Beyond Brexit

A Guide to International Opportunity

Written by Elizabeth Anderson, powered by moneycorp bank

Foreword

By Lee McDarby, Managing Director of UK International Payments

There are always many challenges in business, but none more so than in the current climate. The situation of figuring out our place in a post-Brexit landscape, coupled with the ever still present Covid-19 crisis, has however demonstrated the importance of collaboration and ongoing resilience.

Post-Brexit there are challenges, and opportunities, with uncertainty prevailing in the financial markets. Stock market and currency fluctuation is particularly acute at the moment, adding another complication to an already hostile and volatile business environment.

As we are here to serve UK businesses whilst helping them to thrive internationally, we have worked with renowned journalist Elizabeth Anderson to pull together what you need to know on the new Brexit deal, how the UK could potentially trade internationally with the EU and other countries, and finally how currencies may be impacted by this new post-Brexit world.

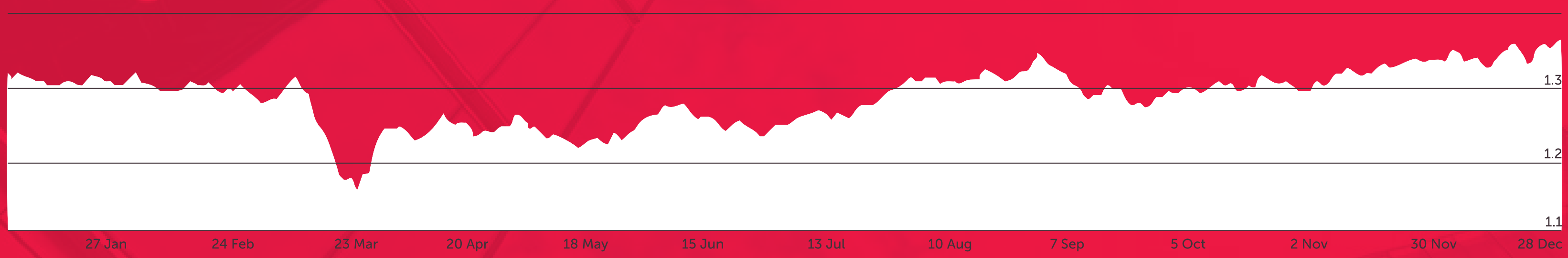
Introduction

Businesses across the UK faced unparalleled challenges last year, with currency volatility at an all-time high. We saw GBP/EUR swing by 12% between the peaks and troughs of Jan-Dec 2020, and GBP/USD doing much the same, changing by 18% in the same time period.

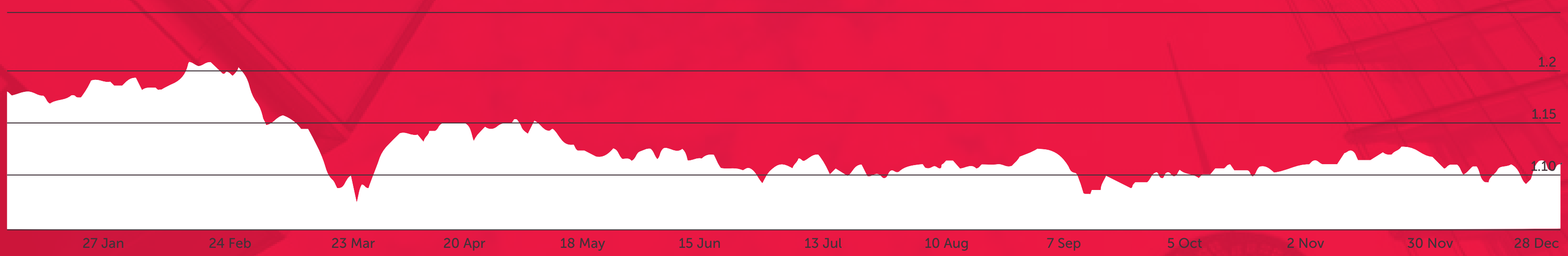
Then, as the year came to a close, the Brexit transition period came to an end on 31 December, and the UK has now officially left the European Union (EU). For the first time in more than 40 years, the UK no longer follows EU trading rules and is now subject to different rules and regulations ultimately set by the World Trade Organisation (WTO). This change affects any UK business, big or small, that imports or exports goods and services across Europe, as well as those with global suppliers.

There will be many challenges that businesses face as they get to grips with the realities of Brexit. But separating from the bloc also presents many opportunities. The aim of this report is to detail and inform of the changes ahead, and to discuss how businesses can prepare and establish themselves for future growth. We'll pick out new trading and supply chain opportunities with countries across the world and discuss how firms can protect themselves against risk and volatility.

Historical Spot Exchange Rate for GBP to USD: Year 2020



Historical Spot Exchange Rate for GBP to EUR: Year 2020



The EU has about 40 trade deals in place with more than 70 countries and the UK will be looking to replicate this. So far, the UK has reached an agreement *to roll over dozens of deals across around 60 countries, with others expected to follow over the next few months*. Most importantly the UK was able to negotiate a crucial trade deal with the EU bloc, its largest trading partner, at the final hour.

Where trade agreements have not been reached, a new UK Global Tariff now applies to businesses exporting into the UK. It is the responsibility of businesses to ensure they understand and are following the new rules, or they face significant disruption while they get their paperwork and finances in order. According to a survey of 170 companies polled by moneycorp in August 2020, 88 per cent of firms trading internationally said they hadn't looked at switching their supply chains when making preparations for Brexit. This could make them liable for higher costs if tariffs are imposed on goods being supplied to them from a country without a trade agreement with the UK.

Businesses should also give thought to keeping their costs as stable as possible while they become familiar with the new rules. Currency markets and the performance of the British pound have been dominated by Brexit since the EU referendum in June 2016, while the coronavirus pandemic has added to volatility over the past year. For businesses that import or export internationally or have global suppliers, their bottom line could be affected by the UK's departure and the subsequent currency fluctuations that may follow. This makes it difficult to generate accurate forecasts of revenue and profit.

