

## Brexit and the UK in the world: What lies ahead?

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It's a pleasure to be here at the University of Glasgow, as a guest of Policy Scotland. You do important work, for Scotland and for a wider world. Creating the context where academics, policy practitioners and other interests can come together to work out better ways of doing policy is a huge service to the public interest. It is in this conjunction that the new policy thinking will emerge that will best address the challenges we face as a country. The need for fresh ideas will never diminish and nor will the importance of institutions such as this.

There's going to be plenty of scope for fresh policy-making in the years ahead. Brexit poses immense challenges for the country, challenges that we have barely begun to address. I want tonight to look at the choices the UK will have in its relationship with a wider world and the impact of those choices on domestic policies. This will be a grittier world than the one we have been used to. Those choices will be tough; in taking back control of our capacity to do our own trade deals and set our own rules we also bring back the political controversies that attend such choices.

Central to the UK's place in the world post-Brexit will be the relationship it negotiates with the EU. I will review the broad likely shape of that negotiation and the issues it will raise. At the same time, the UK will likely be seeking to negotiate its own trade deals with other countries round the world. These parallel negotiations will intertwine, choices made in one domain limiting choices in the other. All will impact on the domestic policy context; I will set out some of the salient issues.

Once out of the EU, the UK will become a third country in respect of the EU. But the UK will still need to seek to influence what happens within the EU. I will look what the UK will need to do to adapt to that new environment.

I will briefly cast the net wider, to ask how the projection of UK interests will work in a wider world post Brexit. And I will ask what impact this might have on those whose interests are still bound to the UK, the crown dependencies and the overseas territories.

Scottish interests will of course be intimately tied into all of this. How this story plays out will be hugely consequential for Scotland's sense of its place in this Union, the Union of the United Kingdom. Much of what follows engages practical issues of governance within the UK, much of it will have specific impact on Scottish economic interests. All of it will be determinative of how people in Scotland regard the UK Union. This will add another, complicating, layer to what follows. How will the UK negotiate a future if doubt over its own survival as a union-state of four distinct entities persists?

Let me start with a brief reflection on the present.

We are truly at an extraordinary moment in this country's history. Over three years since the EU referendum, we are no more certain as to how or even if we will leave the EU. The Prime Minister has been sued before the Supreme Court on his plans for prorogation and has lost, both the case and whatever credibility clung to his approach for dealing with Parliament. His Government is stuck, skewered by the Fixed Term Parliaments Act, neither dead nor alive.

Opinion across the land is polarised, perhaps only united in being fed up to the back teeth of this rotten drama. Who could have imagined we would come to this pass?

There is of course still a possibility that we will not leave the EU at all. That's a bit of a challenge for a lecture that is looking at a post-Brexit world, a world that might never come to pass. The circumstances in which that might happen are complex, but not implausible; some sort of alternative government put in place to transact only three pieces of business: to agree and ratify a deal with the EU, to put that deal to a referendum and then to dissolve itself to allow an election to happen.

I would say two things about this scenario. The first is that all of this cannot be done by Christmas. Any substantive shift from the deal negotiated by Mrs May will take time to negotiate and time to ratify. Holding a referendum is not a simple thing. It requires primary legislation. A question, or questions, need to be framed and tested. Campaigns need to be appointed. There has to be a regulated period for the campaign itself. This is the work of months, not weeks. Short-circuiting the process risks the legitimacy of the outcome.

And if we go that road, let's hope that the result is sufficiently decisive to put the question beyond doubt for at least a generation.

The second thing to say is that the Brexit process, and the insurgency that brought it into being, has already cut a swathe through the life of this country, through our reputation in the world and our sense of place and self. Our constitution has been challenged as never before and relationships between the different parts of these islands put under further stress. The economic impact of Brexit is with us now.

Some of the challenges fall away if we do stay in the EU, but too much has been said and done for there to be any prospect of a return to the status quo ante. The world has changed. So even in the circumstances of a re-run of the referendum, a revocation of the Article 50 process and the continuation of membership, there is an enormous task of re-building trust and confidence in the UK as a reliable member state and international partner. I will not dwell on this, because I think it the less likely scenario. But those who promote another vote should not imagine that a different outcome can somehow wipe away the damage that the UK has done to its reputation in the world over these last few years.

If we do indeed leave the EU, the manner of our leaving will of course be important. Leaving with no deal is a very different starting point than leaving with a deal. But we should be clear that, deal or no deal, the challenges facing the UK in the medium and longer term will be pretty much the same. The idea that no deal allows some sort of clean break and removes the need for tough decisions about our future relationships in the world is simply wrong, if not border line delusional.

