

Anyone for Fish, Chips and Mushy Peace?

By Dr. Steven McCabe, Associate Professor, Institute of Design and Economic Acceleration (IDEA) and Senior Fellow, Centre for Brexit Studies, Birmingham City University

Friday's symbolic departure from the EU by the UK at 11.00pm, accompanied by celebrations in Parliament Square was, according to the government (Johnson) narrative, the moment when Brexit was finally "done". The reality, of course, is that only when we know the nature of the free trade agreement that exists, or not, between the UK and the EU, will we really know what the effects of Brexit will be.

Will there be benefits as advocates suggest or, alternatively, negative consequences as detractors claim? Time will provide answers. Until the end of the transition period, the UK continues to adhere to the rules and regulations that, in order to ensure consistency, every organisation and business in all EU members adheres to.

After transition, the UK is free to do whatever it pleases. However, the stated ambition is to achieve a set of rules and regulations covering trade relationships between the UK and EU for the foreseeable future, not to mention how security, foreign policy as well as a multitude of other technical policies will be dealt with.

Data shows that trade between the UK and EU is considerable. According to the House of Commons Library (December 16, 2019), UK exports to the EU in 2018 was valued at £291 billion (45.3% of all UK exports). Equally, UK imports from the EU was valued at £357.4 billion (52.6% of all UK imports).

Though trade with the EU has fallen in relative terms over the last two decades, it has increased in absolute terms considerably. In 1999, exports were valued at £133.9 billion (53.8%) and imports £147 billion (55.9%). Because the EU is still the UK's largest trading partner (next is the US), a 'no-deal' outcome, however much Brexiteers might argue otherwise, would cause severe economic upheaval as well a financial Armageddon equivalent to the impact of the Global Financial Crisis of 2008 that led to austerity measures.

Additional tariffs undermining the ability of exporters sell almost £300 billion worth of goods to the EU is not a prospect that anyone welcomes. On the other hand, the deficit of £66 billion that the UK has with the EU in overall value (a surplus of £28 billion in services being dwarfed by a deficit of -£94 billion in goods), means that the EU will be extremely keen to agree a deal protecting this market for their goods.

Data demonstrating that the relative share of trade with the EU is falling whilst exports to other countries has been increasing at a faster rate allows Brexiteers to contend that having to trade under WTO (World Trade Organisation) rule, as their placards state “No Deal, No Problem”.

Their view, echoed by Johnson, is that other countries such as the US, Canada, South America, Australia, China, the Far East in general as well as developing countries in Africa, as well as making up for any trade lost with the EU as a consequence of ‘no-deal’, provide potential for significant growth in the future. Brexiteers also assert that once free of the EU, the UK could import more cheaply from the rest of the world. Moreover, they claim, increased tariffs provide an incentive to domestic producers to make ‘home-grown’ goods.

Those acquainted with trade deals will fully appreciate the high stakes that accompany negotiations. As they stress, progress is measured. Achieving success in the eleven months until transition is due to end on 31st December is hugely optimistic.

Accordingly, speed is of the essence and ‘successful’ negotiations required each side to explicitly set out their stance at the earliest opportunity. This will give a clear sense of what is important to each side and the range of ‘tradeables’ that can be used as ‘bargaining chips’ to achieve overall agreement.

Speeches made by Johnson and EU chief negotiator Michel Barnier on Monday indicate the magnitude of the task.

Barnier stated his intention that the EU would like to see a trade deal that required a “level playing field” under which the UK would adopt the rules and regulations on state aid, social and employment standards, environment and tax matters that are the same as the EU.

Given the stated intention of the EU to maintain the integrity of the single market and sacred principles of union between all member states, Barnier's stances was to be expected.

Johnson's was equally empathic that his intention is that after transition the UK will not maintain alignment with the EU's regulations:

“There is no need for a free trade agreement to involve accepting EU rules on competition policy, subsidies, social protection, the environment or anything similar, any more than the EU should be obliged to accept UK rules.”

