

GLOBAL CONVERSATION

Cast Free or Cast Adrift? British Business, European Integration and Brexit



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April 23

4 pm - 6 pm

Cast free or cast adrift?

Donald Trump: The UK 'won't have the obstacle, they won't have the anchor around their ankle' (August 2019)



Cast free or cast adrift?

Lord Heseltine: No-deal Brexit 'the most grotesque act of national self harm committed in peacetime by a British government' (August 2019)



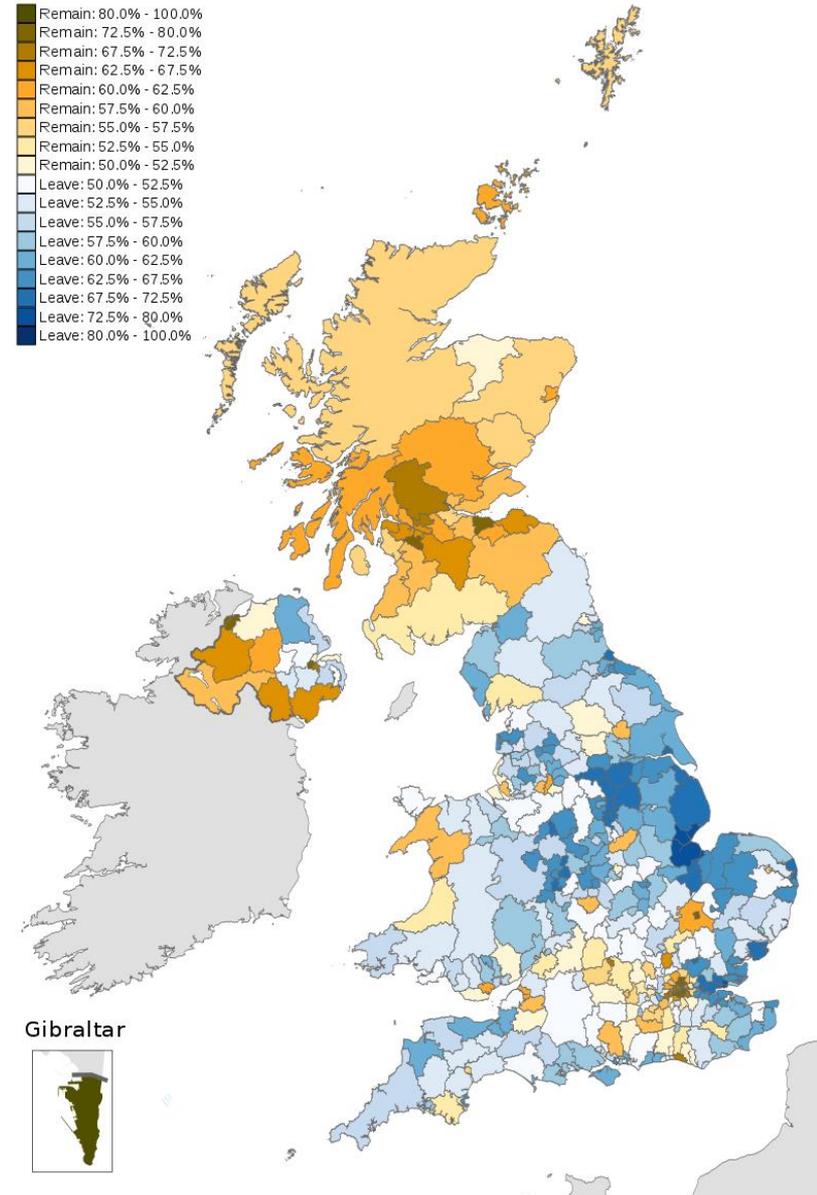
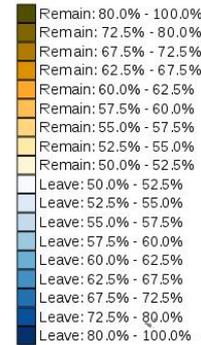
Introduction

- **23 June 2016 UK voted to leave EU – surprising and hard to rationalise**
- **Since then huge uncertainty over final form of Brexit and hence of its impact**
- **‘Brexit means Brexit’**
- **Today – UK business and Brexit**
 - **Impact of Brexit on business in the UK**
 - **Given that it looks so bad for business how did it happen?**
- **Begin by just outlining referendum result and background**

Referendum results

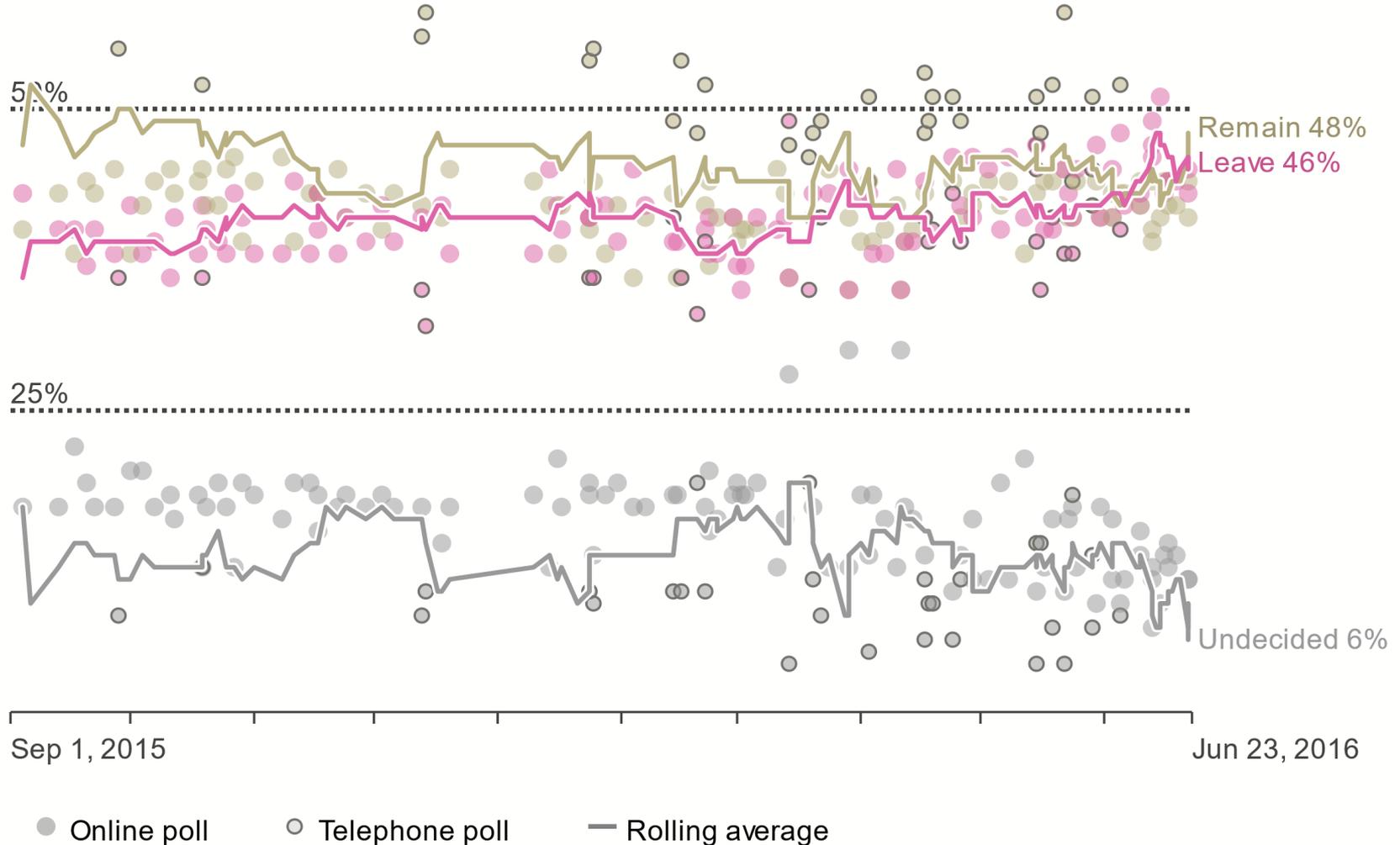
**UK 51.9% Leave
48.1% Remain**

N. Ireland 44.2% Leave
Scotland 38% Leave
Wales 52.5% Leave
England 53.4% Leave



Public opinion in run up to 2016 referendum

Polling movement since September 2015



Why the referendum?