Close on a thousand years of the history of these islands has demonstrated time and again that the interests of the peoples who now live in what is the United Kingdom has been intimately bound up with the political and economic fortunes of the continent. It requires an extraordinarily myopic view, and a deeply ahistorical one, to believe that somehow the UK can cut itself loose from its moorings off the north-west European continent. There is no world in which the UK will not be deeply engaged in a trading and security relationship with our near neighbours. And there is no world in which the interface between that relationship and the deals we do with other countries will not involve some tough choices.

The net effect of a no deal outcome will not be to change the underlying realities of the UK's trading and security interests. But it will concentrate the economic shock of leaving the EU in a way that will make life very difficult for countless businesses up and down the land. And it will delay the day on which we arrive at a new and settled relationship with the EU and thus the end of the uncertainty that has been one of the most debilitating aspects of the exit process.

So, through one route or another, this or a future UK government will be negotiating a new relationship with the EU. This will be the most complicated negotiation ever attempted either by the UK or by the EU. One of the remarkable features of the last few months has been the almost total absence of debate on the nature and objectives of this negotiation. It could be on us very soon. So it is perhaps worthwhile rehearsing what it might look like.

You will remember back at the start of all this that the European Commission, in the person of Monsieur Barnier, made clear that the UK had a choice between two basic models for our future relationship. On the one hand, there was available a model based on the European Economic Area, which would entail membership of the Single Market, with perhaps an option too to stay in the Customs Union as well. On the other, there was the option of a looser free trade agreement, based on what is seen as best in class, the deal struck between the EU and Canada.

By an early and insistent rejection of the continuation of the freedom of movement of people and the jurisdiction of the European Court of Justice, Prime Minister May ruled out the first option. But she came over time to recognise the limitations and risks of the second, for the economy of the UK and for the cohesion of the United Kingdom. Hence the ambiguity of the Chequers document, published in July last year, that sought to maintain two irreconcilable objectives, frictionless trade between the UK and the EU and the ability of the UK to do its own trade deals. The Withdrawal Agreement that she eventually signed up to, and the accompanying Political Declaration on the future relationship, maintained that ambiguity. It cost her her job, as the Eurosceptic insurgents in her own party saw in the backstop arrangements in particular a prelude to a future relationship that would keep the UK in the Customs Union.

That ambiguity is now gone. Her successor as Prime Minister no longer talks of frictionless trade, but trade with as little friction as possible. That accepts the reality of a hard border between the UK and the EU and plants his flag firmly in free trade agreement territory.

Conceptually, this is clear enough. As with the deals the EU has done with Canada, Japan, South Korea and many others, there are plenty of precedents for this sort of deal. But none that involves such an important trading partner as the UK.

It is worth setting out some of what such a negotiation might entail.

One of the first things to understand is that tariffs will be the least of it. There is still a lingering faith in some quarters that international trade deals all hinge off tariffs. But successive multi-lateral trade rounds have chipped away at tariff levels for industrial goods and they are now mostly low. Negotiating a zero-tariff deal on industrial goods with the EU should not be difficult, not least since the balance of trade for such goods is greatly in the EU's favour.

Far more important are the non-tariff barriers, the rules and regulations that control which goods are allowed entry into respective markets. One element of this is the fiendishly complex requirement for rules of origin, the system that ensures that trade between parties to a free trade

agreement is not distorted by goods brought in tariff free by one party from third countries. The other element is the regulation of goods to ensure they adhere to product and safety standards.

So a major part of this negotiation will be on the rules of origin that will apply and the extent of mutual recognition of standards. Both are non-trivial for businesses. The tougher the rules the more constrained businesses will be on the choice of component parts of products intended for export to the EU and the greater the cost of proving that those products meet the relevant standards. Added to these costs will be the administrative burden of moving goods across a border; customs declarations are required, whether or not a tariff is applied.

Similar issues apply to trade in services, where the UK has a trade surplus with the EU. The international rules for trade in services is far less developed than that in goods. Though imperfect, the Single Market is by far and away the most advanced in the world for services. Out of the EU, the UK will have to abide by home state rules, in other words the rules determined by each member state on nationality, qualification and other requirements to be able to conduct business in a particular member state. The extent to which those home state rules can be constrained, by commitments to good regulatory practice, by an over-arching framework on mutual recognition of qualifications, by an adequacy agreement on data flows and by rules on investment and establishment will be a major negotiating ask by the UK.

So far, so relatively straightforward; a negotiation to find the most mutually advantageous deal on trade in goods and services possible outside the single market. But it's more complicated than that.

