its economic growth stabilises and the anti-dumping tariffs disappear. China's government currently supports many state-owned businesses and helps them achieve lower prices under WTO guidelines, this allows them to sell the products at that lower price in other countries without having to pay the tariffs, but only if they are a market economy. The lower prices help them get a big part of the market share and increase their profit. The reason some countries are against this is because it would harm their local businesses and hence, their economy. That is why China is imposing harsher and stricter requirements for imports to their country, so that the US and the EU reconsider their importance and their status.

Despite of many economic reforms from last years, Chinese economy remains fundamentally on a non-market economy dominated by the Communist Party and the state, encouraging overproduction, distorting prices and flooding the global market. They still play a major and direct role in many critical aspects of the economy such as the financial system, upstream resource, energy sectors and the ownership and control of strategic industries regarding energy saving and environmental protection, telecommunications, biotechnology, new energy and new raw materials.

### ***The United States position***

The US had the objective to get China into the WTO in the 1990s because the American government wanted to encourage China to become a trustworthy trading partner. The US witnessed how China was evolving through the years like implementing significant economic reforms which increased openness to trade and foreign direct investment but beginning 2006, the progress on market liberalization decreased and by 2008 it was clear that a more restrictive trade regime would come.

According to a recent Congressional Research Service analysis of China-US trade issues, it was suggested that, from the US point of view, one of the main reasons of tension is the fact that China has not made a complete transition to a free market economy. Other areas of concern are China's alleged cyber economic espionage against US enterprises, interventionist policies to control the value of the renminbi, a poor record on intellectual property rights enforcement, mixed records on implementing their WTO duties and extensive financial support for state-owned enterprises. Since China joined the WTO, the US has submitted 19 dispute cases against them and it has won every one of them.

The Barack Hussein Obama, current President of the US, administration decided they will not grant China *market-economy status*, stating that "China's protocol of accession to the WTO doesn't require the U.S. or any other WTO member to automatically grant China market-economy status after December 11 2016." instead, according to the US trade diplomat Chris Wilson, China must establish under each WTO member country's domestic law that it is a market economy. The US claims China has not done enough to deserve the change of status, especially in steel and aluminium industries. Also, they have had a trade deficit with China for approximately 30 years, therefore, the change of status would be disadvantageous for the US because it would increase said deficit. The future Donald John Trump, president-elect, administration is not likely to change Obama's administration decision, given that the newly-

elected president and his transition team have stated they plan to place higher tariffs on Chinese imports, blaming China of devaluing their currency and heavily taxing its exports.

If other countries choose to retaliate the upcoming US government by introducing tariffs on their own, the US' exports will get more expensive to buyers abroad and if that happens, millions of workers in exports-supporting industries will be endangered. As an export dependent country, those laid-off workers will have less money to spend, causing knock-on effects throughout the economy.

### ***The European Union and global position***

The EU Commission's investigations confirmed that some Chinese products of the steel industry such as hot-rolled flat steel and heavy flats had been sold in Europe at heavily dumped prices and in order to save their enterprises they imposed duties between 65.1% and 73.7% for heavy plates and 13.2% and 22.6% for hot-rolled steel. This should restore the profitability of the European steel enterprises and prevent future damage. Currently, the EU has a total of 37 anti-dumping and anti-subsidy measures, 15 of which on products originating from China.

For this reason, the EU made a vote on May 2016 in which they rejected loosening trade defences against China, they reaffirmed the position of not recognizing it as a market economy, yet, they are willing to reform the system. The European Commission proposed a new formula to calculate antidumping duties, in the cases where it is determined that there are markets distorted by state intervention, the concept of nonmarket economies will be eliminated and instead allow for high tariffs to be imposed on imports deemed to be priced below international-market levels. According to a report made by the Economic Policy Institute (EPI), the granting of MES to China could directly cause from 1.7 to 3.5 million jobs in the EU to be lost in the most risky sectors such as clothing and textile industry, production of furniture and electronics and as commented before, steel industry. 79% of these jobs would be close down in Italy, Germany, Spain, France, Portugal and Poland because these states are covered by the widest scope of anti-dumping tariffs.