Domestic/Internal party politics

Conservative Party and problem of Europe

a) UKIP

b) Split in party

Manifesto promise by party that there would be a referendum by end-2017 if Conservatives elected

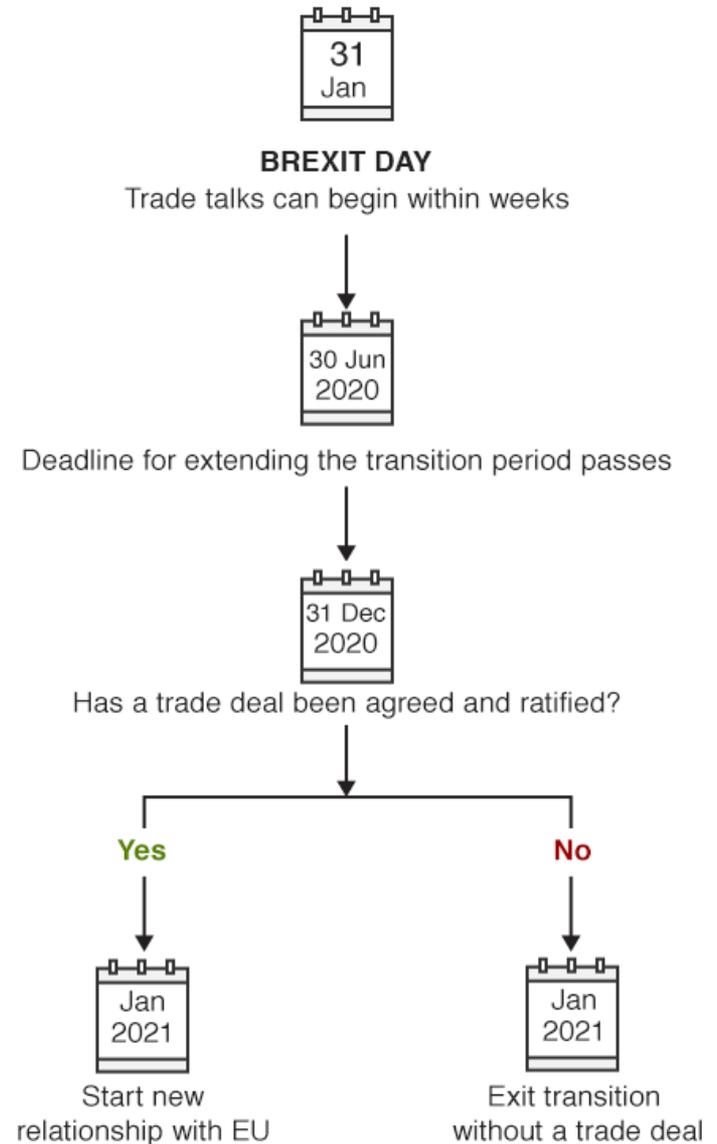
But Conservatives did not expect to win a majority and so if re-elected in alliance with Liberal Democrats (most pro-Europe party)

Degree to which unintended consequence

Timeline

- June 2016* Referendum
- March 2017* Art. 50 triggered
- June 2017* Conservative party loses its overall majority
- March 2018* Draft withdrawal agreement but problematic and resignations
- March 2019* First delay (end June)
- April 2019* Second delay (end Oct)
- July 2019* Johnson becomes PM
- October 2019* (delay to end Jan 2020)
- 31 Jan 2020* UK leaves the EU

Brexit timeline

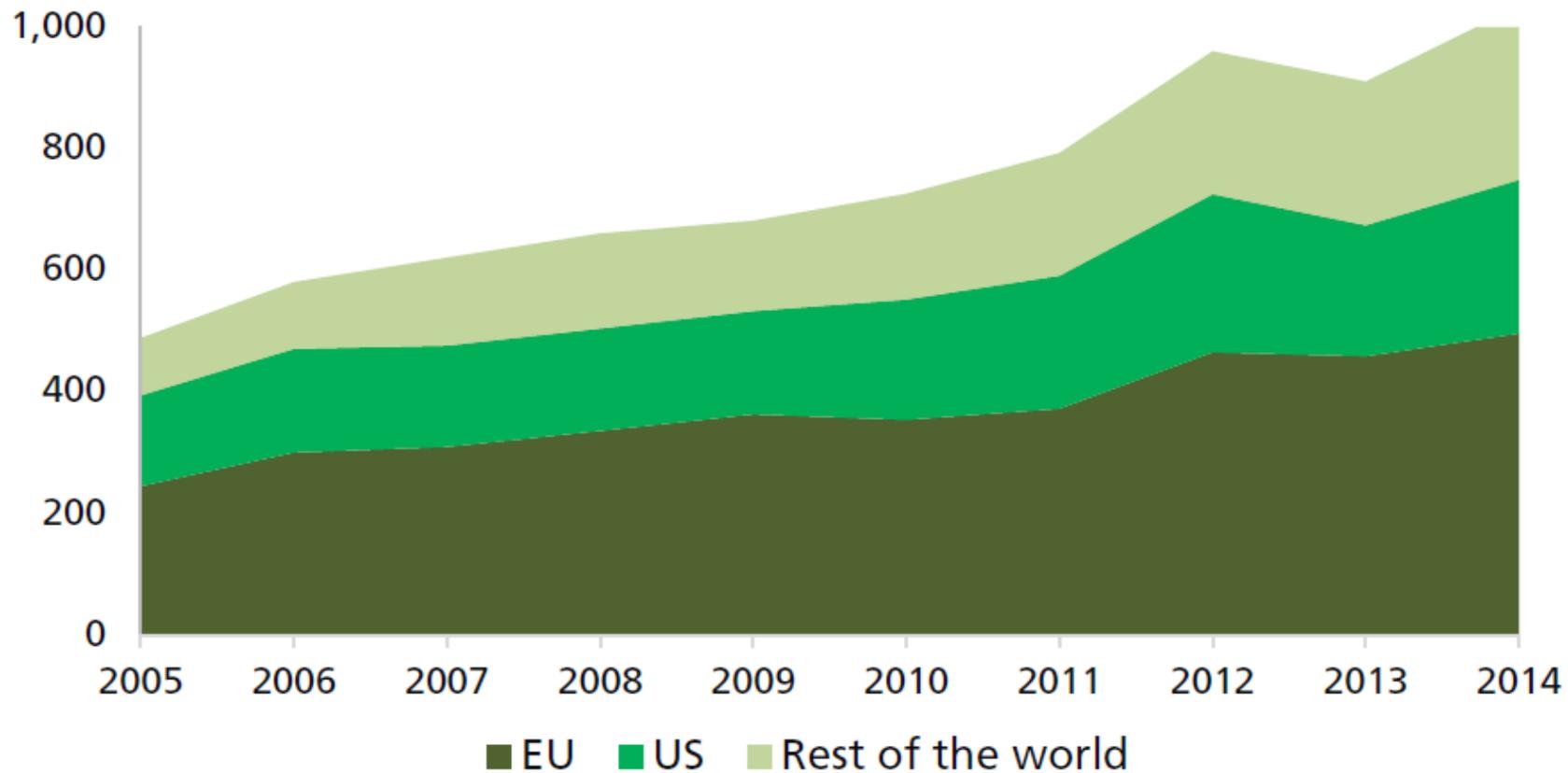


Brexit and the Economy

Share of UK trade with the EU, 1999-2018 (% total trade)



