



GLOBALISATION OUTLOOK

by Joe Zammit-Lucia

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In this issue of our Globalisation Outlook we focus on Brexit - the political context of the likely evolution of the EU and international trade.

Those who seek to disembarass a country of its entanglements should be very slow and wary. It should not be a matter of tearing up roots but of slowly training a plant to grow in a different direction.”

John Maynard Keynes, 1933

The UK government has failed to implement Brexit within two years of triggering Article 50. The Conservative Party has paid the price of that at the ballot box in the local elections, while Labour’s straddling of the Leave-Remain horses seems increasingly precarious. Cross-party talks have now been abandoned.

Brexit is but a step

What matters is what happens after

WHY BREXIT IS NOT THE ISSUE

The anger and frustration are growing on both sides of the Brexit debate. But we may be addressing the wrong issue.

The issue is not whether we Brexit or not. The fundamental issue is what do we do after we’ve exited – or if we don’t exit.

Brexit is not, and never should have been, an end in itself. Merely a route towards a different kind of Britain. But what kind?

There are two competing views of the crock of gold that lies at the end of the Brexit rainbow.

*Two diametrically opposed views
of a post-Brexit Britain*

Buccaneering Britain



The first view is of Britain as a buccaneering, enterprising, low tax, low regulation, low environmental and worker protection oasis. A Britain striking all sorts of trade deals around the world simply because our demands of what we might get from those deals will be so low.

This is the dream held by those on the right of the political spectrum. A short outline of this dream was [proposed recently](#) by Matthew Lynn in the Telegraph (£).

This approach has some merit. Exposing UK plc to fierce global competition will force much needed improvements in productivity if British industry is to survive.

But there are also caveats.

Doing so too quickly will not allow time for industry to adapt. It could be very damaging unless Keynes's entreaty of 'slowly training a plant to grow in a different direction' is borne in mind.

And it's not clear that this is really what the hard Brexiteers are after. If it were, why would they have protested so vehemently when the contract to print the new, blue British passports was awarded to a French company? Surely that is the essence of what they purport to be seeking.

Why did supposed 'free market' proponents complain so vehemently when passport contracts were awarded to a French company?

Statist Britain

Jeremy Corbyn and those on the Left have a different dream.

They see liberation from the EU shackles as a means to widespread nationalization and the handing out of state subsidies without interference from Brussels.



We therefore have two competing, diametrically opposed (and both largely obsolete) visions of a post-Brexit future. Though both have Brexit as a pre-condition, which one, if either, will prevail depends on what happens after Brexit. Who will win elections and be able to implement even part of their vision?

The Brexit Party may be 'post-political', but that stance is effective

The Brexit Party



The Brexit Party, on the other hand, has avoided getting embroiled in this debate. They have positioned themselves as seeking Brexit as an end in itself – a blow for Britain to become, once again, a self-governing democracy without external interference.

This stance [has been criticized](#) as being 'post-political'. No policies, no nothing, except "Let's get out".

While we may criticize, it's also rather clever. Why get involved in messy post-Brexit policy discussions when you can soar to the highest position in the polls in a couple of weeks on the basis of firing people up with abstractions?

It works.

And there is a further boost for the Brexit party.

The longer, more difficult and more convoluted the Brexit negotiations become, the more Farage can foment resentment that the UK has become prisoner in a club that it is impossible to leave.

Remainers have failed to provide an inspiring, radical vision of a post-Remain Britain

Remainers' lack of vision

What of Remainers? They have a problem.

In a world where everyone is fed up to the back teeth with the status quo and is yearning for radical change, they have failed to provide any post-Brexit vision whatsoever.



Yes, 'Bollocks to Brexit' it may be – but then what? What is being offered to all those who sent the message that the status quo simply will not longer do?

Of course, they could try the Farage post-politics approach and leave that question blank. But while that will work, and is working, for Farage and his

spirit of anti-establishment insurgency, it will be far more difficult to pull off for the Remainers.

At least Farage can shout “patriotism”, “democracy”, “independence”, “making our own laws” all of which have strong emotional resonance.

WHAT ABOUT THE TEDIOUS TECHNICAL BITS?

The Labour Party's demands for agreeing to support a Withdrawal Agreement make perfect political sense

What did Labour want as its price for supporting a deal? In short:

1. Staying in a permanent customs union (sorry, we don't yet know what the new euphemism for that will be)
2. Alignment on labour market and environmental regulation
3. Ensuring that none of that is reversible by a future government

The last is most likely impossible – and not only because of the government's instability.

But the other two make perfect political sense – even though they may be technically suspect.

Customs Union

A permanent customs union puts a stake right through the heart of the Conservative Party

A permanent customs union would kill off the chances of the UK negotiating its own trade deals and, in the process, for instance, allowing the country to be flooded with chlorinated chicken from the US. It's a proxy for ensuring no massive de-regulation to accompany trade deals.

Maybe more important is that a permanent customs union puts a stake right through the heart of the Brexiteer Right of the Conservative Party. It has a good chance of tearing the party apart.

