



‘TO BREXIT OR NOT TO BREXIT? - THAT IS THE QUESTION’

INTERNATIONAL TRADE & TRADE-DSM USER GROUP CONFERENCE

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TO BREXIT OR NOT BREXIT? - INTO THE ENDGAME.....(1)

- Britain's game of three-dimensional chess with the EU is entering its closing phase
- this week sees crucial votes being taken in the U.K. parliament on the options now available
- three years ago, in a close poll, Britain voted in a referendum to leave the EU of which they had been a member for nearly half a century
- the challenge of negotiating both the political and economic outcomes of this decision has resulted in disillusionment all round
- the London 'Economist' recently designated it 'the mother of all messes'

TO BREXIT OR NOT BREXIT? - INTO THE ENDGAME.....(2)

- many people wonder how the UK got itself into such problems
- prior to Brexit, Britain had a reputation not just for pragmatism but for sound administration and a predictably sensible Parliament
- several factors have contributed to bringing the UK to present situation
- apart from leadership failings there were also other reasons
- the basic reality was how to extricate a country from a trade, regulatory, and institutional framework into which the UK economy has become embedded for nearly 50 years

TO BREXIT OR NOT BREXIT? - INTO THE ENDGAME.....(3)

- the scale of what was required was huge and clearly underestimated by much of the political leadership in UK and by others
- leaving the EU seen by many as just walking away from an annoying international organization, hence the attraction and apparent simplicity of a 'clean break'
- extracting a country from an intricate economic and political framework was bound to be extremely difficult and time-consuming
- it meant that Brexit would be a *process*, rather than an event
- Pascal Lamy, ex-Director-General of the WTO and a French former European Commissioner, likened Brexit to 'taking an egg out of an omelette'

WHAT DID UK PRIME MINISTER THERESA MAY GET WRONG IN THE HANDLING OF BREXIT?.....(1)

- empathy for the challenges faced by UK Prime Minister Theresa May, but several strategic errors made
- believed that the UK held a stronger hand than it actually did in the circumstances (one country vs twenty-seven)....first country to want to leave the EU club
- as a lukewarm 'Remainer', Ms. May failed to find consensus among stakeholders in the aftermath of a narrow referendum outcome
- was not upfront with the public about the *trade-offs* inherent in Brexit, which always pointed towards a likely messy compromise
- without consulting her Cabinet, she decided in October 2016 to lay down 'red lines' for Brexit, promises which pointed to a radical break with the EU. It included the much-disliked Irish 'backstop' (to guarantee that there will be no 'hard border' in Ireland, and if necessary, to keep the entire UK in a customs union with the EU indefinitely)

WHAT DID UK PRIME MINISTER THERESA MAY GET WRONG IN THE HANDLING OF BREXIT?.....(2)

- prematurely persuaded Parliament in March 2017 to invoke article 50 of the EU treaty, which set a *two-year deadline* for Britain to leave....this deadline was set without being clear on the form of exit wanted by the UK
- having been in the EU for many decades, in which trade agreements were negotiated by Brussels on behalf of all members, the UK entered a set of complicated negotiations on withdrawing from the EU while lacking the adequate expertise to guide its tricky path
- UK Prime Minister was prone to secrecy about the negotiations, and also did not discuss options more openly with EU leaders, although knowing that they would have to agree the terms of any Brexit deal
- called an *unnecessary election* in June 2017, in which the Conservative Party lost its majority in Parliament, forcing it to rely on support from the Irish Democratic Union Party (DUP), thus greatly complicating the Brexit negotiations regarding Ireland