Inward FDI into the UK by source Stock, £ billion



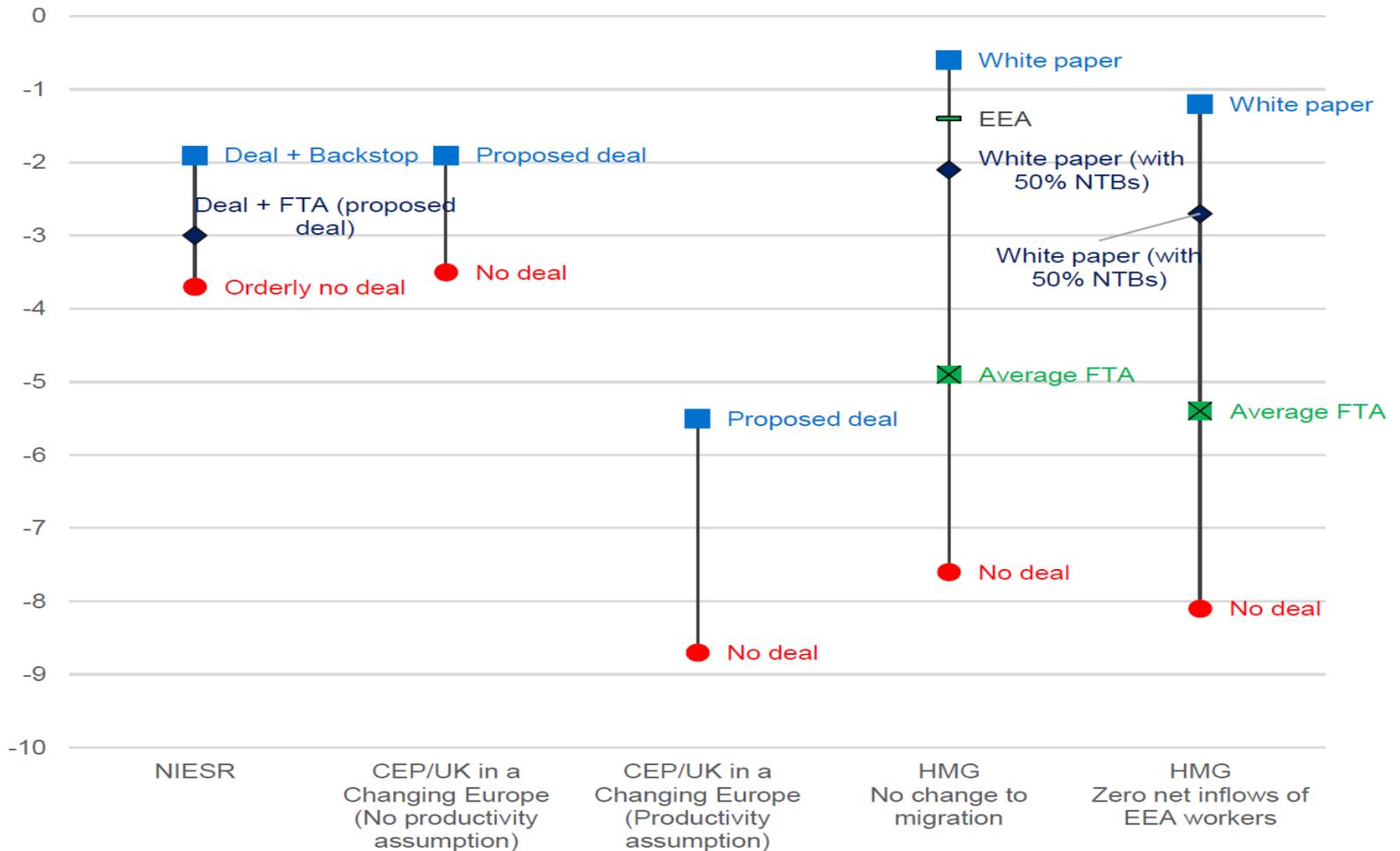
Source: ONS

Economic Impact of Brexit

- Depends on the form of Brexit
- Expectation summer 2016 of 'soft Brexit' – Norway model
- Access to Single Market
- But no customs union – free movement of labour issue and immigration
- With time harder Brexit - relationship still to be negotiated – Canada model but bespoke
- Still possibility no deal (WTO rules)

Long-term impact

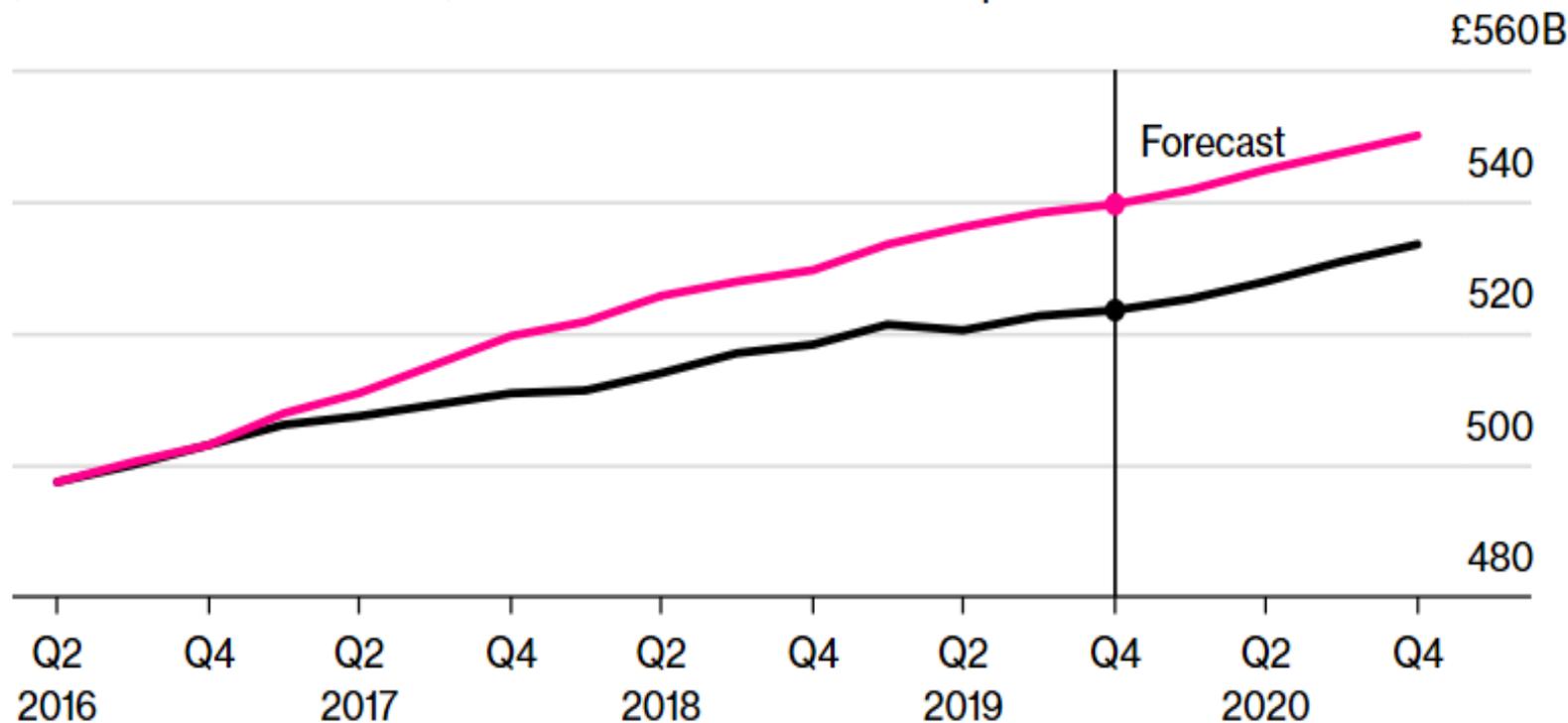
Figure 2: Long-term impact of Brexit on GDP per head, % difference from status quo baseline
(Summary of scenarios published in November 2018)



Falling Short

Brexit disrupted the historical correlation between growth in the U.K. and that in the other G-7 countries