A customs union avoids tariffs but will not deliver seamless trade with the EU. For that to happen we will have to be within single market rules, comply with rules of origin, etc. And there are other tedious border issues like VAT to consider.

But what it does mean is that the EU will be responsible for negotiating trade deals – not the UK alone. We address the implications of that later in this newsletter.

Regulatory Alignment

Regulatory alignment kills off the Right's post-Brexit vision

Seeking regulatory alignment on environmental and labour standards also makes sense from Labour's perspective. If that were to become embedded

and unchangeable, then the Right’s dream of a buccaneering Britain is automatically consigned to the dustbin.

Labour’s approach made perfect political sense. It’s a way of delivering Brexit (thereby opening the door to the Left’s vision of a post-Brexit Britain), while killing off the Right’s own post-Brexit vision.

WHAT ABOUT TRADE?

It is true that, freed from the EU regulatory imperatives and the need to accommodate the wishes of multiple Member States, the UK could have the opportunity to be more flexible and more aggressive in striking trade deals far and wide and mainly in its own interest.

That was the theory.

But the practice has proven to be quite different.

The trade deals all supposedly lined up for Brexit Day on the 29th of March 2019 have failed to materialise. And it is clear that, having cut itself off from one of the world’s largest trading blocs, the UK has weakened its negotiating position – and for two reasons:

1. All countries have limited bandwidth for trade negotiations. They would rather use that bandwidth to negotiate large deals with trading blocs rather than with a single country – even if that country is the world’s fifth/sixth/seventh largest economy
2. Countries are using the UK’s isolation from the EU to push for better terms than they could get from the EU.

Remaining in a customs union would preserve the negotiating heft of the EU at the expense of an independent trade policy

The hopes of a buccaneering Global Britain are turning to ashes

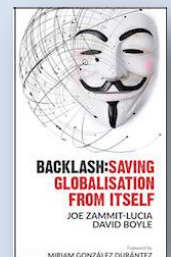
Is HMS Global Britain leaving safe harbour to sail into inhospitable seas?

“The UK might find itself in splendid isolation at a time when everyone else is forming larger negotiating blocs.

Is HMS Global Britain leaving safe harbour to sail into inhospitable seas?”

Joe Zammit-Lucia and David Boyle

In **“[Backlash: Saving Globalisation from Itself](#)”**. 2018



Other EU member States grew their international trade faster than the UK

Was the EU holding Britain back?

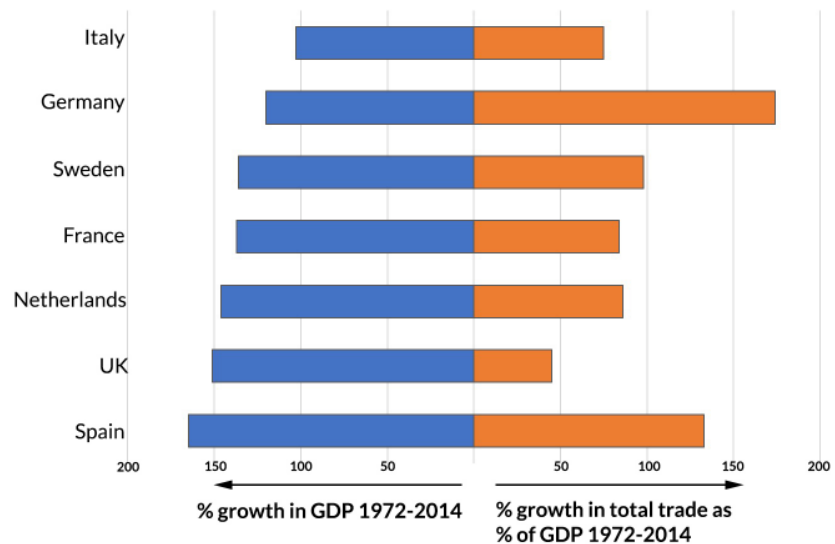
A further question is whether the EU is holding the UK back in terms of opportunities in international trade.

The figure below shows the change in GDP and in international trade for some larger EU countries.

It can be seen that the UK, while posting good economic growth, has remained a laggard in terms of growing its international trade.

It is difficult to argue that the EU is holding back Britain's trade opportunities

Within the EU, the UK has produced good GDP growth but poor growth in international trade



Source: World Economic Forum

Given that, it is hard to argue that the EU holds countries' trading opportunities back. More likely, the UK's choice of converting itself largely to a service economy with a high focus on financial services, has made itself less able to engage in trade since services are, by and large, less tradeable than goods.

That doesn't mean that the UK's increasing reliance on services is, in itself, a bad thing. Simply that, given that fact, international trade opportunities maybe should not be the main driving factor in future policy decisions.

As a service-based economy, the UK has more opportunities within an EU that pushes for a single market in services than it does with the rest of the world

And, in so far as they need to be, then the UK has greater opportunities within an EU that manages to drive for a single market in services than it has outside the EU – at least for now.

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