The EU and its member states are deeply concerned about the competitive threat from a UK that is not bound by the obligations of the single market on labour law, environmental and health and safety standards and on competition and state aid policy. These are the so-called level playing field issues. The trading relationship between the UK and the EU is too big and too integrated for the EU to accept Canadian levels of market access with Canadian obligations on level playing field issues. They will demand more.

This is politically contested territory. Brexit has been sold in part because of the liberty it gives to the UK to set its own regulatory context. Some would argue that the only way the UK can take the opportunities of Brexit is to use that regulatory flexibility. To others, the concept of the UK as a low regulation economy, as sort of Singapore-off-Europe, is a depressing vision of a regression to a world of lower standards and harsher lives (and in any event is deeply unfair to Singapore). So what will be the trade-off between regulatory flexibility and market access?

In addition to the standard items that make up the diet of a normal free trade agreement, the EU and UK will need to negotiate other chapters, on transport and energy and on that most totemic of Brexit-related policies, fisheries. The political importance of fisheries far outweighs its economic significance, in France, the Netherlands, Denmark and Spain as much as in Scotland and the UK. What sort of deal will the UK cut on fisheries with the EU? How much access will be offered to non-UK boats and at what price?

Tough negotiating choices. How do you balance the interests of fishing communities with the possibly greater, but more diffuse, benefits of a better deal, for example on access for manufactured

goods? What is the trade-off between zero tariff access to the EU market for UK fish products and access for EU boats to UK waters?

On top of all that will be the requirement to work out what sort of relationship the UK and the EU will have on security, defence, international aid and foreign policy. Just as with the trading relationship, the UK's interests in the world are too tightly bound up with those of our near abroad for those interests to be managed on an ad hoc basis. Close cooperation is self-evidently in the mutual interests of both. But the UK will be seeking access to systems and databases which member states have accepted only as part of a wider set of commitments to human rights, the rule of law and the jurisdiction of the ECJ. Another trade-off for the UK; lose the benefits of that close cooperation or compromise on the purity of sovereign isolation.

So a highly complex negotiation. It will involve some really tough choices. It will be unprecedented in scale and, according to the rhetoric, ambition. And it will all be done by Christmas next year.

Or not. No major trade negotiation has been conducted at such speed. Notoriously the EU – Canada agreement was 5 years in the making. For the UK and the EU, some time can be saved through a starting position of near-perfect alignment of regulatory frameworks; we don't need to work out how the rule books on either side compare – they are equivalent. But that will only partly mitigate the sheer grind of working through a massively complex deal. Moreover, once completed, it will require ratification through member state parliaments and, in some cases, regional assemblies. This process is likely to occupy much of the time of the next UK Parliament.

At the same time, the UK government is likely to be pursuing trade deals with other trading blocks and individual countries around the world.

This is central to the Brexit project. Brexiteers will mostly tell you that free trade is a very good thing. It has historically been a key driver of increased prosperity the world over. Their hunch is that it is worth foregoing the benefits of free trade in the EU market in order to free the UK up to do free trade deals with countries around the world, particularly those whose rate of growth is likely to surpass the EU's in the years ahead.

This will be tough going. We have already seen how difficult it can be to establish new trading relations in the attempt to roll over existing EU free trade agreements to allow continued access for British businesses. It has been a slow and difficult process. Some are lined up, including important ones like Switzerland and South Korea. Others are proving harder. Turkey, Japan and Canada are yet to be agreed. Turkey is problematic because of its membership of the EU Customs Union. The Canadians are taking a tough line. They know what the UK's likely tariff schedules would be in the event of no deal. That gives them most of what they want. So where's the incentive to do a deal?

Other signs for the prospects of future trade deals are more encouraging. Australia and New Zealand appear both to be keen on striking a deal. There is a reasonable prospect of the UK being able to accede to the CPTPP, or the Comprehensive and Progressive Trans-Pacific Partnership which entered into force late last year with 11 signatory countries. And of course President Trump has breezily offered the UK the best trade deal ever. Which may happen, or not.

All putative trading partners will, inevitably, have their own demands. Every trade deal in effect represents a ceding of a certain amount of sovereignty by both parties in order to access the mutual benefit of freer trade. In the EU, the UK is part of the most powerful trading bloc in the world that can drive its own terms. On its own, the UK is a more modest player and will face difficult decisions on how it balances domestic interests in the pursuit of freer trade.

The most salient example is on agri-food, generally the toughest nut to crack in any trade deal the EU has sought to do with other developed markets. The UK will be expected to make concessions to allow more agricultural produce from its trading partners onto the UK market, moreover agricultural produce produced to their standards. This brings us to the famous chlorine-washed chicken, to hormone-fed beef and to GMOs.