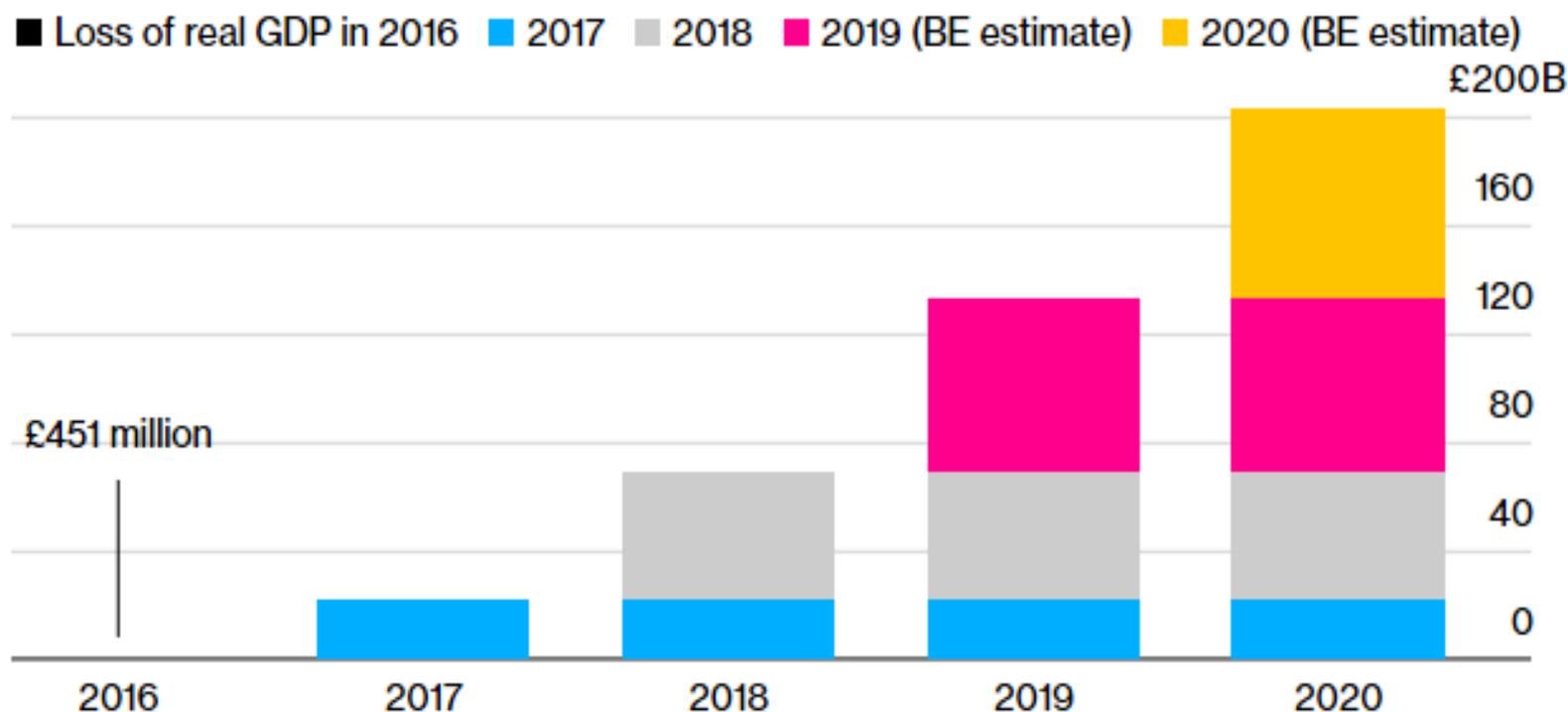
/ Level of real U.K. GDP
 / Based on historical relationship with rest of G-7



