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A 'titanic success'?

Away from the EU, back to the UK's old Commonwealth allies: Boris Johnson dreams of an alternative to the EU with a new free trade agreement

When the United Kingdom left the European Union at the end of 2020 it was suffering from more than Brexit's expected economic and political consequences. The government's failures meant that it was also among the European countries hardest hit by the Covid-19 crisis. Brexit has already led to a substantial slump in trade between the EU and the UK. Trade volume – in comparison with the first quarter of 2018, the last relatively stable quarter before Brexit and Covid-19 – fell by 23.1 per cent.

Meanwhile, China took Germany's place as the biggest market for British exports. British imported goods from China rose by 66 per cent to around €19.7bn between 2018 and the first quarter of 2021, while British imports from Germany fell to €14.5bn. The fact that British trade with non-EU countries fell by only 0.8 per cent during the same period indicates that the bulk of the contraction is due to Brexit – and not the Covid-19 pandemic.

Although the OECD predicts 7.2 per cent short-term growth for British GDP, the strongest since 1941, this has to be seen against the background of a GDP contraction of 9.8 per cent in the previous year. This was the worst recession for almost 300 years. A comparatively rosy outlook is also predicted for 2022, with 5.5 per cent economic growth. But the OECD warns that, longer term, Britain may well suffer more serious economic damage than other G7 industrialised countries.

The consequences of exiting the EU could exacerbate those of the pandemic. Despite all this, a majority of English people back Johnson more strongly than ever. But those who, in vain, voted against Brexit – such as the Scots, the Welsh and the Irish – now feel compelled to consider the consequences, including a revival of the discussion on secession from the United Kingdom.

Restoring Britain's former glory

Since the Brexit vote in 2016 some right-wing English conservatives have expressed a preference for links with 'CANZUK' rather than the EU. This refers to possible UK integration with three of its former settler colonies: Canada, Australia and New Zealand. As Brexiters see it, CANZUK is synonymous with a revival of Britain's former glory and its role in the so-called Anglosphere. This is a vision that dates back to the Second World War and nineteenth-century settler colonialism.

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The member states of such an imagined alliance share many political, economic, and cultural features. English is their official language; their democracies are organised along Westminster lines; and they are among the highest-income nations. The CANZUK countries' combined foreign trade is around €2.9 trillion and in terms of joint GDP and among nations with the highest total wealth, CANZUK would rank third worldwide.

Its proponents already imagine CANZUK as the second most powerful geopolitical union in the world, after the EU, as the UK, Canada and Australia are three of the world's 15 largest economies. They believe that such a pact could forge an alliance closely integrated by trade, migration, and security ties. CANZUK, with over 136 million people, could become the world's fourth biggest economic power, after China. Finally, the putative block would have the biggest land mass in the world and thus a rich reservoir of natural resources.

Sceptics such as economist Iain Begg of the London School of Economics, however, warn that the new post-Brexit trade agreement with Brussels will inflict a GDP shrinkage of 5 per cent on the UK. CANZUK could in no way compensate for previous EU market access. Before Brexit the EU was the UK's biggest trade partner, with 47 per cent of British trade volume. Canada, Australia, and New Zealand, by contrast, accounted for a mere 3.5 per cent.

Too distant to compensate

Furthermore, the vast distances separating CANZUK member states would impose serious cost increases in comparison with neighbouring EU states. Nobel prize winner Paul Krugman notes that, according to the gravity model of foreign trade, while trade volume is positively affected by the size of two economies, it is negatively affected by the distance

between them.

This implies that even if the UK could negotiate trade conditions with CANZUK members similar to those it enjoyed as an EU member, their value would be far lower, not least because of higher transport costs and non-tariff barriers. As an example Begg points to the EU automobile industry, in which components exported from the UK cross borders six or seven times in the manufacturing process. Over particularly long distances – between the UK and Canada, for example – this would not be viable.

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British companies early on exhibited a much more realistic appreciation of Brexit's consequences than Boris Johnson. They were voting with their feet even before the Covid-19 crisis, which government neglect allowed to shake the UK more severely than any other European country. Some more acerbic commentators suggested that they were 'like rats deserting a sinking ship'. The Brexit vote had led to a 17 per cent rise in British companies' FDI in the EU27 as early as March 2019. Business in non-EU and OECD countries, meanwhile, remained unchanged.

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On the other hand, the number of EU27 investment projects in the UK fell by only around 9 per cent. This suggests that the UK has been harder hit by the costs of economic exclusion than the remaining EU member states. On top of that, Brexit-related uncertainty led to a loss in market value of companies hit hardest by Brexit, as well as to falls in jobs and investment. International companies largely expected negative fallout from Brexit, not least because of regulatory divergence, reduced labour mobility, and restricted access to EU trade.

Apart from the fact that the British share in exports to Anglosphere economies has been falling relentlessly since the colonial period – from 36 per cent in 1949 to 2.5 per cent in 2017 – trade also *within* the Anglosphere fell from around two-thirds of total trade to one-third in the period 1947–2017. Even London's recent application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) – an association of eleven Asian Pacific Rim states, also known as the TPP11 – has been met with some scepticism.

After all, CPTPP countries account for only 10 per cent of British exports and the British government has already concluded agreements with most of them. Any net gain is therefore dubious. Finally, in Washington's eyes, Brexit has tarnished the British vision of a 'special relationship' with the US, based on the UK forming a bridge between Europe and America. For the US, the UK's exit from the EU has diminished its value as a significant global actor.

Despite all that, CANZUK can at least be held out as heralding the future prospect of moving away from Europe and towards geographically distant, but more rapidly growing Asian-Pacific markets. According to Johnson, CANZUK will be a 'titanic success'. In fact, it can scarcely compensate for the EU market access that Brexit squandered.

The former colonies have their own agendas, which are unlikely to correspond with that of the UK. Finally, the UK's relative weight in relation to Asian global players such as China and India will continue to diminish in the medium and long term. In future trade negotiations, the Asian giants are likely to have much greater leverage and dictate their rules and conditions to London.



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