




## discovering the meaning of Brexit

Britain has voted to leave the European Union. Now we are about to discover what “Leave” means.

The fact that the meaning of Leave remains entirely ambiguous stems from a deliberate decision by the forces campaigning for Brexit. The Leave campaign was a coalition. Some were driven largely by a desire to control immigration; others were intoxicated by a vision of a Britain, unencumbered by EU laws, but trading freely with the whole world. The free-traders usually intended to remain part of the EU’s internal market – which guarantees tariff free access for British goods to the EU and full rights for financial firms based in the City to sell services inside the EU.

In reality the ambitions of the free-traders and the anti-immigration lobby were always likely to prove incompatible. The difficulty is

that guaranteeing full access to the internal market – involves accepting the EU’s four freedoms, including free movement of people. That, in turn, would mean that Britain could not restrict immigration from the EU, in the way that many Leave voters now hope and expect.

Aware of this difficulty, the official Leave group deliberately fudged the trade-off between immigration and the internal market, during the course of the referendum campaign. Now that Leave is official government policy, however, the hard choices can no longer be avoided. In their negotiations with the EU, any new prime minister will have to decide whether to

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prioritise controls on immigration or access to the internal market.

The U.K. Government’s first instinct will probably be to stress the internal market. The Tories, in particular, are traditionally close to the City – and many in the City are terrified of losing their cherished “passporting” rights, which allow unhindered access to the financial services market of the EU. The Tories will know that billions of tax revenue, millions in campaign donations to their party and thousands of jobs, depend on a prosperous City.

But, on the other hand the Leave campaign know that immigration was probably the issue that delivered them victory. Their voters will demand and expect controls on the free movement of people from Europe. It is significant that support for Boris Johnson began to crumble within the Tory Party, when he appeared to be going wobbly on immigration.

So my expectation is that a new British government will ultimately feel compelled to prioritise restrictions on free movement of people – and then to salvage what it can from the internal market. It is likely, I think, that the EU will ultimately grant the UK tariff-free access for manufactured goods – since Germany, in particular, enjoys a substantial trade-surplus with the UK in this area. However, it seems to me much less likely that the UK will be granted its current level of access for service industries. That is potentially a big problem – since services contribute far more to the economy

in terms of employment and revenues – than manufacturing. The City, in particular, will be vulnerable to efforts by rival financial centres in Europe to filch parts of British business. And if the big banks and financial services firms reduce their headcount in London – there will be knock-on effects for the many industries that profit their presence, in particular the law, accountancy, PR and hospitality industries.

Finally, there is the question of how swiftly a deal can be concluded. The British may hope to play for time because they worry that as soon as they trigger Article 50 – setting in train the two year process of leaving the EU – the clock will be ticking, handing bargaining leverage to Brussels.

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But if the process is stretched out long into the future, the uncertainty for business will continue – and that may have a chilling effect on business and investment. So it is likely that the divorce proceedings will start within months.

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