This is binary. The UK can either allow agri-food products produced to US standards onto the UK market or it can seek to stay in the EU's phyto-sanitary regime in order to as far as possible protect existing patterns of trade. It cannot do both. The one set of standards is designed as a negative test of harm, the other as a positive test of safety. The UK will not be able to mix and match between them and design its own set of standards that will meet the requirements of both.

The making of that choice will be of huge significance in domestic UK politics. For over 40 years, our choices on such issues have been resolved in the context of our membership of the EU. The UK has negotiated as one of many, often got its way, occasionally not, but politicians have ultimately been bound into collective decisions that have determined the impact of EU policy in the UK. No longer. In taking back control, we take back the political controversy around these and many other issues.

Arguments about tariff policy, particularly in relation to agricultural products, are so visceral precisely because of the extra baggage they carry, about the protection of rural communities and rural ways of life, about the landscape and the ethics of livestock farming, about the balance between producer and consumer interests. For the historically minded amongst you, look to the passionate debate about the repeal of the Corn Laws in the 1840s. This conflict of ideas was not been just about economic positioning and trade policy; it became a moral issue, a question of the sort of place the emerging industrial power that was the UK would seek to be.

Through these controversies, the UK will no doubt sign up to new trade deals. There will be new opportunities and businesses across the UK will doubtless look to exploit them. However, on the question as to whether the gain will counterbalance the loss from free trade with the EU, the jury is very much out. But that is the deal we are doing, to prioritise control over our own affairs and the ability to strike trade deals with other countries over the benefits that flow from the EU single market.

Would taking the other choice offered by Monsieur Barnier be any simpler, a sort of EEA arrangement for the UK? Yes, of course, because it would mean the UK staying within the common rule book for both customs and single market. But the EEA was not designed for a country with the economic heft of the UK. It is likely that a substantial re-working would be required, to settle such issues as budgetary contributions and dispute settlement mechanisms.

At the heart of this would be the question of the influence the UK would wield in such a world. The Norwegians famously reflect ruefully on fax-diplomacy; they find out about the new rules they are

obliged to follow when the EU decides to tell them. They are not in the institutions and therefore not part of the decision-making process. They, the other EFTA countries and the Swiss do all of course seek to shape emerging policy proposals as best they can, but on many of the issues pertaining to the single market, they are basically rule takers.

That is the big conundrum at the heart of an EEA-type proposition for the UK. How can such a large economy, with such integrated trading links with the EU, submit to being a rule-taker? It all rather obviates the point of leaving in the first place.

Whatever sort of deal we do with the EU, the negotiations do not stop with ratification. The UK will find itself in almost constant discourse with the EU to manage the relationship, to adjust it to changing circumstance and to deal with disputes. That is the hard reality of a complex trading and security partnership. Ask the Swiss. They made the sovereign choice not to join the EU. But their interests demand a close relationship and sustaining that relationship demands constant negotiation.

So, like it or not, the UK will have to continue to engage with the EU. The need to influence will remain. Under any circumstance, the rules made in Brussels will be determinative for British businesses that want to do business in the EU. The holding of the EU in foreign, defence and security matters will be a critical influence on UK policy.

But the UK will be a third country and no longer in the institutions. So the way in which the UK influences opinion in Brussels will look and feel very different. Other countries of course have long practice of influencing the EU as third countries. We will have to learn from them and there is no reason why we should not do so successfully. The UK Permanent Representation will become the UK Mission to the EU. This will require no less resource than now, probably more. It will mean a new orientation; lobbying from outside the institutions is very different business to influencing from within, requiring a different approach and different skills.

The UK becomes its own voice again in international fora where previously represented by the EU, notably the World Trade Organisation, but also the other international organisations where competence rested with the EU, rather than member states, whether concerned with fisheries, environment, international standards or any of the other cogs that make the international order tick. How will the UK position itself in these organisations? The working, largely unquestioned, assumption is that the UK will remain an advocate for a liberal, open international trading order. But with the unprecedented challenges to that order, and the emergence of what looks a newly orientated great power world, can we take such a position for granted?

The UK's place in the world, the sort of place the UK is seen to be by others; these things will be determined by the cumulative impact of decisions taken in all this myriad of international contexts. We are creating our own unique discontinuity, coming out of the most successful free trade arrangement the world has ever seen, a thing never before attempted. And we are doing so just at the time when the international order, seemingly so stable after the collapse of the Soviet Union, faces the threat of its own destabilising discontinuity.

