

THE CONSEQUENCES OF BREXIT

Economic Effects and Prospects

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THE UK AND THE EU: A TIMELINE

DATE	WHAT HAPPENED	COMMENT
1960s	UK applications rejected twice	Gen. De Gaulle says 'NON'!
1973	UK joins EEC – now called EU	Pivot away from Commonwealth
1975	Referendum on remaining in EEC	Nearly 2/3rds vote to stay
Early 1980s	UK in disputes over budget costs	Thatcher: 'I want my money back'
Late 1980s -1990s	Completion of EU single market	Project strongly supported by UK
1992 - 1999	Maastricht Treaty >> launch of euro	UK (& Denmark) has formal opt-out
1995 onwards	Schengen free movement area	UK never agrees to participate
2004-13	Accession of post cold war members	UK supports, but worries about costs
2013	David Cameron promises referendum	Response to growing euro-scepticism
2015	Surprise election victory for Cameron	He commits to holding referendum
2016 -2019	52% of those voting are for Brexit	Political turmoil >> Johnson as PM
Early 2020	Withdrawal agreement approved	Start of 1 year transition to UK exit
24 th Dec. 2020	Trade and Cooperation Agreement	Brexit complete or maybe not
24 th Mar. 2023	Windsor Framework formally ratified	Tory rebels routed or maybe not

THE LOGIC OF (BR)EXITING

WE DISLIKE THE RULES OF MEMBERSHIP AND WANT TO BE ABLE TO CONTROL OUR OWN REGULATORY SYSTEM

LEAVE!!

OUR CURRENT RULES ARE THE EU'S RULES

“THE FACT THAT YOU ARE CONVERGENT ON DAY ONE DOESN'T REALLY MATTER. THEY WANT TO KNOW WHERE WILL YOU BE ON DAY TWO OR DAY TWO HUNDRED OR DAY TWO THOUSAND”

IVAN ROGERS , FORMER UK PERMREP IN BRUSSELS

NOT SO FAST...

A DEAL ON THE FUTURE ECONOMIC RELATIONSHIP SHOULD HAVE BEEN EASY ...NO?

AFTER WINDSOR, WHAT NEXT?

GLOBAL OBJECTIVES

- TPP still on agenda
- Stance on China
- India and other FTAs

UNFINISHED BUSINESS

- Horizon participation as litmus test
- Halfway to TCA review
- Security & other deals

NEW POLITICS?

- New tone to EU relations
- Eclipse of Brexit 'ultras'
- Macron's idea of EPC



CONCERNS ABOUT UK ECONOMY

As Liz Truss claimed: growth too low

- Disturbing context of weak productivity record
 - Will it be eased or aggravated?
 - Uncertainties around labour (and skills) supply
- Incentives for investment and innovation
 - The importance of FDI for the UK
- Sectoral implications of Brexit: possible tensions
 - City of London or the largely foreign owned car industry?
 - The domestic economy or exporters?
- Regional balance, including UK's four nations

THE TRUSS (NOW SUNAK) TRILEMMA

WANTING TAX CUTS
TO STIMULATE
GROWTH

MARKET DISMAY
ABOUT TREND OF
PUBLIC DEBT

PUBLIC
FINANCES

ACCUMULATION
OF SPENDING
COMMITMENTS

ALL AGGRAVATED BY DEEP DIVISIONS IN CONSERVATIVE PARTY

FOUR KEY ECONOMIC MESSAGES

- All (Br)exit options forecast to be negative for UK
 - A simple formula: higher barriers = bigger losses
- EU27 will also lose, but much less per capita
 - But big differences among member states
 - Mix of gravity, export sectors & historic links (e.g. Cyprus)
- The TCA restores many non-tariff barriers
 - Border frictions, market fragmentation etc
- Much more to the economics than trade or FDI
 - Labour mobility; productivity; public finances

YOUR OPINIONS....

1. Will Brexit damage:
 1. The UK economy?
 2. The EU27 economy?
 3. The Mexican economy?
2. What is needed to make a success of Brexit?
3. Would you have voted for Brexit?

THE EVIDENCE SO FAR

- Still early days, but some tentative data
- The positive: predictions of disaster debunked
 - So far, UK labour market quite robust
 - GDP growth since Brexit did not change much from trend
- Yet...
 - Sharp initial fall in exchange rate, never recovered
 - Small business put off exporting by paperwork
 - Concerns about major service sectors
 - Slight deflection away of inward investment
 - Some financial services activity & jobs moving to EU

RECENT VERDICTS FROM EU MEDIA

La UE y Reino Unido tienen que tomar decisiones urgentes sobre la relación que quieren tener. Londres necesita acceso al mercado y Bruselas necesita adaptarse al salto tecnológico – Wolfgang Munchau – *El Pais*

“Covid served for a while to disguise the damage inflicted by Brexit, which has become the ‘elephant in the room’” – *Le Monde*

The truth is that the Tory party’s Brexit ideology is hollow. It consists of a handful of clever slogans that, to the misfortune of the British nation, have lingered on for too long. Liz Truss’s spectacular failure is the clearest example of this – *Die Welt*

ACCURATE?

