

**The UK must keep shifting away from continental Europe
Even with the new deal, trade with the EU will matter less and less to Britain's prosperity**
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After four long and exhausting years, it is finally done. The UK has a trade deal with the European Union that avoids tariffs and quotas. It is one of the biggest and most significant economic partnerships struck anywhere in the world, covering trade worth more than £600bn a year.

Usually when an agreement like that is struck, the two sides would be looking to increase trade, deepen ties and figure out how to maximise the opportunities that will suddenly be available.

This one is different. Significant though it is, the UK needs to keep on shifting away from continental Europe and developing its links with the rest of the world instead.

Why? Because the EU will still have the power to impose punitive remedies on us; because its market will be grossly rigged against our companies; because other trade blocs are growing in importance; and because the EU's relative decline will only [accelerate over the next decade](#). Even with this deal, trade with the EU will matter less and less to Britain's prosperity.

In the end, [the fish didn't get in the way](#). The level playing field was resolved, dynamic alignment, if anyone could figure out what that meant, didn't turn out to matter very much, and Northern Ireland wasn't the insoluble problem that many self-appointed experts said it would be.

We heard a lot over the last few years about how it would be impossible for the UK to do a deal with the EU on anything other than the most humiliating terms. With the clock a few minutes from midnight, however, it turned out that two sovereign entities that had been in complete regulatory alignment for 50 years managed to agree that they could carry on trading on roughly the same terms as before (surprise, surprise).

The deal [might not be perfect](#) and as the lawyers start to argue about the meaning of every sentence of its 1,200 pages, some flaws are bound to emerge.

Even so, the UK is out of the EU, the customs union and the single market, and yet its businesses can still sell their goods across the Continent even if they sometimes need to fill in a few forms. That will be a relief, both for companies and consumers.

And yet even with a deal in place, the UK needs to remain focused on reducing its trade with the rest of Europe. Here's why.

First, the EU will maintain the power to impose punitive remedies against the UK. If we want to increase the amount of fish we catch, or help specific industries in ways that Brussels disapproves of, or change our labour or competition laws, then it can hit us with tariffs.

It can't stop us anymore, which is great, but it can make it harder for us, which is not so great. But the less we trade with the EU, the less sway Brussels will have over us – and at a certain point, the threats won't matter anymore.

Next, policy will be biased against the UK. The EU talks a lot about “level playing fields”, but funnily enough doesn't apply those rules to itself. We are already seeing decisions that actively discriminate against British companies. Germany, France and the Netherlands are massively subsidising their airlines.

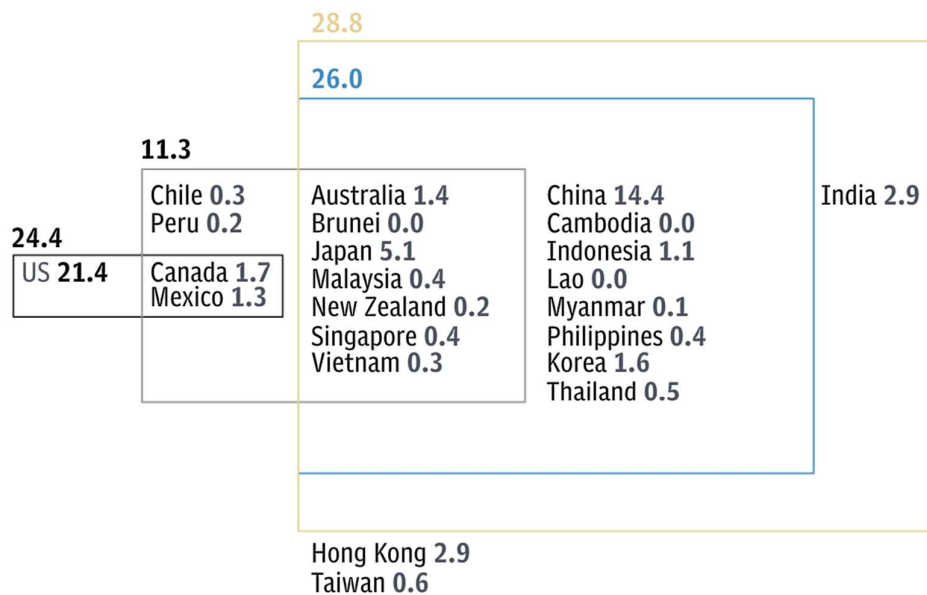
The Italians are subsidising their banks and fintech challengers. The Coronavirus Recovery Fund will be targeted at creating green energy that will be dumped on the world market, and especially the UK, at below cost.

The rules will be designed to work against British companies and in favour of EU ones – and it will make more sense for UK companies to grow in markets where they are treated fairly. Third, there are more important trade blocs. The EU makes a lot of the single market being the biggest in the world. But that is less and less true. Asia's newly launched [Regional Comprehensive Economic Partnership](#) covers 15 countries that between them account for 30pc of global GDP, a proportion that is growing all the time.

Trade blocs and economics

GDP, 2019, trillions of USD

USMCA
 CPTPP
 RCEP-15
 RCEP-16



SOURCE: HSBC, IMF

Africa's Continental Free Trade Area will be launched in 2021, and that covers 1.2bn people (three times as many as the EU). Add in South America's Mercosur (another 300m people) and the EU is just one of several trade blocs, and far from the largest. British companies should focus more on those regions; that's where the money is.

Finally, the EU's economy will decline. It is already clear that without the free-market British, the EU is turning more protectionist, more statist and more inward looking. We can see that in takeover rules, technology regulation, harmonised taxes and a renewed drive to create national champions.

If anyone seriously thinks the problem in Europe has been that the state is too small and doesn't intervene enough in the economy, good luck to them. The reality is that subsidies will be squandered, tech start-ups crushed and protected companies will grow lazy and inefficient.

Meanwhile, the euro remains the most dysfunctional currency ever, seemingly created to make the gold standard look good by comparison. The result? Just about every other region in the world will grow faster.

The UK's businesses should focus their energy elsewhere – and so should government support.

In truth, that is already happening. A survey of export transactions by Lloyds Bank and Aston Business School earlier this month found British companies, and especially small companies, had already shifted £50bn of exports away from the EU and towards the rest of the world, primarily the BRICs, Sub-Saharan Africa and the Commonwealth.

For 20 years, the UK's trade with the Americas, Asia and Africa has been growing faster than with the EU. Those regions have far better growth prospects, our trade is more often in balance or even a surplus, and we are not likely to face any "punishment" for being too successful.

The trade deal minimises disruption on both sides of the Channel, which is welcome, but the economic divide will rightly keep on growing.