To help mitigate the risk from currency volatility, businesses may wish to lock in a currency rate, and this is something we'll also be discussing in this report. A specialist foreign exchange business, such as *moneycorp*, not only provides access to competitive exchange rates, but can also provide guidance on the benefits and challenges of doing business in individual countries.

Over the next few pages, we'll look at key countries where the UK has negotiated significant trade deals. We'll also analyse trade partnerships the UK should be targeting, as well as individual countries that could present new opportunities. Now is the time to plan ahead and put your business in a position to capitalise on the changes ahead.

"...88 per cent of firms trading internationally said they hadn't looked at switching their supply chains when making preparations for Brexit."

Canada

Canada is one of the major countries to have signed a new trade agreement with the UK. The current deal is simply an extension of the current trade agreement Canada has with the EU, meaning little should change for UK businesses that deal with the North American country. However, negotiations are expected to begin over the coming months on a new UK-Canada trade deal that has the potential to go further on digital trade and environmental concerns.

The rollover trade agreement has saved UK businesses an estimated £42m in export tariffs and means UK businesses are guaranteed the £11.4bn of goods and services they currently export to the country. The terms of trade between the UK and Canada next year will be governed by the Canada-UK Trade Continuity Agreement.

Canada is the UK's 15th-largest trading partner, *according to Government figures*, and makes a significant contribution to UK GDP. News of a deal between the two nations, announced in late November, *immediately boosted the pound to $1.74 CAD*. This was a vast improvement from September, when the value fell to $1.68 after a period of tense trade talks. Since then, the pound has fluctuated somewhat as the world waits to see whether the UK can negotiate a free trade deal with the EU, but in general sterling is strengthening.

A stronger pound benefits companies that import goods or products from Canada as it means that purchase costs will be lower. On the flip side, a stronger pound can make UK exports more expensive and can lead to more competition from cheaper suppliers.

Canada holds many attractions for UK businesses looking to establish a foothold in the country. It has a low corporate tax rate at just 15 per cent, and this could even come down to 10 per cent for some small businesses. The country also benefits from preferential trade agreements with the US, Latin America and Europe.

"Canada has a low corporate tax rate at just 15 per cent."

But there are bureaucratic processes that foreign firms must be aware of, with multiple layers of regulation and compliance that follow provincial as well as federal rules. The Canadian dollar has been fairly strong against the US dollar historically but has been volatile in the past few years due to weak oil prices, making it difficult for overseas companies to budget for the cost of doing business in the country. This is where a currency specialist is valuable, as a global payments provider can help manage a firm's foreign exchange exposure by providing access to competitive exchange rates, expert guidance and access to sophisticated currency tools to help firms trade profitably and effectively.

When it comes to imports from Canada, the top products include crude oil, metals, minerals and wood. Companies in the UK should be aware that the coronavirus pandemic has led many Canadian businesses to look closer to home when establishing their supply chains. The hope is that a higher number of domestic suppliers would minimise disruption caused by global crises in the future. This means UK firms may want to establish a firmer foothold in Canada to reduce the number of goods needing to be shipped out. However, it's also the case that Canada will always depend on goods from abroad, which is good news for *top exports* such as cars, aircraft, pharmaceutical products, power generators and drinks including whisky and beer.

Crucially, Canada is a member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This is one of the world's major free trade areas, covering 13 per cent of the global economy and accounting for more than £110bn of trade in 2019. The UK plans to apply to join the partnership, which has 11 member states, in early 2021, so a strong relationship with Canada should help support the UK's application.

Japan

The UK signed a trade deal with Japan in October, marking its first free trade deal since the UK left the EU on 31 January 2020. As well as bringing more beneficial trading opportunities to UK companies, the agreement includes a strong commitment from Japan to support the UK joining the all-important Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) free trade area.

The UK-Japan trade deal builds on the existing EU-Japan deal, but with differences around the use of digital data and improved mobility for workers who wish to relocate. UK businesses will no longer face extra costs when setting up digital servers in Japan, which could benefit British fintech companies with Japanese operations, and both countries will aim to process visas for skilled workers within 90 days.

Under the arrangement, UK firms will also be entitled to tariff-free trade on 99 per cent of exports to Japan, and British tariffs on Japanese car parts will be removed over the next five years. With cars and vans among the UK's top goods exports to Japan, worth around £1.1bn in 2019, and major Japanese brands including Nissan, Honda and Toyota having significant operations in the UK, we could see this having a real impact on the UK's car sector. Car parts sourced from Japan for UK manufacturers will be lower while major exporters such as Jaguar Land Rover will benefit from their cars being cheaper abroad.

Companies operating in financial services, currently the UK's largest Japanese export, will also benefit. Once the deal with Japan is finalised, the UK will start to see better market access and far less regulatory friction as the deal gives UK firms a streamlined application process for securing a licence to set up operations in Japan. For financial companies in Britain, it means greater access to Japan's sophisticated and fast-growing financial ecosystem, which is focusing on digitisation across banks and payments.

"UK firms will also be entitled to tariff-free trade on 99 per cent of exports to Japan, and British tariffs on Japanese car parts will be removed over the next five years."

There are also more beneficial trade arrangements across drinks, textiles and foods as certain restrictions under the previous agreement have been removed. UK pet food exports, (the fifth-biggest UK food export to Japan, with overseas sales of more than £13m), are among the UK businesses that will see a positive impact from the deal, *according to the UK Government*. In addition, salmon producers based in the UK will also benefit, as taxes on sales to Japan are falling from 3.5 per cent to zero while tariffs on English sparkling wine will fall from 21.1 per cent to zero.

So, for those with business interests in Japan, next year could bring significant advantages when it comes to the *ease and cost of doing business*. When it comes to managing expenses, business owners should also find it beneficial that the Japanese yen is currently relatively stable to the British pound and therefore not likely to add unexpected short-term costs resulting from volatility.