HOW WOULD YOU DESCRIBE HIM?



THE HERO WHO MADE
BREXIT HAPPEN

“FRESA” O “NACO”

MODERN DAY LAZARUS
OR CINCINNATUS

HAVING A LEGACY THAT
DAMAGES THE UK

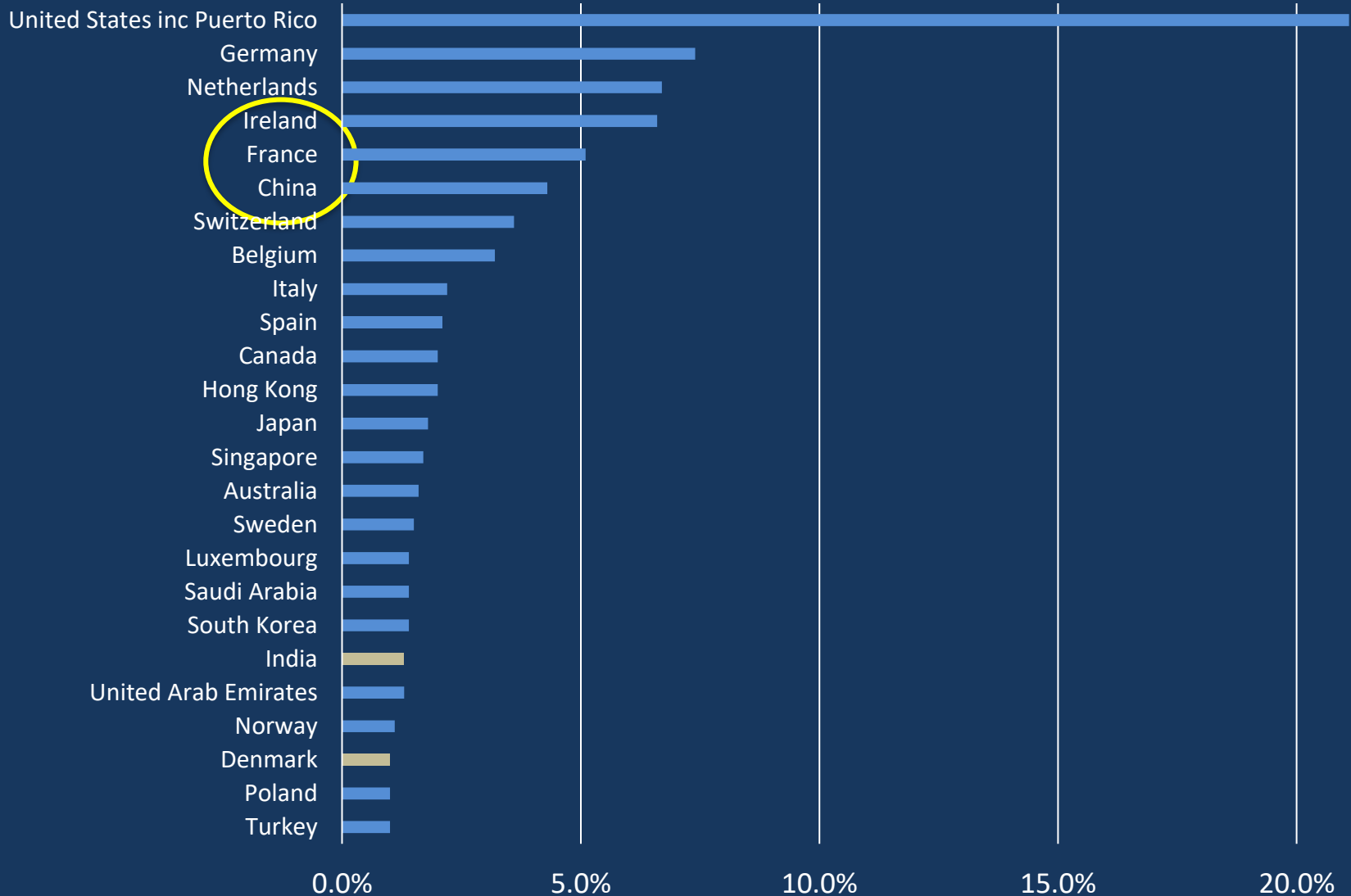
DEPISTADO ... O GANDALLA

TRADE OPTIONS

- EU27 still matters: around 50% of UK trade
 - The significance of supply chains and networks
 - Evident tensions and frictions since Brexit in EU-UK trade
- EU legacy deals: Japan, Canada, CH & Mexico
- New deals, e.g. Australia, NZ and.....?
- US still distant
- Unfinished business
 - Around financial services
 - But also fisheries, car batteries and more

UK'S TOP 25 EXPORT MARKETS

(% OF TOTAL EXPORTS OF GOODS, 2021)



IS BREXIT LIKELY TO PROVE TO BE ADVANTAGEOUS OR DAMAGING TO....

