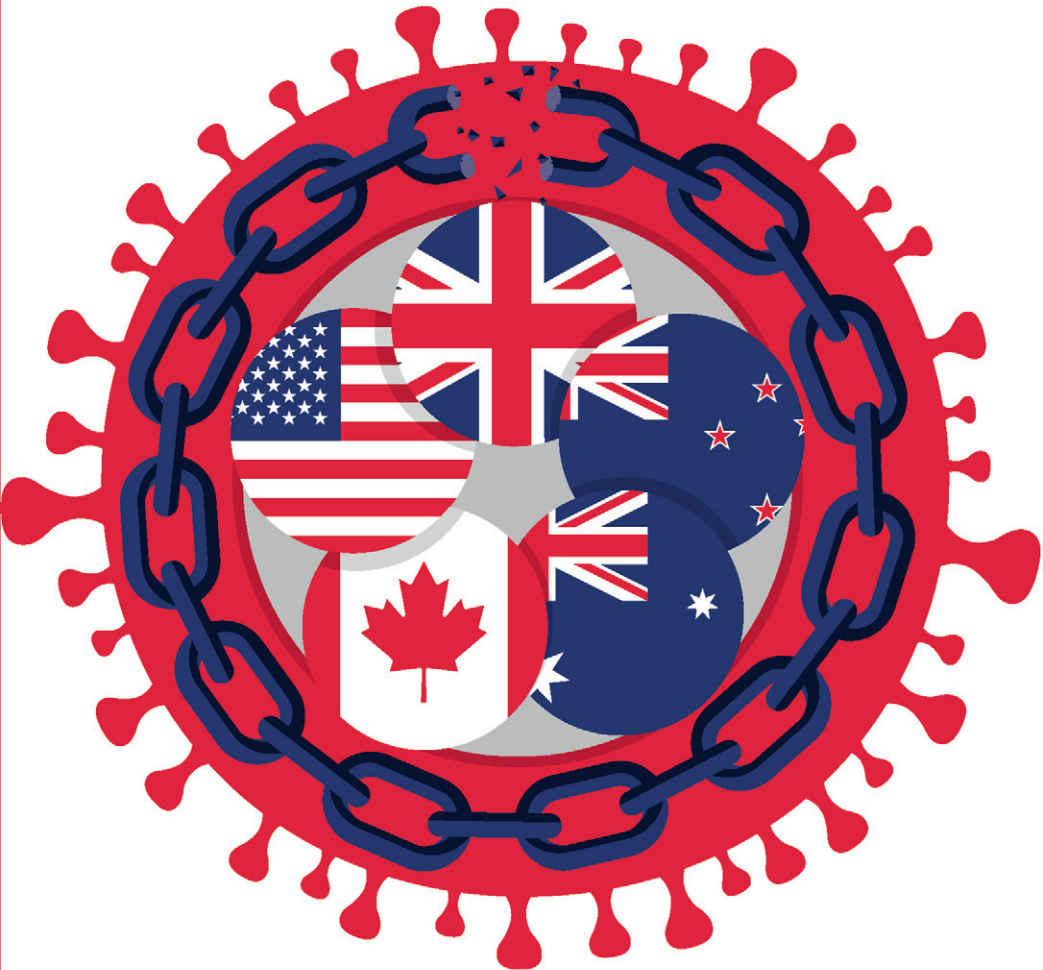


**RICHARD D. SIMMONS
NIGEL CULKIN**

COVID, BREXIT AND THE ANGLOSPHERE



**FRAMEWORKS FOR FUTURE TRADE
AND ECONOMIC GROWTH**

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COVID, BREXIT AND THE ANGLOSHERE

Frameworks for Future Trade and
Economic Growth

BY

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INVESTOR IN PEOPLE

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PREFACE

By the time this book is published, the nights will be drawing in, temperatures dropping and autumn leaves starting to fall. Britain will be approaching its third post-Brexit Christmas, still dealing with effects of the COVID-19 pandemic and most certainly facing the consequences of the war that followed Russia's invasion of Ukraine. Households will remain traumatised by the sharp rise in energy and food prices, with a general fear for household budgets as inflation and interest rates have been on the way up. Overall, for many there will be a sense of apprehension as to what may come next.

