Global Britain

Bracing ourselves for Brexit

Simon Fraser outlines the priorities for profitable trading outside the EU

There is a new ambivalence about trade in western societies. Remarkably, this unpicking of the pro-globalization orthodoxy of the post-Cold War period has come not from the world’s poor, nor from the ranks of the usual protectionist suspects, but from within the two great advocates of open trade: America and Britain. We have an American President who says ‘protection will lead to great prosperity and strength’, while Britain is turning its back on the European Union internal market it invented.

This is a difficult context in which to pursue the vision of Global Britain. It is ironic that the first step towards this involves leaving the world’s most sophisticated international trade and regulatory system.

Making a reality of the soundbite will require a new, hard-headed and evidence-based strategy for future British trade; one which reflects the realities of our markets in the world, the changing nature of trade, with its complex international supply chains and the growth of services and digital commerce, and the relative strengths of the UK economy. Brexit also makes it more important than ever for the UK to

Containers at DP World London Gateway port which opened four years ago and through which much of Britain’s trade passes
Global Britain

defend an international trade system in the World Trade Organization with rules ensuring non-discrimination, fair competition and enforcement. Alone, we will be less equipped to cope in a trade environment driven by the bilateral and power-based instincts of the new US administration and China, or indeed the sheer trading weight of the future EU.

The journey to our new trade relationships can only start from where we stand today. In 2015, the EU accounted for 44 per cent of UK exports and 53 per cent of UK imports. Some 13 per cent of our trade was with the 50 countries with which the EU has preferential Free Trade Agreements (FTAs), which means that almost 60 per cent of our trade will be directly affected when we leave the EU.

In the same year, the US accounted for around 16 per cent of our trade, the BRICS countries — Brazil, Russia, India, China and South Africa — around 8 per cent and the Commonwealth around 9.5 per cent. The EU provides 54 per cent of our direct inward investment, while 32 per cent comes from the US and only 1.6 per cent from the BRICS.

These ratios have changed in recent years and will change again after Brexit, but by any calculation the new trade strategy for Global Britain must start with Europe and America.

By prioritizing domestic politics over economics, the government has made achieving a strong trade outcome with the EU more difficult. None of the possible forms of Brexit could have preserved our current access and influence in the EU market. A relationship based in a Free Trade Agreement, which is the best we can now hope for, will significantly reduce both. A breakdown, or late completion of the talks without transitional arrangements, would lead to much greater economic damage.

We cannot complete trade agreements outside Europe before we have left the EU. Nor can we negotiate seriously until we and others know more about our future relationship with the EU, for example on a customs arrangement or regulatory equivalence. It is essential to grasp that our new trade agreements with the EU and with other countries cannot be seen in isolation; they will be inextricably linked, because what we agree with one will affect the options available with others.

With that proviso, given the positive political signals, a second high priority in trade policy should be the US, our close ally, where a small percentage increase in trade will deliver big economic benefits. What matters is not getting a fast deal, but rather what it contains, which needs a lot more thought. For the UK, the answer is not tariff reductions on goods, but better trade arrangements for services and investment, mutual recognition of standards, qualifications and regulation, or agreed treatment for data.

These are politically sensitive issues on both sides, as we know from the EU/US TTIP negotiation, which offers both a launch-pad and some cautionary lessons. The US will also have other objectives in our market, for example for hormone-treated beef and genetically modified foods, which the British public may baulk at. However much political goodwill there is, finding a balance of advantage will be tricky, and the UK will be the weaker party offering access to a smaller market.

Another priority will be new arrangements with the countries with which the EU has FTAs or other forms of preferential status, especially Norway, Switzerland, South Korea and Turkey. When we leave, we will lose our privileged access in these markets unless we can continue EU agreements or negotiate new deals.

Trade would not stop, but it would cost more, placing UK-based businesses at a competitive disadvantage against European competitors. The EU’s South Korea FTA, for example, eliminated 97 per cent of tariffs and broke new ground on services. In its first five years, EU exports to Korea rose by 55 per cent, with the UK benefiting more than most. Global Britain will need to stay in this agreement, or negotiate something new that is as good or better. The same is true for Canada or Switzerland.

Some have claimed that any European trade disadvantages from Brexit will rapidly be outweighed by gains in more dynamic markets such as China and India, or in Russia or Brazil. We will indeed have important new opportunities there, which we should pursue with vigour. But we need to keep this in perspective. If we lost 5 per cent of our trade with the EU, we would need a 25 per cent increase with the BRICS just to get back to square one.

