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Britain's economic outlook after Brexit

In a historic referendum, Britain has voted to leave the European Union. Some of the polling suggests that a backlash against globalisation played a role, alongside themes such as sovereignty and immigration. The government has insisted that Britain will maintain its global outlook, but how challenging will that be in the face of disengaging from the world's biggest economic entity and forging a novel path? The UK is doing so with some notable weaknesses in its large trade deficit. This article explores the economic uncertainties of Brexit and potential ways forward.

1. Introduction

In a historic referendum, Britain has voted to leave the European Union. Some of the polling suggests that a backlash against globalisation played a role in what has been dubbed Brexit, alongside issues such as sovereignty and immigration. The government has insisted that Britain will maintain its global outlook, but how challenging will that be in the face of disengaging from the world's biggest economic entity while forging a new path? The UK is doing so with some notable weaknesses in its large trade deficit, which has hit a record high after its 2008 financial crisis.

What does the economic future hold for Britain? Of course, the dust has not yet settled, as there are a lot of unknowns facing the first country to leave the European Union. There is no question that the decisions to be taken will involve re-defining Britain's trade relationship not only with the EU but the rest of the world – for years to come. This article explores the economic uncertainties of Brexit and potential ways forward.

2. The economic impact of Brexit

Some hiring and investment decisions had been delayed even before the vote on June 23rd, 2016; in fact, since the announcement of the referendum on whether the UK will remain or leave the EU was made by the British government (Economic Policy Uncertainty, 2016). Investors' expectation of Sterling volatility before the EU referendum was the highest since the 2008 financial crisis when the entire banking system could have brought the economy down. The market reaction reflected uncertainty about what will happen to the Pound, which dropped sharply as predicted after the UK voted to leave the EU.

Investors appear to be placing their money on just one outcome - a hit to the economy regardless of the referendum result. That was reflected in gilt yields, the interest rate that the UK pays on its government bonds, which had fallen even before the referendum vote. Since the referendum outcome, yields on benchmark 10 year government debt had fallen to record lows as have those on 20 and 30 year debt.

Bond yields reflect where markets expect interest rates to be, which is affected by the Bank of England base rate and the state of the economy. And those are related. If the economy is contracting or weak, the Bank of England would be expected to cut rates. Indeed, that is what has happened as the BOE cut interest rates just a couple of months after Brexit to a record low 0.25%. It's the first time that the central bank has cut rates and also extended quantitative easing since the 2009 recession that followed the banking crash. QE was not

only revived, it was also expanded as the BOE announced it would for the first time also purchase corporate debt as part of its programme.

Conversely, bond yields are also influenced by the world economy which in turn affects Britain. The global outlook doesn't look too rosy either. Worldwide, developed economies' government bond yields have dropped dramatically. Slow growth and aggressive easing by central banks, along with Brexit for the UK, are among the factors driving real yields lower.

A lower interest rate in the future signals that investors are concerned about a weaker economy. But, they are not concerned about the ability of the British governments to pay its debt, which would send yields higher. Confidence in the government alone of course doesn't move yields on longer-term debt as much as interest rates, economic growth, and inflation.

As Britain voted to leave on June 23rd, there will be at least two years of uncertainty, which is the period allowed under Article 50 of the Lisbon Treaty to negotiate a new relationship with the EU. Uncertainty tends to dampen economic activity (Baker, Bloom, and Davis, 2015). Investors may or may not be getting it right, but uncertainty tends to make businesses cautious. And, for the economy, that tends to mean being conservative about where it's headed.

Amidst the uncertainty around what will happen after Britain's historic vote to leave the European Union, there is some clarity about the next steps. The basic trade-off is between remaining within the Single Market and wresting back control, notably over migration.

The European Union, though, views the freedom of movement of people as one of the four pillars of the Single Market (the others being the free movement of capital, goods, services), which grants the right to people within it to live and work freely anywhere in the EU. In other words, as a member of the EU Single Market, Brits have the right to live and work in the EU just as those from the EU have the same rights to live and work in the UK.

Is it possible to retain access to the European market but not be subject to EU laws, including the freedom of movement of people? So far, the EU hasn't granted that to the non-EU countries which have negotiated the right to access the Single Market.

