

Globalisation is here to stay and Britain must be free to respond

By Ruth Lea

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Introduction

For all the problems with the current global financial system and the doubts over a successful resolution to the Doha Development Round, there is absolutely no reason to believe that the march of globalisation will be stopped in its tracks. And the profound shifts in economic and political power from the developed world to the developing giants of China and India, resulting from globalisation, will surely remain the major force reshaping our lives. The current globalising developments are, arguably, behind the biggest changes in the balance of global economic and political power since the 19th century.

Globalisation develops its own momentum. Philip Stephens wrote recently:¹

“...it is hard to see how the forces of globalisation can be reversed. The economic and technical drivers of integration – information technology, virtually costless communications, the internet as an all-in-one platform for voice, video and data services and the accelerating pace of innovation in service as well as manufacturing industries – are growing stronger. Globalisation has self-sustaining momentum.”

Implications for the EU

Such profound global changes have major implications for Europe. The UN expects that the continent will, almost uniquely, experience a demographic decline over the next half century.² And, even though much of Europe will remain prosperous, its share of global output must surely continue to shrink.

The following table shows that the EU's share of global output fell from 26% in 1980 to 22% in 2003. It is expected to slip further (to 17%) by 2015. The comparable data for China and India (together) are 6% (1980), 19% (2003) and 27% (2015). Other economic analyses project the EU's share inexorably shrinking as the 21st century progresses.

Shares of global output (PPP terms)

	1980	2003	2015
EU25	26% (1)	22% (1)	17% (3)
US	20% (2)	21% (2)	19% (1=)
Japan	7% (3)	7% (4)	5% (5)
India	3% (5=)	6% (5)	8% (4)
China	3% (5=)	13% (3)	19% (1=)
Brazil	3% (5=)	3% (6=)	3% (6)
Russia	4% (4)	3% (6=)	2% (7)
Other	34%	25%	27%
Total	100%	100%	100%

Source: Gordon Brown, *Global Europe: full-employment Europe*, HM Treasury, 2005.

Britain's policy response to globalisation

Globalisation is, therefore, here to stay. And the hundred dollar question for Britain is how it can most effectively rise to the challenges of the rapidly changing world in which our biggest single trading partner, the EU, will shrink in significance. There are, of course, security issues as well as economic issues to consider, but this short note concentrates on the economic implications.

As Professors Baimbridge, Burkitt and Whyman have shown, the available economic evidence suggests that, for the UK, the costs of full EU membership outweigh the benefits.³ Other studies support this broad conclusion. Under these circumstances, there have to be very good reasons for Britain remaining a full EU member instead of considering a new, looser relationship based on free trade and cooperation whilst opting out of the costly political and economic union – the position advocated by Global Vision.⁴

Two reasons are frequently hypothecated for continuing full membership.

The first is that, if the UK opted out of the EU's political and economic union, the EU member states would no longer trade with Britain and the '3 million jobs' that are supposedly dependent on trade with the EU, would be under threat. Leaving aside the WTO rules on trade, if the other EU countries really did adopt viciously protectionist policies against UK trade, and Britain reciprocated, then it would be a matter of the other EU countries 'cutting off their noses to spite their faces'.

The UK had a trade deficit with the other EU countries well in excess of £30bn in 2006. If 3 million British jobs really are dependent on our exports to the EU, there must be considerably more jobs in the rest of the EU that are dependent on their exports to us. If trade wars broke out, some of the biggest losers would be French winegrowers and German car manufacturers. Trade wars, surely, would not break out.

The second is that the UK, outside the EU's political and economic union, would be simply too small to survive on its own. The implication is that small countries cannot survive in today's globalising world. Leaving aside the fact that the UK is no economic minnow – it has the 5th biggest economy in the world and it is the 3rd largest trading nation in current account terms – it is clear that this is far from the case. Indeed the opposite seems to be true.

Small countries dominate almost any league table of national welfare, as Gideon Rachman recently discussed.⁵ He quoted the IMF's ranking of countries of GDP per capita which showed that four of the five richest countries in the world have populations of less than 5 million. I would add that two of the richest European countries are the relatively small countries of Norway and Switzerland which, incidentally, are not EU members – though they both have close trading links with the EU.

Rachman also argued that,

“...taking pride in the sheer size of your country is increasingly anachronistic. Traditionally...a big country meant a bigger market and so more trade and wealth. But...globalisation has opened up markets across the world. China and India are getting bigger largely because they have access to the markets of the developed world, not because of the size of their domestic markets. Small countries can trade their way to success more swiftly. Think of Singapore or Switzerland.”

And he went on to say that,

“since the traditional disadvantages of being a tiddly country are disappearing, you are left with just the advantages...Governments in small countries...find it easier to craft and implement policy.”

This is a crucial point. The winning countries in the 21st Century globalising world – where the global markets are everyone’s markets – are those that can respond flexibly and quickly to changing circumstances. The ‘Singapore’s’ and the ‘Switzerland’s’ will succeed. But the UK, burdened by the costly inflexibilities of the EU’s regulations, will inevitably find it harder to compete with the fleet-footed.

The notion that Britain is too small to survive in today’s global world outside the EU’s political and economic union is clearly not supported by the evidence. On the contrary Britain’s prosperity could be greatly enhanced by moving towards a looser relationship with the EU. Global Vision believes that Britain should now seek to negotiate such a looser relationship, based on trade and cooperation, whilst opting out of political and economic union.

The UK would, of course, remain a member of Europe’s family of nations, the ‘European Commonwealth’, but it would be free to make the decisions that it will increasingly need to make in the globalised world of the 21st century.

References

1. Global Vision’s Fact Sheet number 14.1, *The EU’s demographic decline*, available from www.global-vision.net.
2. Philip Stephens, “A global response is needed to the shifting world order”, *FT*, 30 November 2007.
3. Mark Baimbridge, Brian Burkitt and Philip Whyman, *Moored to the Continent?*, available from www.global-vision.net.
4. See Global Vision’s website for more on our campaign’s objectives.
5. Gideon Rachman, “For nations, small is beautiful”, *FT*, 4 December 2007.

Note on the author:

Ruth Lea is currently Director of Global Vision and Non-Executive Director and Economic Adviser to Arbuthnot Banking Group. She is also a Governor of the London School of Economics. She is the author of many papers on economic matters and writes regularly for the press. Ruth was Director of the Centre for Policy Studies from 2004-2007. She was also Head of the Policy Unit at the Institute of Directors (IoD) between 1995 and 2003, before which she was the Economics Editor at ITN, Chief Economist at Mitsubishi Bank and Chief UK Economist at Lehman Brothers. She also spent 16 years in the Civil Service in the Treasury, the Department of Trade and Industry and the Central Statistical Office. She has served on the Council of the Royal Economic Society, the National Consumer Council, the Nurses' Pay Review Body, the ONS Statistics Advisory Committee, the ESRC Research Priorities Board and the Retail Prices Advisory Committee.

Global Vision is a new campaign group backed by economists and business leaders that argues for a looser British relationship with the EU, based on free trade and mutually beneficial cooperation, whilst opting out of economic and political union. Global Vision believes that this is the right relationship for Britain in the 21st century's rapidly changing world. For more details on Global Vision please visit our website: www.global-vision.net.