Can the UK really be competitive post Brexit?

By Vicky Pryce, Visiting Professor at Birmingham City University and board member of the Centre for Economics and Business Research

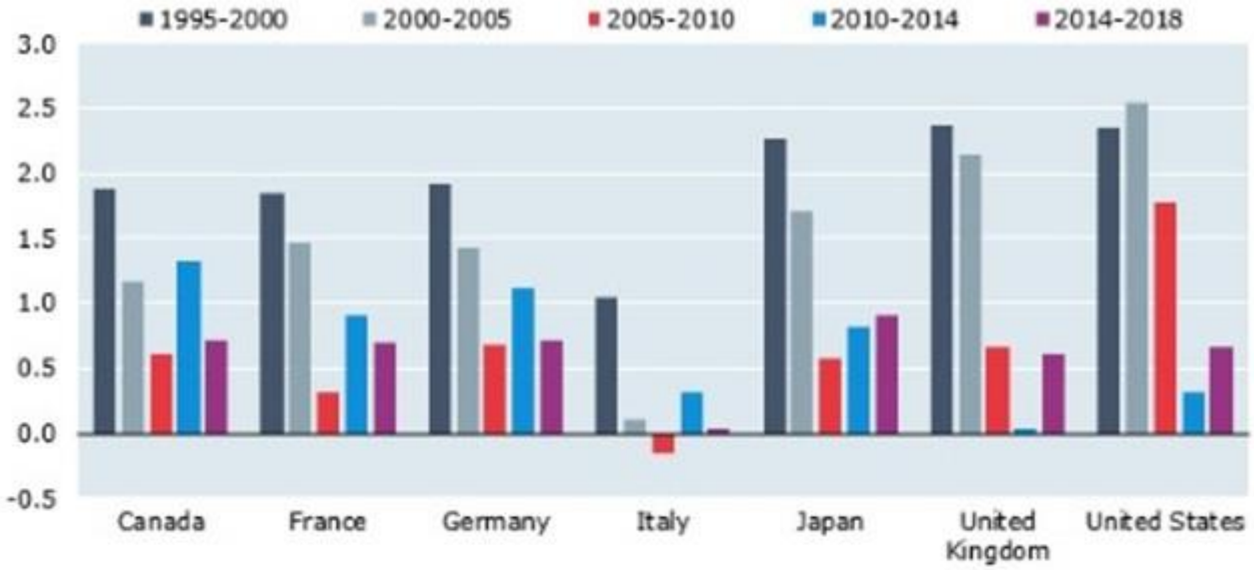
The deadline for exiting the Brexit transition period is just a couple of weeks away. The outcome of the current trade negotiations remain as unclear as ever. But how will the UK, outside the EU, with or without a UK/EU Free Trade Agreement carve out for itself a competitive future in what is likely to be a pretty cut throat post-Covid trading environment.

At present the UK can undoubtedly claim to be one the big players in the world scene. It does this sometimes on its own merit and sometimes as part of a big trading and economic region such as the EU. The UK is a member of the G7, was instrumental in convening the new group of G20 group of countries at the height of the financial crisis under pervious Prime Minister Gordon Brown and is a signatory on many international agreements, including on Climate Change where it is currently taking a lead role. It rates near the top in Ease of Doing Business[i], and has a well ingrained rule of law that has added to confidence of businesses in being located here. It has also an openness to foreign involvement in its economy which many other countries are unable or unwilling to emulate. In the World Economic Forum's (WEF) Global Competitiveness index [ii] the UK usually appears in the top 10 of the 141 or so nations it usually surveys.

But is this going to change because of Brexit? According to Professors Michael Porter and Christian Ketles[iii], both at Harvard Business School, Brexit will exacerbate Britain's failure to get to grips with its low productivity. They know the UK well. In 2002/3 when I was working for the government we invited them both to conduct a review of the UK's strategic strengths and weaknesses [iv]. Although the gap between the UK's and other competitors' productivity had been narrowing since 2001 the academics , looking at the UK at the time, found many things wanting, particularly in the field of innovation and skills. A number of steps were taken with the publication of the UK's first -ever Innovation Strategy which focused on policies much more attuned to changing economic realities and the extra competitive pressures brought about by increasing globalisation.

The financial crisis hurt the UK more than its peers. Productivity slumped more than in most other comparable countries as shown in the OECD chart below[v] . It then recovered only slowly since the financial crisis[vi]. There are estimates that if the economy had continued to experience the same, still modest, productivity growth it had enjoyed in the ten years before that crisis, GDP right now would be about 25% higher than its current level.

GDP per hour worked, percentage rate at annual rate



The austerity response since 2010 that followed didn’t help either. And yet the UK’s WEF’s innovation ranking has stayed high .Last year the UK was was eighth in innovation (Germany being No 1) mainly because of its strength in the field of scientific publications[i].

There are nevertheless worries that post Brexit the UK will lose its attractiveness to scientists and other academics from around the world to locate here and that the end of participation in the Horizon 2020 programme and its successor will affect that ranking negatively. And the underlying problems of low investment and underperforming companies remain. In truth international trade competitiveness has been mainly maintained through a weakening of the currency. Sterling fell sharply at the time of the financial crisis, when the UK was in fact downgraded by the rating agencies, then again after the Brexit vote in June 2016, with another downgrade in its wake. That reflected anticipation of slower future long term growth as trade with its main export partner would, under whatever type of Brexit, be more constrained than hitherto. And there was a further credit rating downgrade at the start of the Covid crisis as the UK's response was generally thought to have been too slow. In any case the country was perceived to be much more vulnerable to lockdowns being a heavily service oriented economy.

But there could well be another explanation for the relative economic underperformance of the UK economy in 2020 compared to most other OECD countries. After all there are other comparable economies with large service sectors which have suffered less than the UK during the Covid crisis. Simon Nixon in the Times on December 1[ii] pointed out that the pandemic hit the UK at a time when the economy was '*already seriously weakened by Brexit. Business investment has collapsed since 2016. The looming end of the transition period on January 1 has destroyed what is left of business confidence*.. 'And there is also a good chance that with non-membership of the EU Britain will no longer appeal as a gateway to Europe for foreign direct investment. [iii] As the government own analysis has shown that FDI is a major contributor to I productivity and innovation.[iv]

The only hope is that Brexit will force a rethink in industrial and general economic strategy that will propel the UK forwards. It is a theme taken up by Alex Brummer, City Editor of the Daily Mail, in his latest book, *The Great British Reboot*. [v] But as Porter and Ketles also argued, this will need a real re-orientation to focus innovation and skills if one were to really ensure that the economy flourishes in the long term despite Brexit. But how optimistic can we be that the state really has the capacity and ability to embrace much needed economic reform at such a crucial time. On current evidence I would guess the jury is out. And the currency may well have to take the strain again.

Vicky Pryce is on the board of CEBR, Visiting Professor at BCU, a former joint head of the UK Government Economic Service and

co-author with Beverland and Nielsen of '*Redesigning Manufacturing'* (Palgrave Macmillan)

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https://en.wikipedia.org/wiki/Ease_of_doing_business_index

https://en.wikipedia.org/wiki/Global_Competitiveness_Report