However, the EU deals with inner problems too due to the different positions of its members such as Hungary that does consider China as a market economy, showing that not all EU members agree with the decision. German Chancellor, Angela Merkel, also favors giving China *market-economy status*. Under EU rules, Brussels imposed a 21% tariff on the same steel products that were hit with a 266% US tariff in 2015, resulting in an incoherent movement, considering EU position.

Japan also denies the change in China's status and they will not recognize them until they change their trade policies. Meanwhile, Japan is seeking for a united front with other advanced economies to urge China to deal with their oversupply in steel and other economic issues, claiming that the country has not fulfilled the duties they were supposed to since they joined the WTO. France and Italy have trade deficits with China due to the tiny volume of exporting compared to other countries like Germany so they decided not granting China this status.

### ***Trade battle and its possible consequences***

On previous years, China could not ask for the MES so countries were allowed to ignore China's local prices when considering whether or not to collect the anti-dumping duty, but many countries are still ignoring local prices despite China's possible status. Even if both China and the opposing countries are going to court, the process is likely to take over two years. Currently, countries are already placing more aggressive and more strict measures on imports and exports in order to force the other to settle and avoid the juridical action. China is now limiting imports from some countries including the US and the UK, and some EU countries are placing very high tariffs on some Chinese imports, throwing this country into a possible recession but the resulting damage would drag the US down with them and within a year it would probably tumble into recession too so, China has two options, warn the US of the possible consequences of unilateral action or accelerate the efforts to secure and Asia-wide trade pact without including the US which would take 16-nation Regional Comprehensive Economic Partnership (RCEP), strengthening trading ties among these countries, becoming the world's biggest free trade block ever. This deal would lower tariffs and other barriers within the 16 countries but unlike Trans-Pacific Partnership (TPP) or other US led trade deal, this would not demand its members to liberalize their economies, protect labor rights, environmental standards and intellectual property, causing controversy not only with the US but with other countries that do respect these items. If succeeded, this deal would cement China's role as Asia's most powerful country and pose an important opportunity for President Xi Jinping to win new allies.

David Loevinger, an analyst at fund manager TCW group has said that China has every economic and political incentive to retaliate proportionally against the upcoming duties because President Xi Jinping cannot be seen as weak and having a dispute is just as politically attractive in China as it is in the US. Also, the EU may have some problems with China as they are the second-largest trading partner after the US, with a trade volume of \$570 billion in 2015

and its share of trade has more than doubled from 7% in 2002 to 15% in 2015 and denying China's requests have brought the first consequences since China pledged to contribute to the European Fund for Strategic Investments (EFSI) and is currently deliberating the size of its contribution to pressure the Commission to grant MES.

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## *Glossary*

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### **A**

**Ameliorate:** To make better.

### **B**

**Binding:** The act of securing or protecting something.

### **D**

**Dumping:** When a company or a country exports a product at a lower price than the normal charge of its own market.

### **H**

**Harsh:** Not gentle or pleasant.

### **M**

**Market economy:** Status that is given to countries that have most goods and services privately-owned, competition within its own territory, lack of monopoly, an efficient system of prices and a limited role of the government in the market.

### **N**

**Negligible:** Something of very little importance or size and not worth considered.

**Non-market economy:** An economy that relies on government's intervention.

### **O**

**Oversupply:** An excessive amount of a good or any other substance.

### **R**

**Renminbi:** Official name of the Chinese currency introduced by the Communist People's Republic of China at the time of its foundation in 1949.

