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Honda Harbinger: Automaker Leaves UK in Wake of Brexit

By Sarang Shah, J.D. Candidate 2021 | February 19, 2018

Since the British public voted to leave the European Union (EU), the United Kingdom (UK) has been in a prolonged state of political and economic uncertainty. As legislators continue to hold each other hostage as to what terms the UK will leave the EU, banks, manufacturers, and other firms are fleeing to jurisdictions with more stable legal relationships to neighboring markets. Just this past month, British vacuum manufacturer Dyson moved its headquarters to Singapore at the behest of Pro-Brexit founder James Dyson, and one of Britain's richest men, Brexiteer Sir Jim Ratcliffe, moved to Monaco to avoid taxes.

Perhaps most devastatingly, Japanese carmaker Honda has decided to close its factory in Swindon by 2021. The move ensures a loss of approximately 3,500 jobs and a significant, potentially devastating blow to the economy of the region and the UK overall. While Honda denies that Brexit has nothing to do with the decision, many suspect that the prospect of higher tariffs and greater supply chain costs could be the reason why it has become no longer viable for Honda to maintain a manufacturing presence in the UK.

Since the UK joined the European Economic Community (EEC), the precursor to the EU, in 1973, many companies have used the UK as a launching pad for the larger European market. The EU guarantees the free movement of goods and materials across the region, as well as the free movement of labor. While the creation of the common market was a boon for firms, many voters heading into the Brexit vote felt that the common market was an excuse for governments to lower labor conditions and promote austerity in the name of competitiveness. Others felt that the EU common market with its free movement of people had invited an unacceptable level of immigration and settlement within the UK.

As many other countries, including the USA, consider withdrawing from trade agreements and common markets, these considerations must be weighed against the threat of capital flight, ala Honda in the UK. As recently described in Quinn Slobodian's Globalists, a global history of the rise of our current worldwide trade regime, the threat of capital flight has long been used as a cudgel for loosening democratic control over how a firm operates in a particular country. Simply, a firm may threaten to move to another country in order to extract concessions from its host. In this case, it is unlikely Honda is seeking to extract concessions from the UK and is leaving simply due to regulatory uncertainty. Nevertheless, Honda's decision to leave still serves as a warning to policymakers and electorates that they leave common markets at their own peril.