Reaching the sunlit uplands could also take time. Australia took ten years to agree an FTA with China, and India took six years with ASEAN. Those who complain about red tape in the EU may also overlook the bureaucratic or political hurdles in these markets, which can include onerous customs requirements, language barriers, legal uncertainty and discriminatory tax. At present our performance in these markets is mixed. We have been losing market share in India to Germany and France. In China, Germany does four or five times more trade than the UK.

Commonwealth trade ministers met recently in London, and we should definitely seek new opportunities with them. Australia and New Zealand are keen for bilateral trade agreements, but between them account for less than 2 per cent of UK exports. Early agreements are politically desirable, but secondary in economic terms. Should they be a priority for our inevitably limited negotiating resources?

It is a little remarked fact that 32 Commonwealth countries, mainly in Africa and the Caribbean, are covered by EU foreign trade agreements or have tariff-free access to our markets. Until we negotiate new agreements with them we risk being in the odd position of having worse trading terms with these Commonwealth countries than the EU does. The UK will also no longer be able to champion their access to the EU market as we have in the past.

These are some of the opportunities, priorities and challenges for Britain’s future trade relationships. There will be other important openings in markets such as the Gulf. Whatever any of us may think about the choice to leave the EU, and the
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Never mind the Article 50 procedure. An annoyance and a waste of time, it is ultimately inconsequential. The UK will withdraw the request to leave the European Union. It can do this at any time until the end of the two-year period, whenever the government has come to its senses and found a better strategy to get what the British people want.

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This summary of the will of the people will raise eyebrows and tempers in London. An intricate set of taboos and a centrally imposed Brexit narrative in Westminster would not allow it to be said by anyone with hopes for public office.

At the heart of the self-inflicted pain of ‘Britain leaving the EU’ is a conflict of interest: The government that pretends to represent the UK really speaks only for England, and the City of London seeking to avoid regulation by the EU. England is a country without a legislature and a democracy only by being part of the UK. It has no independent democratic voice, but usurped the UK government and imposed its will on the other nations of Britain.

The dominant narrative says that the British decided in the EU referendum that the UK should leave the EU at whatever price, that the result is binding and that those who voted against have the right to be heard but not to overturn the outcome of the referendum, and that Brexit is a one-way street, from the day the Article 50 procedure for leaving the EU in exactly two years has started. The UK will then be outside the EU, master of its own destiny and prosperity, united and at peace.

By now most Brits should know this prospectus is false. In fact, Article 50 is not a one-way street. According to Jean-Claude Piris, former director-general of the Council of the EU’s Legal Service, triggering Article 50 is merely stating the intention to leave. The intention can be reversed at any time over two years.

Reisende soll man nicht aufhalten: ‘Don’t stop a traveller on his way’. This German proverb reminds us to be tolerant of other people’s choices even if we don’t want to go with them. But what if the traveller is not alone but drags the relatives along against their will, in chains made of unwritten constitution? What if the departure causes pain to all others in the EU and...
Global Britain

destabilizes the whole neighbourhood? Then there is an obligation to speak up and recall that it is only England and Wales, that wants to leave the EU.

Some 63 per cent of the registered electorate did not vote for Brexit in the EU referendum on June 23, 2016; only 37 per cent did. The figure for those who did not vote for Brexit rises to almost two-thirds, or 66.1 per cent, if you take into account the whole voting age population. That was after the rules for UK general elections were applied instead of those for EU elections, and the rules were tweaked to produce a pool of eligible voters biased heavily against the EU. It was a non-binding referendum, where anyone with an axe to grind could register a symbolic protest vote against the government, and balanced people felt safe to stay away from the poll.

Asymmetrical mobilization and demobilization appear to have further tipped the balance to produce the outcome, declared binding after the result was known. The 37 per cent overall was below the threshold of 40 per cent for the vote to be valid in the first referendum on Scottish devolution in 1979. The EU referendum was held in violation of the prior UK standard.