Welcome to post-pandemic, post-Brexit global Britain.

Some disruption is inevitable as both the Pandemic and Brexit will mean “structural change” to both the economy and society. Indeed, the rationale for Brexit is structural change, so we should not be surprised that at the centre of Brexit is a stated desire to change the relationship between the United Kingdom and the rest of the world.

In this book we focus on one part of this change, trade and its role in both growth and economic development. By growth we mean the ongoing process followed by businesses year on year to smoothly improve their financial results; and by economic development we mean those moon-shot projects that can transform both the markets they are launched into, and also the lives of those who use them.

Our narrative intentionally limits scope and ignores detailed issues relating to the United Kingdom's post-Brexit political and defence role in the world. Notwithstanding, the United Kingdom is a Member of the G7, a Permanent Member of the UN Security Council and has a considerable military including two aircraft

carriers and its own strategic nuclear force. Yet to quote Chief of the Defence Staff Sir Nick Carter “our expectation if we have to go to war is that we will do so with allies”.¹ Alliances and multilateralism are “baked” into the United Kingdom’s defence role through its NATO membership.

Even before the Ukraine conflict started to unfold, the EU had stated that it should acquire the “political will” to build up its own military force to deploy to future crises.ⁱ The potential for a NATO–EU divergence is clear from the 16 November 2021 remarks by NATO Secretary General Stoltenberg “We need strategic solidarity, European and North America are working together and that’s the message. And in that context, we also of course welcome more European efforts on defence spending on providing new capabilities”.ⁱⁱ In consequence, at the end of this book we allow ourselves to briefly ask the unthinkable, as to whether these shifts will be part of a more general restructuring of global and especially European Security Arrangements, not least in response to the USA’s increasing focus on China and Taiwan.

Nevertheless, the United Kingdom’s defence and “soft power” capability are important elements to the trade policy of “Global Britain”, as for some, the allies for such trade policy may be best conceived within a “Global Anglosphere”. We touch on this issue only from an economic and growth perspective.

We raise two questions in this book, first how can the United Kingdom’s post-Brexit global trading structure create a virtuous circle of innovation and growth and second what is the concept of an “Anglosphere” and what could be its potential role?

Arguably we need our Prime Minister to become a “Maestro” who can orchestrate and focus Britain’s efforts on trade, innovation, immigration control and entrepreneurship to help post-Brexit Britain assume the global leadership it aspires to.

ⁱ President of the EU Commission Ursula Von Leyen in her State of the Union Speech “what we need is the European Defence Union., we need to provide stability in our neighbourhood and across different regions” (Von Der Leyen, 2021).

ⁱⁱ NATO Secretary General Answer to Journalist on 15 November 2021 (NATO, 2021).

It is to this challenge that our book seeks to shed light through a combination of theory, analysis and historic examples on a journey that mimics a visit to a restaurant. We have the menu of options, the different courses, the bill for the delights that we choose to sample and then of course the decision as to how we pay that bill. At the end of our journey the book sets out a number of high-level options for possible “directions of travel”. These stand in their own right.

In addition to the high-level options, there are a plethora of detailed issues that are raised and discussed within the book. These issues span areas such as reconfiguring supply chains for a less global world, enabling and protecting innovation, access to patient capital, skills development, infrastructure improvement etc. Each issue needs its own specific set of enabling actions and policies to support entrepreneurs in accessing market processes to deliver transformative products and services. As with the development of the COVID vaccines, the state will be a key partner together with financial markets (for access to capital) and universities (for access to knowledge).

