

Brexit

Alan V. Deardorff
University of Michigan

For presentation at Adult Learning Institute
Oakland Community College
April 11, 2017

Brexit

- Defined: The exit of the United Kingdom from the European Union
- What that actually means is now the subject of negotiation

Outline

- European Union
- The referendum and its aftermath
- Issues to be negotiated
- Options
- Other problems to be addressed

European Union

- What it is
 - A group of 28 countries
 - With zero tariffs on trade among them
 - Common tariffs and other trade policies for outside countries
 - Zero barriers to movement of
 - Goods
 - Services
 - People
 - Money (capital)
- “The Four Freedoms”*
- Headquarters: Brussels, Belgium

EU Members

GERALI

Austria
 Belgium
 Bulgaria
 Croatia
 Czech Repub.
 Cyprus
 Denmark
 Estonia
 Finland
 France
 Germany
 Greece
 Hungary
 Ireland

Italy
 Latvia
 Lithuania
 Luxembourg
 Malta
 Netherlands
 Poland
 Portugal
 Romania
 Slovakia
 Slovenia
 Spain
 Sweden
 U.K.



European Union

- History
 - Started with Treaty of Rome 1957, forming customs union of 6 countries
 - The European Economic Community
 - Belgium
 - France
 - Germany
 - Italy
 - Luxembourg
 - Netherlands

