

Brexit shows dangers of breaking trade ties, says IMF

Leaving the EU is thought to have had a ‘sizeable negative effect’ on Britain’s economy, according to a senior official at the fund

Brexit is likely to have had a “sizeable negative effect on the UK economy”, one of the International Monetary Fund’s most senior officials has said, citing the country’s exit from the European Union as an example of the dangers of trade fragmentation.

Gita Gopinath, deputy managing director of the Washington-based fund, said Britain’s exit from the EU’s single market and customs union in 2020 showed the harmful consequences of breaking up trade ties, hurting economic growth and reducing cross-border investment.

“Imposing restrictions on trade would diminish the efficiency gains from specialisation, limit economies of scale, and reduce competition,” Gopinath said in a speech in Stanford, California. “A useful example is Brexit. Because of the extensive interlinkages between Europe and the UK, Brexit is thought to have had a sizeable negative effect on the UK economy.”

Official trade data shows a mixed picture for the UK’s post-Brexit trade performance, with a large hit to the import and export of goods to the EU and around the world, but a stronger than expected performance in services trade.

Goods trade suffered its weakest performance since 2015 last year and was the worst in the G7 group of large economies in 2023. Total import volumes fell by 7.4 per cent, while exports slid by 13.2 per cent, with the weakness in European markets and the rest of the world.

Trade in services has unexpectedly boomed, rising by 14 per cent in the four years from 2019 and growing faster than the likes of the US, France and Japan, according to the Resolution Foundation.

Services trade includes banking, financial and professional services and higher education.

The IMF has not provided a single estimate of the impact of Brexit on the UK’s trade performance or growth more broadly, but has consistently warned that the economy will be among the slowest growing in the G7.

Gopinath’s comments were made in a speech warning against the fracturing of the world economy into competing blocs, one led by the US, another by China, with a host of “non-aligned” countries in between. She said trade among these three blocs had fallen by 12 per cent since Russia’s invasion of Ukraine, while foreign direct investment had dropped by 20 per cent more than trade within these regions.

The IMF has long warned against rising protectionism and green industrial policies which favour domestic industries and the “re-shoring” of supply chains after three decades of globalisation.

Gopinath admitted that geopolitical rivalry meant it would be “difficult to achieve” a return to a multilateral, rules-based trading system. She was speaking days after Emmanuel Macron, the French president, and Ursula von der Leyen, head of the European Commission, told President Xi of China that the EU would take steps to protect its economy from the “oversupply” of cheap Chinese industrial goods.

Gopinath called for governments to “keep open the lines of communication and stay engaged”. She added: “Dialogue between the US and China — which we are now seeing — can help prevent the worst outcomes from occurring.”