There are three countries in the European Free Trade Association (Norway, Liechtenstein, Iceland) plus Switzerland, which also has unfettered access to the Single Market via a series of treaties. All accept freedom of movement of people in principle in exchange for their varying degrees of access to the largest economic bloc in the world. For the very small nation of Liechtenstein with a tiny population of 36,000, they have been allowed to retain an immigration quota to be reviewed every five years. Thus, the free movement of people is described by EFTA as "perhaps the most important right for individuals, as it gives citizens of the 31 EEA countries [EU plus these three countries] the opportunity to live, work, establish business and study in any of these countries" (EFTA, 2016).

To give a sense as to how integral free movement of people is, Switzerland's two year struggle to impose a quota on EU migrants is telling. In February 2014, the Swiss voted in a referendum for controls on EU migration. But the EU wouldn't budge on the principle of the freedom of movement of people, so the negotiations have dragged on with no conclusion. Ironically, they are exploring the possibility of using the "emergency brake" that the former

British Prime Minister David Cameron had negotiated prior to the EU referendum in the UK that would have restricted in-work benefits for new migrants and potentially lessened the "pull factor" of economic migration to a higher income country.

Remaining in the European Single Market has also been touted by a range of businesses and policymakers, including the Mayor of London, as being crucial in Britain's future relationship with the EU. Not all Leave campaigners may agree, of course, since some had advocated leaving the Single Market and just having a free trade agreement (FTA) with the EU. A FTA wouldn't confer the right to live, study, and work in the EU, so it remains to be seen what can be delivered.

It is important to note that the Single Market is much more than a free trade agreement. By applying the same rules and standards on goods and services, it frees up trade and investment in ways that allows a business to treat the half a billion people in the EU as a single market for their business. So, it is not about tariffs but what economists call non-tariff barriers (NTBs) that matter in some instances more, especially for small businesses where the ease of selling across borders can be heavily affected by standards and rules (Breinlich et al., 2016). And, for businesses, small and large, the European market is important.

The Institute of Directors based in London surveyed its members right after Brexit. Of the 1,092 UK firms, a quarter were freezing recruitment, some 20% were considering moving their operations abroad, and 5% even said redundancies were possible. This reaction reflects the uncertainty that has been seen most vividly in markets, but also importantly for the economy, the big question marks over the UK's future relationship with Europe.

It may well be that the cost of gaining access to the Single Market is considered by the policymakers to be too great if it means accepting the free movement of people. Of course, it's not just immigration policy. Like the other non-EU countries that have free access the Single Market, the UK will also have to accept the rules set by Brussels. And that may well be unacceptable as some in the Leave camp also campaigned on the basis that Britain will no longer be governed by EU laws. But, that is the unavoidable trade-off: unfettered access to the EU Single Market versus control over migration.

Now, if the UK were to gain some, but not full, access to the Single Market, would the EU be willing to permit the UK to retain control over migration and compromise one of its fundamental principles? And what would that look like? Would other EU countries want the same deal or threaten to leave?

The EU hasn't so far granted any such "Single Market-lite" to a major country, but there are those who have argued that Britain is a more important economy than Switzerland or Norway, etc., so the EU will want to sell to the UK and offer more concessions.

On the other side, there are others who insist that granting Britain the benefits of the Single Market without the free movement of people is setting the wrong example for other EU countries who may also want to control migration and leave too. A break-up of the European Union is an outcome the EU leaders certainly want to avoid. There is no doubt that this is a challenging trade-off with a lot at stake for the economy. There is also a lot at

stake for Europe, which has to negotiate Brexit which will affect how it reforms its own institutions.

3. Europe's economic paths

Brexit was a seismic political event. But, there have been rumblings across Europe, which highlights the challenge of negotiating with an economic bloc that is still in the process of formation and subject to some of the same anti-globalisation pressures seen in the UK.

The French prime minister has described the votes won by the far-right National Front and Eurosceptic parties as a "political earthquake." The gains made by anti-EU and anti-euro parties in the last European elections in countries ranging from Denmark to Greece have generated debate over the European project and Europe's economic future.

But, the pro-Europe mainstream parties — the centre-right European People's Party (EPP) and the centre-left Socialists and Democrats (S&D) -- retain a majority. They had worked toward further integration that had been challenged during the euro crisis that erupted in May 2010 when Greece was rescued.

For some time, the growing influence of Brussels has led to debates over the 'democratic deficit.' Now, we have a glimpse of the views of voters, which policymaker will need to take heed of as they shape the emerging institutions of the Euro Zone.

