Brexit and the distrust eroding future trade and economy

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Losing trust and investors

Who could have ever imagined that after more than four years of negotiations between London and Brussels there were not only still threats of a “No Deal”, but also deep uncertainties regarding the UK’s future economic prospects? Probably no one. Few have clear ideas about what will happen on December 31st: London left the EU last January and according to the Withdrawal Agreement it should leave it officially on January 1st, 2021, but economic, social and cultural implications are still object of concerns. From labor to industry (Campello et al. 2020), from defense to security, from university programs to China’s investments, from the trade with the EU to the WTO’s rules, from Covid-19 to the forecasts of a declining economy, from the disagreements on Northern Ireland’s border to the possible resurgence of violence and terrorism, from the role of London to the reputation of the island.

In the second quarter of 2020 UK’s economic output shrunk by 20.4% «pushing the country into the deepest recession […] About 730,000 jobs have been shed since the coronavirus pandemic» (Cotovio-McGee 2020). As if a recession was not enough – and the UK faces a long and turbulent road ahead to recover (Goodwin 2020) – London is paying for the uncertainties triggered in the market: investors are not as patient as the European Commission or Michel Barnier. Some argue that threatening to blow up the negotiating table damages UK’s credibility and enhances investors’ volatility. London will pay hardly for the U-turns the current administration is doing, tensions between the UK and the EU recently enhanced after Boris Johnson’s intentions to override key parts of the Withdrawal Agreement (Adler 2020) agreed with the Union months ago: and this undermines UK’s reputation and prestige.

The word given, the respect of deadlines and the counterpart, preparation and foresight are essential: If not complied by the governments, investors leave. And that is what is unfortunately happening in the UK. The erosion of reputation and trust goes far beyond any commercial relationship (Villafranca 2020c): and since the UK will leave the Single Market and the Customs Union by December 31st this year, which are the future economic scenarios and challenges the UK will economically face after the Brexit process will be completed? A Brexit without an agreement would see the return to duties and customs, with heavy economic repercussions for anyone, but perhaps this is the price that Johnson’s administration has decided to guarantee a total freehand to his new “Global Britain” (Ippolito 2020b).

Europe and (perceived loss of) sovereignty

Instead of “taking back control”, the UK is losing it. London is losing almost anyone’s trust, as well as its precious reputation of a reliable trade partner. All Brexit-concerned actors are disappointed from the output of four years of negotiations: 1) from those who had supported Brexit since the beginning and voted “Leave” in the 2016 referendum (Clarke et al. 2017), 2) to those who had voted against; 3) from those in the EU who were in favor of Brexit and who now are perplexed about the procedures to “get Brexit done”, 4) to those in the EU who were against Brexit and now, at the negotiating table, are losing patience with London. The issue of trust and reliability is crucial for the fact that when the transition period will be over London will always have to deal with the EU (De La Grange-Rovan 2020a). In order to avoid heavy
economic repercussions due to misunderstandings, cross vetoes, or ideological crusades on both sides, it is worthwhile to have positive relations.

Brexit exposed tensions between Brussels and the UK, «but don’t underestimate the tensions it places on the UK as well» (Mason 2020). The illusion that London could be transformed into a sort of privateer and semi-tax haven – a macro-sized Isle of Man, a Singapore on the Thames (Collomp 2020) – among the US and the EU seems to have vanished even in the minds of the hard Brexiteers. Good economic relations with friendly countries such as Australia, Canada, India, Japan and Switzerland will be entertained (Westcott 2019), but the uncertainties related, for example, to the logistic sector are not a positive stimulus for foreign investors. Many have already decided to reduce their presence on the UK market: companies are reluctant to commit to new contracts with companies on the island after December 31: fears related to an unordered Brexit are concerning for small traders. In the globalized world, sovereignty – the value at the origin of Brexit – is still important, but if one looks at it from a purely economic perspective, it is quite a marginal issue. Markets do not care about the issue of sovereignty: in a world where borders on capital, services and work are abolished, if not coalized with others, a single state progressively loses economic weight.

Needless to say, Brexiteers do not accept a “cold” economic pros-and-cons analysis. A British citizen who voted in favor of UK leaving the EU holds sovereignty as powerful idea. A big part of the British national historical narrative has been the fight for the position of sovereign-lawmaker. Is it the king or parliament (“the people”)? Brexiteers maintain that for last couple of decades, the sovereign was neither the king nor the parliament, but Brussels.