Source: Bloomberg Economics, ONS, National Statistics Agencies

Collateral Damage

Brexit has already cost the U.K. economy £130 billion, and there's more to come

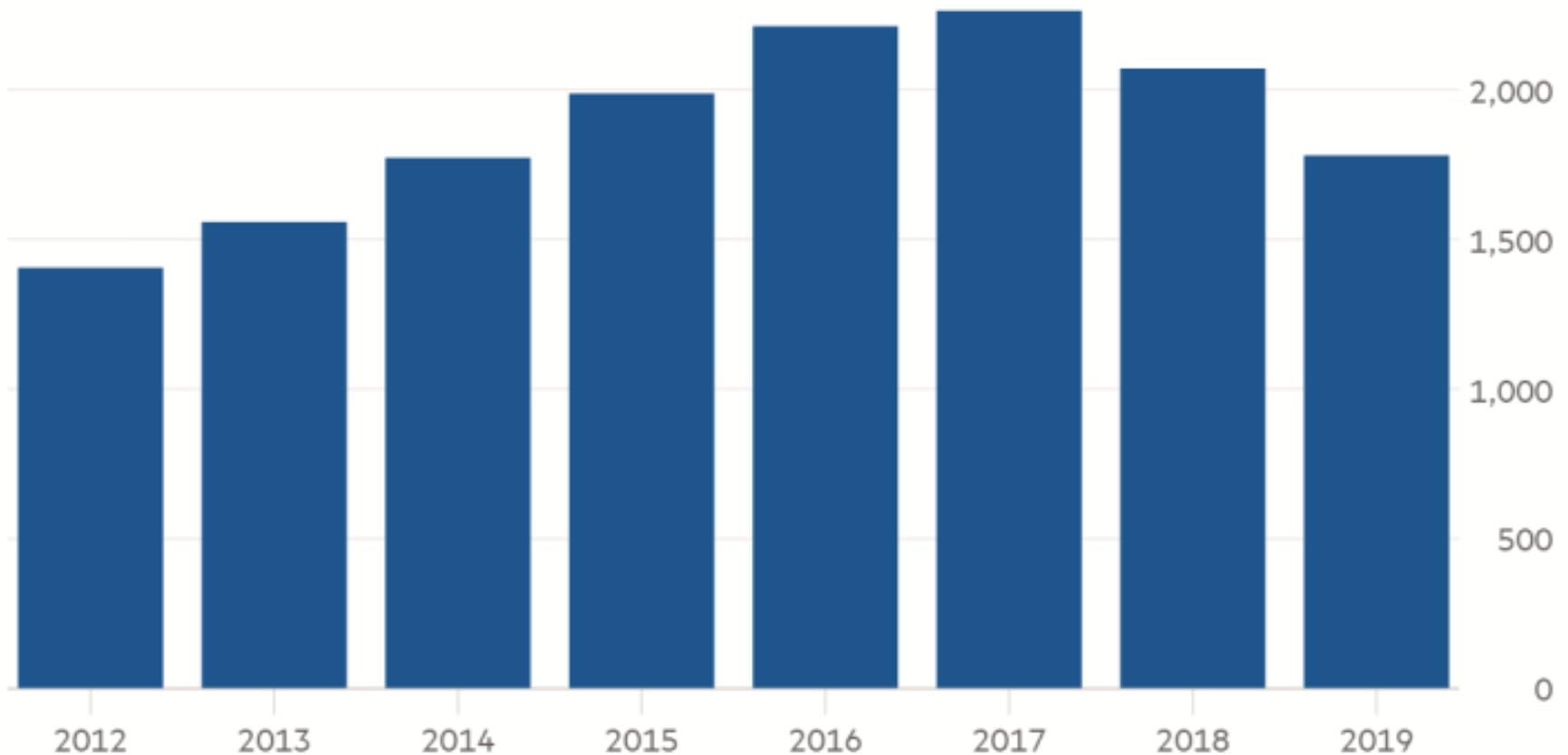


Source: Bloomberg Economics

Feb 2020 poll of 1000 UK businesses found 14% plan to move their HQs elsewhere

The number of inward investment projects in the UK has declined

Greenfield projects and M&A deals, year ending in March



Source: Department for International Trade

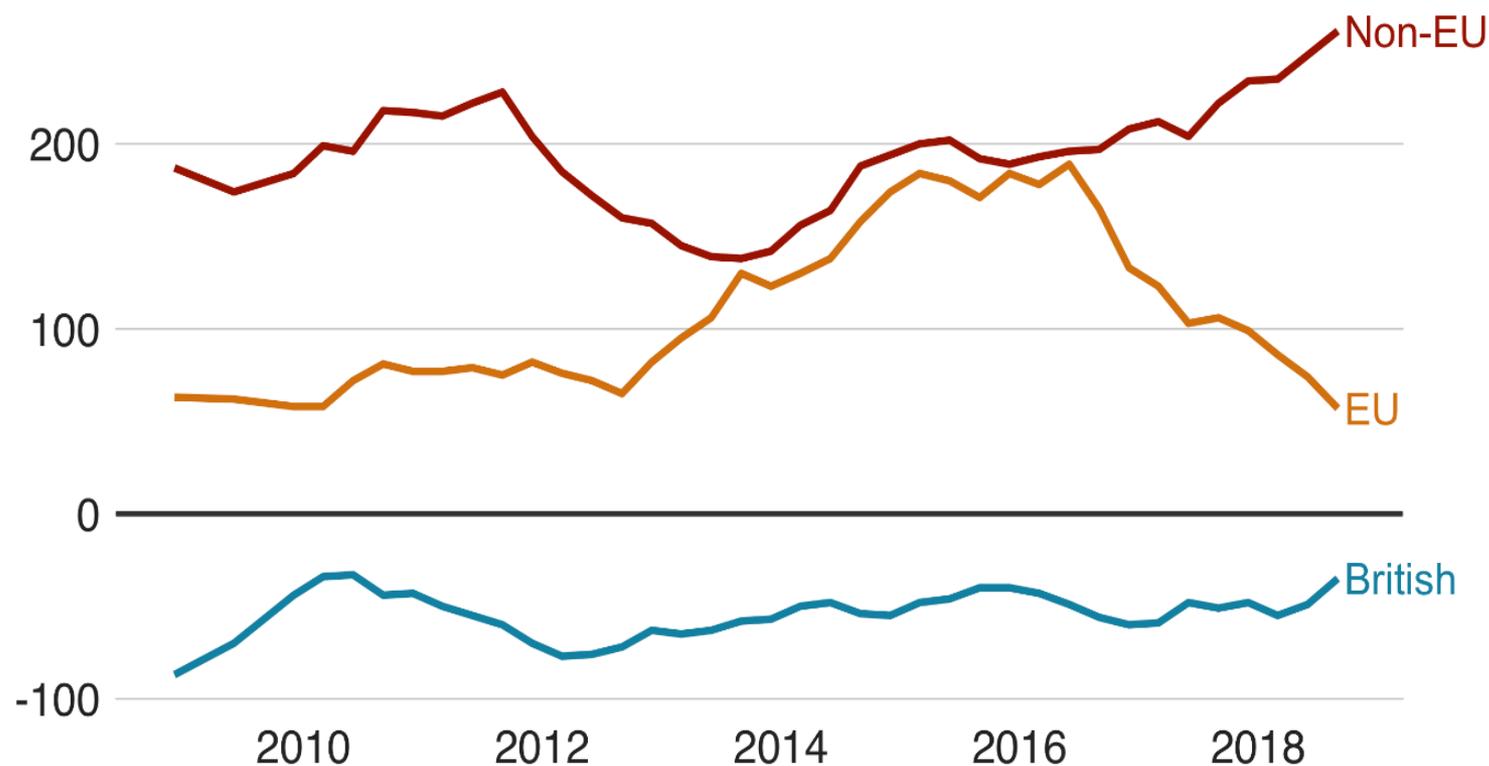
© FT

Other economic issues

- If tariffs introduced average EU tariff 1.5%
- But much higher some sectors
 - Cars and car parts 10%
- One estimate that a “No Deal WTO rules only” scenario would reduce the UK’s trade with the EU by 40% over ten years
- Non-tariff barriers increasingly seen as more important
- 76 per cent of the UK adult population in paid employment — the highest level since 1971 — and there are fears that the sudden loss of EU workers will lead to labour shortages (pre-Coronavirus issues)

Migration from the EU is falling but migration from the rest of the world is rising

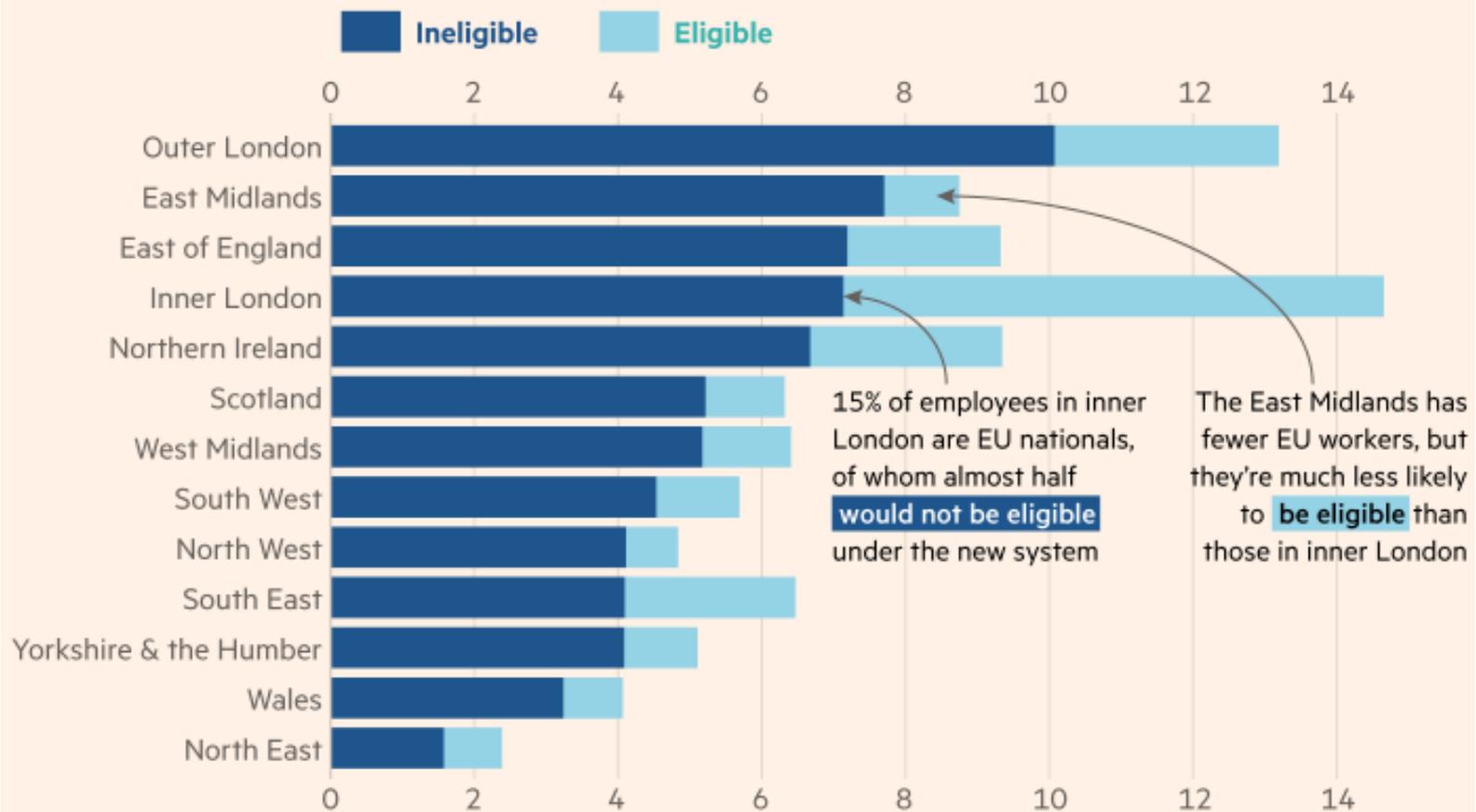
UK net migration, thousands





Outer London is the region most exposed to the UK's new immigration rules

Share of all employees who are EU nationals, by eligibility under new points system (%)



Source: FT analysis of Labour Force Survey (Q4 2018 to Q3 2019)



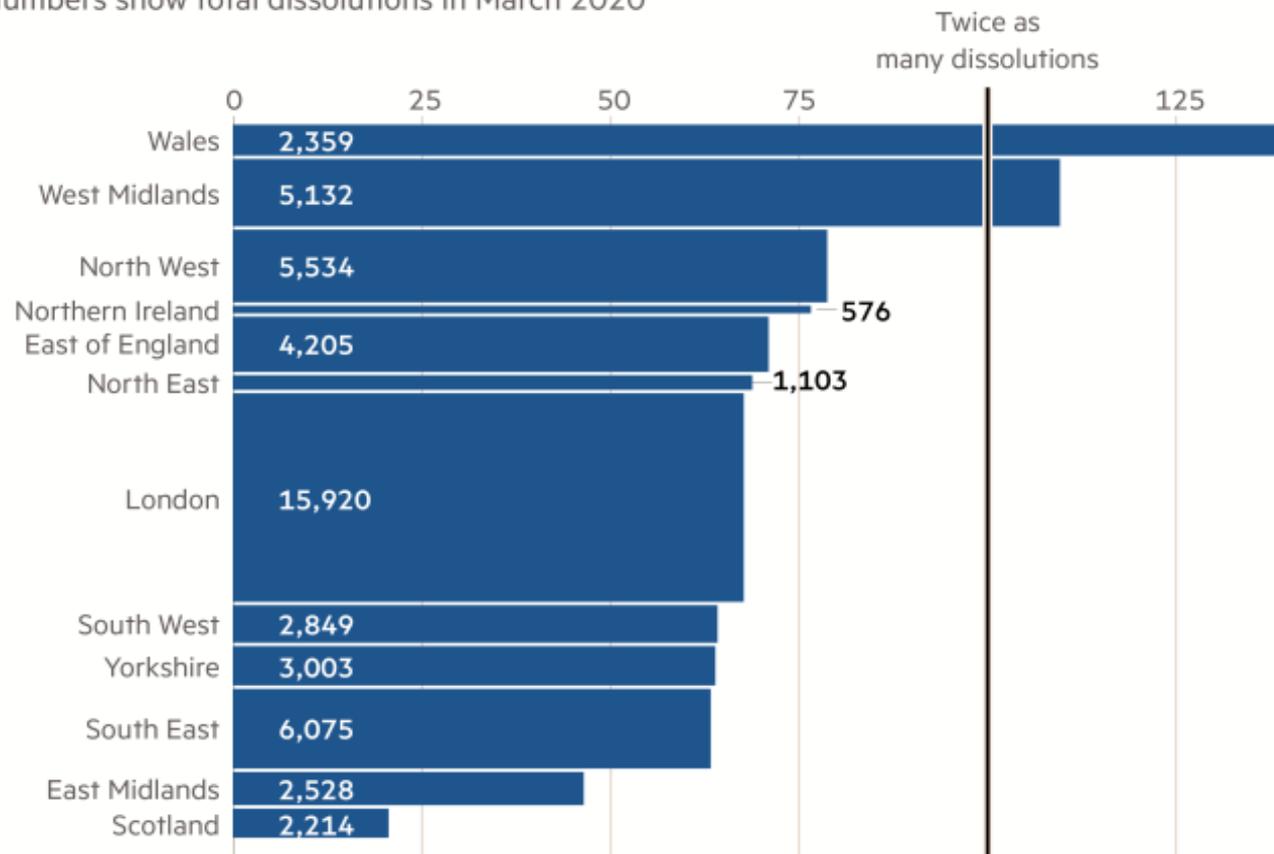
London's food and accommodation sector will be very exposed, as will the Midlands' transport and storage sector