The European Union has already changed a great deal. The EU began as the European Coal Community after WWII, latterly expanded to include the UK which joined in 1973 (Venables, Winters, and Yueh, 2008). The motives were political to tie together nations previously at war, but became an economic entity – the European Union – and in fact, the biggest economic unit in the world, larger than the United States both in terms of output and population.

The creation of the single currency in 1999 split the EU into euro zone countries and the rest – though all of the remaining non-euro EU countries with the exceptions of Denmark and the UK are slated to join the euro in the coming years.

After the eruption of the Greek crisis in 2010, the reaction from Euro Zone leaders was 'more Europe.'

The ensuing euro crisis which saw other countries get rescued in addition to Greece revealed the fragility of a monetary union without a banking union as banks had lent large amounts to peripheral countries such as Ireland. Rescuing the banks led to the need for Ireland itself to be rescued. So, a banking union has since been created but it has also raised operational questions for non-euro EU countries like Sweden with large banking systems.

That wasn't the only institution that was seen to be lacking. Euro Zone leaders reinforced the need for member countries to have fiscal discipline. Before the crisis, Greece borrowed at the same rates as Germany, as bond markets seemed to view the Euro Zone as one entity. That contributed to too much borrowing. Though that is unlikely to happen in the future, Euro Zone leaders came up with additional reforms to try and enforce fiscal restraint. The outcome was the European semester, where there was greater monitoring of national budgets by Brussels to ensure that countries that shared a currency didn't run large

deficits.

These developments continued the transfer of economic decisionmaking power toward supra-national bodies. For instance, other institutions that were created include the Single Supervisory Mechanism (SSM) that gave the Frankfurt-based European Central Bank (ECB) more powers to oversee banks and the establishment of the European Stability Mechanism (ESM), a permanent rescue fund that is like a European IMF based in Luxembourg.

For economists, the euro crisis raised the prospect of euro break-up. Economists have wondered whether the peripheral countries belonged to the same 'optimal currency area' or OCA as Germany and its northern European neighbours (Krugman, 2013). In other words, should all euro countries -- including the EU countries that are slated to accede -- share a currency? Have the criteria of trade integration and convergence in business cycles and incomes been met? European countries trade a great deal with each other but convergence is a different matter. If a country isn't converging with the rest of the member countries, then it is a high cost to lose control over its interest rate and currency. Could reforming the euro institutions improve the prospects of convergence?

There is a middle path — an European single market that doesn't share a single currency. Deeper integration and linking markets could happen, but without giving up a country's currency. Britain, Denmark, and the other non-euro EU countries are examples of those who operate in a shared market but retain their own currencies. This is an old debate that has come to the forefront, particularly for those outside the single currency that have watched the euro crisis.

Indeed, the deep integration of the European Single Market goes beyond a free trade area, which is what the U.S. has with Canada and Mexico in NAFTA (North America Free Trade Area). The Single Market eliminates not just tariffs, but non-tariff barriers. Common standards enables a firm located in the Single Market to sell anywhere within it as if it were a domestic market. For small countries in particular, that advantage allows its firms to gain economies of scale when competing against multinationals from America and China which count huge domestic customers as their home market.

This is why the debate over Britain's continuing access to the Single Market is such an acute one. But, as mentioned before, free access to the Single Market appears to require the acceptance of free movement of people which is the antithesis of the Brexit vote seeking to wrest back control over migration.

Undoubtedly, the rise of both anti-EU and Eurosceptic parties will lead to debates on all these possible paths for the European Union. Upcoming elections in major European countries won't be determinative, but the economic future of the European project will surely be discussed in the coming years.

As Europe continues to evolve, Britain's exit from the EU will be tricky as the political landscape shifts on the continent.

So, as the UK contemplates its future with Europe, what's needed now is a parallel pursuit of free trade agreements with the other major economies.

4. Britain's future outside of Europe

Having free trade agreements with the world's biggest economies certainly would be important for Britain. Global trade is far from free, so negotiating market access for trade and investment for British businesses is important, especially if the UK is to retain its international outlook that has contributed to its economic growth and position as the world's fifth biggest economy.

The European Single Market's deep integration eliminates non-tariff barriers through common standards. A vast market on Britain's doorstep is certainly economically valuable and should be a priority for a new FTA after Brexit. The UK has a lot of negotiating to do there as discussed earlier. But Britain should also be actively securing its place on the world stage through pursuing trade agreements with the other major economies while it sorts out its future with the EU.