THE BREXIT DEAL.....WHAT THERESA MAY GOT OUT OF BREXIT NEGOTIATIONS

The Brexit deal

Wins and losses for Theresa May so far

| | What she wanted | What she got |
|------------------------------|--|--|
| Trade | An independent trade policy allowing free-trade deals | A customs union will mean no trade deals until 2021 at least |
| European Union laws | No jurisdiction for the European Court of Justice | The ECJ has exclusive rights to interpret single-market rules that still apply |
| Money | No more 'huge' annual contributions to the EU budget | An exit bill of around £40bn, and some future payments likely |
| Borders and migration | An end to free movement of EU citizens | An end to free movement, but maybe privilege rights for EU citizens |
| Northern Ireland | No hard border in Ireland or controls in the Irish Sea | No hard border in Ireland, but some regulatory checks in the Irish Sea |
| Future relationship | A deep and comprehensive free-trade deal by March 2019 | A political declaration promising a free-trade deal in the future |

Source: The Economist

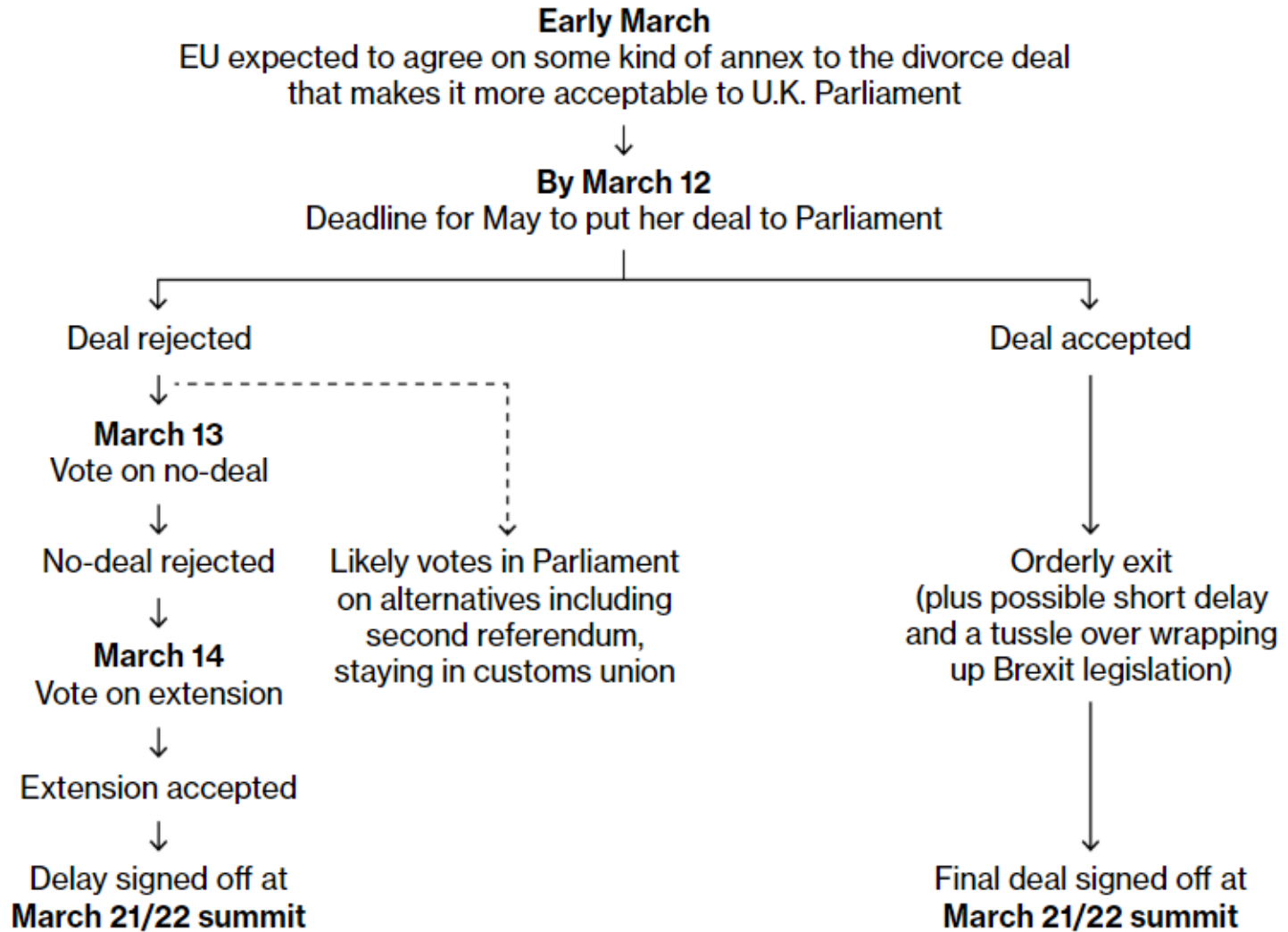
SOME ECONOMIC AND BUSINESS CONSEQUENCES OF A POSSIBLE 'NO DEAL' SCENARIO

- as the UK Parliament increasingly voted down the deal 'brokered' by PM Theresa May, so economic and business uncertainty escalated in the event that the UK might eventually 'crash out' of the EU without a deal, with consequent disruption of trade and supply chains – UK as an ordinary member of the WTO?
- the Bank of England, the UK Treasury, business lobbies and other stakeholders warned against the economic cost of a 'no deal' outcome.... businesses already uprooting themselves from the UK economy because of *uncertainty around Brexit*
- UK government did embark on preliminary discussions with range of countries to negotiate and consolidate trade arrangements in the post-Brexit era
- in the meantime, UK business, together with its EU counterparts and business from other countries involved in the UK economy, started making contingency plans to minimize disruption, if a 'no deal' event happened
- if things go badly, companies that have built supply chains on the assumption of frictionless borders will find these chains jammed hopelessly

EXTRA TIME - AND PENALTIES

- options available to extend March 29 deadline
- extra time needed to complete formalities even if there is an agreed 'deal'
- the conditions around an extension of time in the event of 'no deal'
- complications arising from the next elections of the European Parliament due between May 23-26