Nevertheless, the Yen is expected to strengthen next year as its economy continues to recover from the coronavirus pandemic. It's also seen as a safe haven by international investors due to its ongoing commitment to quantitative easing and near-zero interest rates. If the global economy continues to hit turbulence, then the yen may be further in demand. Companies with interests in Japan should therefore think about forecasting and budgeting for the year ahead as soon as possible.

Singapore and Vietnam

Singapore is not just an area with a strong British expat community, it's also the UK's largest trading partner in South East Asia and the UK is Singapore's top destination for foreign investment in Europe. Total trade between the two countries was worth around $13.5bn in 2019, according to the UK government.

So the fact a continuity trade deal has been struck between the two countries should provide relief to companies with operations in both countries. The deal means all tariffs on exports to the UK will be removed by 2024. UK exporters already have mostly tariff-free access to Singapore and this will continue. A rollover trade agreement has also been agreed with Vietnam, another key trading partner in Asia.

Both economies are founding members of the CPTPP and have publicly shown their support for the UK joining the fast-growing trade bloc, which gives the UK more allies amongst the CPTPP decision-makers and would boost UK businesses' presence in the Pacific region.

Since 2018, the UK government has been targeting the Asia-Pacific region as an area to increase digital trade and investment opportunities. A new £8m Digital Trade Network for Asia-Pacific was launched in June 2020 with the aim of increasing tech exports to fast-growing international markets and attracting investment to create jobs. As a result, areas that have seen significant growth in the past year include educational technology, financial technology and cyber security as a result of the coronavirus pandemic.

UK-based businesses looking to establish a foothold in Asia will find that Singapore offers an attractive proposition. It's consistently ranked as Asia's top logistics hub by the World Bank, offering overseas businesses an easy way to connect with the region. Many of the top 25 global logistics firms have operations in Singapore, with DHL and Schenker among those that have set up regional or global headquarters in the country. The Singapore dollar has held up relatively well over the past year due to the government launching a range of stimulus packages to keep the economy afloat amid the coronavirus pandemic.

"Trade between the two countries has tripled over the past decade to £5.7bn, according to the Vietnam embassy."

Meanwhile, the separate trade agreement with Vietnam means the UK will not lose access to preferential tariffs to one of the fastest-growing economies in Asia. Trade between the two countries has tripled over the past decade to £5.7bn, *according to the Vietnam embassy*.

Over the next three years, 99 per cent of tariffs between the two countries will be scrapped. This covers machinery and pharmaceutical products, the UK's top exports to Vietnam. Clothing, seafood and wooden furniture are among the top exports from Vietnam to the UK.

Vietnam's GDP grew by an estimated 7 per cent in 2019, *according to the World Bank*, one of the fastest growth rates in the Asia region. The impact of Covid-19 has not been as severe as other countries. GDP growth is forecast to be 2.6 per cent for 2020, making Vietnam one of the few countries in the world not to expect a recession.

For UK businesses interested in expanding in Vietnam, the country's economic strength means they are likely to receive a welcome customer base and financial support. Education is a priority for the Vietnam government and there is high demand for English language training centres and private schools.

The government is also supportive of long-term investment projects from foreign investors, particularly in the renewable energy sector, where it is hoping to increase renewables to 20 per cent of electricity use by 2030. The UK is seen as a world leader in clean energy, with more than 700 wind turbines, and renewables accounting for around 40 per cent of total energy use in the UK in 2019. There is real potential in Vietnam for UK companies to export their knowledge and technology.

United States of America

The UK and US remain in talks over a trade deal to reduce tariffs. The two countries have long enjoyed a close relationship and the narrative from both countries so far suggests there will be a host of new opportunities for trade between the two over the coming years.

This is important, as the US is the world's top superpower and the UK's biggest individual trade partner, excluding the EU bloc. A total of [15.5 per cent of UK exports went to the US]() in the first half of 2020, and around 9 per cent of UK imports came from the US. From the perspective of the US, the UK is a major source of imports and exports but is behind its immediate neighbours of Canada, Mexico and further economies, south and central Asia.

Both countries have already offered trade concessions to each other in recent months. The US announced in September 2020 it would allow British beef to be imported for the first time in 20 years, (UK beef had been banned from being imported into the US since 1996 over concerns about "Mad Cow disease"). Meanwhile the UK government announced in December it would no longer apply tariffs to imports of Boeing aircraft from the US as of 1st January, breaking with the EU's long-standing stance of supporting rival Airbus.

The two countries have already signed a customs agreement, meaning trade will not be disrupted when the transition period ends – which is good news for businesses both sides of the pond. This agreement includes sharing data and taking a co-operative approach to tackling customs fraud, and it's hoped a free trade agreement will be reached soon. From a political point of view, striking a favourable trade deal with the US would send a message to the world that Britain is seen as an important economy and trade partner after Brexit.

A total of 15.5 per cent of UK exports went to the US in the first half of 2020, and around 9 per cent of UK imports came from the US

However, the election of Joe Biden has thrown up doubts of a free trade deal between the UK and the US being agreed any time soon. The new President, sworn in on 20th January, has indicated he plans to continue with Trump's "America first" policy. "I'm not going to enter any new trade agreement with anybody until we have made major investments here at home and in our workers and in education," he told the New York Times in December. In the meantime, a "mini deal" is being explored among the US administration to reduce tariffs on certain products such as whisky, where a 25 per cent tax is imposed on imports. The customs agreement will remain in place.

A trade deal with the US could allow UK businesses to import a broader range of goods, potentially increasing imports of oil, food and drink, automobiles, machinery and pharmaceuticals. In general, US tariffs are low but there is room for negotiation on certain products.

In response to the coronavirus pandemic and delays over imports coming from China and elsewhere, policy changes in the US are set to bring manufacturing closer to home. These could include government subsidies, tax incentives, and incorporating a "buy American" policy into government procurement strategies. This is something that UK businesses need to look out for and mitigate against as it could mean that, while the UK ends up sourcing a larger number of goods and parts from the US, the US could start looking internally for their suppliers. As the coronavirus crisis has taught us – supply chain diversity is crucial futureproofing for businesses.

