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5 Minutes for Business

Fail Britannia! What the U.K. Exit Vote Means for Business

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The polls were wrong; the government was wrong and even the bookies were wrong, and now the U.K. has voted to leave the European Union. Back in 2013, Prime Minister Cameron promised a referendum on EU membership to shore up support in the midst of a tough election campaign. It has now exploded in his face as a national calamity. Last Friday, the pound fell to its lowest level in 30 years, and global markets lost $2.1 trillion.

The hardest question in all of this is "Why?" In many ways, it's like asking why 16 million Americans voted for Donald Trump. Is it partly a protest vote, a symptom of frustration with politicians, globalization and declining family incomes? British motivations are similar: the working class is angry about wages; the EU has always provided a convenient punching bag for politicians, and there is a streak of xenophobia as the migrant crisis got mixed into the debate.

The more important question is "What comes next?" Business hates uncertainty—it becomes paralyzing as investment and hiring decisions are put off indefinitely. For now, the U.K. will remain part of the EU. The Lisbon Treaty allows for a two-year period of negotiations once official departure notice has been given to the EU. But the PM has announced his resignation and has said that a new leader will have to provide notice and take charge of negotiating the terms of departure. This will be excruciating because the British government must then ask for a divorce with bedroom privileges—to exit the EU while maintaining access to trade in the common market, investment, banks and the financial sector, some labour mobility, public procurement, input into regulations, etc.

Why would the European Union go along with that? There is great fatigue with British whining; there is anger at being rejected, and it is very much in Europe's interest to make the U.K. suffer, lest it create an example that could be emulated by other frustrated member-states. For if the Brexit (British exit) works out well, then why not a Frexit, a Departugal, an Italeave, a Beljump or a Luxembuggeroff? (Thank you Twitter.) Quite seriously, nationalist, anti-EU parties are jubilantly crowing with delight all across the continent. Marine Le Pen, the leader of the Front National, called it a "Victoire de la liberté" and called for an identical referendum in France " le plus vite possible." Just 38% of French people view the EU favourably.

This comes at a bad time as Europe had emerged from crisis and was returning to healthy growth. Unemployment was falling, confidence was returning and consumers were spending. With 500 million people and GDP of $18.5 trillion, the EU is the world's largest economy, so a return to instability and fear will have a depressing effect on the global economy.

For Canada, slower global growth means weaker commodity prices and it means that our largest trading partner in Europe will struggle for years with weak investment and political uncertainty. Of Canada's $37.7 billion of exports to the EU in 2015, $15.9 billion was destined for the U.K.

The best thing the Government of Canada can do is to press ahead full speed with signing the Comprehensive Economic and Trade Agreement (CETA) to show our commitment to the European Union. The U.K. may one day cease to be part of the EU, so we should also begin negotiating a new trade agreement with our old friends.

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