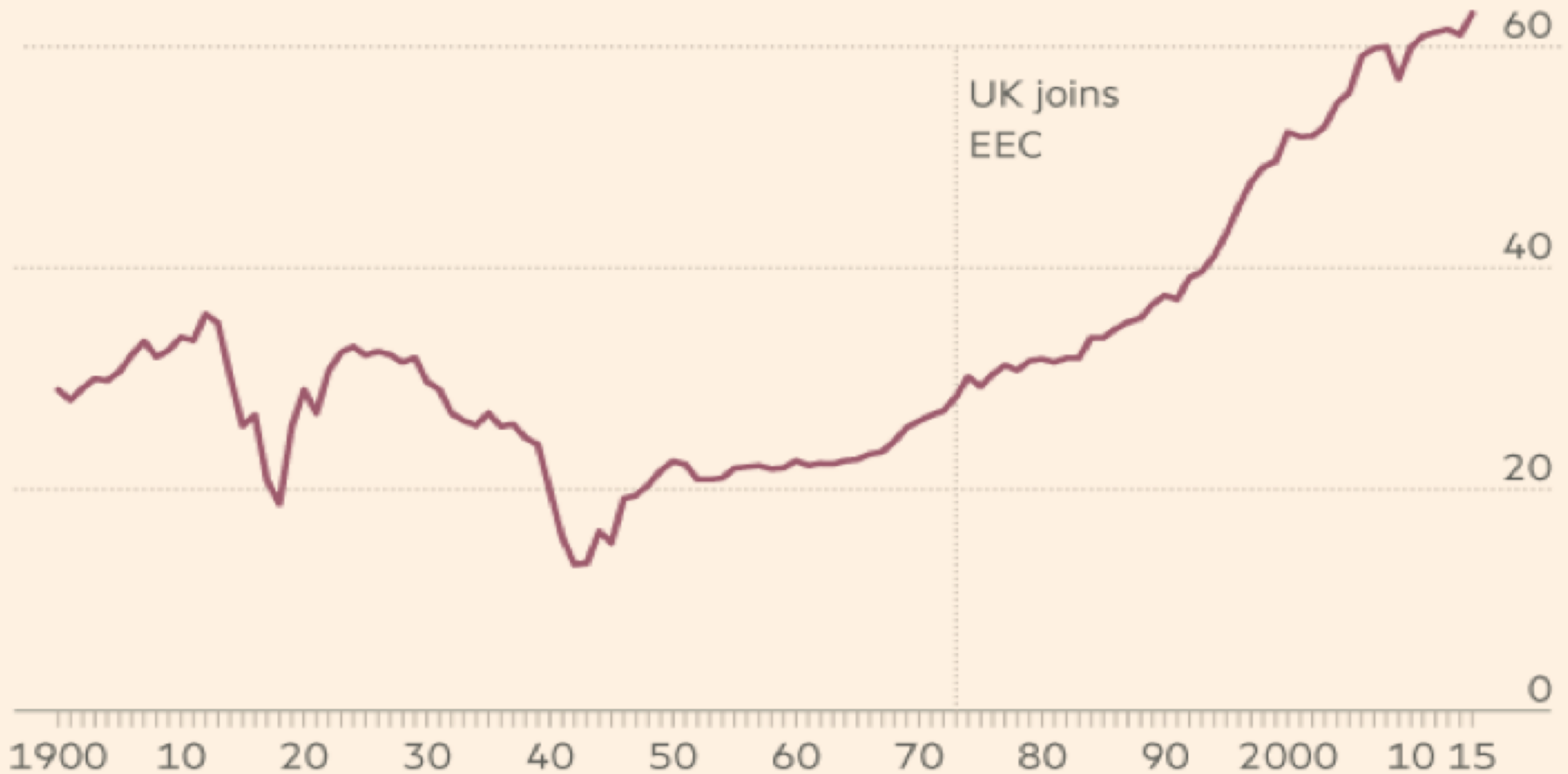
European Union

- Others added:
 - 1973
 - Denmark
 - Ireland
 - United Kingdom
 - 1981
 - Greece
 - 1986
 - Portugal
 - Spain
 - 1973
 - Denmark
 - Ireland
 - United Kingdom
 - 2004
 - 10 more
 - 2007
 - Bulgaria
 - Romania
 - 2014
 - Croatia

UK: Effects of EU Membership

Benefits of membership

Trade openness (real exports and imports as a % of real GDP)