The US dollar is the world's official currency, so export businesses should continue to keep a close eye on the UK's relationship with the US to see how it might affect their bottom line. With volatility in the pound expected to continue as it gets to grips with Brexit, an option is to set a forward contract. This allows a business to fix a prevailing exchange rate for a set period of time (a deposit may be required). So even if the exchange rate goes up and down, a business will receive a fixed rate. This helps businesses accurately forecast overseas costs.

The US dollar is the world's official currency, so export businesses should continue to keep a close eye on the UK's relationship with the US to see how it might affect their bottom line.

The Regional Comprehensive Economic Partnership (RCEP)

The Regional Comprehensive Economic Partnership (RCEP) is a free trade partnership between the 10 members of the Association of Southeast Asian Nations (ASEAN) and five other countries in the Pacific – China, Japan, Korea, Australia and New Zealand.

It is a new partnership, having been established in November 2020, after a decade in the making. Its formation makes it the largest trade pact in the world, collectively embracing nearly a third of the world's population and GDP, with the potential to add $500bn to world trade by 2030.

The aim of the partnership is to lower tariffs, allow for freer movement of goods within the region and boost investment. Members will strengthen their links in technology, mining, manufacturing and agriculture, allowing them to build and expand their supply chains across different countries.

In terms of impact on UK and European firms, the immediate benefits will be minimal – mostly because of the time it will take to get the partnership up and running. It must be ratified by at least six ASEAN countries before coming into effect, which could take months to start and years to complete.

But in the long run, the partnership could provide access to a customer base of more than two billion people and make it easier to produce, buy and sell goods within the region. It will also be easier for firms to ship products across the region more easily, without encountering different rules of origin criteria. This will make it easier for companies with multiple supply chains across the region. *According to the Policy Exchange think tank*, the Asia-Pacific region is the most important area for expanding UK trade after Brexit.

The key to success of the partnership relies on China's central role and its willingness to establish a single trade agreement with the two other Asian manufacturing powerhouses – Japan and South Korea – for the first time. The deal should firmly anchor China's role in regional supply chains, bringing down costs and increasing cooperation between the member states. It builds on China's One Road, One Belt policy, which was established in 2013 with the aim of building trade routes with more than 70 countries across Asia, Africa and Europe.

The deal has been compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which includes seven RCEP members. But the RCEP is significantly larger in terms of market size and has no stipulations on labour rights, environmental standards and intellectual property protections.

Other countries may join the partnership in future, giving companies potential access to more key states. India was originally involved in the talks but opted out in 2018 over concerns about safeguarding its own agriculture and dairy industries. But that's not to say India, which is the world's fifth-largest economy, won't join at a future date.

Other nations are able to join the RCEP 18 months after it comes into force (as a founding negotiating partner, India can join any time after the deal is implemented). In theory, there is nothing to stop the UK attempting to join the RCEP but the lack of agreement over labour and environmental standards could prove a sticking point and the UK is likely to dedicate its focus on joining the CPTPP.

The Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement between the Asia-Pacific nations of Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam.

Australia

A member of the Commonwealth, hosting the largest expat population in the world at around 1.3 million, Australia has a longstanding relationship with the UK.

The UK is in the process of negotiating a new post-Brexit trade deal with Australia, with each reportedly pushing for a free trade agreement that could benefit both countries. UK exports are hugely important to Australia, with the UK being its *seventh largest two-way trading partner* and top export market in Europe.

A favourable deal could see the value of British exports increase by 7.3 per cent to £900m and would diversify supply chains for UK businesses, helping to promote resilience and ensure a sustained global economic recovery. Trade would be easier and cheaper for UK businesses, especially considering the focus on tariff abolition for financial services, telecommunications, food and drink, vehicles, and technology.

Currently, Australia does not have a free trade agreement with the EU but has been negotiating one since 2018. Instead, the majority of EU-Australia trade follows WTO rules with a number of agreements in place to bring down tariffs in individual sectors.

Ease of doing business, familiarity of culture and language, and the opportunity for growth are typically the most popular reasons why Australian exporters target the UK. Australia's main exports are raw materials, such as coal and gold, which make up two-fifths of its total exports to the EU. In the UK, Australia accounts for just 0.4 per cent of total imports so an agreeable trade deal would arguably be more beneficial to Australia.

As the UK's 14th-largest export market, the most likely goods to cross the country's borders from Britain are mechanical machinery (used in the extraction and processing of mining materials), cars, food and drink products and pharmaceuticals.

Australia hosts the 'largest expat population in the world at around 1.3 million

For those businesses that import from Australia, the focus tends to be on non-ferrous metals such as lead and copper, alcoholic drinks, pearls and gems such as diamonds. Of these, lead makes up the majority of imports, being primarily used for batteries in transport vehicles and communications, according to HMRC. With rising demand for electric cars in the UK, we could see lead imports from Australia increasing in the coming years.

Meanwhile Australia is a key nation in the Asia-Pacific region and is a leading member of the CPTPP, which the UK is hoping to join post-Brexit. A free trade agreement could help the UK access new supply chains or enable UK businesses to use Australia as a launchpad into Asia.

Australia is a sophisticated, tech-savvy market and there is *huge potential for UK businesses to grow* their relationship with the country. Around 13,400 UK businesses already export to Australia and a free trade agreement would likely increase this by reducing cost barriers.

The main obstacle is distance, with travel between the two taking an average of 24 hours and the shipment of goods taking longer than this. But with remote working and meetings becoming far more commonplace as a result of the Coronavirus pandemic, many UK businesses are able to function smoothly in Australia – as long as they are willing to work around the time zone differences.

