Economic Update

Brexit: 2019 Recap and 2020 Expectations

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Brexit – Recap of 2019

As expected, Brexit caused a significant amount of political turmoil in 2019, as the UK failed to sign a deal with the EU, Theresa May stepped down as PM, Boris Johnson became leader of the Conservative party and secured a landslide victory in an early snap election.

After her withdrawal agreement was voted down by the House of Commons in January 2019, Theresa May went back to Brussels to negotiate changes to the 'backstop' solution to avoid a hard border between Ireland and Northern Ireland. May secured a new agreement with the EU, but the House again voted it down in March after it came to light that although the new agreement significantly reduced the risk that the UK would be stuck in the backstop, the UK would still not be able to leave the backstop without permission from the EU.

In April, the Brexit deadline was pushed back to 31 October as May failed to push a deal through the House. Theresa May eventually resigned on 7 June as the impasse in the heavily divided and factionalised parliament continued. Boris Johnson became leader of the Conservative party and prime minister in July after winning the leadership contest quite convincingly. He however lost his parliamentary majority and opposition parties as well as rebels in his own party took control of the Brexit process, blocking his attempts of passing through a deal.

December Election

On 28 October last year, the EU confirmed that the Brexit deadline would be extended for a third time. This time until 31 January 2020, causing the prime minister to break his vow of rather being "dead in a ditch" than to ask for another Brexit delay beyond 31 October. This delay convinced both sides of the House to hold an early election on 12 December.

During the election campaign, Labour pledged to renegotiate the withdrawal agreement with the EU and then offer it as an option in a referendum together with an option to remain in the EU. The Liberal Democrats and Scottish National Party also proposed another referendum with the option to remain in the EU. The Conservatives' assurance to "get Brexit done" under the terms of Johnson's withdrawal agreement was however the choice most favoured by voters. The Conservatives scored an overwhelming victory, giving the party its biggest majority since 1987. The Conservatives pledged to increase public spending by £13.8 billion per year and confirmed plans to spend another £33.9 billion per year on the National Health Service. The party also decided to keep the corporate tax rate unchanged at 19%, and to not raise income tax rates.

Although the complications surrounding Brexit are still far from resolved, the election result has at least ended the political impasse that has plagued the parliament the last few years. The election result has already allowed Johnson to pass his Brexit deal through parliament quite easily in January this year. Johnson's revised deal will allow the UK to negotiate its own trade agreements with countries around the world. In order to overcome the controversial backstop issue, there will be a customs border between Northern Ireland (which is part of the UK) and the Republic of Ireland (which will remain part of the EU), but there will not be checks on that border. Physical checks will be at what is essentially a customs border between Great Britain and the island of Ireland, with checks carried out at points of entry into Northern Ireland. No taxes will be paid on goods moving between Great Britain and Northern Ireland, "unless they are deemed to be at risk of entering the EU" (i.e. the Republic of Ireland).

The election result has also pushed up business confidence to the highest level in more than three years and, according to the Institute of Directors, ensures that companies now have a framework around which they can plan their expansionary projects.

Southern Africa

In September 2019, Namibia, together with five other Southern African countries, signed a new trade agreement with the UK, as the current EU-SADC Economic Partnership Agreement (EPA) will no longer apply to the UK once it leaves the EU. The new agreement, which will be referred to as the SACU (Mozambique)-UK Economic Partnership Agreement, will kick in after the transitional period during which the UK will negotiate its final terms with the EU. The new agreement essentially replicates the existing terms of the current agreement, and will ensure that trade continues between the countries, whether the UK reaches a deal with the EU by the transition period's deadline of 31 December 2020 or not.

Brexit – 2020 Expectations

Despite the Conservative party's landslide victory in December and Prime Minister Boris Johnson easily pushing his withdrawal agreement through parliament in January, the road ahead for the UK to fully leave the EU will be anything but straightforward.

The UK is set to leave the EU on 31 January 2020. It will then enter an 11-month transition period which is set to end on 31 December 2020. During this period, the UK will no longer be a member of the EU, but will still follow the EU's rules and remain a member of the single market and customs union. The transition period will allow the UK to continue its current relationship with the EU while allowing negotiations to take place to determine the future relationship between the two parties. It will also ensure that businesses only need to adapt to the new rules once the future deal is agreed.

Despite Johnson remaining adamant that a deal with the EU is possible by December 2020, the EU remains very sceptical as both EU chief Ursula von der Leyen and EU chief negotiator Michel Barnier have cautioned that it would be highly unlikely to reach a comprehensive trade deal by the end of 2020. Although the likelihood of a 'no deal' Brexit has shrunk considerably, some version of a 'no deal' Brexit remains a possibility as Johnson ruled out any extensions to this deadline. The deadline for the transition period can be extended by up to 2 years, but this must be agreed to by 30 June, as per the withdrawal agreement.

Negotiations are likely to be complicated as both parties will be unwilling to compromise on a number of key issues. A particular concern for the EU is that the UK will cut labour, environmental and financial standards to be a low-regulation, low-tax competitor to the bloc. For the UK government, Brexit is an opportunity to depart from the EU's strict rules and regulations, and to negotiate its own trade deals with the rest of the world, while maintaining a close relationship with the bloc. While the EU seems to be open to an agreement that will allow free trade to continue between the regions, it will demand that there be a level playing field and will not allow the UK to have an unfair competitive advantage enabling it to dump cheap goods. These differing views on what exactly the post-Brexit relationship will be will certainly complicate negotiations, putting more pressure on an already tight deadline. Our base case scenario is thus that if Johnson sticks to his commitment to not extend the deadline of the transition period, that negotiations this year will be primarily focused on the larger issues surrounding the post-Brexit relationship (such as the free flow of goods) and that any unaddressed issues will be covered by smaller, temporary deals until consensus is reached in the coming years.

Another sticking point of the negotiations will be fishing rights. Several EU members, such as Germany, France, Netherlands etc. would want continued access to the UK's fishing waters as part of the free trade deal. It is likely that a trade-off will be made whereby the EU allows the UK's financial services sector continued access to European clients in exchange for fishing rights to EU members.

During the year the UK further aims to secure a possible free trade agreement with the US. US President Donald Trump has repeatedly shown interest in such a prospect, citing that trade between the regions could increase "three to four, five times", although this remark should be taken with a grain of salt. Trump is known to be unpredictable when it comes to trade agreements and will likely have a protectionist stance. Trump has been pushing the UK to ditch a number of EU regulations, particularly on food standards, in order for the US to export products such as chlorine-washed chicken and hormone-treated beef. Should the UK pursue a trade deal with the US, it will need to do so with careful consideration as reducing product standards could have negative implications for the trade deal it is trying to negotiate with the EU. It is possible that Johnson will prioritise a trade deal with the US to use as leverage when negotiating with the EU, possibly pressuring the EU to make compromises.

As for Namibia, we expect the new SACU (Mozambique)-UK Economic Partnership Agreement to be ratified without any obstacles or delay and for trade between SACU and the UK to continue effortlessly, irrespective of how the UK's other negotiations play out.

The biggest risk to all of the UK's negotiations is that the talks fail with no agreement reached which would see the UK return to World Trade Organisation rules. Based on the above, the drama surrounding Brexit is thus unlikely to quiet down in 2020, and we expect a few disputes between the EU and UK due to the complexity of what needs to be negotiated in a short amount of time.

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