**Retaliate:** To strike back.

**Revenues:** The money that the government receives from taxes or that an organization receives from its business.

### **S**

**Subsidy:** Money granted, usually by the government, to assist an industry.

## **T**

**Tariffs:** A tax that is paid on goods coming into or going out of a country.

**Trade deficit:** When countries' imports exceed exports.

## **U**

**Uphold:** To support or defend something.

**Upstream resources:** Resources that are still far away from the end user, like raw materials.

## **Topic B**

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Situation and possible blockade between World Trade Organization and United Kingdom after Brexit

## ***Introduction***

The United Kingdom (UK) is the 6th largest economy and it is a World Trade Organization (WTO) member, but its membership terms are bundled with the EU's so, after Brexit, these terms have to change by negotiating both the UK and the EU simultaneously with the rest of the 161 WTO's members to extract their separate membership terms, and it would only take one objection to hold up the talks because the WTO operates by consensus. This new status would separate UK from any Free-Trade Agreement (FTA) with members such as the US, EU or anyone else and they would need to establish their new schedule of tariffs, tariff-rate quotas and export subsidies.

Thus, their first task would be to negotiate a FTA with the EU to avoid high tariffs on goods but with a bigger concern of non-tariff barriers like regulations, since they make up a huge part of the British economy. Exports of goods and services are equivalent to 30% of the UK's economy and approximately, half of UK goods exports and about a third of services exports went to the EU member states. That is why the tough part is the negotiation with the EU, since the WTO does not step in until both the UK and the EU have come to an agreement, deciding the commitments they will have with the other WTO members and with each other.

Also, recent experience suggests that willingness to quickly accommodate each other's interests is a scarce commodity in the WTO, and a final agreement is not even guaranteed, expecting a long and rough ride of Post-Brexit. A ratification by every EU country and the European Parliament is nearly impossible and that would extend the process beyond the two-year limit set by Article 50 and a clear example is Canada, who began negotiating its FTA with the EU in 2007 and still has not been completed. Members will have to decide whether the value of their access to the EU is affected by the UK's exit, causing not only a change in the UK's commitments but also in the EU's. However, there is one possible way that could help the UK to accelerate this process; they would have to become much more of a free trader, with low import duties across the board and minimal subsidies as many countries have proposed, but the UK would have to fight some domestic issues before granting these new claims. Though, according to Alan Winters of the UK Trade Policy Observatory at Sussex University, they could adopt another position by informally keeping current trade agreements until a new FTA is in force but that would only prolong EU membership, which people would not like.

Surprisingly, Liam Fox, has declared he favours a 'hard Brexit' leaving the single market and trading under WTO rules and tariffs, but able to curb free movement instead of a 'soft brexit' in which Britain would retain as much access as possible to the single market but have to allow the free movement of people.

The UK is a full and founding member of the WTO, though we have chosen to be represented by the EU in recent years. As we establish our independent position post-Brexit, we will carry the standard of free and open trade as a badge of honour. (Liam Fox, 2016)

### ***Brexit***

On June 23rd, 2016 a referendum was voted by all the population in the UK to decide whether the country should stay or leave the EU. The creation of this referendum started when the UK Independence Party said Britain was being held back by the EU because they imposed too many rules on business and charged billions of pounds in membership fees for a tiny amount in return. They wanted Britain to recover its sovereignty, democracy and recover full control of its borders, being able to reduce the number of people who go there to live or work. Leave won 52% to 48%. Since that day, the UK has got a new Prime Minister, Theresa May, due to the resignation of David Cameron after the final results of the voting. According to some major firms such as Easyjet and John Lewis, there has been a slump in sterling and even if the pound has regained some of its value, currency experts have said they expect it to remain at least 10% below in the long term, this means imported good will get more expensive. Also Britain has lost its AAA credit rating, which means they will have to pay more for borrowing money.

In order for Britain to exit from the EU, they have to invoke an agreement called the *Article 50 of the Lisbon Treaty* which gives them two years to agree the terms of the split and decide the new deals on trade and immigration and the government will also enact a Great Repeal Bill which will finish the EU law in the UK, then they will decide which parts will be kept, changed or eliminated. It has been said by the own Prime Minister that they will try to begin the process by the end of March, 2017 in order to finish in 2019 but former foreign secretary, Philip Hammond, has said it could take up to six years for the UK to successfully complete exit negotiations since those terms have to be agreed unanimously by more than 30 national parliaments. This agreement may face some legal challenges by the Supreme Court but if not, the remaining 27 countries will discuss the withdrawal. Then, the UK has to show the Draft deal previously discussed with the EU, where 27 leaders of the European Council will decide whether it is accepted or denied. Later, they need the approval from at least 20 countries with 65% of the population and finally, the ratification by the European Parliament. If there is no agreement to extend negotiations, EU treaties stop applying to the UK and they will formally leave the EU but the UK Parliament will have to immediately repeal the 1972 European Communities Act and replace it with the new agreement to avoid problems. If in the

future Brexit does not give the expected results and they want to be a EU member again, they will have to apply like any other country.