Of course, the rule of law is essential for democracies and helps the functioning of the market, but on the other hand, just sticking to the concept of sovereignty at the cost of hurting oneself economically – or losing customers and investments, raising barriers and walls, restoring high duties, keeping ships, cars and people waiting – would seem irrational. However, Prime Minister Johnson explained that his government won’t do any compromise on the fundamentals of what it means to be an independent country (Ippolito 2020a), forgetting that the UK never ceased to be an independent country. Despite the PM’s delusions of grandeur, it is difficult to believe that the UK will become an economic superpower once again from January 2021 on, even if it has to be said than most of the Brexit-electors do not seem to have the ambition of returning to be a superpower. One economic and political benefit that the post-Brexit British cabinets will enjoy is the ability to make trade treaties with other nations in the world independently again. Still, no one can predict the future and currently, the world-stage is quite crowded: in the US-China confrontation small fishes should swim with the large ones. If a small-medium fish swims alone, not only it is exposed to large fishes’ jaws but, worse, it becomes economically irrelevant.

**Future and trade with the EU**

London continues to have intense relationships with its strategic partners, but the absence of a vast net like the EU, many say, could prove detrimental to British trade in the next years. Johnson is aiming for a free trade treaty with the EU at zero quota (Villafranca 2020b): that is why his government invokes the treaties the EU has with other countries – such as the Comprehensive and Economic Trade Agreement (CETA, with Canada) or the EU-Japan Economic Partnership Agreement (EPA, with Japan). Considering that Her Majesty’s reign exports are grossly destined to the EU, imperil relations with Brussels (not respecting deals, for example) could maybe and potentially have unpleasant consequences for the British economy (which, however, could have an impact on the European partners as well). Trade with
the EU accounts for 49% of UK’s trade (Edgington 2020); therefore, a no-deal Brexit in January could be costly for the island. On the other hand, neither Brussels can allow to have stormy economic relations with London, since this latter’s exports are benefitting many countries on the continent and the whole EU exports goods to UK more than the UK exports its goods to the EU. Losing a consolidated partnership would be therefore counterproductive for the both sides.

The UK’s esteemed contribution to the EU has been £14.4 billion in 2019, it received back £5 billion of receipts for the public sector from the EU; this made the UK a net contributor (Keep 2020). London still has to pay more than thirty billion pounds of divorce bill to the EU (Amadeo 2020); furthermore, since the transition period is about to expire, it seems that there is no time to sign a free-trade treaty with Brussels (Ippolito 2020a). And leaving without a trade agreement could be disastrous for the British economy: heavy duties would be imposed on the island’s products, making them less competitive on the international market. Failing to get a deal will mean that the UK will trade with the EU under the WTO’s rules, which means that «tariffs would be applied to most goods which UK businesses send to the EU. This would make UK goods more expensive and harder to sell in Europe [...] Having WTO terms would also mean full border checks for goods, which could cause traffic bottlenecks at ports [...] And the UK service industry would lose its guaranteed access» (Edginton 2020).

A Brexit on WTO terms is considered «the worst-case scenario» since it «is estimated to reduce income per capita by up to 8.1%» (Dhingra-Sampson 2019). The absence of any sort of economic aid or help from the EU will be felt in the UK (Girard 2020); therefore, to solve the problem London does not seem to have any alternative but to raise tariffs. Not to mention the severance of European preferential treatment for the UK, Brussels’ tariffs could be dramatic for the UK. Of course, one counterpoint to this is that the UK could impose tariffs on the EU goods as well. Brexeters argue that making the foreign goods more expensive on the British market would boost the domestic production. In other words, apples from Spain costing more pounds incentivize the Britons to buy more British apples instead. However only minority of economists accepts this argument.

A tiny trade war could occur, since conversely London would rise its duties as well. In other words, «the UK would have to apply tariffs and quotas to goods coming [...] from the EU, and the EU would apply its “third-country” tariffs and quotas to the UK. That means the UK would be hit by big taxes when [...] sell[ing] products to the EU market. The bloc’s average WTO tariffs are 11.1% for agricultural goods, 15.7% for animal products and 35.4% for dairy. British car makers would be hit with a 10% tariff on exports to the bloc» (Power 2020). One of the crucial points of the Brexit saga in relation to trade is the fishery policy, whose industry is worth about 0.12% of Great Britain’s GDP (Villafranca 2020a) and is a political sensitive issue (Edginton 2020). Downing Street intends to prevent former European colleagues from accessing its waters: the fishery is symbolic (Rahman 2020) and the limitation that London wants to impose is primarily a political choice: an economic protectionism to preserve a part of its electorate. Alienating European friends – to whom three-quarters of British fish is destined (Villafranca 2020b) – could prove fatal for future relations, though the EU is about to accept limitations in terms of access to British waters (De La Grange-Rovan 2020b)

**US-China relations and the role of the City**

Tariffs’ effects are today to increase imports’ prices into the UK, while propping up the domestic firms’ revenues and then possibly helping the export. Although most experts would say that such positive effects work only for short-term. British export could see the US
as the largest receiver. Surely, London’s ties with the US will be further expanded, even because single bilateral agreements with other nations are not possible for EU members (Pickard-Hughes 2020). Conversely, the UK is now free to entertain economic relations with anyone: the US has excellent commercial ties with it, but a new trade deal by the end of 2020 it is quite unlikely to occur (Pickard-Hughes 2020).