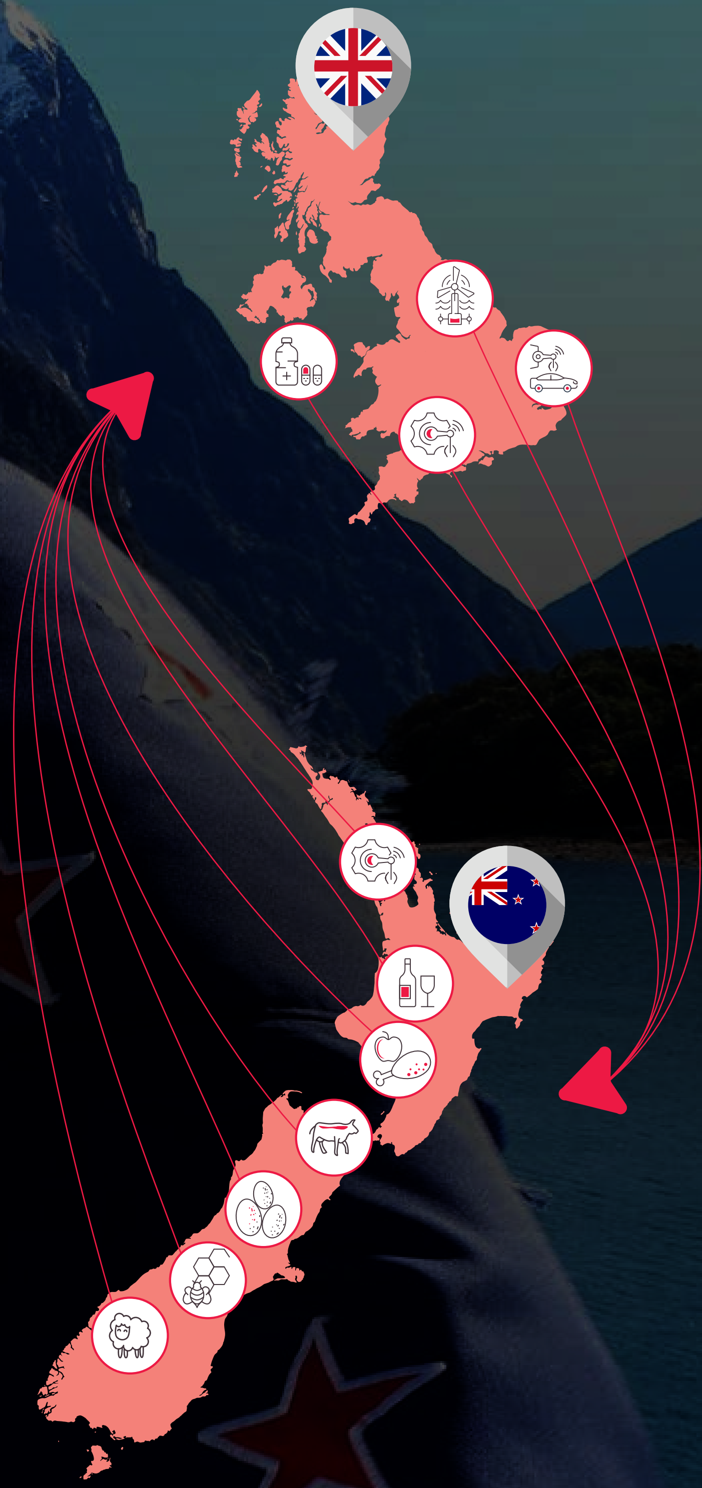
New Zealand

New Zealand has long had a favourable trading history with the UK through its Commonwealth relationship.

Like Australia, New Zealand does not have a free trade agreement in place with the EU and the UK government is looking to establish its own agreement now the Brexit transition period has ended. Talks are currently ongoing, but both sides say good progress is being made amid the recognition of a "*strong relationship*" between the two countries that will continue.

The UK is New Zealand's sixth-largest trade partner, with two-way trade totalling £3.2bn in 2019. New Zealand's top exports to the UK include live animals, meat, wine, fruit, some machinery, eggs, honey and wool. The UK's top exports to New Zealand are vehicles and parts, machinery including turbines, and pharmaceuticals. UK exports to New Zealand have grown from £700m in 2000 to £1.7bn in 2019, data from the Office for National Statistics (ONS) shows.

The UK has never had a free trade agreement with New Zealand. If one is successfully negotiated, it could increase UK exports to the country by an estimated £100m, *according to UK government projections*.



The average tax on goods coming into the UK from New Zealand is 6 per cent, and for UK goods exported to New Zealand it's 2 per cent. But tariffs vary wildly, and UK companies have to pay a 10 per cent surcharge on car parts going into New Zealand and 5 per cent on gin. UK tariffs on some of New Zealand's key food exports include a 16 per cent tariff on honey and 8 per cent tariffs on onions and kiwifruit.

Minerals and manufactured goods already have few tariffs and trade barriers and therefore would be little affected by a free trade deal. A customs agreement has already been set up between the two countries, so UK businesses don't need to worry about trade disruption now Brexit has completed.

A tariff reduction would boost trade and in turn allow UK businesses to access new markets and encourage investment, better jobs, higher wages and lower prices. New Zealand is also a prominent member of the CPTPP and would be another supporter in the UK's application to join the powerful trading bloc, which is made up of 11 countries in the Asia Pacific region.

The free trade proposal isn't just focused on tariffs. The UK government also wants a joint commitment to tackling climate change and to encourage trade in environmental goods and services across industries that support the transition to a low carbon economy.

Meanwhile New Zealand is also pushing for free movement of skilled professionals.

New Zealand is an open, advanced economy and has a supportive environment for businesses. It was ranked number one for *Ease of Doing Business* by the World Bank in 2020. The economy has bounced back from the coronavirus pandemic, with GDP surging 14 per cent in the third quarter, which has helped the New Zealand dollar to perform strongly over the past year.

Now might be a good time for UK business owners to look for opportunities in this fast-growing, sophisticated economy. The UK and New Zealand share common business and legal practices such as intellectual property (IP) protection and the rule of law, and New Zealand is home to a highly educated, wealthy and tech-savvy market. *Around half of New Zealand's total population* of almost 5 million people live in the three major cities of Auckland, Wellington and Christchurch, making it easy for overseas companies to prioritise where to do market research and testing of their product or service.

Brazil

Brazil is the world's ninth largest economy with a population of more than 200 million. It is by far the largest economy in Latin America with *an established and growing prominence* in the natural resources, agriculture and manufacturing sectors.