Only one region, England and Wales, had a simple majority of votes cast against staying in the EU (53.3 per cent for Leave on a turnout of 73 per cent; 38.9 per cent of eligible voters and still below the 40 per cent threshold). The three other regions voted to remain: Gibraltar (96 per cent for the EU on 83.7 per cent), Northern Ireland (55.8 per cent on 62.7 per cent), and Scotland (62 per cent on 67.2 per cent). David Cameron, by resigning and thus validating the result, turned a score of 3-1 among the regions for the EU into a victory of England and Wales for Brexit, a feat to raise eyebrows even in FIFA.

The UK is a federation by any definition. It may be politically centralized, but the nations that share the British Isles have retained their clearly demarcated territories, identities, flags and their separate laws, institutions and customs. They have everything that marks sovereign states and they even field separate national football teams. The Swiss know that legitimacy of a referendum requires super-majorities of the people and the constituent parts of the federation. This lesson is applied in the voting rules in the EU Council of Ministers, but willfully ignored by David Cameron when he set up the EU referendum.

The UK government should let England (and Wales) become a self-governing nation, an independent country in the British realm, preserving the Union of the Crowns. England should be allowed to leave the EU, as Algeria did in 1962 when it gained independence from France, and Greenland did in 1985 when it gained autonomy but remained part of the Kingdom of Denmark. From the EU’s perspective, this is an internal change in one of its member states. It cannot but accept the outcome, and make some semi-automatic adjustments to seat numbers in the European Parliament, and voting weights in the Council of Ministers.

Scotland and Northern Ireland would continue the UK’s membership in the EU without interruption; there is no need to apply again for membership. The status of Gibraltar as a member of the EU also remains unchanged. That may annoy some hardliners in Spain, but at the same time, the precedent for an independent Catalonia in the EU is avoided.

The most obvious advantage would be in Northern Ireland. The open border with the Republic of Ireland (310 miles) will remain internal to the EU. That protects the Good Friday Agreement and avoids a return of the Troubles. Securing the ports and airports linking Northern Ireland and policing the traffic with England and Wales will be easier and cheaper than hardening the land border. The price is the establishment of an EU-external land border with the necessary controls along the 96 miles of border between England and Scotland. That is more a psychological than an organizational challenge, and in any case easier and cheaper than securing the much longer Irish border. UK citizens need to be given new passports that state if they live in the EU or in England or Wales.

England will then have the chance to become an independent democracy with its own elected legislature as the other nations in the UK already have.

Everyone gets what the referendum results say they want, and neither the EU nor any of the other member states need to agree. The solution can be obtained by agreement among the nations in the UK and coordination by its various legislatures. It does not depend on any outsiders.

The only force that stands in the way is Theresa May with her folly in taking the whole UK for a hard and complete Brexit.

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Andreas Kraemer is Founder of the Ecologic Institute in Berlin

THE WORLD TODAY | APRIL & MAY 2017

42
Global Britain

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Way the Government is putting it into practice, we should look forward and prepare to pursue the new opportunities with rigour and realism.

We will not succeed abroad unless we have the right attitude, policies and capacity at home. In a worsening international context, Britain should remain a positive force for sustainable growth, cooperation, tolerance and respect. Fair trade, conducted in a rules-based system, is an essential pillar of international security and prosperity. Withdrawal into nationalism and protection is the route to economic loss and insecurity.

This calls for strong political leadership. We will only rebuild confidence in open trade if people believe it serves their interest. Making this case is harder than offering simplistic answers that store up future disappointment.

Government also needs to understand the attitudes of business. Large companies will adjust to find new ways to operate in international markets. But their decisions will be driven by commercial considerations of profit and shareholder interest, not patriotism or national identity. And they cannot wait too long: they need to activate contingency plans well in advance. Smaller businesses have fewer options and may need more help to operate in international markets after Brexit.

The Government’s proposal for a new Industrial Strategy is welcome. We need to find ways to give people education, skills, opportunities and the confidence to believe that they have a stake and can compete in a high-quality, high-technology knowledge economy. This is a long-term challenge that will require consistent policies and investment. It will be achieved neither through a low-tax, low-regulation economy, nor through heavy state intervention or protection. Either of these approaches would invite damaging international retaliation.

This agenda is huge and complex. New opportunities will arise, but even focusing on the highest priorities will be an enormous task for Parliament, ministers and civil servants, which will test our system to the limit. We shall need determination, clear thinking and sufficient expertise at home and abroad to meet the challenge.

Sir Simon Fraser, head of the UK Diplomatic Service 2010-2015, is managing partner of Flint Global Ltd and Deputy Chairman of Chatham House

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