

# BREXIT NEGOTIATIONS AFTER ARTICLE 50

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With the vote on 23 June 2016 for the UK to leave the European Union it has become imperative for individuals, business, government and wider society to understand the implications of the referendum result. This series, published in collaboration with the Centre for Brexit Studies at Birmingham City University, UK, examines a broad sweep of topics related to Brexit. It aims to bring together academics from across the disciplines to confront and examine the challenges withdrawal from the EU brings. The series promotes rigorous engagement with the multifaceted aspects of both the 'leave' and 'remain' perspectives in order to enhance understanding of the consequences for the UK, and for its relationship with the wider world, of Brexit, and aims to suggest measures to counter the challenges faced.

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Stefania Paladini and Ignazio Castellucci, *European Security in a Post-Brexit World*.

# BREXIT NEGOTIATIONS AFTER ARTICLE 50

Assessing Process,  
Progress and Impact

EDITED BY

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# INTRODUCTION

*Alex de Ruyter and Beverley Nielsen*

This edited book brings together leading figures from academia, politics and practice to examine the process and impact of impending UK withdrawal from the European Union (EU), some 18 months into Article 50 withdrawal period (at the time of writing). In so doing, we sought to bring together contributors from the diverse fields mentioned to discuss and debate the progress (or lack of) to date since Prime Minister Theresa May enacted Article 50 process to leave the EU on 29 March 2017. This monograph specifically has as its focus two key areas of inquiry: (1) critically examining the dynamics of the withdrawal process from the EU and appraising what opportunities, if any, that ‘Brexit’ might offer the UK after 29 March 2019, and (2) examining the likely impact of Brexit on key sectors of the UK economy, cognisant of wider social and political issues.

As such, we hope that this edited book will provide a distinct contribution to the considerable literature that has already been produced on Brexit. One of the key distinguishing features of this monograph is that it brings together perspectives from academics and practitioners, both of a ‘Remain’ and a ‘Leave’ persuasion. Whilst much material has already been published on the process and likely impact of

Brexit, these publications have largely been of a purely academic contribution operating largely within individual subject areas (politics, law, economics, etc.); and as such, have primarily been from a ‘Remain perspective’ where Brexit is conceptualised largely in terms of having a forecast negative impact on the UK economy and wider influence in the world, and distinctly lacking in practitioner input.

That is not to in any way discount the consensus of academic opinion in regards to the likely impact of Brexit on the UK economy and society. Rather, what we have felt to be important here, particularly in terms of the contributions from authors of a distinct ‘Leave’ perspective, namely, Professor Patrick Minford and Sir Bernard Jenkin MP, is to gain insights into the notion that leaving the EU has been driven by a desire to embrace a different regulatory framework than that of the EU. This has been particularly evident with the distinct EU emphasis on ‘social partnership’ between capital and labour, and the promulgation of law-upholding consumer, worker and environmental rights. That is, for ‘Brexiters’, the UK should embrace a more market-oriented deregulatory economy, as purportedly typified by the ‘US model’ (or otherwise completing the ‘Thatcherite Revolution’, as it were). For many in this camp, the short-term costs of Brexit are deemed to be worth it for the longer-term gains that realignment of trade and production would offer the UK economy (see Jenkin in this book).

Put in such terms then, Brexit, rather than being a push for ‘sovereignty’ per se – at least in terms of its leading protagonists – really is more about reasserting the principles of market fundamentalism, or ‘completing the Thatcherite revolution’ (Hutton, 2017). Andrea Leadsom, one-time leadership aspirant and current Leader of the House voiced these sentiments in no uncertain terms in 2012 when she stated that:

*I envisage there being absolutely no regulation whatsoever – no minimum wage, no maternity or paternity rights, no unfair dismissal rights, no pension rights – for the smallest companies that are trying to get off the ground, in order to give them a chance.<sup>1</sup>*

In a similar vein, Liam Fox, currently Secretary of State for International Trade, writing in the *Financial Times* in 2012<sup>2</sup> stated that:

*To restore Britain's competitiveness we must begin by deregulating the labour market. Political objections must be overridden. It is too difficult to hire and fire and too expensive to take on new employees.*

Suffice to say, such sentiments largely did not make it into the popular discourse over Brexit, where the vote has predominantly been interpreted as a reaction against globalisation and 'metropolitan elites' (Pidd, 2016); as a referendum on migration (Golec de Zavala, Guerra & Simão, 2017), or otherwise a revenge of the places that felt 'left behind' (Rodríguez-Pose, 2018). In the chapters that follow, key issues relating to the process and progress of the UK leaving the EU are explored by contributors of varying persuasions and backgrounds (academic, practitioner and politician).

