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# The Brexit Column

**Issue 8** November 2016

## What does Trump's historic win mean for the UK, the EU and Brexit?

**Mark Essex**

Mark accurately predicted the outcome of the EU referendum four months ahead of the vote. As a director of KPMG's public policy unit, he now analyses the impact of Brexit on business.

**mark.essex@kpmg.co.uk**

Before Tuesday there was a sense that Brexit was "part of a global narrative". Now the election of Trump confirms this narrative. Perhaps Brexit may fall out of the headlines for a while as the world looks to see how many of Trump's campaign policies survive transition.

His historic victory throws up far more questions on US foreign and trade policy than it does answers. But there are a few clues as to the direction the new president might take that could have a major influence on the UK and the course of Brexit.

First, Trump himself often referred to Brexit in glowing terms during the campaign and broadly supports the principle of all countries (not only the US) pursuing national self-interest. This, together with Theresa May's early congratulations on Wednesday send positive signals for future US-UK relations.

Second, Trump's own trade adviser Dan DiMicco has said the UK would be at the front of the queue in cutting a trade deal with the United States. The US is Britain's second largest market after the EU, with exports of £45 billion last year[1]. Greater trade across the pond might offer a brief ray of sunshine in what otherwise threatens to become a rolling back of the global free trade system, created over the past three decades.

Indeed, if he follows through on his rhetoric at least two major planks of the global trade system - NAFTA and the Trans-Pacific Partnership (TPP) - are in trouble. What are the chances now that the EU-US Trans-Atlantic Trade and Investment Partnership (TTIP) will see the light of day? The cumulative effect for the global economy could well be recession and trade wars. Die Welt, Germany's leading business newspaper, has already expressed nervousness about the prospects for the 113.7 billion euros that Germany exports to the US – its single biggest export market. Perhaps in the chancelleries of Europe – and in Whitehall – his

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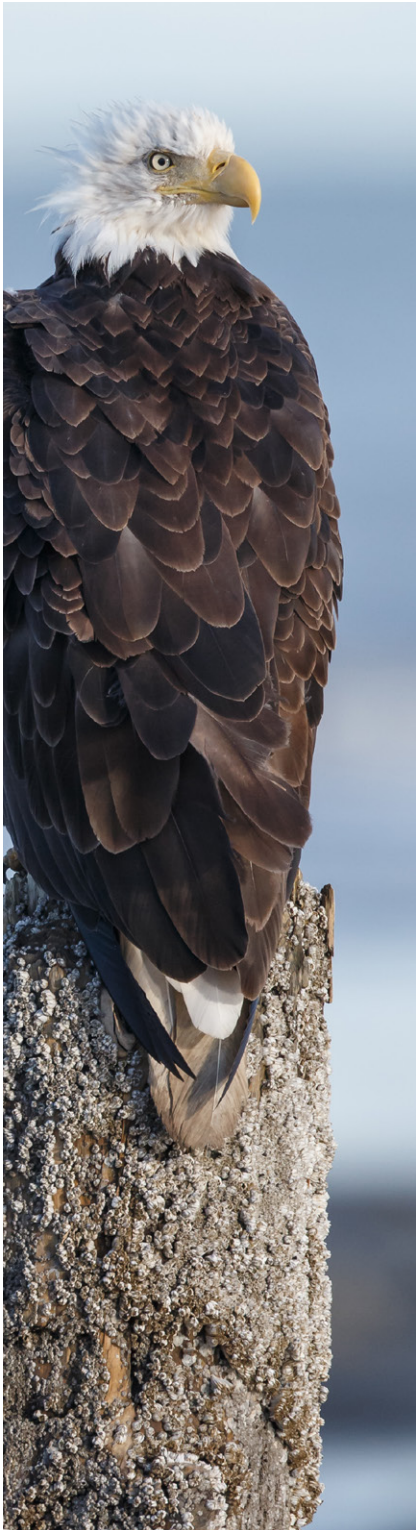

victory may provoke a sober reflection about the importance of their existing trade links and take the heat out of Brexit divisions.

There is a possibility therefore, that in a narrow sense, the UK could be a beneficiary of Trump's victory, both in terms of the generosity of what both the US and Europe is willing to offer the UK.

Third, the election of Trump could lead to a reappraisal of the US as a home for global business. If Trump follows through on his proposed corporation tax cut this could prompt companies to rethink where they locate themselves and invest given the possibility of a new, 'low-tax America'. Up to now, the conventional wisdom within financial services circles was that UK lenders might retrench to the US, rather than relocating to Europe, if they lost their passporting rights to sell services into the EU. President-elect Trump's campaign website states that he will "reform the entire regulatory code to ensure that we keep jobs and wealth in America".

However, we also know that transferring operations, headquarters, and lending portfolios can be a time consuming and costly process. The advantages of the UK are more than the tax rate, as Tim mentioned in this Column two weeks ago. Banks will want to look carefully at the proposals before they decide to make Wall Street their future home.

Might a Trump victory mean a softer Brexit? For example, look at membership of the customs union. If the UK stays in, it retains barrier free access for goods moving to and from the EU but is restricted in the free trade deals it can negotiate with third-party countries such as the US.

But what if multilateral free trade agreement (FTAs) become more difficult to negotiate anyway? And if the US faces inward more and outward less, perhaps the UK can become a relatively more important trade partner even without an FTA? In such a scenario, the upsides of leaving the customs union become less attractive. Perhaps the benefits of staying in the customs union then weigh more heavily on the minds of those forging policy on Britain's EU exit.

# Don't let the perfect be the enemy of the good

Theresa May's Brexit mission just got a little more complicated. The High Court's ruling that the Prime Minister must obtain parliament's approval to trigger Article 50 increases the pressure on Government to lay its cards on the table ahead of negotiations – not a tactic deal strategists would recommend. Having minimum objectives scrutinised at home, may mean the minimum position

quickly becomes the maximum deal the EU is willing to accept.

Unless the government is successful in its Supreme Court appeal in December, parliamentary scrutiny could draw out the process too. According to several scenarios set out by law firm Clifford Chance, the bill's passage between Commons and Lords could delay the trigger until as late as the second half of 2018, which would mean the UK not leaving until 2020. The government is thus facing competing and apparently incompatible demands. MPs and Lords want to examine the government's strategy. Government's negotiators want to keep their thinking secret to avoid underbidding the deal they may be offered and business wants the longest possible notice period so it can reduce uncertainties and adjust to new realities: as we argued last week, giving business time softens a hard Brexit.

There is one way to accommodate all three aims. If Parliament acquiesced to the quick authorisation of Article 50 in return for more thorough scrutiny of an eventual deal, that would give MPs and Lords the time to offer proper oversight (of what would be a draft deal). It would mean the UK Government could maintain the veil of secrecy over talks. And it would mean business would receive the maximum possible period in which to prepare for the outcome of talks, good and bad.

The last-minute alternative is problematic, even if the government achieves its aims. Imagine the government secured a deal one minute before the clocks struck 12 on Article 50's two-year deadline. It might look perfect, but which business would be able to respond? It would take them months, if not years, and in the intervening period may have frozen hiring, held back on investment or relocated operations to the EU.

A deal that achieves 70% of the objective today might look a lot better than one promising 90% tomorrow.

1 https://www.uktradeinfo.com/Statistics/Documents/Webtbls_dec-cum_2015.xls

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