Trade agreements take years, as will Britain's negotiations with the European Union, so the sensible approach is to start informal talks with the U.S., China, and Japan, among others. Of course, there are other trade partners to consider too, but focusing on the world's biggest economies (U.S., China, Japan) and the EU is a good start. Among the often-overlooked is the Commonwealth, with which trade relations will have to be renegotiated too.

Trade agreements are being pursued by other countries seeking to open up markets and raise economic growth. There is more attention than ever being paid to new and potential trade deals such as those led by China (RCEP or Regional Comprehensive Economic Partnership), TPP (Trans Pacific Partnership) between America and Asia, and TTIP (Trans-Atlantic Trade and Investment Partnership) between the U.S. and Europe.

These are led by China and the U.S., so the UK would do well to start parallel talks with the world's biggest economies. Indeed, the Republican Speaker of the House of Representatives of the U.S. Congress has said that he is interested in starting negotiations with Britain as it negotiates Brexit.

Similarly, pursuing a free trade deal with China, the world's second largest economy, should be a priority too. The UK may be at risk of looking less attractive as a gateway to Europe, but that depends on the EU negotiations. In the meanwhile, it would be sensible to build on the existing strong links between Britain and China to secure a free trade agreement.

In many respects, Britain and China have complementary strengths and needs in their economies. China is seeking expertise in services and high tech industry, which Britain can offer. Britain needs to maintain sizeable investment inflows due to its persistent and large current account deficit, which is what China's outward investment push offers. Unlike the EU, which has a larger industry and agricultural sector to consider, the UK is in a comparably better position to agree on a FTA with China. Of course, the detail and protection of losers from globalisation will matter, as well as a range of other political considerations.

China is a tough negotiating partner and has few FTAs. This is also a challenging time for China as it focuses on aligning external with internal priorities around reforming its slowing economy. In any case, having one or at least moving towards a FTA with China would also help with Britain's negotiations with the EU if the UK can become the gateway to over a billion Chinese customers for EU businesses.

The same rationale of securing FTAs applies to other major economies, such as the world's third biggest economy, Japan.

There is, though, one grouping that is worth highlighting. It hasn't gotten as much attention, but the Commonwealth is a network that Britain is well placed to pursue more trade with. After all, economic studies consistently show that among the determinants of greater trade are historical ties, shared language and institutions (Makino and Tsang, 2011). The 52 nations of the Commonwealth have that largely overlooked advantage.

Trade among these nations, which range from the rich such as Britain and Singapore to the poorer ones in Africa, has been growing rapidly. Even without being a formal trade bloc, intra-Commonwealth trade was estimated at $592 billion in 2013 and is forecast to surpass $1 trillion by 2020 by the Commonwealth Secretariat.

That's due to the rapid economic growth, including in trade in these countries, in the past few years. Since 2000, global exports of Commonwealth countries have nearly tripled from $1.3 trillion to $3.4 trillion, accounting for 14.6% of world exports in 2013. In other words, if it were one economic entity, the Commonwealth would be the world's largest trader, surpassing China.

But, it must be noted that just six Commonwealth countries account for 84% of Commonwealth trade: Australia, Canada, India, Malaysia, and Singapore as well as Britain itself. So, these five nations are partners for Britain to focus on, which it can do more efficiently by turning its attention to the Commonwealth. There are also yet untapped smaller export markets, including some of the fastest growing economies in Asia and Africa.

A shift in UK trade has already been quietly happening. The current and previous governments have sought to develop greater links with faster growing emerging economies. For instance, in 1999, 55% of exports were to the EU. Now, the UK exports roughly more to non-EU countries than to the EU. Britain's trade with the Commonwealth is less than one-quarter of that of the EU, so there's room to grow.

Certainly, the faster economic growth of Commonwealth countries offers greater opportunities than before. In terms of share of global GDP, the Commonwealth overtook the European Union in 2010. A lot has to do with demography. The United Nations estimates that population growth in the Commonwealth is expected to increase by 29.4% until 2020, while the Eurozone is expected to fall by 1.4%.

Finally, it's worth recalling in 1973, the UK had to end special trade ties with the Commonwealth because it joined the EU, which is a customs union that has common trade rules with the rest of the world. That won't be a constraint after Brexit.

With a combined population of 2.3 billion across six continents, many of them faster growing than the rich economies of the West, fostering greater trade and investment links with the Commonwealth could prove to be helpful.

