

Boris Johnson

on the

BY DESMOND LACHMAN

Hot Seat

*How to avoid crashing
out of Europe.*

Following Boris Johnson's recent electoral triumph on a "Get Brexit Done" slogan, the British electorate could be forgiven for believing that the country's drawn-out Brexit saga will soon be behind it. Unfortunately, the electorate is in for a rude shock.

As Prime Minister Johnson's hero Winston Churchill might have put it, Britons will soon learn that they are not at the beginning of the end. Rather they are only at the end of the beginning of the Brexit process. While finally the Brexit Withdrawal Agreement has allowed the country to leave the European Union on January 31, 2020, the more difficult and challenging phase of negotiating a permanent economic relationship with the European Union still lies ahead.

Judging by the hard-line position that Johnson's government is adopting in the upcoming negotiations, the British electorate might be in for a ruder shock yet. Far from making the United Kingdom the Singapore on the Thames that has been promised, the electorate might find that all Johnson has to offer is more economic blood, sweat, and tears.

DISAPPOINTING ECONOMIC PERFORMANCE

To date, the Brexit process has not been kind to the UK economy. Since the June 2016 Brexit referendum, the United Kingdom has moved from the top of the G7's economic growth league table to the bottom. Meanwhile,

Desmond Lachman is a Resident Fellow at the American Enterprise Institute. He was formerly a Deputy Director in the International Monetary Fund's Policy Development and Review Department, and the Chief Emerging Market Economic Strategist at Salomon Smith Barney.

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220 I Street, N.E., Suite 200
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Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

as a result of heightened political uncertainty and fears that the United Kingdom might crash out of Europe without an economic deal, the country now finds itself on the cusp of an economic recession.

Particularly troubling for the United Kingdom's long-term economic growth prospects has been investor reluctance to invest for fear of a disruption in the United Kingdom's European supply chain. Over the past three and a half years, UK investment has virtually stagnated at a time when European investment has increased by more than 10 percent. It has also not been encouraging that the value of the pound has remained stuck at some 10 percent below its pre-Brexit referendum level as investors have fretted over the state of the UK economy and its balance of payments.

MISTAKES IN WITHDRAWAL NEGOTIATION

With hindsight, it is easy to identify a number of mistakes that the United Kingdom made in negotiating the Brexit Withdrawal Agreement. It is also not difficult to see how those mistakes contributed to the economic and political uncertainty that has cost the country's economy so dearly.

Among the more egregious of those mistakes was then-Prime Minister Theresa May's decision in March 2017 to trigger Article 50 of the Lisbon Treaty before political agreement had been reached domestically as to what the United Kingdom's goals would be in the Brexit negotiations. That triggering put the United Kingdom in a weak negotiating position relative to its European partners, who had a clear idea as to their objectives. It did so by setting the clock ticking for the two-year period within which those negotiations were to be completed. It also did so by raising the possibility that the United Kingdom could crash out of Europe without a deal by March 2019 unless it were to make a politically embarrassing request for an extension in the negotiating deadline.

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Boris Johnson compounded the country's domestic political and economic uncertainty by asserting that he would rather die in a ditch than seek another Brexit extension beyond end-October 2019. In the event, Johnson was forced by Parliament to seek a one-year extension. However, this was not before he again raised the specter of the United Kingdom possibly crashing out of Europe without a deal. It was also not before Johnson had to make major concessions to his European partners on the vexing Northern Ireland border issue.

A TRANSITIONAL PHASE

Under the terms of the Brexit Withdrawal Agreement, upon leaving Europe on January 31, the United Kingdom has now entered a transitional period lasting until the end of 2020. During that period, the United Kingdom will seek to negotiate its permanent economic relationship with Europe. Until it does so, UK-European economic relations

Blunder Central

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will continue to be governed by the same rules as they are at present.

A politically embarrassing aspect of the transitional arrangement for Johnson's government is that the United Kingdom still will be bound by the European Union's rules from which it would like to set the country free. Worse yet, the United Kingdom will no longer have a seat at the table when those rules are set.

Another problem for the United Kingdom is that the specter of it crashing out of Europe, which hobbled its economic performance last year, has not been eliminated by the Withdrawal Agreement. Indeed, failure to reach an agreement on a permanent UK-EU economic relationship by year-end could result in Britain crashing out of Europe without a deal. That is, unless Johnson were to make a politically difficult U-turn and ask the European Union for yet another Brexit extension.

MR. JOHNSON'S NEW MISTAKES

Over the past three years, the prospect that the United Kingdom could crash out of Europe has been highly unsettling for investors and has pushed the UK economy to the brink of an economic recession. Now, rather than assuring investors that he will use his large parliamentary majority to engage in an orderly negotiation with his European partners on a future trade arrangement, Johnson has categorically ruled out another Brexit extension request. He has done so despite the fact that it took Canada seven years to negotiate its EU free trade agreement. He has also done so despite the fact that most trade experts consider less than a year a highly unrealistic time frame to negotiate an EU-UK free trade agreement.

Seeming to have learned little from last year's Brexit withdrawal negotiations, Johnson has again put his country in a weak negotiating position. He has done so by "categorically" ruling out any notion of asking for an extension. This once again gives the Europeans every reason to run down the clock in the negotiations and to extract additional concessions from Westminster as the United Kingdom approaches the no-deal Brexit abyss.

At the same time that he is ruling out another Brexit extension request, Johnson is indicating that he wants to limit the upcoming trade negotiations to goods and that he would like to free the United Kingdom to the extent possible from the European Union's rules. He is doing so even though the European Union is warning that to the extent that the United Kingdom seeks to diverge from EU rules, its access will be limited to the European Single Market. He is also doing so despite the fact that Europe is the main market for the United Kingdom's service exports, which now account for around 45 percent of the country's total exports of goods and services.

Johnson's government seems to have deluded itself into thinking that it will be able to negotiate rapidly a favorable U.S.-UK free trade agreement that will compensate the United Kingdom for any loss of access to the European Single Market. It seems to have escaped the UK government's notice that while the United States does account for 20 percent of UK exports, the European Single Market accounts for around half. It also seems to

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have escaped its notice that the United Kingdom will be in a weak negotiating position with respect to the United States and that the U.S. Congress would need to approve any U.S.-UK free trade deal. That makes it all too likely that the United States will insist on the United Kingdom opening up its markets to U.S. agricultural and pharmaceutical exports, which will not lend itself to a rapid and smooth negotiation.

BREXIT END-GAME

All of this does not bode well for UK economic performance in 2020.

Since the June 2016 Brexit referendum, the British economy's performance has been hobbled by investor uncertainty about the country's future European economic relations and by fear that the country could crash out of Europe without a deal. By insisting that the United Kingdom will not seek an extension of the transition period and by refusing to relinquish unrealistic beliefs about how quickly an EU trade deal can be concluded, Johnson is doing little to allay the market's fears of the worst-case crash-out scenario.

However, there is some reason for longer-run optimism. Johnson enjoys a comfortable parliamentary majority and he is not known for policy consistency. Last year, he kept insisting that he would rather die in a ditch than seek an extension in the Brexit withdrawal negotiations. Mercifully, in the end, he did seek an extension—and he did not die in a ditch.

Hopefully, this time around he will come to his senses more quickly than last year and he will seek the extension in the negotiating period that his government needs to avoid crashing out of Europe. If not, the United Kingdom should brace itself for continued rough economic sledding. ◆