Share of all employees who are EU nationals, by eligibility under new points system (%)



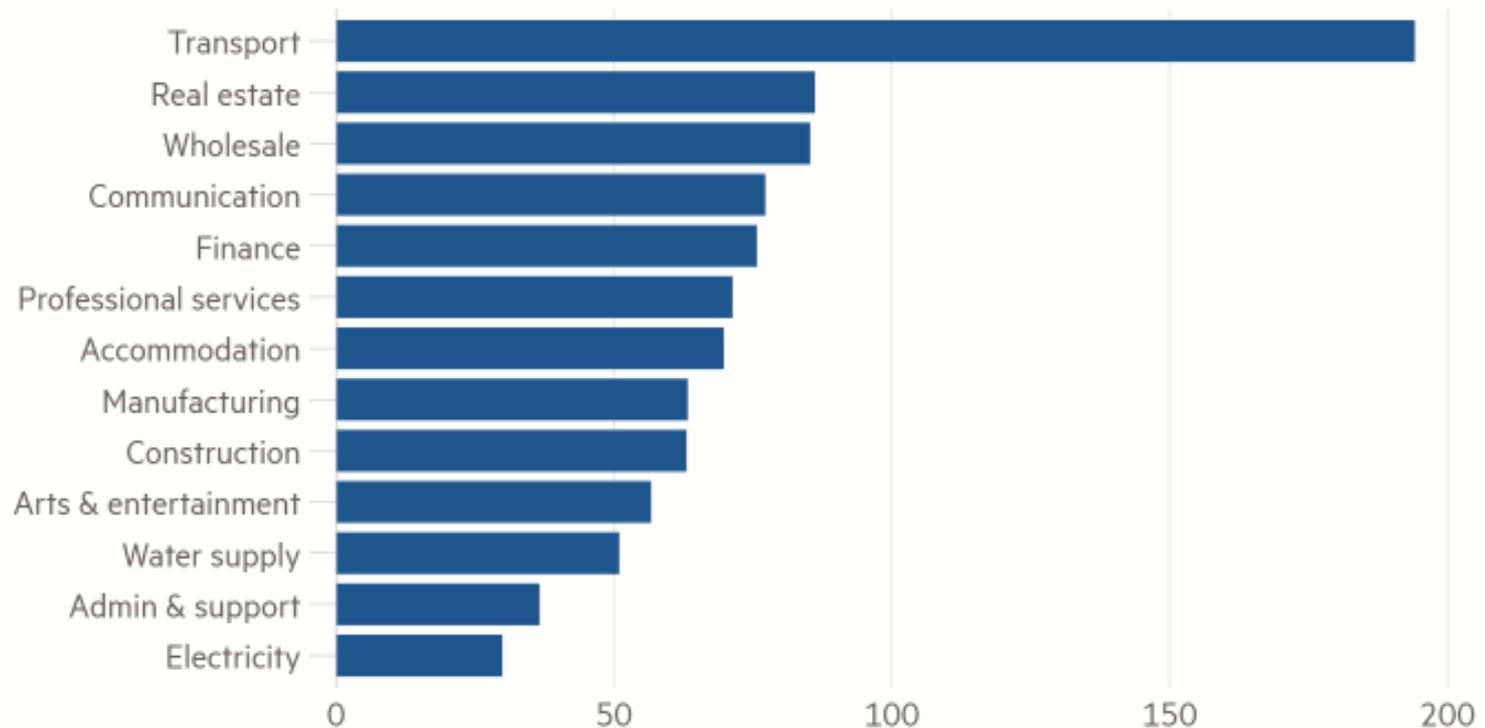
An additional 20,000 UK businesses collapsed in March 2020 compared with March 2019

Percentage change in number of dissolved companies in March 2019 vs March 2020
Numbers show total dissolutions in March 2020



Dissolutions have almost tripled for transport businesses and doubled for real estate

% increase in number of companies dissolving (March 2019 vs March 2020)



Source: Enterprise Research Centre

© FT

How did this to happen?

Why did business allow this happen?

- Discourse of power of business today
- Structural power of business (Marxist, non-Marxist – Lindblom)
- UK and power of the City of London

Business largely Remain and post-referendum clearly favoured ‘soft Brexit’

- Referendum less about economics than expected: lack of influence of business
- Business (lack of) role in the campaign
- Benefits of Brexit

Main Leave arguments: Freedom and non-economic arguments (the heart?) – ‘Take Back Control’

National sovereignty

- Laws
- Trade deals
- Immigration
- Regulation

Brussels bureaucracy and waste

- Subsidising others
- Spend money in the UK

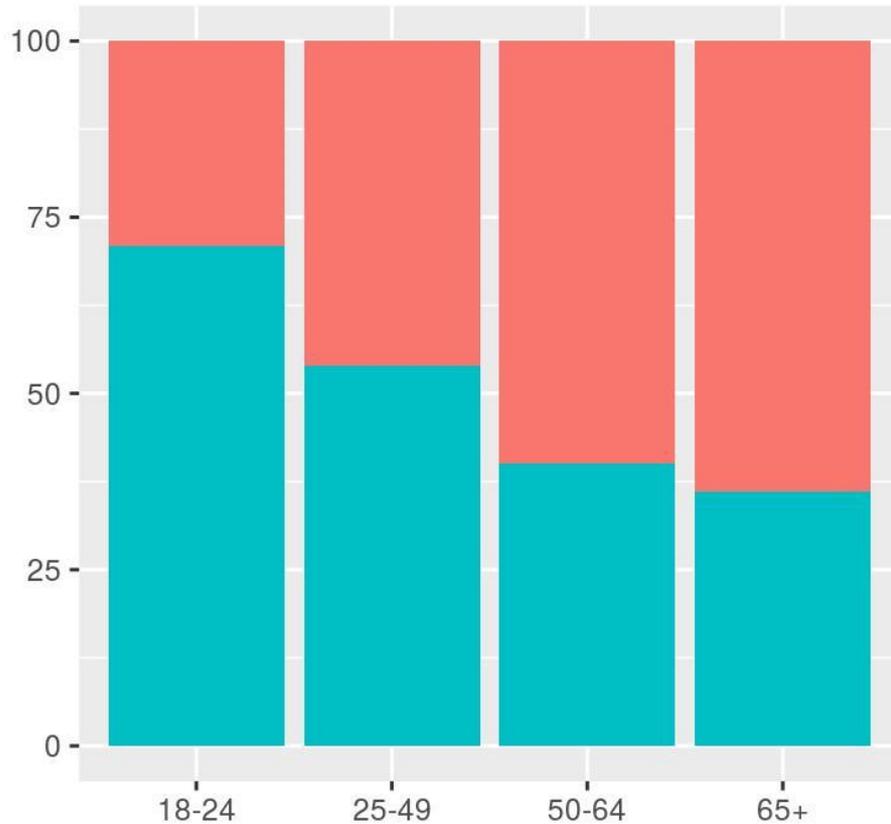
Top arguments on the EU

Please say how convincing you find the following arguments about the positives and negatives of staying in and leaving the EU. **Net scores** (convincing minus unconvincing)