On the face of it, these statements suggest that the portents for a deal that both sides can readily agree to doesn't look promising. For good measure, Johnson declared that the objective was that the UK would use a 'Canada-style' model in trade with the EU. There would be no tariffs on goods and it would be able to implement whichever regulations and standards it felt most beneficial.

As many commentators point out, agreeing to such an arrangement by the EU would be to give its blessing to the creation of a nation next door (sandwiched between the continent and Ireland) that would be able to operate as an unfettered competitor. That would make no sense from the EU's perspective.

Failure to reach agreement would result in 'no-deal' with severe economic consequences for both sides. Johnson, a politician whose ability to make categorical commitment then break them is legendary, stated during the election campaign that there was “absolutely zero” chance of 'no-deal'.

Significantly, Johnson made clear his intention that if he cannot secure a Canada-style deal, he'd happily adopt an Australia-type approach to trade with the EU. Given Australia has no trade deal with the EU, being essentially 'no-deal' with a couple of side agreements, what Johnson suggested by adopting an 'Australia' approach effectively threatens what has always been seen as the worst outcome. According to the Treasury, ending transition with 'no-deal' would result in the UK's economy suffering a hit of 7.7% to GDP (Gross Domestic Product).

What is going on appears to be opening moves in a complicated game of 'chess' to be played by the UK and EU over the coming months. Barnier and Johnson are engaging in posturing intended to assuage concerns by those on their respective sides happy to engage in a fight.

Those who claim to have wisdom in such matters believe that when push comes to shove, and each side looks over the precipice, sanity will prevail and a workable deal will emerge.

In the meantime, we can expect much huffing and puffing and, perhaps, a theatrically-staged falling out in early summer with the sort of emergency meetings that characterised the process of eventual agreement of the UK's withdrawal from the EU.

This vista has a caveat. As a [Guardian](#) editorial put it so eloquently: "Johnson's premiership rests on the nostalgia of Brexit; its true believers think they were better off in an imagined past, before Britain joined the European Community."

For such believers, the goal of leaving the EU is worth achieving whatever the economic cost. Like Donald Trump proclaimed during his election campaign to become President, to make America great again, Johnson, by "getting Brexit done", will achieve similarly for the UK. Anyway, believers contend, apocalyptic predications of economic catastrophe as a result of 'no-deal' are wrong

For Brexiteers, concerns expressed about 'no-deal' propounded by harbingers demonstrate an inability to share the dream. Worse, non-believers are viewed as not sufficiently committed to the nationalist fervour on show on Friday evening when, in celebration of freedom from the EU, some treated the EU flag with disdain by burning it or stamping it into the mud of Parliament Square.

Damningly, remainers do not share the belief that the UK, freed from the shackles of malign and faceless EU bureaucrats, will rediscover its economic prowess. This will allow, Brexiteers passionately argue, control to return to the UK in key sectors including fishing, farming and manufacturing, all of which have undergone significant alteration, a two thirds shrinkage in size, since we joined the EEC (European Economic Community) in January 1973.

It's worth noting that compared to the service sector that dominates the UK economy at around 80% of GDP, manufacturing is a relatively small 10%. Farming and fishing, though totemic to Brexiteers of the way that being part of Europe undermined the UK, are miniscule at 0.6% and 0.1% respectively.

Perhaps in the future being absolutely free of the EU will be advantageous. Having absolute independence in food, especially fish and farm produce, could be critical to survival. Equally crucially, the ability to produce the next generation of manufactured products that will be even more autonomous will require dynamic entrepreneurs and innovators.

There will also be a need for a supply of the semiconductors that are essential to manufacture chips. The announcement that the ban on petrol and diesel car sales has been brought forward to 2035 will make their guaranteed supply critical.

Contrary to what we were told by Johnson during the election, hold tight as we're about to once again ride the post-withdrawal Brexit (but don't call it that), rollercoaster. As experienced previously, there will be thrills and spills.

It seems we can look forward to plenty of British fish, chips – of the potato and electronic variety – and, eventually, an uneasy, 'mushy', peace with the EU.