Policy options to enable the structural change we face are necessarily detailed and in turn need to be fitted into their existing context. Rather than detail these here, we intend to publish a number of follow-up articles and blog posts that will address each issue individually, whilst keeping the overall policy nexus within the overall framework this book builds. To do otherwise would require a book that is significantly longer and that would risk blurring clarity as so much more underpinning detail would need to be added.

All roads to a post-pandemic/Brexit dividend need a rise in the growth rate, and this in turn will require that the available rich pool of ideas and talent be harnessed and orchestrated by entrepreneurs. Success will come from fusing ideas, skills, long-term capital and entrepreneurial flair into products and services that excite and delight the customers who buy them.

Our journey requires that we evolve differing theories into something relevant to the rapidly changing (and perhaps fragmenting) 2020s. This book leaves it open to you, the reader, to choose what is the best mix to deliver a trade-related Brexit dividend.

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CHOOSING YOUR READING JOURNEY

Our book is intended to be an informative read for anyone interested in the challenges the pandemic, Brexit, and war in Ukraine are posing to pre-2020 economic and social structures. While certain chapters deal with matters such as trade theory, the main themes and insights can be read independently of these. The narrative is deliberately inclusive. If you fear the more theoretical chapters may help induce a Sunday afternoon nap, then we encourage you to skip them on first read and come back to them later, so you can fit their content into the patchwork quilt of events and issues that this book shines a light on. Below are our thoughts to help you choose the reading journey that is best for you.

	Inquisitive Citizens and Policymakers	Ardent Advocates	Academics	Diligent Students
Chapter	Independent, Looking for a Road Map Through the Issues	Believers of All Opinions Looking for a Guide on the Issues and Opportunities	<ul style="list-style-type: none"> ➤ Economics ➤ Politics ➤ Social Policy ➤ Development Studies ➤ Innovation ➤ Trade 	Interested in a Wider Read Around Core Curriculum
1.	Read First	Read First	Yes	Yes
2.	Read these two later	Read these two later	Yes	Primer
3.			Yes	Primer
4.	Read Second	Read Second	Yes	Yes
5.	Yes	Yes	Yes	Yes
6.	Yes	Yes	Yes	Yes
7.	Yes	Yes	Yes	Yes
8.	Yes	Yes	Yes	Yes
9.	After Sunday Lunch	After Sunday Lunch	Yes	Yes
10.			Yes	Yes
11.	Yes	Yes	Yes	Yes
12.	Yes	Yes	Yes	Yes
13.	Yes	Yes	Yes	Yes
14.	Yes	Yes	Yes	Yes

INTRODUCTION

This book is specifically about how, and to what extent, post-Brexit/post-pandemic Britain can use its trade policy to evolve into a revitalised global economic powerhouse and how this interacts with the nationalist vision of “Global Britain”, or, perhaps more precisely “Global England” that some see as being synonymous with Brexit. More generally, this book addresses the interaction between trade theory and economic growth (in the UK and USA) within the context of today’s global economy, the evolving “post-pandemic” environment, and the Russian invasion of Ukraine.

The book is looking to understand the underlying context and aspirations that need to be handled for there to be a feeling that Brexit has delivered benefits, that recovery from the pandemic has addressed both the structural challenges and the opportunities that it has created and, to understand how this landscape has been impacted by the conflict in Ukraine. This book is about generating economic growth and building social cohesion after the setbacks and fractures of recent years. The final chapter gives a series of high-level policy options that complement the more detailed analysis earlier in the book. The approach to policy is a “pick and mix” one rather than being fixed to one specific path. Two constants are, (i) we progress through the efforts of the individuals and teams who our innovators and entrepreneurs and, (ii) societal cohesion through the

expression of collective civic responsibility (*civitas*) is essential to progress.

Our backcloth is the contrasting populism (typified by both Brexit and “New Republican” Trumpists) and the mercantilist self-interest associated with the European Union and other major trading blocs.¹ The 2022 events in Ukraine have made the interrelation between the two more complex as Western leaders have faced significant conflict in Europe for the first time since 1945. The certainties of yesterday have become the uncertainties and fears of today.