## PART I: BREXIT: PROGRESS, PROCESS AND ISSUES

The first part of the book deals with 'the dynamic of Brexit' – namely those overarching themes raised by the vote and Brexit itself. The opening chapter, by eminent philosopher Professor A. C. Grayling, discusses the constitutional propriety of the

referendum and the issues raised by it. Grayling notes that the referendum has exposed the fragility of the UK's constitutional process and the insufficiencies of its constitutional order, going so far as to argue that it has become the 'plaything' of those most able to manipulate it.

The arguments raised as to the inconsistency of the UK's recent use of referenda as a constitutional tool are convincing. It is difficult to understand the rationale for including EU nationals living in Scotland in the 2014 referendum on Scottish independence, but not the 2016 referendum on whether to leave the EU (particularly given that they pay substantial taxes to the British exchequer). Similarly, the 2014 referendum included 16- and 17-year olds, who had not yet reached the age of majority, whereas the latter did not. Grayling then goes on to discuss alleged improprieties in the way the referendum was conducted, arguing that any of these would be sufficient *prima facie* evidence to declare the results unsafe. Finally, the question of a minimum threshold for major constitutional change is raised. Taken together, Grayling makes a convincing case that the results of the referendum should be treated with caution and not taken as binding upon Parliament.

The book then shifts to consider the economic evidence on Brexit. Professor Patrick Minford is a fierce proponent of free-market economic orthodoxy, placing a high value on theoretical general equilibrium modelling. He is outspoken in his support of Brexit, arguing that it will enable the UK to almost eliminate domestic tariffs and improve welfare. In Chapter 2, the core of Minford's argument is based on his work on trade. Minford differs from many academic economists in entirely eschewing gravity modelling, on the grounds that correlation does not imply causation. However, we note that there is now significant academic literature finding that disintegration of an economic union is followed by a fall in trade intensity (Fidrmuc & Fidrmuc, 2003; Morgenroth, 2017).



Professor Minford focusses on a theoretical approach, so that the results are crucially dependent upon starting assumptions. His assumption that a complete fall back to World Trade Organisation rules will add zero extra trade frictions, for example, will undoubtedly prove a challenging one for many readers in light of the UK Government's no-deal preparations. In this context, the work of [Dhingra, Ottaviano, Sampson, and van Reenen \(2016\)](#), for example, gives very different results and it comes as no surprise to find that there is vigorous disagreement between themselves and Professor Minford (see, e.g., [Sampson, Dhingra, Ottaviano, & van Reenen, 2017](#)) on these issues.

Following on from Professor Minford, in Chapter 3, Sir Bernard Jenkin MP forcefully makes the case that Britain should seek a sharp break from the EU. For Jenkin, Brexit must involve two things. First, it should entail an end to the primacy of EU law within the UK and thus a complete break from the role of the Court of Justice of the EU in giving binding interpretations of that law, ruling out membership of the European Economic Area. Secondly, he argues that the UK must be free to negotiate independent trade deals with other potential partners – thus ruling out a customs union with the EU.

Jenkin's perspective contrasts with that of A. C. Grayling, but also with fellow John Mills (Chapter 4) both in outlook and in tone. Jenkin takes particular issue with both the EU's regulatory framework, favouring a low-regulation environment, and the Common External Tariff of the EU's Customs Union. However, the chapter does not explore whether less regulation would have widespread appeal to those 'left behind' communities that appear to have voted so strongly for Brexit. Like Minford, Jenkin favours dramatically lowering tariffs on many products. Nevertheless, many of the hoped-for trade deals could prove difficult to strike and a number of crucial sectors might struggle to take advantage of them due to the probable absence of 'diagonal cumulation'.

In Chapter 4, John Mills, founder of the ‘Labour Leave’ campaign, provides a short history of the relationship between the British Labour Party and the EU. Drawing on polling data that suggested over one-third of Labour voters voted Leave in 2016 (Ashcroft, 2016), he argues that understanding the rationale behind this is crucial to a thorough understanding of why the UK voted Leave in 2016. Reflecting on the importance of migration to the result, he argues that it is imperative that Labour reacts to worries about pressure on local services and the scale of migration.