The rest of the world is also pushing for more free trade agreements, despite the concerns over economic globalization. The next section reviews the rapid growth of FTAs around the world and what it means for post-Brexit Britain.

5. The global push for free trade areas

What's happening around the world in terms of existing free trade deals that are in the works is an important shift in global context. In different regions around the world, there's a noteworthy push for free trade areas that reduce tariffs and adopt other measures to ease trade and investment. Of course, the election of Donald Trump adds uncertainty to America's push, but the rest of the world, notably China, are keenly pursuing regional and bilateral trade agreements not only encompassing goods but also services and investment.

First, a reminder of what tariffs encompass and why they are economically inefficient: Tariffs are the charges that governments impose on imports and exports. They are a tax so where they are imposed, they can distort the prices of goods and services. Because tariffs add a cost and thus reduce economic efficiency, they can be a drag on growth. So, free trade areas aim to eliminate most of them. Of course, a number of governments use them to protect their industries from competition from big global companies until they are more mature. Labour groups also want protection for domestic jobs. It's a messy area.

There are also NTBs (non-tariff barriers) to add to the mix. These are the other ways to be protectionist without imposing tariffs, such as through standards for certain industries that can restrict imports. For instance, Thai prawn exporters found it hard to meet American standards for the type of net that allowed them to sell to the U.S.

Indeed, the still to be ratified Trans Pacific Partnership (TPP) would be the world's biggest free trade area that links North America with parts of Latin America and Asia. The Americans had hoped to gain from this new free trade area since 61% of US goods exports and 75% of U.S. agricultural exports go to the Asia Pacific region. The TPP would allow partner countries to access the world's largest market in return by reducing (perhaps eventually eliminating) the tariffs they would have to pay to export to the USA.

President Obama has been re-orienting to fast growing Asia, as part of his wider foreign policy shift. Obama's "Asia pivot" could be viewed as a counter-balance to China's economic and strategic impact that stretches from the North China Sea to the Persian Gulf. But, it's hard for the U.S. to re-orient away from the Middle East and Russia, and it's certainly unclear what a Trump administration will do in terms of foreign and trade policy.

In any case, Europe is also pursuing an equally ambitious free trade agreement with America. The TTIP is the trans-Atlantic FTA which would link the U.S. with the EU, which will eventually exclude Britain, if it came into force.

The rise of these massive regional FTAs is also a reaction to the World Trade Organisation (WTO) expansion stalling. After all, it has been well over a decade since the last big WTO initiative – the Doha Round - was launched and there are not many signs of significant progress.

Instead of trying to get to a deal with almost the entire world, these regional trade agreements have sprung up. Bilateral agreements too fill the void. It would be better for all countries to trade on equal terms with all others, but a multilateral trade deal under the WTO has stalled so countries are going for second best options such as regional trade agreements.

The problem with this approach is that if a country hasn't signed up to the rules (or hasn't even been invited to join) for any of the new free trade areas, it's excluded and can't share the benefits. This is a prospect that Britain will face but that China is also confronted with. Being left out of TPP and the TTIP means China is doing its own thing. China is negotiating with ASEAN (Association of Southeast Asian Nations) to form its own regional free trade agreement. China is also offering to set up a Free Trade Area of the Asia Pacific (FTAAP) in reaction to President-elect Trump saying that the U.S. will pull out of TPP.

These regional FTAs are not the best outcome but perhaps it's better than not having any new trade deals. The result is the potential creation of sizeable free trade areas where domestic companies can gain economies of scale by selling to a much larger customer base than otherwise. The competitive advantage to be gained is potentially sizeable.

That's why Southeast Asia is also pursuing an ambitious free trade area. But, the single market that the 10 nations of Southeast Asia (ASEAN) launched at the end of 2015 will not include a single currency. The ASEAN Economic Community (AEC) also won't have an equivalent of the European Central Bank in the foreseeable future.

The ASEAN single market rivals the EU in terms of population. With over 600 million people, ASEAN links together 10 countries ranging from rich Singapore to poor Laos into a free trade area with free movement of labour, removal of tariffs, and common standards.

The AEC is even aiming to rival the EU and perhaps overtake it by 2020 based on the 5% plus economic growth rate of ASEAN as compared to the 1-2% growth of the EU.