Brexit “purists” seem to be embarking on a heroic (if constantly adapting) experiment to reestablish the classical economic structures of David Ricardo’s (mainly agricultural) time into a post-industrial world. Utilising unfettered access into new growing and dynamic global markets, their approach relies upon a combination of open free trade and immigration control to quasi-fix the labour endowment in combination with reduced regulation to drive competition, innovation, and growth.^{1,2} They argue that this combination will deliver the Brexit Dividend.³ We look to “unpack” and understand the dynamics of this process, by demystifying a series of interlocking and sometimes conflicting themes. Our goal is to build a framework that suggests ways in which a “Brexit Dividend” can be delivered within the context of international trade policy. More generally, we revisit the various relationships between trade policy, innovation, entrepreneurship, social fabric, and economic growth.

It is notable that the Brexit experiment is strikingly different from the business development policies in the USA of both the Trump and Biden administrations, which in some aspects of trade policy have a striking similarity to each other.^{4,5} In the USA, there is a conscious policy to “re-shore” both technology and productive capacity, whilst in the UK there is no such policy imperative.⁶ Notably, other open societies including the United States, South Korea, Australia, and Japan avoid the “open trade” philosophy of

¹“New Republicans” is a term we use to describe a combination of the Christian Right and what have loosely been described as “Trump Supporters” whose philosophy is evolving to become a fusion of libertarian, conspiracy, “Christian Right” and race replacement theories.

Brexit; instead, they focus on a combination of both immigration control and (increasingly) trade protection in the name of strategic interest and employment protection.

SETTING THE SCENE

At the centre of our exposition are innovating entrepreneurs. Whether in start-ups, smaller high growth companies scaling up, or in large companies, pushing the boundaries of their organisations, all seek to generate ground-breaking new products that seize customer imagination and profitably capture new markets. This is at the heart of what they do. If trade policy is going to succeed as a catalyst to generate a sustainable Brexit Dividend, then it will do this by stimulating enhancements in competitiveness consequent upon innovation and productivity improvement.ⁱⁱ

Inevitably, our approach draws upon economic theory, embracing a range of international trade theory concepts including “classical,” “neoclassical,” “new,” and “infant industry” constructs, together with elements from economic growth, market structure, entrepreneurial, capital market, monetary, and behavioral theory. We seek to combine these diverse elements into a dynamic (rather than static) framework. Integral to building this framework is the use of historic anecdotes together with recent analytical data, to shed light and insight upon the deliverability of a trade related “Brexit dividend.”

We set all of this within today’s sociopolitical rhetoric that is apparently dominated by “national” self-interest and “sovereignty.” This narrative is backward looking with a stress on “English exceptionalism” and dog whistles to the “culture wars” that are so starkly visible in the USA today. Underlying nostalgia is a fear that the UK or indeed the USA is in some sense not the country that it was, and that its leading position is under threat from the rise of the East Asian economies. This fear is compounded by Russia’s aggressive military stance that feels for some like the

ⁱⁱ“Sustainable” in this context means enduring, rather than one off changes in say food prices or wage rates for specific skills such as truck driving.

military counterpart to the Asian economic threat, giving a sense of foreboding as to the future.

These threads remind us about how much of today's rhetoric echoes that of the 1920s and 1930s, with nationalism eventually moving toward economic autarky in some states.ⁱⁱⁱ At that time, this discordant theme drew upon thinkers such as Guido von List for its racial bias, which was later synthesized into economic form by the likes of Werner Daitz, setting a road map for what has variously been described as “national autarky” or the “war economy.”^{7,8} Some of the language used by these two thinkers and others is echoed by some of the more extreme proponents of Brexit and many in the USA's New Republicanism.

ANGLOSPHERE AUTARKY?