So the impact of Brexit will not be confined to our economic and trading relationship with the EU and other countries. The perception of the UK in the world, the projection of UK power and

influence, will also change, indeed is already changing. Many people who have been watching what has been going on in the UK are under the impression that we're having a bit of an identity crisis. A country that was comfortably stable in its admittedly rather idiosyncratic constitutional traditions has apparently lost the plot.

It is hard to predict how that will impact on the UK's fortunes in the world. But what is indubitable is that in leaving one of the major trading and political power blocks in the world, the UK will find it harder work to ensure that its interests are protected. For all that the UK remains one of the largest economies in the world, with amongst the most effective diplomatic and military services, the future of 21<sup>st</sup> century diplomacy and power-projection will revolve around far bigger powers, the US and China, in time India and Brazil, and alongside them the EU, which has the economic power and often sufficient unity of view to play in the top league.

This too will involve tough choices. To give one illustrative example; how far does the UK seek a close trading relationship with China in the face of opposition from the US?

The UK will of course continue to have significant influence in the world. It will retain its seat on the UN security council and will continue to be a leading member of NATO. The UK will continue to have project formidable soft power, not least through the quality of the research and education offered by universities such as this. But the price of protecting specifically British interests will go up. Outside of the EU, the UK will have to expend greater diplomatic capital to ensure EU support when UK interests are under pressure.

No doubt in many instances UK and EU interests will remain aligned, on trade sanctions and anti-dumping, on international aid programmes and defence cooperation. But sometimes those interests will diverge. And always the EU will prioritise the interests of its own member states over those of what will by then be a third country.

This will have an impact on those bits of the globe that still depend on the UK by dint of once having been part of the British Empire. It is unsurprising, for example, that Gibraltarians voted by 96% to stay in the EU. They were no doubt conscious that, once out of the EU, the European Commission would be bound to take the side of the member state in any dispute between the UK and Spain over the status of the Rock. The same will be true of Cyprus in relation to the sovereign base area on the island.

The other Overseas Territories will lose access to EU funding. Their trade interests with the EU will need to be protected, none more so than the fisheries of the Falkland Islands.

The Crown Dependencies – Jersey, Guernsey and the Isle of Man – will no longer benefit from Protocol 3 of the UK's accession treaty, which brought them into the Customs Union and allowed free movement of agricultural goods, but otherwise left them outside the Single Market. All three have built up a successful economic base from that status, not least in financial services. But with the UK no longer in the room as a member state to protect their interests, they will be more exposed to EU decisions on access for micro-states to the EU financial markets.

These may seem like second order issues in the grand scheme of things, small places with small populations in far-flung corners of the world. But they matter. The UK has responsibilities to these places that will be harder to fulfil. The diplomatic cost of sustaining the Crown Dependencies and the

last outposts of empire will increase. There's an irony in all this. There is a nostalgia in the Brexit endeavour that seems to crave the days when the UK had the naval, territorial and economic strength to project its power across the globe. Far from bringing back even a faint hint of the lustre of those days, Brexit will make sustaining the reach of the UK that much harder.

But Brexit was not founded on a cool appreciation of the comparative power of the UK in the early 21<sup>st</sup> century. Nor an understanding of the UK's history with its near abroad. Nowhere is this lack of understanding more evident than in the contortions over the impact of Brexit on the island of Ireland. It is perhaps the greatest Brexit irony of all that the rack on which the whole process is stretched lies along the Ireland – Northern Ireland border, this border so soaked in a long and troubled history. As they say in Northern Ireland, the past is always in front of us.

The place of Northern Ireland in the Brexit process would alone give lie to the notion that there is any such thing as a clean break. That language denies history, the long story of the relationships within these islands and between these islands and the continent. It denies also any sense of reality about the present, the tough choices that the UK has before it if it is to make its way in a post-Brexit world.

For our actual leaving of the EU will only be the end of the beginning. Brexit re-shapes the UK's place in the global order. It will be years before we have a clear sense of what will emerge from the multiple negotiations and trade-offs that will involve. This is the necessary consequence of taking back sovereignty, of stepping out of the embrace of the EU legal and economic order and the protections it afforded in an uncertain world.

You may argue that this is a necessary step, a brave endeavour to give the UK the agility and freedom it needs to thrive in the fast changing 21<sup>st</sup> century economy. Or you might argue that it is a fateful wrong turn in the road, in a world where a semi-detached status from our near neighbours will leave the UK less secure and less prosperous. Either way, there can be no doubt that working out how we deal with the challenges of the post-Brexit world will be our main preoccupation as a country for many years ahead.

Far from having Brexit done, we've barely started.

*This the text of a public lecture hosted by Policy Scotland at the University of Glasgow on 7 October 2019*

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