THE CITY OF
LONDON

HOTELS IN
YUCATAN

TEQUILA
DISTILLERS

AVAILABILITY
OF FUNDING
FOR EU27
COMPANIES

ORDINARY
WORKERS IN
THE UK

SOLIDARITY IN
THE EU

YOUNG MOBILE
WORKERS

CHINA'S
EXPORTERS

UK RETAILERS

THE IRISH BORDER 'TRILEMMA'

NO HARD BORDER
IN IRELAND: GOOD
FRIDAY DEAL

NO SEPARATION
BETWEEN GREAT
BRITAIN AND NI

UK OUTSIDE THE
CUSTOMS
UNION

ALL AGGRAVATED BY DEEPLY DIVIDED POLITICS IN NORTHERN IRELAND

THE NI PROTOCOL PROBLEMS



- Plainly, not working as hoped
- Can you think of a solution?
 - From a business perspective
 - To meet the concerns of citizens
- Does the Windsor framework offer an enduring answer?
 - “DUP says ‘no’ [as so often]”
- Claim that NI has the best of both: in single market AND UK

WOULD YOU HAVE VOTED FOR BREXIT?

Yes or No? Explain your answer if you are:

Vladimir Putin

**Irish Finance
Minister**

UK Union leader

**Major German
exporter**

**Typical Swedish
tax-payer**

**Mexican
Professor**

**Textile worker in
northern England**

LSE student

Antonio Guterres, UN Sec-Gen

“SINGAPORE ON THAMES?”

- Hint of threat: May, Johnson & Truss teams
 - If you don't give us, and respect, a good deal...
 - ...we undercut you by deregulating and lowering taxes
- >> Battleground of attracting inward investment
- But never part of the referendum debate
 - Commitment to public service remains strong
 - No obvious enthusiasm to lower labour standards
 - Pledges to raise minimum wages
- >> Simple conclusion: it is not going to happen

AN EMERGING POST-BREXIT MODEL

- Attempts to favour indigenous workers
 - Supposedly tough curbs on inflow of workers
 - Tests based on scarcity and contribution to the economy
 - Opening to skilled migrants from rest of world
 - Yet paradoxically, immigration is rising
- Raising wages to deal with labour shortages
 - Trade-off between enhancing skills & curbing inflation
- Betting on innovation
- ‘Levelling-up’ as a policy priority
 - Election promises to new Tory voters: reaffirmed by Sunak

UK-EU RELATIONS SINCE BREXIT

- Badly rocked by influence of Johnson
 - Before, during and, even now, after being PM
- Ambiguity about EU position
 - Determination to maintain the integrity of the single market:
 - Barnier “never compromise on the integrity of its single market”
 - Open to UK return, but terms likely to be unattractive to UK
 - EU integration under challenge, but still advancing
- Labour party stance not to re-open Brexit decision
 - Although supportive of a more constructive relationship
- Low probability of UK re-joining, certainly soon, if ever
- Plan B: European Political Community: but what is it?

YOUR OPINIONS....AGAIN

1. Will other EU members be tempted to exit?
Suggestions for the most likely ...
2. Will reform in the EU associated with Brexit:
 1. Improve the functioning of the EU?
 2. Offer opportunities (or threats) for Mexico?
 3. Affect you, personally?
3. Would Mexico want the UK to re-join the EU?

WHICH TAKES US TO SOME 'WILDCARDS'



Possibly soon
**Renewed
frictions around
unfinished
business**



Most fanciful:
Pro-remain
forces win UK
election



Summer 2023
**Problems in
France worsen:
Macron in trouble**



A major investor
quits the UK



Geo-politics: think
Trump II, Putin

CONCLUDING COMMENTS

- Assessments unavoidably complicated by Covid
 - Brexiteers fret about possible benefits taking too long
 - An awkward trade off: politics versus prosperity
- Uncertainty has been persistent around Brexit
 - Deplored by business: a source of economic damage
- Underlying debates on future UK model
 - Go for growth: great...but how and with what risks?
 - Overlaid by ideological disputes *within* government
- Don't expect UK to diverge from EU norms
 - They are too entrenched
- EU will not stand still: working on response to IRA
- Is Brexit done? In a word, no. Indeed, far from it

“Once you hear the details of a victory,
it is hard to distinguish it from a defeat”

Jean-Paul Sartre