

Global Economy

Brexit: the Battles Yet to Come

Expansión (Spain)

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It seems that we are approaching a crucial moment in the drafting of the Brexit agreement with the extraordinary meeting scheduled for this weekend, which should serve to approve the withdrawal deal and the political declaration that will define the future relationship. Yet, despite the fact that the agreement has not yet been finalised (fishing and Gibraltar prevent that at the moment), the likely success of Sunday's summit is just one more step, and the real battles that will define the final result will play themselves out over the coming weeks, or months (or years).

The first, and most important, will be the vote in the British Parliament to ratify Sunday's agreement. In principle, May's government does not seem to have a majority, since many members of her party, as well as Northern Ireland's DUP and the Labour Party leadership, are opposed to the agreement. The most optimistic members of the British government argue that, faced with similar situations in the recent history of the Brexit process, logic has ultimately prevailed, and Parliament has always ended up taking the necessary steps in favour of a reasonable way out. This time, however, it seems more complicated, and May's government is playing a double-hand: on the one hand, threatening the most hardline Eurosceptics that a no vote would lead to a second referendum and perhaps remaining in the Union and, on the other, threatening Europhiles with a no-deal exit from March onwards. The strategy does not seem entirely consistent, but May needs the support of much of her party and a few Labour members to win the vote.

Depending on this outcome, other different battles lie in wait in the coming months. Losing the vote could lead to new elections, with uncertain results, which is the Labour Party leader's main chance to, in theory, achieve a better agreement with Europe, although the seven criteria it has set for accepting the pact are unlikely to be acceptable for the European partners. Another possibility, which is increasingly gaining momentum, is that of a second referendum. Its supporters, for tactical reasons, are unsure whether to present it before the vote on the agreement or after, but in any case reaching it would not be easy, and the result would again be very tight.

If the agreement does go through, the UK would enjoy a long transition period (until the end of 2020 or 2022, according to Barnier's latest suggestion) to negotiate what the permanent relationship would entail, during which time the UK's status in Europe would be similar to its current status, minus its voting capacity. But this weekend's draft political declaration does not define very clearly what the future trade relationship will be, which will foreseeably lead to another tough negotiation over the next few years (i.e. the tried and true European tactic of kicking the can down the road).

The British government wants to maintain a "frictionless" trade relationship for trade in goods, but not for services (an issue that is hardly addressed in the agreement), and to reserve its sovereignty to sign trade agreements with third countries (i.e. to leave the customs union), which may again clash with the European policy of not offering the UK an à la carte menu. It is a subject that will already be guided by a new Commission, and will not make for an easy negotiation. We should recall that the Northern Ireland backstop proposal is the main stumbling block to Eurosceptics' support for the withdrawal deal, and it is essentially due to a rejection of a customs union with no clear exit date.

Meanwhile, political uncertainty is affecting investment and growth in the United Kingdom. We were used to an economy that, year after year, grew more than the euro-zone average, but that seems to have settled to figures of around 1.5%, with a very weak non-residential investment since 2016. Next week, both the British government and the Bank of England will publish their estimates of the economic impact of the deal, to convince MEPs of that is preferable to a "hard" exit. The figures will surely indicate Brexit's negative impact, but that negative impact could worsen as the uncertainty continues.

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