OPINION:

Brexit will not make Britain the Singapore of Europe

David Skilling, May 2016

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Brexit is more likely to convert the UK into the New Zealand of Europe, a relatively peripheral economy

The strong consensus view from the IMF, the OECD, the UK Treasury and the Bank of England, is that Brexit would impose significant costs on the UK economy.

But some of the outwardly-oriented proponents of Brexit argue that it would enable the UK to become a more dynamic economy that develops stronger relationships with countries beyond Europe. Singapore is often cited as an example: a successful, open country, with a strong financial services sector, a hub for international companies, and which has a global network of trading relationships.

A variant of the argument is that the UK should emulate small European countries, such as Norway and Switzerland, which are not EU members but which participate in many of its features.

But this small country experience is a weak foundation for the Brexit case. Indeed, small country thinking and practice point in the opposite direction.

From Ireland to the Nordics, and Switzerland to Singapore, small countries have placed regional integration at the core of their economic strategies. It is instructive that only two small countries have become advanced economies without tight economic integration into their regional environment: Israel for geopolitical reasons, and New Zealand for geographic reasons. Neither of these approaches was by choice, and neither should offer a model for the UK.

Despite UK talk of 'long haul bilateral diplomacy', leapfrogging beyond Europe to develop relationships with large emerging markets, trade and investment flows remain heavily geographically shaped. Countries cannot easily escape their geography.

In any case, EU membership is not the binding constraint on the UK's engagement with non-European markets. Other European countries, notably Germany, are more successful than the UK in selling and investing into Asian markets.

And neither would Brexit turn the UK into the Singapore of Europe. Of course, Singapore has a portfolio of many free trade agreements (FTAs), including with the US, the EU, China, Japan and India – and hopefully soon the TPP and RCEP. But the foundation for Singapore's international economic and political engagement is ASEAN, and Asia more broadly. This regional engagement is a complement to, not a substitute for, Singapore's global network of trading and investing relationships.

Over 60% of Singapore's exports and outward direct investment is focused on Asian markets. And Singapore's success in attracting inward investment – remarkably Singapore receives more FDI from the US than China does – is largely because Singapore serves as a hub for companies operating in the region. This regional bias in Singapore's economic engagement is likely to remain, supported by ongoing ASEAN economic integration.

In this context, perhaps the best example of a Singapore model in Europe is Ireland. Ireland has deliberately used EU membership to substantially increase its integration into Europe and to develop a stronger economic identity, positioning itself as a hub for inward investment into Europe. And other small European economies have benefited disproportionately from EU economic integration over the past few decades.

Small countries also understand that being a part of a larger grouping is vital for strengthening negotiating power in market access. This makes the EU a valuable asset for European countries, enabling them to negotiate FTAs that they would not get bilaterally. Similarly, the TPP or ASEAN is important for countries in the Asia Pacific region. Small countries can make some progress bilaterally, but this tends to be partial. New Zealand, for example, managed to get an early FTA with China but failed to secure a bilateral FTA with the US and is one of the last countries in the world with whom the EU is to sign a FTA. In the context of FTA negotiations, economic size matters.

Singapore has been able to negotiate FTAs better than most because of the absence of sensitive sectors, notably agriculture, and because it is a distinctive hub in South East Asia. But it is likely that the UK will find bilateral deals difficult to achieve. Already the US has clearly signalled that the UK will be at 'the back of the queue' for an FTA, and that its priority is signing larger deals such as TPP or the TTIP agreement with the EU. And the UK has already discovered some of the economic and political challenges in dealing with China on a bilateral basis, including pressure to tone down its language on sensitive issues such as human rights or Hong Kong.

These experiences serve as a reminder that the UK by itself has limited ability to project meaningful power – a lesson well understood by small countries. The EU is a force multiplier in negotiating market access, setting regulatory standards, and so on.

And the notion of resurrecting the Commonwealth or the Anglosphere as an organising device for the UK's commercial arrangement has been met with a conspicuous lack of interest. Perhaps this idea sounds persuasive to some in the UK, but it sounds eccentric from former parts of the British Empire.

Of course, there is a good case for far-reaching reform of the EU with a much greater focus on domestic policy autonomy rather than a federal Europe. Interestingly, this case is most actively championed by small Northern European countries, who understand the importance of European integration. In these countries, there is little appetite for exiting from Europe even if there is often deep frustration about the functioning of the EU and no demand for tighter integration.

But Brexit is an over-reaction in a global economic and political context that is increasingly organised around regions and large countries. Far from the UK becoming the Singapore of Europe, it is more likely that Brexit would convert the UK into the New Zealand of Europe: a relatively peripheral economy that has had to fight hard to develop a global portfolio of economic relationships. It has taken decades of active economic diplomacy for New Zealand to build a partial network of FTAs, and even now its level of international economic engagement is much lower than most other small countries. The lack of regional integration imposes a cost.

Indeed, an irony of the Brexit debate is that 40 years on from the UK jettisoning preferential trading relationships with New Zealand in favour of joining the European Community in 1973, New Zealand has commenced FTA negotiations with the EU. Brexit would likely leave New Zealand with superior EU market access than the UK.

In sum, Brexit is not far-sighted, flexible, Singapore-style strategic diplomacy but rather a step backwards from international economic integration. Fortunately the likelihood of Brexit seems to be receding. Consideration of the international small country experience, including Singapore's experience, should reinforce this.

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About Landfall Strategy Group

Landfall Strategy Group is a Singapore-based research and advisory firm that provides advice on strategic issues to governments, firms, and financial institutions, particularly in small advanced economies. We provide distinctive perspectives on emerging global trends, working with decision-makers to understand key global changes and how governments, firms, and institutions should respond and position themselves in the emerging global economic and political environment.

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