Brexit, as currently enunciated, expressly rejects the “partial autarky” narrative that USA New Republicanism embraces. Since 2016, USA trade policy has looked to throw impediments (both tariff and regulatory) to stem the flow of Chinese products into the USA; Britain in contrast aspires to Free Trade and rejects the “mercantilist bloc” philosophy of regional groupings. For the architects of Brexit, a cornerstone is to develop trade deals with the United States and other (predominantly white) English speaking nations to establish a fraternity of like-thinking nations who can trade and work with each other without the bureaucracy of the European Union. This begs the question as to whether delivery of the Brexit dividend as originally conceived relies upon the creation of an Anglosphere combining the white English-speaking world, with the existing Commonwealth to recreate “Global Britain” at the centre of a twenty-first century “Virtual Anglosphere Empire”?⁹

From developments during 2021 and the first half of 2022, it seems that such a bloc would need to be a political and defense alliance first, an alliance that acts to underpin “managed” free trade and the “Western” socioeconomic model however that may be

ⁱⁱⁱCharacterised as self-sufficiency, usually applied to societies and their economic systems. Between the sixteenth and eighteenth centuries, certain European countries were autarkic when augmenting state power by limiting international trade amongst other mercantilist policies.

defined. The bloc would be backed by the political, economic, and military might of all members, but led by its superpower member, the United States. Arguably, the September 2021 AUSUK submarine agreement plus the UK Australia Free Trade Agreement can be seen, by those who aspire to this end point, as the first elements in building such a structure.^{10,11} Accepting its wider defense and political aspects as a given, we will ask how effective this structure can be as an engine of innovation and economic growth?

Key to this question (if such a construct is indeed possible) is to ask if there is an implicit assumption that a high technology knowledge-based comparative advantage would rest in the “Anglosphere”; while more rudimentary operations and extractive industries would predominate in the “non-Anglosphere” with some uncomfortable middle ground covering countries such as India? And, if such an assumption exists, how realistic is it to conceive of the nineteenth century “colonial trade” relationship in the twenty-first century? It is paradoxical that whilst anticolonial protesters are tearing down statues of colonial grandees in the UK and USA a new colonialism struggle is already being fought out between the French, Germans, and the Russians in the African Sahel. This struggle is taking place against a backdrop of Chinese moves to secure control of Africa’s extensive natural resources.

Could this Anglosphere be a trading bloc that enables members to raise their business investment and innovation rates to outpace the rest of the globe? The UK has an especially poor track record on sustaining long-term business investment at globally competitive levels.¹²

There is an old adage that “nothing is new.” Some of the concepts and ideas that we draw upon are hundreds of years old but are still in many senses relevant to today’s complexities, notwithstanding the pace of change, and challenges thrown up by the interconnectedness of today’s rapidly evolving global landscape. In juxtaposition to this change is the social context of nostalgia and the suspicion of change seemingly integral to both the UK’s aging population and the “English Exceptionalism” that has such significance to Brexit aspirations.

THE BREXIT ECONOMIC CASE AND RICARDIAN COMPARATIVE ADVANTAGE

The Brexit economic case is often made on the basis of Ricardo's theory of comparative advantage.^{13,14} In this, Ricardo describes the benefits of "comparative advantage" as raising the overall wealth of trading nations based upon each country specialising in their local strengths, which in turn reflect their country's innate resources, namely agriculture and natural resource endowments reflected in relative factor productivity.

This innate resource base "comparative advantage" argument is undermined for manufacturing and knowledge-based industries by Hume, who argues that comparative advantage in manufacturing industries can shift in response to investments in capital assets, human skills, and business processes.¹⁵ This argument has been elaborated and backed up with solid evidence by Porter.¹⁶ In his conception, success is driven by a combination of innovation and growing output in the firm to an optimum size. Crucially, the catalysts who transform innovations and investments into successful businesses are the entrepreneurs, who in turn act in response to market opportunities and the overall business environment to provide the dynamic engine of economic growth.¹⁷ As an aside, in the UK whilst there is general belief that it is easy to start a business in Britain (seven in 10) and start up barriers are low, only one in 10 intend to take the plunge.¹⁸