Still, there are numerous challenges facing the AEC. There aren't many pan-regional institutions, for one. There is also no comparable European Commission for the AEC. The AEC also lacks institutions to protect human rights and workers, including a court like the European Court of Justice. That will be challenging as political differences in the region, including non-democratic states, will make it tough to integrate politically as well as socially. Those are unsurprising the other two pillars of the AEC, which mirrors the development of European institutions since tying markets together requires more than just economic agreements.

Besides institutions, the region also faces challenges in terms of what economists call "deep" integration so NTBs aren't typically removed, for instance (Baldwin, 2008). There are many trade links in the region, but intra-regional trade in ASEAN is only around a quarter of total trade as compared with the EU or in particular the euro zone where the biggest trade partners are the other economies in Europe. Trade has increased in the past few decades in Southeast Asia, but it's non-tariff barriers that protect some home industries that remain barriers.

ASEAN policymakers emphasise that the impetus behind the AEC is to compete with the sizeable markets of the EU, U.S. as well as neighbouring China and India. The rise of regional free trade agreements being negotiated such as the TPP linking America to Asia, and TTIP tying the U.S. to the EU, highlight the urgency for Southeast Asia to link their economies to compete.

With twice the population of the United States and one that is similar to the scale of the EU, the AEC has potential to become one of the largest economic entities in the world. We'll

soon see if the AEC becomes a common reference point for the rest of the world like the EU is and a market like the U.S. that global businesses have to be in. It seems that Southeast Asians certainly have that ambition.

So, within this context of countries joining regional FTAs, Britain is rather unusually leaving one and embarking on bilateral trade deals. The question is whether Britain will be successful going at it alone outside the EU. But, Britain does have a long track record of benefitting from its global outlook.

6. Britain's long-standing international orientation

Britain is 'open for business' is the message that has been sent by successive UK governments, particularly after Brexit.

It is already the case that many British brands are foreign-owned. The stock of foreign direct investment in the UK is around half of GDP, which is appreciably higher than the global average of one-third. But, it is a two-way street: The UK has its share of global companies and makes a tidy return from overseas investments.

In recent years, many of Britain's iconic brand names have been snapped up by foreign companies. The car industry is a particularly good example. Britain's most prestigious marques, Rolls Royce and Bentley, have been respectively owned by BMW and Volkswagen since 1998. Four years earlier, BMW had acquired the ailing Rover group. Unable to turn it around they broke it up in 2000 only keeping the Mini which has proved to be a commercial success. Ford bought Land Rover while MG Rover was sold first to the Phoenix Consortium before being rescued from administration by China's Nanjing Automobile Group in 2005. Ford had purchased Jaguar in 1990, but sold it along with Land Rover to India's Tata Motors in 2008.

Aston Martin, however, is back in British hands. The Oxfordshire-based Prodrive led a consortium which bought the company from Ford in 2007. However, Ford maintained a 10% stake and the financing for the deal mainly came from U.S. and Kuwaiti backers. Later on, 37.5% was sold to an Italian private equity company.

Such is the way with big business today. A company from somewhere might be owned by another company from somewhere else, whose investors in turn come from all around the world. It makes the question of ownership hard to pin down.

A survey conducted by the trade magazine *The Grocer* and the research firm Nielsen found that of the biggest 150 biggest grocery brands in the UK just 44 are domestically-owned. And of the 91 brands created in the UK, only 36 were still owned by British companies. The rest are owned by foreign multinationals and private equity groups.

This follows a series of high profile takeovers of famous British brands. HP brown sauce was the inspiration of Frederick Gibson Garton, a Nottingham grocer in the late 19th Century. It was so-called after he learned of it being consumed in the Houses of Parliament. In June 2005 the brand became part of the Heinz empire. And to show what goes around comes around, Heinz itself was purchased earlier this year by Warren Buffet's Berkshire Hathaway and the Brazilian global investment fund 3G Capital.

The Chinese company Bright Foods took a controlling 60% stake in Weetabix Ltd, which also owned the Alpen and Ready-Brek brands. Branston Pickle, of which 28 million jars are sold every year in the UK, was acquired by the Japanese firm Mizkan who, by the way, already own Sarsons Vinegar and Hayward's Pickled Onions.

Cadbury, founded in Birmingham in 1824, was bought by the American Kraft Foods in 2010. It was then spun off into Mondelez International, Kraft group's international snack and confectionary business. Britain's other large confectioner Rowntree Mackintosh, founded in York in 1862, had been bought by the Swiss conglomerate Nestle in 1988 only one year after becoming a public company.

