

Three Questions on Brexit

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Although Britain formally left the European Union (EU) in January 2020, the transition period enshrined in the withdrawal agreement only ended on the 31st of December 2020. The first months of Britain's formal independence from the EU has subsequently posed three key questions about Brexit:

Will Britain's economy be substantially, adversely impacted as a result of Brexit?

One of the major long-running concerns about Brexit has been how it will impact Britain's domestic economy. The proponents of Brexit described leaving the EU as an opportunity to trade with non-EU states on terms more closely matching the needs of the British economy, determined by Britain's newly-renewed sovereignty. The reality of the economic consequences of Brexit is much less stable. There have been many concerns raised by various industries in Britain about the economic impact of the trade deal Boris Johnson's government negotiated with the EU, which promises to be a contested area of politics for many years to come. British exports to the EU have declined since the end of the transition period ([The Guardian, 2021](#)), and Britain has had to construct an internal border in Kent to facilitate the passage of goods to the EU. However, there are positive signs suggesting that British exports to non-EU states increased in 2020, which is a trend the current pro-Brexit British government will want to continue ([Department for International Trade, 2021](#)).

A hard lesson in economic liberalism for the advocates of leaving the EU is that imports are fundamentally the point of trade, not exports. 7 out of Britain's top 10 British import partners are from the EU, yet the post-Brexit trade deal made accessing EU imports more time-consuming and costly. In the short-run, this has reduced the availability of goods for British households, as well as input materials for firms. In the longer run, these could be substituted for non-EU imports, but whether British consumers will view non-EU products as direct substitutes is another matter, and they may just be willing to pay higher prices leading to increased inflation. Similarly, the ending of free movement may be politically popular due to the curbs placed on immigration, yet it may also have inflationary consequences as it will reduce the labour supply which places upward pressure on wages.

The financial services industry has consistently been one of Britain's most dynamic and important economic sectors, yet they were excluded from the trade deal made with the EU.

Although some have argued that this will lead to ‘Singapore-on-Thames’ style deregulation, the British financial sector was a key architect of the EU’s financial sector regulations, and there has been little call from within the sector to diverge from them. Therefore, the financial sector’s main concern is access to EU markets through equivalency rules. However, almost three months after Britain left the EU’s trade area, there has been no significant progress made on this issue. There may not be much voter sympathy for the financial sector, due to the political consequences of the 2008 Global Financial Crisis, which means that the sector may have to go through a prolonged period of uncertainty. Yet, as exemplified by the development of the Eurodollar markets in the 1960s, the creativity of the British financial sector suggests that it will search for new opportunities and regulatory environments to ensure that it remains a global financial centre.

Ultimately, the British economy will adapt to its post-Brexit position, but even steadfast Leavers in government suggest the process of adaptation may take up to a decade ([The New European, 2021](#)). However, the COVID-19 pandemic could hardly have coincided more perfectly with Britain formally leaving the EU’s trade agreement, as the eventual economic recovery from COVID-19 will be politically narrated as a successful consequence of leaving the EU.

Could a British government seek re-entry into the EU within the next 10 years?

Committed Remainers, distraught at losing their rights as EU citizens, continue to hope that re-joining the EU remains a possibility for Britain. However, the current political conditions in Britain make it an unlikely prospect. The successful attribution of Britain’s many social, political and economic problems (income and wealth inequality, uneven regional development, poor welfare provision etc) to EU membership, combined with the partisanship of the Leave/Remain voter bases, means that any attempt to re-join the EU poses a huge political risk. Yet, much like before the 2016 referendum, membership of the EU is not such an important issue that many politicians would be willing to risk their voter base or careers over it. Despite being held responsible for them, the EU was not the cause of Britain’s social, political and economic problems. Those problems will remain entrenched in the fabric of British society for decades after leaving the EU.