Trade representatives from both the UK and Brazil are currently in discussions to strengthen trade and investment links, which could include a possible post-Brexit trade deal. Annual trade between the two countries is around £6bn a year.

Many major UK companies have a presence in Brazil, such as Rolls Royce, Shell, BP, JCB and Experian, and the country has enormous potential for UK companies due to its growing consumer market and European-oriented culture and business practices.

Brazil has the second largest manufacturing industry within the Americas, with car production and textiles particularly prominent. Healthcare and life sciences are growing industries, while within Brazil's abundance of natural resources is a well-developed renewable energy sector. *Around 45 per cent of energy consumed in Brazil* is powered by energy that comes from natural sources and processes.

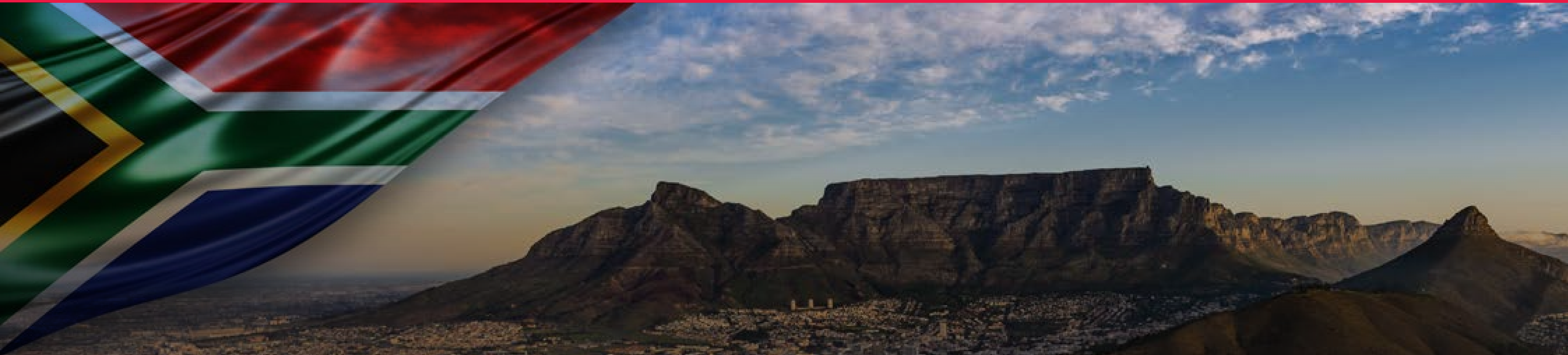
For UK companies looking to import goods from Brazil, products in plentiful supply include oil, gas, soybeans and raw sugar. Importing from Brazil could provide a gateway to working with further South American countries including Argentina, Uruguay and Paraguay and help a UK business build a diverse range of products of services.

However, businesses should be aware that Brazil has a complicated regulatory and tax system that is tricky to navigate, while customs rules are also stringent. Currently there are more than 60 different taxes in the country, with rates varying between federal districts, states and municipalities. It's estimated that a medium-sized company in *Brazil spends more than 1,500 hours a year* on taxes, compared with an average of 114 hours in the UK. However, the Brazilian government has said plans to modernise and simplify the tax system are high on its list of priorities.

Exporters should also be aware of the significant costs they face at customs. Imports coming into Brazil are charged a flat import duty rate of 60 per cent on goods with a value of up to £2,000. For larger items being sent in bulk, taxes will depend on the product. Cars, for example, face an import duty of 35 per cent plus federal taxes.

When it comes to paying a Brazilian supplier, several financial institutions are likely to be involved which adds an additional layer of red tape. However, many UK businesses are able to trade seamlessly with the Latin American powerhouse and international payment providers, such as *moneycorp*, can facilitate same-day payments to Brazil and provide guidance on the regulations that come with payments.

The Brazilian real has been underperforming for most of the past year but is *slowly starting to recover* as its current account surplus improves and foreign direct investment begins to rise again. Brazil has been hit particularly hard by the coronavirus pandemic, as the economy was already in a weak position coming into 2020. It is still feeling the after-effects of a crippling recession between 2015-2016, with the unemployment rate at around 12 per cent in January 2020 and rising throughout 2020.



