

A hard Brexit? Not a bad idea for the British!

Let's face it, the current Brexit deal that is before them is not that interesting for the British. Why not? Well, under the current deal the British continue to have access to the rest of the EU countries without paying any tariffs at the EU border. But they have nothing more to say in Brussels where European decisions are made. In addition, they must continue to pay their EU contribution as before at least until the end of 2020.

Also, accepting the current Brexit deal implies that the hands of the British are tied in a number of areas where they would like to move forward. They would not be able to negotiate their own trade agreements with trade partners until 2020. A free trade agreement between the UK with the US, with China or with former British colonies such as India is therefore not possible. In the area of taxation, their hands are also bound under the current Brexit deal, because the EU commission demands guarantees to ensure the "levelling of the playing field". This means that British tax rates are prohibited from falling too much in order to avoid tax competition for the rest of the EU which may steal business. This is a handicap for the British, especially for corporation taxation. Currently their corporate tax rate on companies' profits is 20%. But the British would like to lower it further to attract companies and to offer an attractive environment to startups. However, Europe blocks this under the current Brexit deal until at least end of 2020. On the websites of the British government it is already stated that the corporation tax in the UK will be further reduced from the current 20% to 17% in 2020. The UK is likely to lower its corporate tax rate further in order to become the tax heaven next door. A hard Brexit would therefore allow the British to autonomously determine the level of their corporate tax rate. In a speech by Teresa May in September 2018 on Bloomberg, she already indicated that the UK wants to become the paradise for business.

The same applies to wages, labour markets and environmental standards, areas where the British want to be more flexible than the rest of Europe in order to boost their competitiveness, but where their hands are tied under the current Brexit deal. Under the current Brexit deal, the only thing that the British gain is more control over their borders which is what they wanted. But the price they seem to be paying for this is high.

So if you list everything, the current Brexit deal is just not interesting for the British. I therefore start to suspect that the British will go for a hard Brexit. I suspect they may prefer to swallow the pill and take the short pain over a prolonged exit from the EU where the "levelling of the playing field" prohibits them to take action in areas important to them. The proponents of a strong British nation could then prove to the world that the British can endure hardship which would mirror their nostalgia to the days where the UK was a military and economic world power.

What would the hardship under a hard Brexit consist of? Well, it would be much more difficult for the UK to export products to the EU because they would have to pay import tariffs to enter the EU. These import tariffs are highest in food (9% on average), textiles (8% on average) and cars (6% on average). However, the sector most affected in the UK under a hard Brexit, would be wholesaling, according to a KULeuven-Vives study (Vandenbussche et al, 2018).

EU import tariffs on UK goods would make these more expensive in Europe, resulting in lower amounts being sold. Thus the British would lose income, which would force them to cut jobs in those sectors that have been hit hardest by Brexit. At least 500 000 jobs could disappear as predicted by Vandenbussche (2018), which corresponds to a loss in British GDP of at least 4.5%. This may even prove an optimistic estimate, as the Bank of England estimated losses of a hard Brexit of up to 9,5% of UK GDP.

Why would the British still consider it? Because in exchange for a hard Brexit, the UK could negotiate free trade agreements with the US or with China. These are two trading partners where the EU currently does not have a free trade agreement and where growth is strong. Under a hard Brexit, the British could also start negotiating a free trade agreement with the EU, as Canada and Japan recently did. That free trade agreement would then replace the UK's current EU membership. Such a free trade agreement between the UK and the EU has many advantages for the UK as they would not have to pay any tariffs and they could secure their GDP and UK jobs resulting from trade with the EU.

A hard Brexit would also offer the advantage to the British that they no longer pay any contribution to the EU budget beyond 2020. When entering negotiations of a free trade agreement with the EU, the UK would be on an equal footing at the negotiating table which is not the case under the current Brexit deal where the EU is currently pulling all the strings.

But what about Ireland under a hard Brexit? Would the British not rip their trousers there? So far Ireland was the problem child because Northern Ireland belongs to the UK but Southern Ireland belongs to the EU. So what to do? The British absolutely do not want a wall to be built between Northern and Southern Ireland. Northern Ireland also strongly opposes this. Therefore the only option available is that under a hard Brexit, Northern Ireland would continue to have access to the EU market. This would offer opportunities for Northern Ireland because they would then have free access to the EU. Northern Ireland would then become the gateway to the EU, which may trigger a lot of inward investment from the British. A hard Brexit therefore does not seem so bad for the British or at least not so much worse than the current Brexit deal that does not seem to get through the UK parliament.

So I'm guessing that the hard Brexit may well be the best option for the British and that they bet on that. That would mean a hard pill for them in a short run, but would reduce their reliance on Brussels to a minimum which is what they aspire. I would therefore not be surprised if the British go for the hard Brexit. History tells us that one should never underestimate the British. In the past, the British have shown to be great military strategists who have already won many battles. This time it is not about military interests but about economic interests. The weapons are different but the goal remains the same, namely an independent UK. That is what they want, that's what they stand for, and I think that's what they're about to do. Wait and see!