Northern Ireland provides an example of how those problems are being dealt with in post-Brexit Britain. Despite Boris Johnson promising that the deal with the EU would establish frictionless trade between mainland Britain and Northern Ireland, keeping Northern Ireland in the customs union and single market has foreseeably created a border between the two. Rather than blame their own Prime Minister, the European Research Group, made up of influential anti-EU Tory backbenchers, has accused the EU of using the Irish Protocol as a means to divide the Union. The EU has also been widely chastised in political and media circles for threatening to punish Britain for potentially breaking regulations they agreed upon in the trade deal. These examples demonstrate that despite having left the EU, the EU will remain a lightning rod for British politicians looking to divert blame for Britain’s political, economic and social problems for the foreseeable future. Therefore, remaining outside of the EU is of the upmost political importance.

What would be necessary for Britain to re-join the EU is a significant crisis of Britain’s political economy that could be narrated as being caused by Britain being outside the EU, where the solution is re-applying for membership. Envisioning an occasion where such a scenario could

potentially manifest is challenging. The current COVID-19 situation has the potential for such a crisis narrative to be constructed. Yet, despite the various ways in which the British government has mishandled the crisis, leading to one of the highest death rates in the world, Britain's vaccination programme is a clear success story. Britain was able to negotiate deals with vaccine producers independently and implement its own medical board approval. These factors combined to allow Britain to inoculate citizens at a much faster rate than EU member states, with even the German tabloid newspaper Bild recently stating: "Dear British, we envy you." ([Sky News, 2021](#)). As such, the COVID-19 crisis is unlikely to manifest as a crisis of Britain's post-Brexit political economy.

Thus, it remains unclear when a sufficiently severe situation could potentially emerge that would make re-joining the EU politically viable in Britain. Furthermore, the level of humility needed for a British politician to admit that leaving the EU was so damaging that it necessitated a return is not a quality many politicians possess.

Would the EU welcome Britain back as a member state?

In the unlikely event that Britain did apply to re-join the EU, support for the application among member states would certainly be divided. On the one hand, there are EU member states who have gained from Brexit and who would be reluctant for Britain to return. One example is the Dutch financial sector that saw large increases in share trading volumes in January 2021. Any return of the behemoth that is the City of London would potentially challenge the operations of European financial sectors who will have gained from the City's exit from EU markets. On the other hand, Britain is an important export market for many EU states. The re-entry of Britain to the EU's free trade area would be an important economic boost for the many export-oriented member states that will have suffered from reduced access to Britain's consumption-driven economy. The competition of interests between member states in this regard poses a significant challenge to allowing Britain to re-join the EU.

At the EU level, a former member applying to re-join the EU demonstrates to current member states that leaving the bloc would be an unmitigated disaster. Therefore, welcoming Britain back with open arms would act as a signal of defeat for anti-EU political movements across the bloc. This could potentially challenge populist parties across Europe that have used public dissatisfaction with EU institutions and processes to mobilise support for their own agendas. Any such shift away from European populism caused by Britain's return could provide an injection of much-needed political stability into the EU.

Allowing Britain to return as a member state is not without its problems for the EU though. If the UK were to re-join, then British Eurosceptics will dust-off their old pre-Brexit playbook and return to using EU membership as a scapegoat for the failings of Britain's domestic policies. This poses a threat of Britain leaving the bloc again, and the draining 4-year Brexit process is something that no-one wants a repeat of. The constant threat of knowing Britain may try to leave the EU again threatens the stability of the bloc. Britain potential return as a member state simultaneously poses opportunities and challenges for the EU's wider political economy. Therefore, the EU's desire to take such risks will depend on the specific timing of Britain's application, and whether it is politically viable, useful, or necessary for the EU to accept such a proposition.

Despite leaving the EU, Britain's "EU problem" and the EU's "Britain problem" will remain a spectre over British and European politics for years to come. The economic instability caused by leaving the EU will have distributional consequences, which will be narrated by the British as a problem created by the EU. It is difficult to imagine a scenario so challenging that it incentivises British and EU politicians to take the risk of Britain requesting, and being accepted to re-join the EU.