South Africa

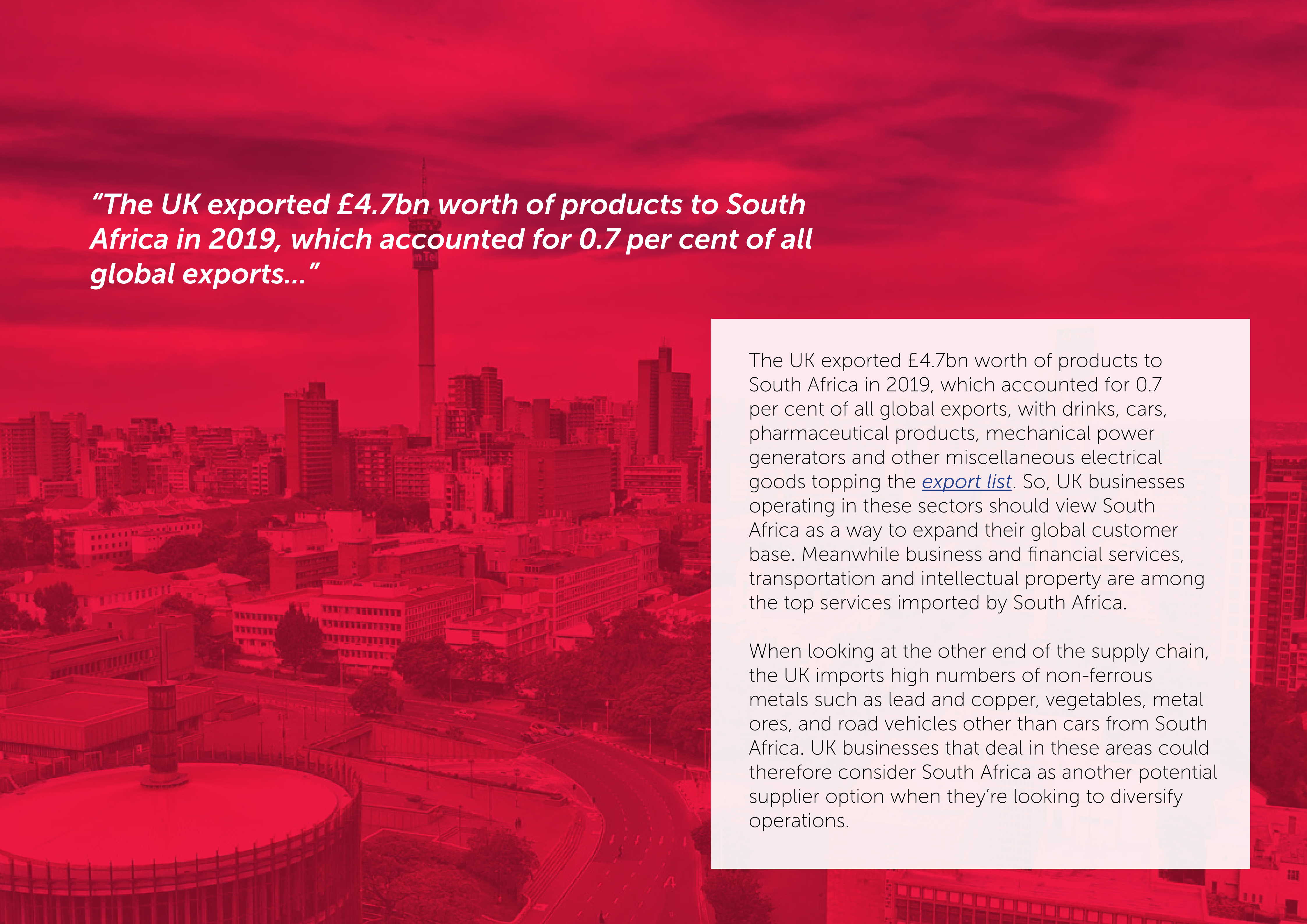
The UK signed a free trade deal with South Africa to ensure continuity of trade conditions post-Brexit back in September 2019. The Commonwealth country is the second-most developed economy in Africa after Nigeria and is the UK's largest trade partner in the region. At the same time as reaching a deal with South Africa, the UK also struck a deal with five other African countries: Botswana, Lesotho, Namibia, Eswatini and Mozambique.

The UK is South Africa's *fourth largest market for exports* – behind China, Germany and the US – and is the seventh largest supplier of imports to the country. Therefore, both governments recognise the importance of keeping trade relations as smooth as possible, now that the UK has left the EU. South Africa is a key trading partner for the UK, with its sophisticated financial, legal and business services and extensive transport infrastructure making it an ideal gateway to other markets in Sub-Saharan Africa.

As with all members of the EU, trade with the UK prior to Brexit was facilitated under the SADC-EU Economic Partnership Agreement or "EPA". This partnership set the rules for tariffs and ease of trade, with many products being duty-free (excluding various agricultural products).

If no free trade agreement was in place, it would have meant the UK's trade relationship with South Africa falling under WTO rules, increasing tariffs on 114 products exported to the UK and resulting in the loss of tax-free status on many imports.

Instead, the rollover deal means South African-assembled cars will continue to have tariff-free access to the UK from 2021, as well as citrus products, grapes, plums, and South African wine under a quota. The tariff-free status is especially important to the UK car industry, which relies on supply chains across the world for car parts and has been badly hit by disruption resulting from the coronavirus pandemic.



“The UK exported £4.7bn worth of products to South Africa in 2019, which accounted for 0.7 per cent of all global exports...”

The UK exported £4.7bn worth of products to South Africa in 2019, which accounted for 0.7 per cent of all global exports, with drinks, cars, pharmaceutical products, mechanical power generators and other miscellaneous electrical goods topping the *export list*. So, UK businesses operating in these sectors should view South Africa as a way to expand their global customer base. Meanwhile business and financial services, transportation and intellectual property are among the top services imported by South Africa.

When looking at the other end of the supply chain, the UK imports high numbers of non-ferrous metals such as lead and copper, vegetables, metal ores, and road vehicles other than cars from South Africa. UK businesses that deal in these areas could therefore consider South Africa as another potential supplier option when they’re looking to diversify operations.

Rest of the world

New free trade agreements with countries outside the EU will take a long time to negotiate, but there are plenty of opportunities to strike new deals, particularly in emerging markets. UK businesses that export goods abroad grow almost twice as fast as those that only concentrate on the domestic market, according to research by Capital Economics for UK Export Finance. *It's estimated around a fifth of UK SMEs* have the potential to export but don't – something they should consider looking at in 2021.

Africa is one continent ripe for growth, being home to the world's largest free trade area with 1.3 billion customers across 54 African states. The bloc was created last year after 20 years of negotiations, and many member states have eliminated tariffs to boost sales and trade within the region.

Some African, Caribbean and Pacific countries have partnership agreements with the EU that means they pay no duty or tariffs on all goods going into the bloc (except arms and ammunition). A longer-term priority for the UK could be to form new trade agreements with developing countries following WTO guidelines. Africa's free trade region would be an obvious place to start as it could provide an opportunity for the UK to form a single fair-trade agreement with much of Africa.

Meanwhile, Brexit offers the chance to create a closer economic partnership with China, the world's second-largest economy. China and the UK already have a close relationship, with the UK receiving the majority of Chinese foreign direct investment that comes into the EU, and it's been reported that China is looking to offer the UK enticing trade agreements after Brexit. Nevertheless, there is friction between the US and China, and it's likely the UK will prioritise the US when it comes to any future trade considerations. There has also been tension over the UK's decision to ban Chinese tech firm Huawei from the UK's 5G mobile network.

"UK businesses that export goods abroad grow almost twice as fast as those that only concentrate on the domestic market..."