In recent years Beijing has invested billions in the UK, which is the country with the most Chinese investments in Western Europe; accounting over the past decade more than £50bn (Ambrose 2020) to British economy. Beijing has grasped Brexit process’ frailties and uncertainties: seeing the squabbles between London and Brussels, China wasted no time and set up new resources to invest in the island. According to Harper (2020), China was UK’s 26th export market in 1999; it is the 6th today, with an export of 30.7 billion, after Ireland (38.3), Netherlands (42.7), France (42.8), Germany (48.4) and the US (141.4). If the EU-UK interdependence is doomed to weaken, dependence on China could be strengthened (even though a stronger UK-US connection could limitedly prevent this scenario): from the aids for Jaguar-Land Rover’s rescue (Ambrose 2020) to the investments in the energy field and transport, as well as the participation in Heathrow airport by the China Investment Corporation. Trade benefits both partners, but in the era of Brexit, taking a step towards Beijing could be a step back from Brussels.

This could be worrying especially for London. The City is crucial in the British economy: the capital massively voted against leaving the EU; without the City, the UK would lose 11.1% of its GDP (Diermeier-Goecke 2017). London is a symbol of market integration and attracts citizens with high levels of human capital (De Vries 2017) both from the EU and the world. Since the City managed to transform itself into a great financial center, many say that it will suffer from the partial relations’ severance with the EU; «international companies would no longer use London as an English-speaking entry into the EU economy. Goldman Sachs, JP Morgan, and Morgan Stanley have already switched 10% of their clients. Bank of America has transferred 100 bankers to its Dublin office and 400 to Paris» (Amadeo 2020).

**Brexit contagion, predictions and reputation**

The UK fluctuated in the ranking of the most competitive countries over the past decade. According to the Global Competitiveness Index (Schwab 2019), in 2012 it was in tenth place below Japan and Germany; in 2013 in eighth position, above Japan and Hong Kong (HK), then in the seventh below Sweden in 2017 and down, in the ninth in 2019, when three of its former colonies were at the top: Singapore, the US, HK, followed by the Netherlands, Switzerland, Japan, Germany and Sweden. As for the British pound, according to the IMF (2020), the worldwide foreign currency reserves saw the GBP’s reserves of 495.7 (Q1 2019) and 486.08 billion (Q1 2020); the US dollar was 6’727.09 and 6’794.91 billions respectively, while Euro 2’208.79 and 2’197.30: London seems to be in evident decline in many fronts. However, the UK will continue to play a global role and «will have to open its borders to more visitors and immigrants from the rest of the world, not less» (Westcott 2019).

Without counting the effects of Covid-19, if the country is going to close to foreign resources, its economy could collapse. This assures European partners, whose fear of a “Brexit contagion” among states, seems reduced after more than four years of exhausting negotiations. The massive exit from the EU of many countries did not happen; no “Italexit”, “Frexit” or “Grexit” occurred. At least in the short term, not only Brexit might have unified Europe (De Vries 2017), but there won’t be states willing to activate Article 50 of Lisbon Treaty. Brexit saga continues even beyond the expectations of those who in 2016 pressed to leave the EU and who
today are in an unusual silence vis-à-vis London’s difficulties. Beside the economic consequences and the new trade relations, Brexit continues to sow uncertainty on international markets. Relations with the EU, accused of “keeping the revolver” against London (De La Grange 2020), will always be essential for the UK.

Trust in the UK is in peril: the island’s reputation could be damaged by the broken promises and declining economy, as well as a farcical way of conducting negotiations and proposals on future relations. London has built a reputation for pragmatism for centuries and consolidated it over the past decades. To erode it, it takes a while (Girard 2020): as former PM John Major (quoted in MacAskill-Addison 2020) said, «if we lose our reputation for honoring the promises we make, we will have lost something beyond price that may never be regained». Reputation goes beyond any economic deal. Threatening to leave the table endangers a nation’s credibility and damages its economy in the long run. Conversely, being trustworthy and reliable, avoiding wasting time (Rankin-Murphy 2020), complying to the word given, respect of deadlines and counterparts, are essential aspects when contracting future accords.

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Since 2015, Amedeo has done more than four hundred interviews and is hosted as weekly contributing author on eight media; all his articles are collected on “Blackstar”, www.amedeogasparini.com. Amedeo is interested in (geo)politics, international relations, current affairs, journalism, history. He is enrolled in 18 organizations and speaks 4 languages.
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