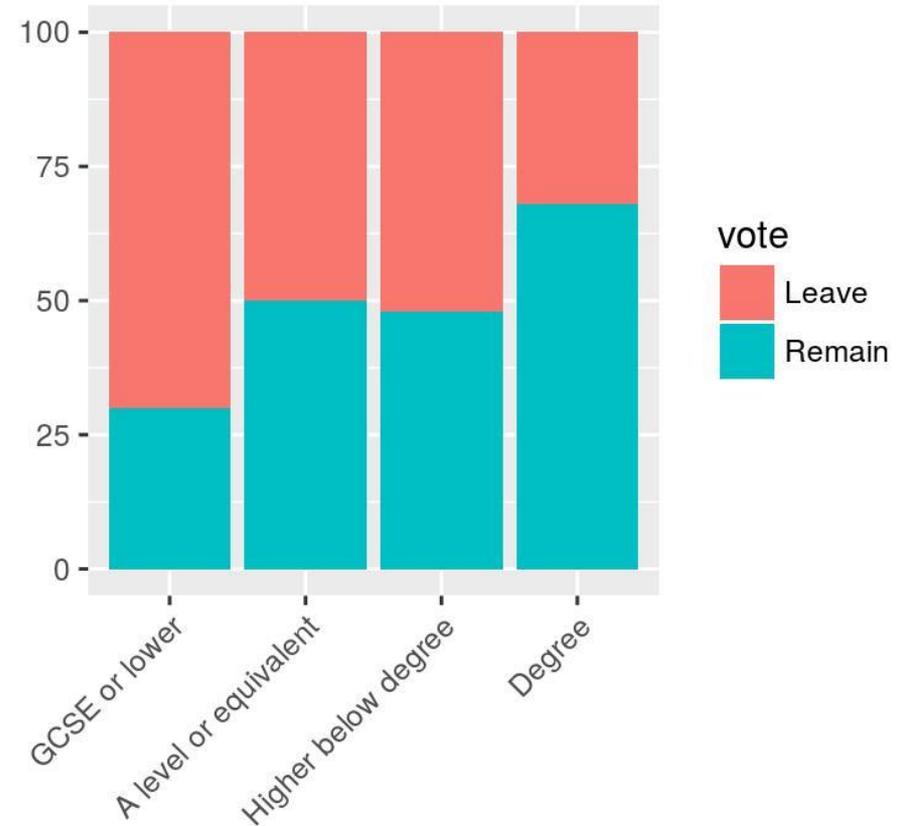
| Most convincing REMAIN IN arguments | All GB | Soft LEAVE |
|--|--------|-------------|
| Leaving would mean business still must comply with EU laws but we would have no say in setting them | +27 | -2 |
| Being in the EU gives Britain access to a huge market for our exports, bringing jobs and prosperity | +25 | -6 |
| Being in the EU allows Britons to work there, retire there and get free healthcare if they fall ill on holiday | +20 | -12 |
| Being in the EU attracts investment – global companies are based here because we are part of it | +20 | -15 |
| Most convincing LEAVE arguments | All GB | Soft REMAIN |
| Leaving would allow Britain to spend money that currently goes to the EU on better public services | +35 | +36 |
| Leaving would allow Britain to radically reduce immigration into the country | +33 | +32 |
| Remaining in means continuing to contribute billions to an EU budget that would be better spent here | +30 | +37 |
| Remaining in means having no way of limiting or cutting immigration from the EU | +27 | +21 |

Who voted which way?

age



education



Non-economic aspects

- UK and little tradition of referenda
- Growth in immigration and terrorist attacks in couple of years before
- Vote against austerity/Conservative government/status quo
- Vote against liberal metropolitan elite
- ‘English’ identity and Leave
- But also middle class rural
- Higher Leave vote where low real wage growth, low employment, greater inequality and poverty and deindustrialisation – ‘left behind’

Long term: Problematic UK-EU relationship

UK no interest in joining EEC in 1957

European Free Trade Association – free trade area so
Commonwealth preferences could continue

1961 First application (vetoed by de Gaulle)

1967 Second application

Joined 1973

1975 referendum on whether to stay in (66% said yes)

1970s-80s renegotiations

1992 Treaty of European Union and opt outs – social
charter and EMU

Stephen George, *An Awkward Partner* (1990)

2016 Referendum part of long history



Public opinion

Graph 3: Percentages of support for EU membership for each country (1985-2002)

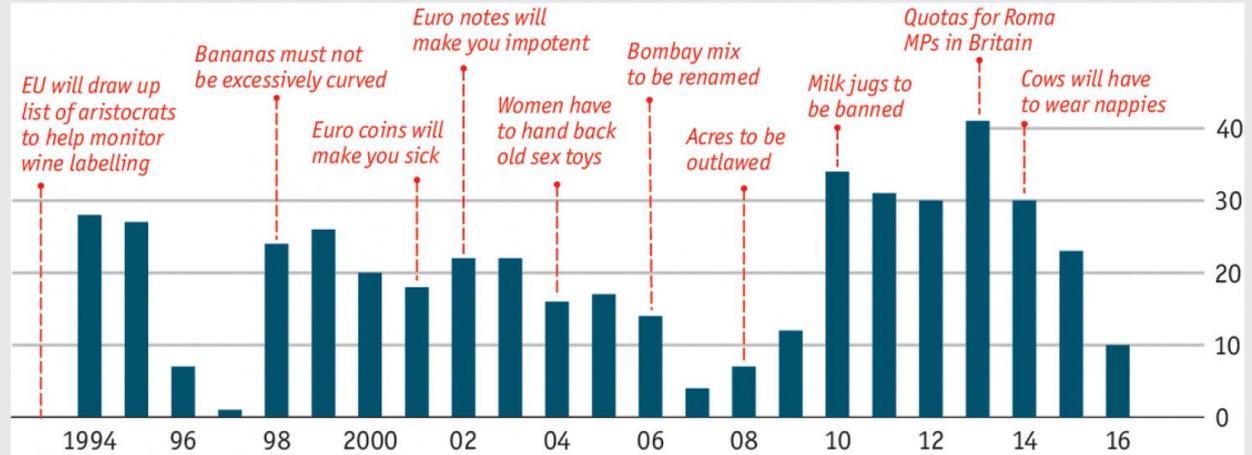




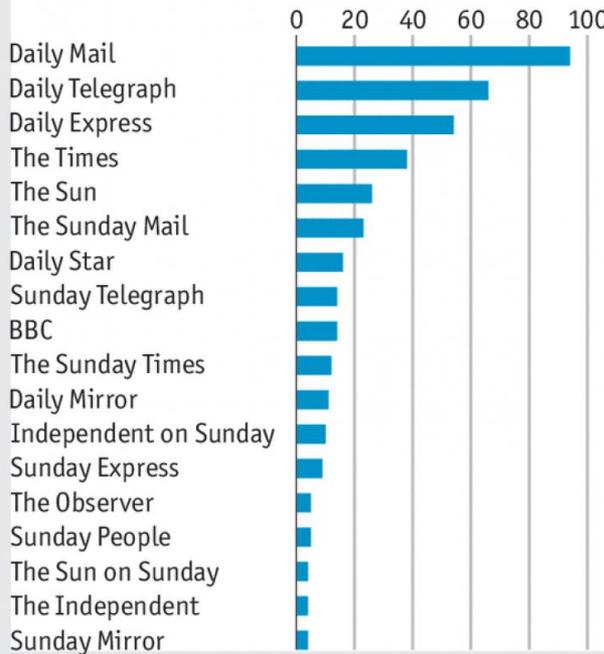
Distortions and lies – including Boris Johnson