Another area to consider is Latin America. Argentina is the world's 25th largest economy and the second largest in South America. Despite high inflation and a devalued peso increasing the cost of imports, the country relies on products from elsewhere. Argentina and the UK have a long-standing agreement that means an individual who lives and works across both countries will not pay double taxation. Around 130 UK companies have a permanent presence in Argentina, including BT, HSBC and Unilever.

No trade agreement currently exists between Argentina and the UK. But MP Mark Menzies, the Prime Minister's trade envoy to Argentina, says there is huge potential for Argentina and the UK to share knowledge and resources in shale gas and offshore oil technology.

Brexit gives British businesses a fresh impetus to target growth in these emerging markets. But knowing where to start and the rules and regulations of different countries can be daunting. The *UK government's online exporting hub* can give some starting guidance, while a global payment provider such as moneycorp can give in-depth guidance on managing currency transactions abroad and mitigating against currency risk.

European Union

After weeks of frantic final discussions, the UK and the EU signed a free trade deal just a day before the UK left the union on 31 December. This will benefit UK businesses that already send goods to the bloc and will present new opportunities to firms keen to establish a wider customer base and extend their supply chains in Europe.

When the UK was part of the single market, British companies could buy and sell products across the bloc without paying tariffs or needing to make customs declarations. This arrangement also applied during the transition period of 2020. The deal means there will continue to be no tariffs on the trading of goods between the UK and EU member states (Northern Ireland remains a member of the EU's single market for goods, in order to keep trade with the Republic free-flowing).

This continuity of trade is important as the bloc, which now has 27 members, accounted for an overwhelming 43 per cent of UK exports and 52 per cent of imports *in 2019*. British firms should view the ratification of the deal as a sign of confidence that the UK is clearly a hugely important market to Europe and that the future trading relationship between the two is secure.

The deal is likely to strengthen the pound in the long term as the UK's strong trading relationship with the EU looks set to continue, although initially the boost to the pound has been muted because markets had already priced in a strong chance of a deal being reached.

Other uncertainties that could weaken the pound in the coming months include the fact that a deal with the UK's all-important services sector – which accounts for 80 per cent of the UK's total economic output – has yet to be reached. There is also likely to be some disruption for exporters in the early days as a result of added paperwork, extra customs declarations and product safety certificates.

All this could mean the pound falls back below €1.09. For UK businesses, the initial weaker pound could boost sales abroad as their products will become cheaper to EU buyers. So now is a good time to potentially reconsider markets across the EU.

Within the bloc, the UK's biggest export partners are Germany, France and Ireland. But UK businesses could consider looking to eastern Europe as a source of new business partnerships and customers, as GDP growth in countries including Poland and Romania has surged over the past decade (excluding the impact of Covid-19).

UK companies that specialise in financial services, energy, infrastructure and low-emission technology will find their goods and services in particularly high demand in Poland. The country also offers a useful entry point for UK companies to other central and eastern European countries as well as emerging markets further east. In Romania, fast-growing sectors include the car industry, which is valued at €30bn and accounts for 14 per cent of GDP. Car production rose by almost 3 per cent to 290,000 units in 2019. The industry was hit by Covid-19 early last year but is already recovering and could create growth opportunities for British suppliers of electric systems, car seats, steering wheels and other plastic components.

Now Brexit has been ratified, businesses must look at their supply chains across Europe to see if further diversification is needed to bring down costs and boost efficiency. It's also worth bearing in mind that some overseas companies invoice in their local currency (such as the euro), adding a margin to protect themselves from currency fluctuations. This in turn will impact a UK company's pricing and therefore their bottom line. An international payments firm can help businesses get a fair price and mitigate these currency risks by locking in a fair exchange rate in advance.

Conclusion

Brexit offers UK businesses an unprecedented opportunity to explore new global relationships and re-examine their supply chains.

There may be disruption in the short-term but being well prepared and planning for costs accordingly will help firms manage their bottom line. UK companies may need to reconsider their supply chain to bring costs down and so will be looking beyond Europe. Whether it's transport and storage or packaging and wholesalers, there are likely to be multiple parts of a firm's supply chain potentially spanning the globe.

Businesses can now look further beyond the EU when importing parts and goods from other countries. The UK's new tariff structure should make it easier for importers to do business here, with red tape being reduced across 6,000 tariff lines and associated fees being charged in pounds rather than euros. *Around 60 per cent of trade* coming into the UK is now tariff free, which will increase if more free trade deals are signed, and this should help keep costs low for both British buyers and exporters.

One of the UK government's initial priorities is to apply for membership of the CPTPP. It is an ambitious goal, but membership would give British businesses access to a free-trade bloc of 11 nations in the Asia Pacific. Despite being located far away from the Pacific, the UK has managed to gain the support of a number of key members, including Canada, Australia, New Zealand and Singapore.

Another priority is to strike a services arrangement with the EU, as businesses in the services industry may face disruption in the coming months. It is particularly important that a deal is done for the financial services industry, which now no longer automatically has the right to trade in the EU's single market. The industry forms a crucial part of GDP growth, contributing around £132bn a year to the UK economy, employing more than one million people and accounting for almost 7 per cent of total economic output.

Overall, it's too early to tell whether trading with the EU post-Brexit will be just as easy or profitable as it was when the UK was a member. The answer will likely depend on the industry and how a business has prepared for the changes. In the short-term the pound may continue to be volatile as some trade uncertainty remains, but in the longer-term the pound may regain strength as the UK adapts to the new rules.

For businesses that export, the UK's new relationship with its biggest trade partner may seem daunting but it offers an opportunity to target new markets worldwide. It is a chance for the UK to "look outward" again and establish new global trade links. Let's hope Brexit and an economic recovery from the coronavirus pandemic can help businesses prosper in 2021 and beyond.

THE FINANCIAL SERVICES INDUSTRY

Contact us

If you want to review your FX strategy or would like to make the most of new post-Brexit opportunities, our expert team are happy to help.

Get in touch with your account manager or request a free, no-obligation consultation. Quote the reference "Brexit guide" and call or email us on:

+44 (0) 207 823 7800
corporateenquiries@moneycorp.com
www.moneycorp.com/corporate