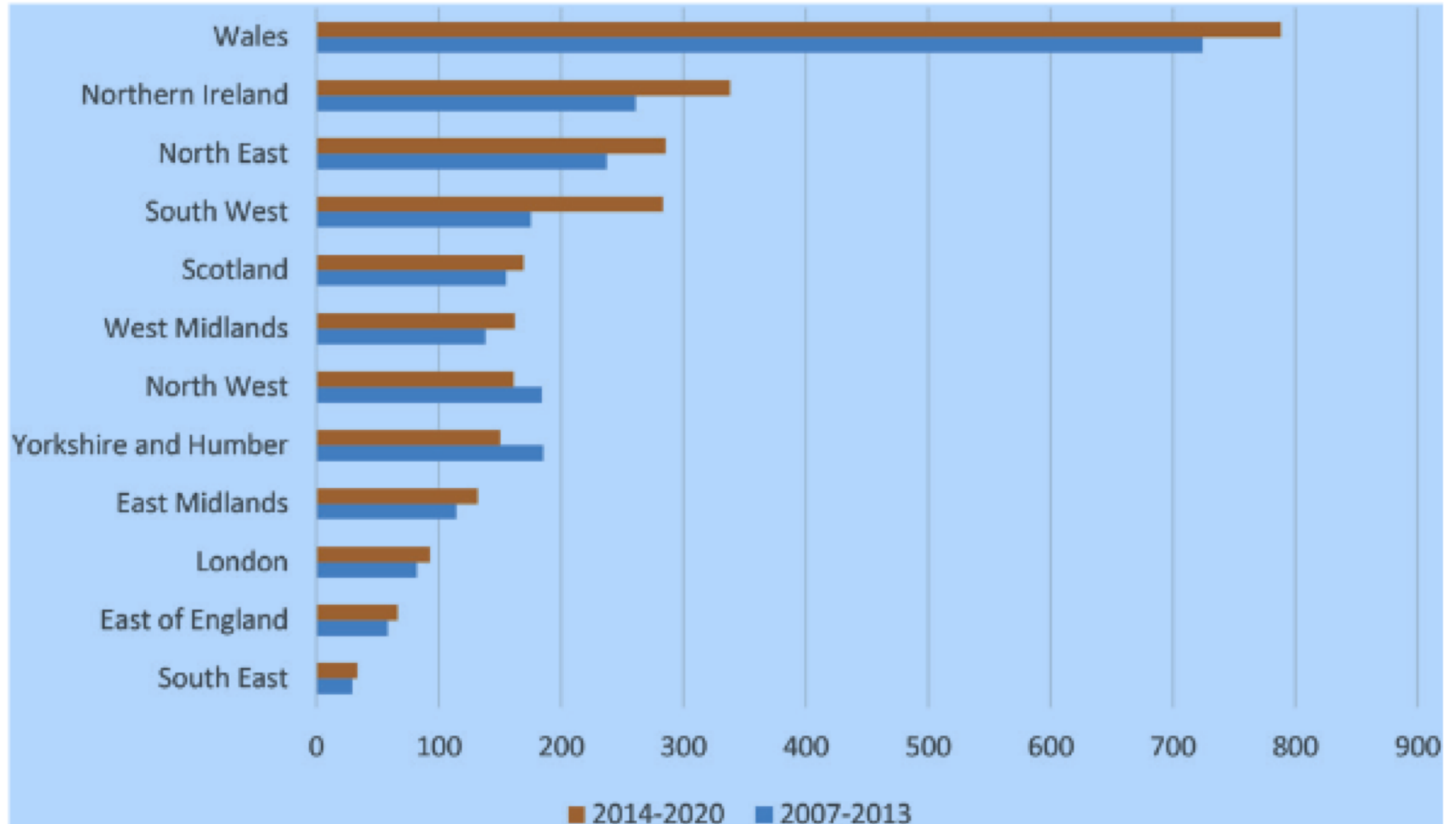
Source: Bank of England

FT

UK: Effects of EU Membership

Figure 2: Structural Fund *per capita* spending by region in the 2007–13 and the 2014–20 budget rounds

Sc



⁹ Source: SPERI (2016), reprinted with permission.

The Euro

- EU does not require a common currency
- The common currency, the euro, was adopted 1999
- The Eurozone does not include
 - The United Kingdom
 - Denmark
 - Sweden
 - Some other recent entrants, so far

Outline

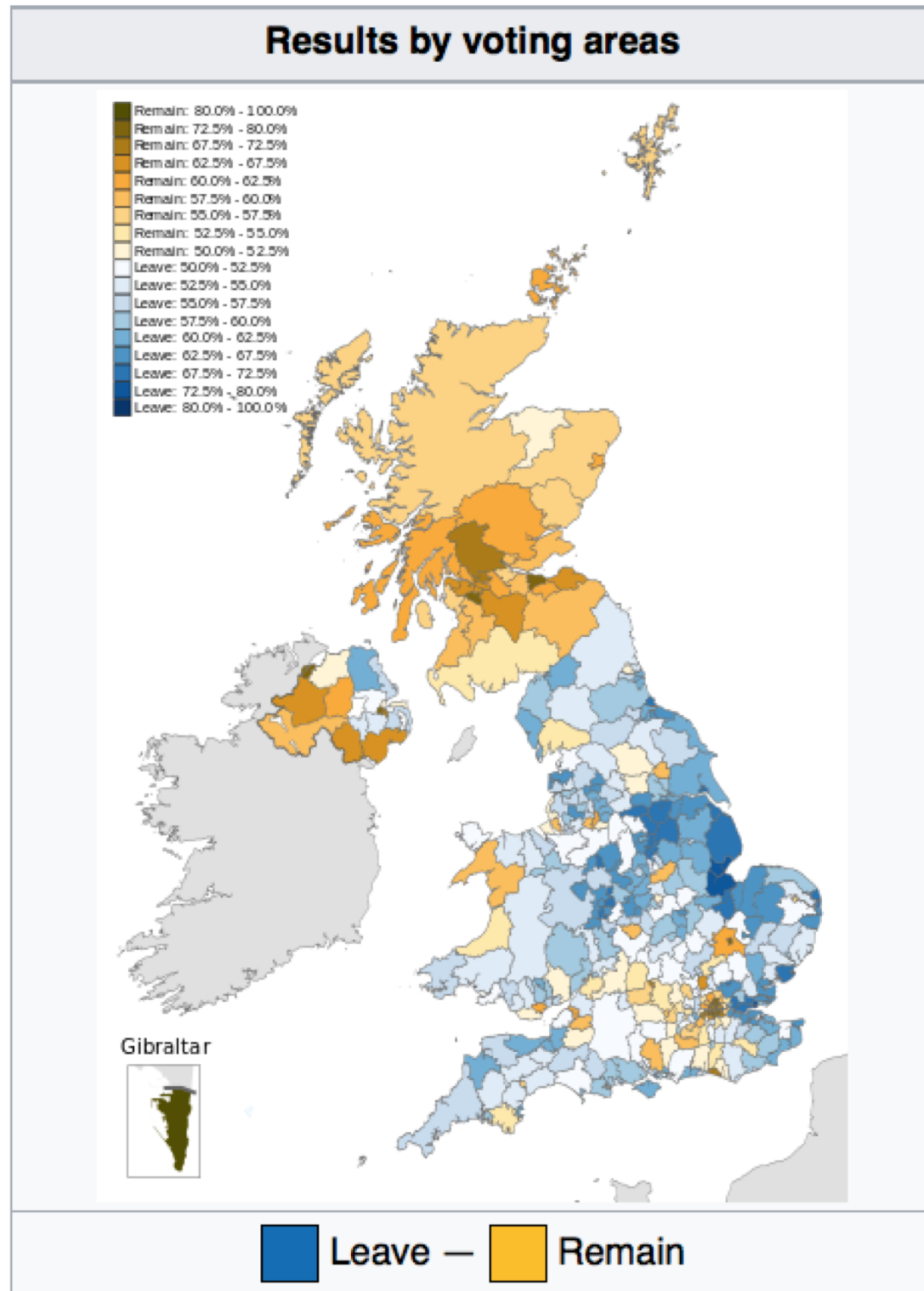
- European Union
- The referendum and its aftermath
- Issues to be negotiated
- Options
- Other problems to be addressed