But until it ceases being a member, the EU law will stand in the UK, they must follow treaties and laws but without taking part in any decision-making.

### ***The EU position with the WTO***

The EU is an economic and political partnership created after World War Two to foster economic co-operation, with the idea that a group of countries trading and negotiating are more likely to avoid going to war. It has been growing, allowing goods and people to move around with nearly complete freedom as if they were one huge country. They have their own currency, parliament and rules in a wide range of areas that applies to all of its 28 members.

It has been part of the WTO since January 1st 1995, and it encompasses all of its members. Although each country in the EU is a member by itself, at the same time they are all represented by the European Commission, which more often gives the EU jurisdiction over each individual country, forming an organism of 29 entities which have combined rights and obligations, like being able to export to other countries, not being discriminated from each other and opening up to imports from them. The EU's main purpose in the WTO is to create relationships with as many countries as possible through multilateral trade, causing more products on sale at competitive prices, more growth and jobs by supporting the work of the WTO on multilateral rule-making, trade liberalization and sustainable development. This not only helps European companies gain a new international market but also helps developing countries by providing a less expensive method of trading, allowing them to grow their economies.

The EU has agreed to limit its import duties with certain issues and those limits apply to all EU members when they import outside from the EU. This means that when the UK left the EU, all of the maximum tariffs and other limits currently in place will no longer apply to them, which would require UK to settle them again. The problem is that every single WTO member would have to agree with all the quotas, which would likely take from 2 to 3 years to complete because countries would want to ensure the new balance is also right for them, leaving the UK with no alternatives in the interim. This fact can be reaffirmed by Roberto Azevedo, Director-General of the WTO, who said that pretty much of all the UK's trade with the world would somehow have to be negotiated. It is extremely difficult and complex to negotiate these trade agreements. And slow as well. Even if you are in a position to negotiate quickly with all

these other members it doesn't mean that they will be in a position to negotiate because they have their own priorities.

There are 22 trade agreements between the EU and individual countries, and five multilateral agreements covering multiple countries, so if the UK wants to keep access to those 52 countries markets, they would have to renegotiate all of them as well.

However, since Bulgaria and Romania entered to the EU in 2007 there has not been an official and certified WTO schedule of commitments for the EU28. The joining of the two new member states should have prompted a renegotiation of the EU's schedules in the WTO, therefore, the UK could carry on trading and negotiate Free Trade Agreements (FTA) based on the existing EU schedule and that would be one possible way to hurt the EU's economy. As said before, same tariffs and rules apply for every single country in the EU, which sets unnecessary tariffs on some countries. By leaving the EU, the UK would be able to get rid of some of those tariffs, creating competition for the EU and hurting the economies of many of its members.

### ***Future UK position***

Some might think that since the UK left the EU, they will have to reapply to the WTO to have some sort of system which regulates trade but that is not necessary. According to Maika Oshikawa, the WTO's head of accession negotiations, the UK will not have to run the gauntlet of a formal application process since it is a WTO member in its own right. Though, there are many issues to be discussed and one of them is that currently, Britain's farmers benefit from EU subsidies paid under the Common Agricultural Policy (CAP), one of the world's most protectionist state supports system. Separated from the EU, UK could find itself isolated and hard pressed by countries such as India and Bangladesh to give up paying farmers EU-level subsidies, affecting farmers' situation.