- extending Article 50 requires the assent of all 27 other EU governments, any of which may demand a price. Even 'kicking the can down the road' is no longer easy

WHERE ARE WE NOW WITH BREXIT BRINKMANSHIP AND PROCESSES?



THE BREXIT ENDGAME - WHAT OF SOUTH AFRICA?.....(1)

- both SA and the UK continue to have strong trade and investment ties in the post-Brexit period...*our economies are complementary*....SA's sixth largest trading partner
- overall there appears to be a fairly even trade balance and regulatory consistency
- previous announcement after Theresa May's visit to SA last year that UK will carry over the EU's Economic Partnership Agreement once Brexit occurs
- because the UK cannot negotiate new deals while it still a part of the EU, the deal is no different to the one which exists with the EU
- UK officialdom already indicated that procedures exist within the existing agreements to make amendments once Brexit happens

THE BREXIT ENDGAME - WHAT OF SOUTH AFRICA?.....(2)

- DTI Minister Rob Davies says several scenarios face SA amid uncertainty over UK leaving EU - such as UK possibly slipping into recession and global growth weakening
- Minister Davies said the concrete things SA could do was to ensure no interruption of trade and to ensure continuity on the trade front with Britain as a major trading partner
- Davies also confirmed that the proposed basic agreement with the UK is to have a parallel agreement to EPA, and that tariffs have already been negotiated on agricultural products such as wine and fruit
- the advantage for SA is that the UK may allow a range of products in from SA at lower tariffs than the EU does not
- all countries and companies doing business with the UK, including SA, will nonetheless have to assess what *the long run impact of Brexit will be on the UK economy* as a future market in changing global economy

THE BREXIT ENDGAME - WHAT OF SOUTH AFRICA?.....(3)

- SA business sectors that have UK links should interact with their clients or suppliers there to evaluate possible shifts or disruptions post-Brexit
- Chambers of Commerce and Trade Associations in SA should, where relevant, arrange workshops to unpack how UK trade policies may evolve in the post-Brexit phase
- SA business should liaise closely with the DTI regarding any possible changes in UK trade relations
- greater scope for marketing and mobilising the TRADE-DSM mechanisms to navigate relevant post-Brexit markets and identify new opportunities

CONCLUDING COMMENTS