In 2008, the alcoholic drinks company Scottish & Newcastle was jointly purchased by Heineken of The Netherlands and Carlsberg of Denmark. Traditionally British brews such as Newcastle Brown Ale, John Smiths Bitter and Strongbow Cider are now part of Heineken UK, so basically owned by the Dutch.

One of the clear trends is that international brands are becoming increasingly owned by a small number of very large conglomerates. For instance, Pepsico, Coca-Cola, Kraft, Nestle, Mars, Procter & Gamble, and Unilever own a staggering number of the world's most recognisable brands between them. Unilever, the Anglo-Dutch conglomerate, owns over 400 brands by itself.

This goes to show that big business increasingly dominates the global landscape. But it is also the case that Britain has a number of its own global titans. When it comes to acquisitions involving British and foreign companies is not just a one-way street.

Indeed, it's a two way street. Guinness is synonymous with Dublin and Ireland. Smirnoff originated from a Moscow distillery in the 1860s and is now one of the best-selling brands of vodka around the world. Both brands are owned by Diageo, a British company listed on the London FTSE and headquartered in London. The company also owns 34% of Moet Hennessy. This means that iconic French champagne brands Moet & Chandon and Veuve Cliquot, as well as Hennessy cognac are a third-owned by a British company.

Britain has plenty of big companies that have expanded aggressively around the world.

Vodafone is the second largest mobile phone company in the world in terms of numbers of subscribers with a presence in over 70 countries. Only China Mobile, with its large captive market, has more. The group has gobbled up plenty of its foreign rivals and often rebranded them as Vodafone along the way.

In 2000, Vodafone bought the German company Mannesmann for £112 billion. At the time, this was the largest corporate merger and is still the largest by some considerable distance in UK corporate history. The deal caused unrest in Germany as never before had such a large company been acquired by a foreign owner. Further disquiet was caused when Vodafone reneged on a pre-merger deal to maintain the Mannessman brand and rebranded the company Vodafone D2.

Tesco is the third largest retailer in the world after Walmart and Carrefour. It has as many outlets outside the UK as it does within it, with operations in 14 countries across Europe, Asia, and North America. Tesco has already been in China for nearly a decade where it has

over 100 stores.

But Britain’s really big beasts are in oil and finance. BP, formerly British Petroleum, started life as the Anglo-Persian Oil Company in 1909 to manage the empire's oil discoveries in Iran. It now has operations in over 80 countries and is the second largest producer of oil and natural gas in the US. In 2008, it merged with Amoco and largely rebranded their U.S. operations as their own.

Shell is an Anglo-Dutch company with operations in over 100 countries. According to the Fortune Global 500 list, which ranks firms in terms of revenue, it is the largest company in the world ahead of Wal-Mart.

Plus, British banks and insurance companies are massive players on the world stage.

Britain’s biggest bank is HSBC, the Hong Kong and Shanghai Banking Corporation. It's also the second largest bank in the world in terms of assets held only after the Chinese state-owned Industrial and Commercial Bank of China (ICBC). It was founded in Hong Kong in 1865 as the British Empire expanded trade into China. It essentially became a British bank in the early 1990s. The takeover of Midland Bank was conditioned on it moving its headquarters to London that was part of the calculus in any case as the handover of Hong Kong back to China loomed then. However, it remains predominantly a global bank with subsidiaries and operations in over 80 countries.

Standard Chartered is Britain’s fifth biggest bank. It operates in over 70 countries but has no retail business in the UK. In fact, most British people would have never heard of the bank if it did not currently sponsor Liverpool football club. This makes sense given the popularity of the English Premier League in its key overseas markets. 90% of its profits come from Africa, Asia and the Middle East. It is a good example of a British company with a stronger presence overseas than at home.

The Office for National Statistics (ONS) estimates that over half the shares in quoted UK companies are owned by foreign investors. Ten years ago only, a third of the shares were foreign owned and 20 years ago the proportion was only 13%.

It’s evident that British companies have been attractive to foreign buyers and the UK has been open to overseas investors. This long-standing openness to global business is what the UK government has been promoting in order to convince businesses that it remains open for business after the Brexit vote.

So why have British companies been attractive to overseas buyers?

Perhaps it is because they are relatively easy to buy? A higher proportion of companies are publically listed so the shares can be bought and sold freely. Furthermore, fewer British firms are controlled by family trusts than in the U.S. and Europe. These can form powerful controlling groups that make direct takeovers difficult if the family does not want to sell.