The Referendum

- Held June 23, 2016
- Why? Unhappiness with UK membership in EU
 - Migration
 - Regulations set by Brussels
 - Distrust of “elites” and “experts”
- Not unhappy with trade

The Referendum

- PM Cameron held referendum expecting “Remain” to win
- It didn’t!
- The vote:
 - Leave: 51.9%
 - Remain: 48.1%



The Referendum

- Results of vote
 - Cameron stepped down as PM
 - Teresa May became PM
 - She had favored “Remain”
 - But promised to lead UK out of EU
 - British currency, the pound, fell to 30-year low
 - May did not trigger exit immediately
 - On March 29, 2017, invoked Article 50
 - This starts 2-year process of negotiation

How it May happen



Economist.com

From: Economist, April 1, 2017, "The two-year countdown to Brexit has begun"

Outline

- European Union
- The referendum and its aftermath
- **Issues to be negotiated**
- Options
- Other problems to be addressed

The Negotiation

- UK wants
 - Free access to the Single Market
 - For goods (zero tariffs & NTBs)
 - For services (especially financial)
 - Freedom to set its own regulations and tariffs
 - Freedom to restrict movement of people from EU

The Negotiation

- EU wants
 - Free trade with UK
 - Free movement of people
 - No incentive for other EU members to exit

The Negotiation

- The largest disagreement:
 - EU says access to Single Market must include free movement of people
 - UK says restricting movement of people is what Leave voters most wanted

The Negotiation

- Other issues
 - The order of negotiations
 - EU wants to negotiate divorce first, then market access
 - UK wants to negotiate both together

The Negotiation

- Other issues
 - The Exit Fee: How much must UK pay to cover its obligations. EU says UK owes €60 billion
 - Commitments under its seven-year budgetary framework
 - Investment commitments to be executed after Britain leaves the EU in 2019
 - Pensions

The Negotiation

- Other issues
 - Extension of 2-year negotiation period
 - Will UK leave jurisdiction of European Court of Justice?
 - Will EU & UK citizens in UK & EU be allowed to remain?
 - Will the border between Ireland and Northern Ireland be closed?
 - Will British financial institutions retain their “passport” for operating in EU
 - Gibraltar

Outline

- European Union
- The referendum and its aftermath
- Issues to be negotiated
- **Options**
- Other problems to be addressed

Options

- There are three main options for Brexit:
 1. Remain in Single Market
 2. Negotiate Free Trade Agreement (FTA) with EU
 3. Do nothing, and thus revert to only WTO rules

Options

- 1. Single Market
 - Become member of the European Economic Area, same as
 - Norway
 - Iceland
 - Liechtenstein

Options

- 1. Single Market
 - Requires:
 - Free movement of goods, services, people, and capital
 - Must implement all EU rules for
 - Employment
 - Consumer protection
 - Environmental policy
 - Competition policy
 - Pay a fee to the EU as contribution to the programs they participate in.

