# Brexit … now what?

Now that the news of the UK's intention to leave the European Union has begun to sink in around the world, many questions are circulating about the likely nature and timing of the split, and the impact of Brexit on global and regional dynamics.

**Prof Raymond Parsons**, from the North-West University School of Business & Governance recently likened Brexit to "a slow-burning fire", which is likely to keep negotiators busy for an extended period. Prof Parsons was speaking at a workshop jointly hosted by the **North-West University TRADE research entity/WTO Chair and the South African Institute of International Affairs (SAIIA)** in Potchefstroom on 22 September, the theme of which was: **'Navigating Global Headwinds and Tailwinds: New Directions for Industrial and Trade Policy'.**

In the light of the Brexit vote, the UK government faces the unenviable task of negotiating a new deal with the European Commission in Brussels, scoring a series of major bilateral trade deals around the world and revising its own system of governance as EU law recedes. From South Africa's perspective, the Brexit decision takes the country into uncharted waters and could have serious unintended consequences which will need to be managed. In the meantime, as UK and EU negotiators square up, South African decision makers should be anticipating possible outcomes and taking steps to secure the country's status on the trade and investment fronts.

It is likely that Brexit will trigger a decline in economic growth for both the EU and the UK, which in turn will negatively impact South Africa's export performance and FDI inflows. In anticipation of this, the FTAs that define South Africa's trading relationships with the EU and UK need to be put under the spotlight and evaluated in the light of the anticipated change in circumstances – and possibly even renegotiated, which would be a costly and time-consuming process. A worst case scenario would be South Africa's favourable access into the EU market through the EU-SADC Economic Partnership Agreement (EPA) being eroded as a result of renegotiated trade deals between the UK and its EU counterparts. Reduced access into the UK and/or EU market would also hit South Africa's southern African neighbours, which could prompt waning demand for South Africa's exports and the advent of greater instability in the region.

**Peter Draper** of Tutwa Consulting outlined some of the models that the UK may consider going forward, with varying degrees of financial commitment and involvement in EU decision-making. While the UK would undoubtedly favour full access to the single market, it is unlikely to get it unless it made a significant financial contribution and accepted the majority of EU laws (including the free movement of people), as it currently does as an EU member. The latter provisions, however, would probably not appeal to the majority of Brexit supporters.

Under the Swiss model, for example, the UK would become a member of the EFTA (European Free Trade Association), with access to the rest of the EU market through a series of bilateral agreements covering some (but not all) areas of trade. It would also have to contribute financially to the EU and accept the free movement of people. Under the Turkey model, the UK would have a customs union arrangement with the EU, meaning that exports of industrial goods from the UK would enter the EU tariff- and quota-free. The UK would also be obliged to apply the EU's common external tariff (without any say in how it is derived) on goods imported from outside the EU. Under the Canada model, most UK exports (bar some food products) would enter the EU tariff-free and the UK would have no say in EU technical requirements, including product standards. In addition, the country would have only partial access to the EU services sector which could be a major drawback as services contribute about 80% to the UK economy. Finally, if the UK were to adopt the Singapore and Hong Kong model, which is essentially a unilateral free trade approach, it would not impose any tariffs, relying instead on the WTO's minimum requirements regarding permissible trade treatment across the WTO membership base.

Peter went on to say that whatever model the UK and the EU manage to hammer out – either in pure or hybrid form – the complexities of the UK's intended departure from the EU stable are such that the two-year transitional period allocated to finalising the exit arrangements (once Article 50 is invoked and the countdown begins) is looking increasingly unrealistic. He also posed the question: "Is Brexit a certainty?" There is a possibility, he said, that Brexit may not happen. Denmark and Ireland, for example, reran the results of similar referendums "until they got the right results".

**Prof Ludo Cuyvers**, Emeritus Professor at the University of Antwerp in Belgium, concurred that Brexit was not a foregone conclusion, although sentiment in Europe at present suggests that it is more likely to go ahead than be abandoned. Judging from its trade with the rest of the European Union, the UK is a "junior partner", with less than 50% of its total trade currently with the EU, having declined from about 61% in 2003. However, the UK remains integral to the EU model and securing agreement from the other 27 EU countries on acceptable exit terms will be no simple matter.

One of the clearest messages emanating from the TRADE/WTO Chair-SAIIA workshop was that the current uncertainty surrounding Brexit is just as unsettling as the reality (once the way forward has been mapped out) of the UK leaving the EU. Given South Africa's weak economic climate and with credit agencies circling menacingly, the country can ill afford any more policy uncertainty that will gnaw away at its trade and investment performance, and further weaken its economic prospects.

"Brexit could be a game changer as far as South Africa's ties with the UK and EU are concerned", said **Prof Parsons**, "and South African businesses need to be proactive in monitoring the process as it unfolds and taking the necessary steps to preserve their interests."