The British government rarely blocks deals even if there is a ‘strategic’ argument for doing so. The privatisation programmes starting in the 1980s has made many utility and infrastructure companies PLCs and foreigners are free to buy shares. Four of the big six energy companies, including most of the nuclear industry, are foreign owned. The same

goes for British seaports, airports and railways.

And since the Brexit vote, the fall in the value of the pound has made British companies cheaper to acquire.

When foreigners buy shares in or takeover a British company, the profits and dividend payments are transferred overseas. There is a suspicion that these earnings are enhanced by outsourcing jobs to cheaper parts of the world and re-routing profits through jurisdictions with lower tax rates. Thus, there is a recent push for tax reform and the government wants to publish a roster of ownership.

However, foreign ownership may also bring benefits. Foreign-owned plants are found to be on average more productive than domestically-owned establishments (Bloom, Sadun, and Van Reenen, 2012). Multinationals can bring fresh ideas and expertise, such as new technologies and management practices. The same goes for British multinationals setting up in foreign countries.

The Spanish bank Santander already owned the Abbey National but there were few complaints in 2010 when it absorbed the Bradford & Bingley and the Alliance & Leicester building societies to become one of the largest UK retail banks. At the time there was considerable relief it was prepared to use its balance sheet to avert two further potential Northern Rocks. Foreign investment is unsurprisingly welcomed when there is a need for cash.

In any case, Britain still owns far more direct investment assets overseas than vice versa. The ONS estimates that Britain has £1.1 trillion direct investment assets overseas, £300 billion more than the rest of the world owns in the UK.

Britain also typically enjoys a surplus in investment income. Since 2000, inflows of investment income have averaged 13.5% of GDP compared to outflows, which have averaged 12.4% of GDP. This means each year Britain has received a net flow of investment income equal to 1.1% of GDP from the rest of the world.

Such capital inflows are of course essential to continue to finance Britain's significant current account deficit. It's the reason why the British government is so keen to stress the country's long-standing openness to investment from around the world. And that leaving the European Union does not change its openness. It does have a long track record to draw upon, and the UK government is indeed touting its openness in order to convince the rest of the world that the Brexit vote is not leading to greater protectionism.

7. Post-Brexit path forward for the UK

Few things are as uncertain as Britain's economic relationships in the years ahead. Still, one important factor will be attitudes towards globalisation and if that affects the UK's ability to maintain its global outlook.

It is one of the issues that its major trading partners will be looking for, given the perception that Britain has turned inward by leaving the EU. The UK government, though, has focused on maintaining the country's long-standing international outlook.

The tussle between the UK and China is an example of the uncertainty going forward. The new British government under Prime Minister Theresa May had wanted to re-consider the agreement to build the Hinkley Point nuclear plant that is financed by the French company EDF and China. It became a flashpoint for where the UK is headed.

The Chinese ambassador warned that the decision comes at a “crucial historical juncture” and China hopes Britain retains its openness.

The relationship is at a critical juncture in any case. Brexit throws into question Britain’s relationship with the EU. And China would want to maintain good relations with its largest export market, the EU, while at the same time work with Britain which is a more welcoming hub in the West than America.

Besides, nuclear energy is a strategic sector that usually warrants additional scrutiny. The new UK government doing so shouldn’t come as a surprise, and Britain approved the deal once again. Still, China was watching to see if this is an isolated incident in the new post-Brexit UK. As will many other countries.

For Britain, convincing its trading partners and businesses that Brexit is not a rejection of globalization will be key. In its favour is Britain’s long history of being open to trade and international investment discussed earlier. The UK’s internationalist outlook has undoubtedly contributed to its position as the world’s fifth biggest economy with a relatively small population of 63 million. Pursuing free trade deals will be the clearest signal that Britain retains that outlook despite voting to leave the world’s biggest economic bloc.

Britain will also need to convince its potential FTA partners such as China that the Brexit vote will not change its course.

There has been some backlash against economic globalization that figured in the Brexit vote. A bit ironically, leaving the EU has led to an aggressive push to agree more free trade deals to secure Britain’s economic future.

In any case, continuing global integration will be important for the UK’s economic growth. The challenge will not just be in agreeing on deals quickly, but how Britain will compete in a world where major economies are pushing for regional trading blocs just as the UK is leaving one.

There’s no doubt that Britain’s future is uncertain, but its long-standing global orientation will help to overcome the concern that Brexit is a statement against globalization.

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