Lies, damned lies and directives

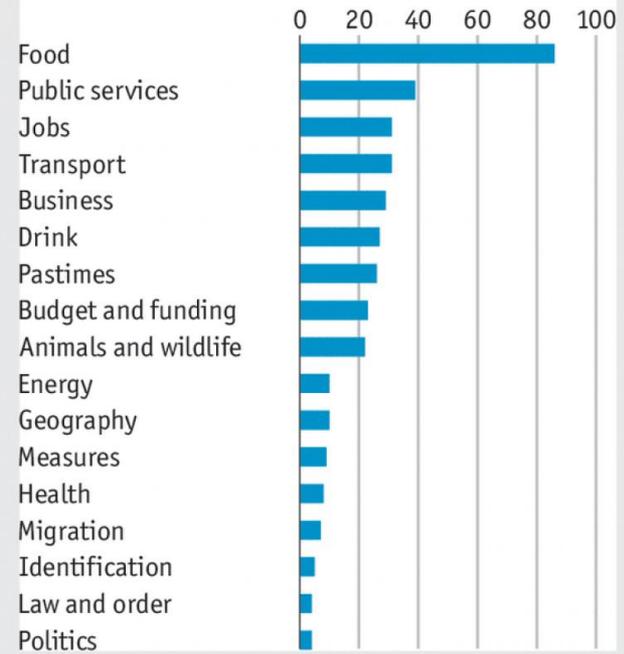
Number of EU myths debunked by the European Commission



By publication



By myth category



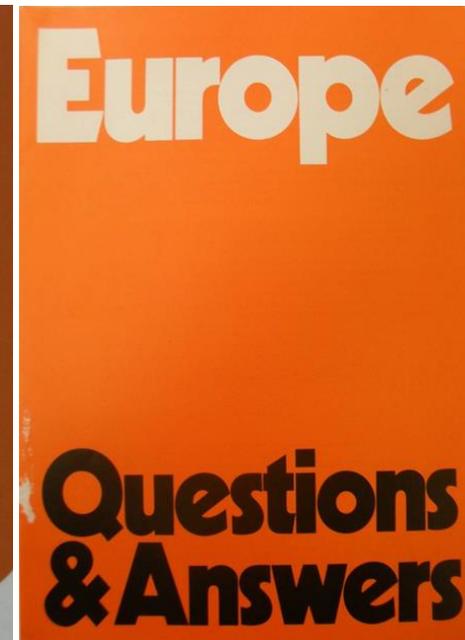
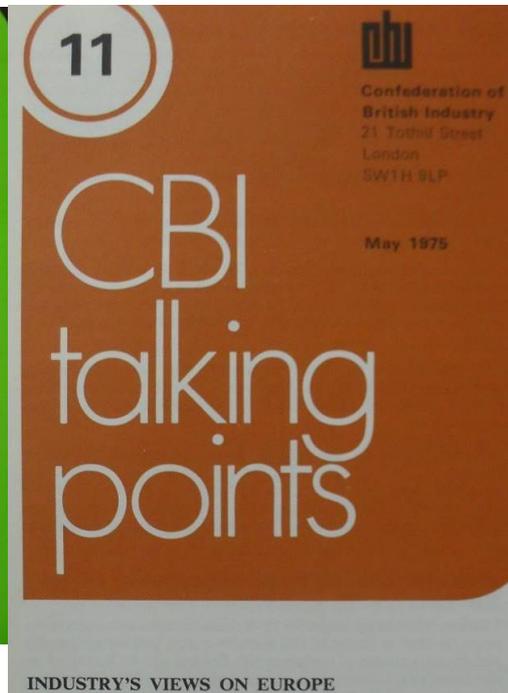
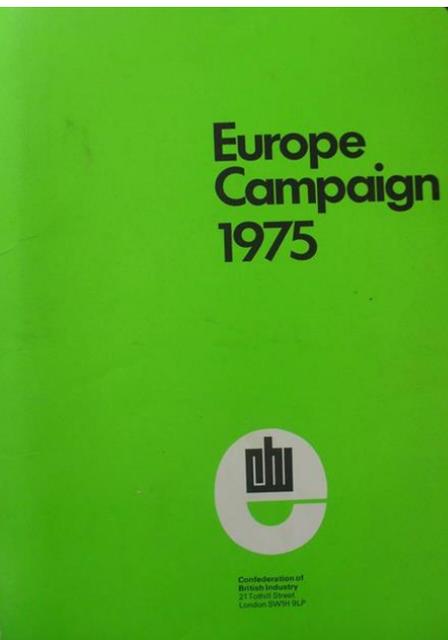
Source: European Commission

Business and the referendum campaign: 1975 referendum

- **Almost complete consensus for staying in**
- *The Times*: 415 of 419 major companies
- *The Economist*: 95% of 523 key companies
- The CBI: only ‘a handful’ of companies and no trade associations
- **Huge funding for ‘Yes’ campaign led by business**
- **Campaigning**
 - Adverts
 - Talks and letters to workers
 - Tesco bags ‘Yes to Europe’

Confederation of British Industry and the 1975 referendum

- ‘Voice of Industry’
- CBI needed to keep low profile – had to come from companies
- Information to companies
- Behind-the-scenes activities
- European Operations Room available 24/7
- 800 ‘Mr. Europes’ in companies supplied with info, posters, etc.



2016 referendum

- **Remain arguments economic**
- **Surveys – business largely in favour but less strong than 1975**
- **Big business in favour**
- **City of London**
- **SMEs less positive and given more attention but not against**
- **CBI – strongly in favour**
- **Expect active role from business campaigning even if less than 1975**

2016 referendum: Where was the voice of industry?

- **Brexiteers portrayed themselves as representing the little man against big business**
- **Business seen as part of liberal metropolitan elite**
- **Consumer-facing companies' caution/fear of brand damage**
 - Tesco (a decision for the people)
 - Sainsburys (an 'apolitical organisation')
 - PR companies advising only speak out if very clear economic impact for company

2016 referendum: Where was the voice of industry?

- **Funding**
 - Remain campaign double funds of Leave and business significant contributor but not scale of 1975
 - But...
 - Goldman Sachs 6 figure donation to Remain presented as interference/links to GFC
 - Leave main sponsors also businesspeople
- **CBI – ‘The Voice of Brussels’**



Benefits of Brexit: EU red tape

- Aspect of the EU of most concern in surveys of business opinion
- Unsurprising business tends to favour deregulation
- Key element Leave campaign – EU regulatory bureaucracy and financial savings possible
- Various claimed estimates of cost EU regulation
- Most cited Open Europe's £33 bn. a year for British companies of 100 most costly EU regulations
- Often presented/IMPLIED as potential saving
- But not so straightforward – feasible savings £12.8 bn. a year and mainly 2 areas (employment and climate change and not clear public opinion would support)

Special conditions, opt outs and derogations

- UK 4 Treaty opt outs (more than any other country)
 - Monetary Union
 - Social Charter
 - Schengen
 - Opt in/Opt out Home and Judicial Affairs
- Working Time Directive and other directives
- Budgetary rebate
- Cameron renegotiation 2015 – UK no longer to be committed to Ever Closer Union (one of opening aims in the Treaty of Rome)

UK and regulation

Regulation is for others

Labour- and product-market regulation indicators, 2013

0=least restrictive, 6=most restrictive



Source: OECD
Economist.com

Relative to other countries UK already lightly regulated (6th World Bank Doing Business Index, 2nd OECD product market regulation, 4th in labour market regulation 2013)

Business and Brexit

- Parts of business trying to be clever and play it both ways or by not being seen to be campaigning
- Best result was a close vote to remain
- Access but bargaining tool to stop pressure for greater harmonisation of regulation and maintain/increase UK advantage
- City of London and a number of hedge fund managers pro-Leave
- Only 23% financial services revenues in 2015 from activities related to the EU
- Passporting a hassle but large companies already have EU branches
- London will remain a major financial centre and only slow drift of activities elsewhere

Uncertainty: pre- and post-referendum

- Major concern for business before the referendum – **what would Leave look like?**
- Post-referendum negotiations only shown difficulties
- **Delays** in deadlines and political meltdown only exacerbated the situation
- **‘Get Brexit Done’** – not the simplistic way presented but craving for greater certainty
- CBI Dec 2019 - **‘We do now have more and very welcome clarity.** A government with a clear mandate to leave the EU by 2020.’
- Then along came the coronavirus crisis....

Conclusion

- Unsurprisingly, closer to Michael Heseltine than Donald Trump
- Don't see the UK becoming the Singapore of Europe!
- Global economy in for a rough time and being alone in that scenario not going to be easy (to put it mildly)
- But EU and Eurozone not exactly problem free
- Hard to understand 2016 vote from outside
- Often presented as irrational – the heart over the head
- Very limited influence of business but also reflected reluctance to make a clear public commitment
- Minimising risk/playing clever - head over heart? – and proved a misjudgement