Another big challenge for the UK is that it will face the EU's standards tariffs for goods under WTO rules, and in several cases these are alarmingly high for the British industry. An additional difficulty is reciprocity since one important element of the WTO rules is that a country cannot offer favorable tariff terms to another without offering the same regime to all comers, so, senior conservative parliamentarians, Peter Lilley and John Redwood have said that the UK should keep its tariffs at zero, putting some pressure on the EU to do the same to avoid disruption to important and valuable trade flows. Thus, the onus would be on the EU 27 to continue free trade or they should take the blame for triggering WTO tariffs on their exports to their biggest market.

According to Roderick Abbott, a former deputy director-general of the WTO, it would be also impossible for the UK to keep in place the EU's 53-odd free-trade deals with third countries since these policies cannot be inherited after Brexit but also third countries would want to know first about Britain's future trade with the EU. An example is South Korea, who conceded full access for the EU to its markets in hopes of using Britain as a gateway to the single market and it would be unwilling to give just Britain any similar term. Australia, India and the US share the same position, actually, they are negotiating some trade deals which Britain has been left out of, yet, there is hope for Britain. If EU-US Transatlantic Trade and Investment Partnership fizzle because of Europe's opposition, the UK might be another option to do bilateral deals, but with less power to bargain since now the UK economy makes up only 18% of the EU's single market.

Lesley Batchelor, director-general of the Institute Of Education (IOE), has said Dr. Liam Fox is right about creating the new schedules for the UK but that could be protracted since they want to replicate the agreement they had as a EU member with other countries and among those 161 members, Argentina is one of the possible countries that will not accept the new terms due to historical problems. The UK asks for an open and internationally connected Argentina, willing to identify business opportunities, cooperating to develop some opportunities of infrastructure and renewable energies but let's remember that the UK clashed with Argentina over the Falkland Islands, and even if relations have improved, on October, 2016 the country complained about military exercises Britain was planning in the disputed islands, bringing up some differences between the two countries. An additional country that heightened some historical disputes was Spain, remembering Gibraltar and even presenting a plan for joint sovereignty, which was denied by the British Overseas Territory.

The UK has acknowledged that this is an opportunity for small countries to ensure a diplomatic relation or some sort of dialogue over a particular issue that has not been defined at all.

That could have an impact in two ways. It means the process could take longer because we need to have everyone on board; and it will also mean that we may have to make some concessions. They know we want to get things sorted out, they know our timescale. That's the trouble. We are not in a bling negotiating position, or in an even-handed one. We will have to compromise. (Lesley Batchelor, 2016)

Considering these possible adversities, the UK has thought about adopting an economic model like the one Norway has with the EU. Norway is a member of the European Economic Area (EEA) and they have a FTA with the EEA, meaning that there are no tariffs on trade between them and they have adopted policies and regulations to reduce non-tariff barriers within the single market, yet, as they are not part of the EU's customs union, they face some barriers like origin requirements and anti-dumping duties.

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## *Glossary*

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### **A**

**Acknowledge:** To recognize being admitted.

### **B**

**Bargain:** An advantageous purchase, especially one acquired at less than the usual cost.

**Bundled:** Number of things that are held together.

### **C**

**Clash:** A conflict or opposition, especially of views or interests.

### **D**

**Disruption:** Forcible separation or division into parts.

### **F**

**Fizzle:** A failure.

**Free-Trade Agreement:** Treaty between two or more countries to establish a free trade area where commerce in goods and services can be conducted without tariffs, but capital or labor may not move freely.

### **H**

**Heighten:** To increase the degree or amount of something.

### **O**

**Onus:** Responsibilities.

## P

**Parliamentarian:** A person who is expert in the formal rules and procedures of deliberative assemblies and other formal organizations.

**Protract:** To extend or prolong.

## R

**Ratification:** The act of voting on a decision or signing a written agreement to make it official.

**Referendum:** A vote in which all the people in a country or an area are asked to give their opinion about or decide an important political or social question.

**Renewable:** Something that can be reused or has an endless supply.

**Run the gauntlet:** Go through difficult trials.

## S

**Sort out:** To organize or plan something.

**Sovereignty:** It can describe the power of one state or thing over another or the freedom a state or thing has to control itself.