Mills is clearly sympathetic to these concerns, noting that many traditional ‘Labour working class’ voters feel ‘left behind’ by globalisation and the cosmopolitan internationalism it engendered. Whilst his assertions on the impact of EU migration on service provision and wages are strong, it is true that there appears to be some indication that migration could put some downward pressure on wages for those near the bottom of the wage distribution (Dustmann, Frattini, & Preston, 2013). Nevertheless, Mills’ discussion of the likely future options for the Labour party in reacting to the referendum result of 2016 is both interesting and timely. As he concludes, holding the ‘Labour coalition’ together and charting a course through the waters of Brexit is a daunting challenge.

In Chapter 5, David Hearne, Rebecca Semmens-Wheeler and Kimberley M. Hill deal with the motivating factors behind the Brexit vote from a socioeconomic and psychological perspective. Briefly reviewing some of the key literature from both disciplines, the authors make the case that a holistic understanding of the drivers of the Brexit vote should be multi-disciplinary. Beginning with a brief review of previous social science literature, the authors use a simple econometric model and the referendum results by local authority to investigate the most salient demographic and economic factors that indicate the propensity of a region to vote Leave.

Following this, the authors investigate each of these in turn, noting socio-psychological theories that can begin to explain not just which areas voted for Brexit but why places with certain characteristics may have chosen to vote the way they did. Doing so, the authors argue that this enables them to investigate the validity of various hypotheses around Brexit and bring rigour to a debate that has thus far been characterised by strong assertions around the motivations of those that voted Leave but less evidence. The chapter concludes by noting that there is a strong research agenda moving forward, for both quantitative and qualitative evidence. It is clear that, irrespective of the final outcome, the issues raised by Brexit are not going away and, as such, Brexit will prove fertile grounds for research for some time to come.

In the final section of Part I (Chapter 6), Dr Stefania Paladini examines the issues surrounding the operation of trading outside of a customs union, and the problematic nature of border enforcement in order to prevent the smuggling of contraband items. Using the case of Chinese garlic smuggled under false labelling, Paladini exposes the problems surrounding enforcement at even customs borders such as Norway–Sweden, which is often considered to be a highly efficient operation.

Paladini's work suggests clear implications for any prospective UK–EU trading relationship that results in the UK lying outside the EU Customs Union and Single Market as entailing significant issues in terms of the Northern Ireland border. In the final part of the chapter, Dr Paladini outlines possible options available to the UK. She notes that in contrast to the operation of the Norway–Sweden border, trade between the UK and the rest of the EU is of a different magnitude and hence argues that technological solutions to the Irish border problem probably will not be sufficient.

## PART II: SECTOR-SPECIFIC ISSUES AND LIKELY IMPACTS

In Chapter 7, the first of the book's 'sector specific' chapters, Sir Mark Boleat – Chair of the City of London Corporation's Policy and Resources Committee from 2012 to 2017 – outlines the prospective impact of Brexit on the financial services sector. Where Minford and Jenkin see opportunities for the UK's service sector businesses post-Brexit, Boleat argues that, for financial services at least, leaving the EU is likely to prove overwhelmingly negative. In a measured contribution, he outlines how the loss of 'passporting' rights is likely to affect the City's ability to offer services to clients across Europe.

The proposed 'equivalence' measures are considerably weaker and, as noted by Boleat, the process of granting them is often fraught with politics. The chapter notes that a number of major players in the financial services industry are already moving parts of their business into other EU member states in order to ensure that they continue to be able to serve European clients. More generally, firms that wish to do business inside the European Economic Area (EEA) will need to ensure they comply with EU legislation, which the UK will cease to have a role in shaping. The chapter argues that the costs of Brexit for the financial services industry have already been significant – cumulatively running into billions of pounds and are likely to grow further. Finally, the chapter concludes with a rather sober consideration of the potential longer-term ramifications of Brexit.

In Chapter 8, Vicky Pryce, Beverley Nielsen and Steve McCabe discuss the potential impact of Brexit on Small and Medium Enterprises (SMEs) and the wider economy. Taking a broad look at Brexit they note that thus far, evidence suggests that the UK has experienced slower growth since the referendum than would normally be expected. They note the sig-