Schumpeter makes the distinction between growth and economic development.¹⁹ Growth is the "technocratically" managed process that sees year on year increments to GDP per capita. These increments are achieved by "tweaking" products, renewing capital stock to embed new concepts and updating business processes and skills to raise productivity. By contrast, economic development is all about transformational innovation, the "moon shot" products and production technologies that act as "Big Bang Disruptors, transforming the markets they impact."²⁰

Growth interacts with the business cycle and associated macro-economic policy framework, whilst economic development is to some degree (but not wholly) outside of it. Business managers budget and manage to meet the challenges of the business

cycle and general macroeconomic situation, whilst entrepreneurs disrupt markets with the intent of setting their own growth agenda.

The scale and durability of a Brexit dividend depends upon both growth and economic development. It requires positive action from technocratic managers and the organisations they run, as well as entrepreneurial flair to turn threats into opportunities that combine with other possibilities to disrupt markets and set the new narrative. Most state policy communication such as the 2022 Benefits of Brexit White Paper focus on the technocratic aspects of Brexit, whilst paying lip service to the entrepreneurial opportunity.²¹ This is neither sinister nor disingenuous, just a reflection that most of the people writing these documents are not entrepreneurs.

Although specifically trade focused, our narrative looks at two complementary enabling frameworks. First, for the growth component of the shock response, we adopt and adapt Kaldor's model of cumulative causation in tandem with a simplified version of the Myrdal cumulative model (which is more socially than economically focused).^{22,23} Secondly for innovation, we draw upon the "Triple Helix Innovation Model" to transform it into a "Quadruple Vortex" formulation that includes capital markets along with entrepreneurs, universities and government.²⁴

Both frameworks allow for complex linkages to be developed between differing actors. We believe that today's world trade reflects this complexity as growth, economic development, productivity, innovation and capital market flows are inextricably bound together.

TRADE, GROWTH, IMMIGRATION AND THE BREXIT DIVIDEND

At the heart of the Brexit "economic shock" lies a tension between three discordant themes: (1) *laissez faire* classical economics, (2) nationalist desires to "make Britain Great Again" and protect the local workforce from job and wage pressures resulting from low cost labour immigration, and (3) large business desires for global market access that are combined with monopolistic/oligopolistic

control to reduce the business risks involved in addressing rapidly changing customer demands.

Brexiters have sought to reconcile these tensions by restricting the free movement of labour, (one factor of production) by the application of immigration controls and minimalist state welfare support policies. Their approach seeks to raise wage levels in lower skilled jobs by removing the supply of cheaper labour whilst seeking to boost private sector economic performance through encouraging free trade, deregulation and free capital movement.²⁵ Notwithstanding that the departure of many Europeans has led to labour shortages in some key occupations such as long-distance lorry driving and butchery, the immediate Brexit dividend is argued to come from rises in wages to UK residents to attract them into those shortage occupations.²⁶

Brexit will drive structural change as firms adjust to the new situation (more complicated trade with Europe and the loss of some skilled labour). Given the sudden nature of the change it is likely that there will be some inflationary pressure, especially as wages in certain shortage occupations rise without associated increases in productivity. Inevitable increases in labour unit cost in these sectors will ripple through as “cost push” inflation into other sectors. This process has been being compounded by the supply chain dislocations caused by the Pandemic and by the rapid increase in energy and commodity prices associated with the war in Ukraine. Cost pressures are now such that there is the risk of a more general wage – price spiral. The confluence of events risks that changes in relative wage rates that reflect the need to recruit to replace cheaper immigrant labour with local employees, become a significant factor in driving a more general wage price spiral.

Long term, adjustment will come from a mix of innovation and automation driving structural adaptation in the labour market via changes in both workforce skills and labour force participation rates.

Some argue this improvement in the salaries of some will be best addressed if free trade that exposes UK business to the full blast of international competition forces firms to adapt their prices (including transport and inventory costs) to world market levels. Adjustment, it is argued will drive UK firms to innovate to compete