Options

- 1. Single Market
 - Does not require:
 - Monetary union
 - EU foreign & security policy
 - Justice
 - Home affairs policy
 - CAP
 - EU external tariff (not part of Customs Union)
 - But therefore free trade is subject to Rules of Origin

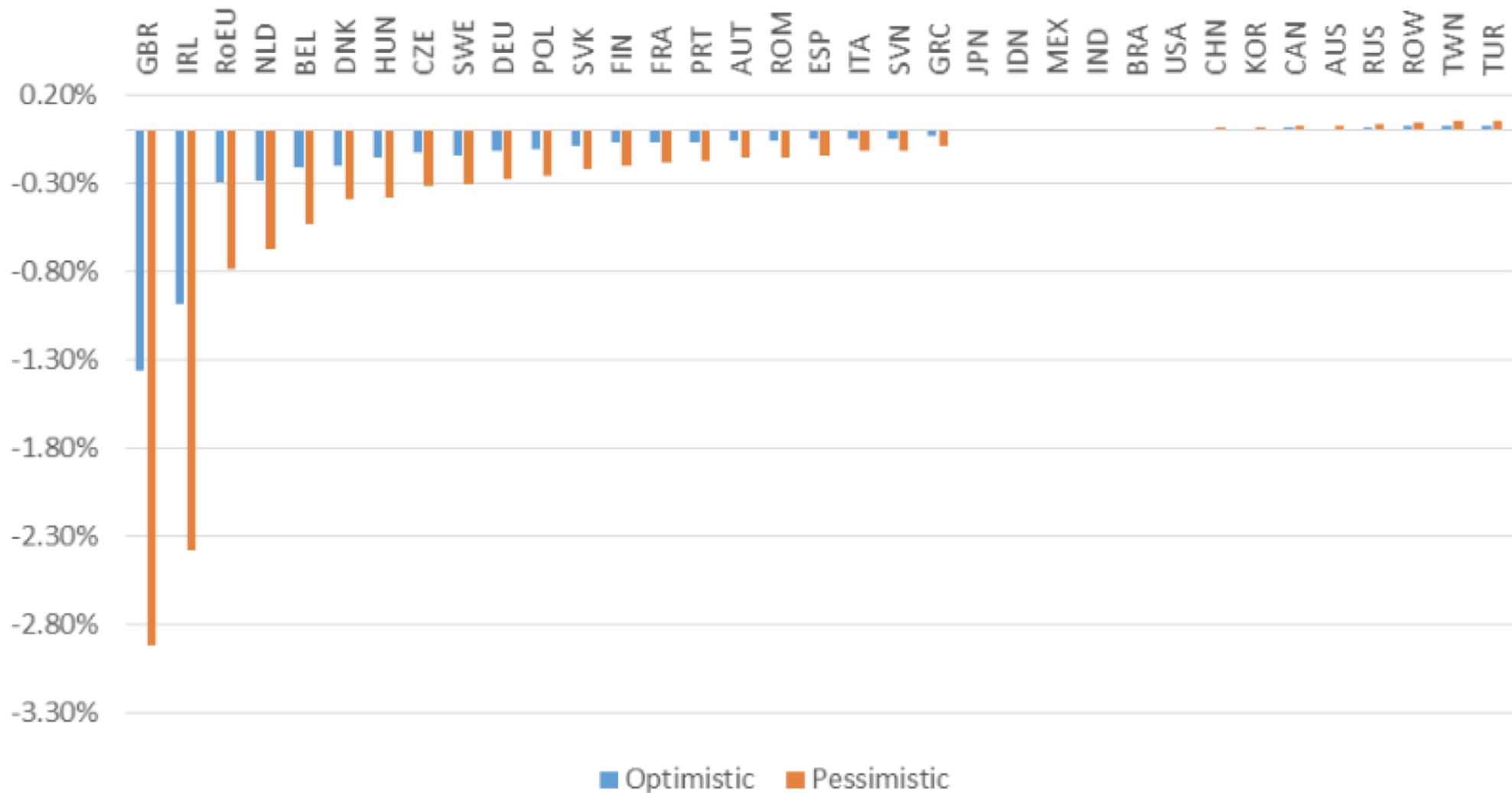
Options

- 2. FTA
 - Same as Switzerland and many other non-EU countries
 - Covers goods and may cover services and NTBs
 - Does not normally include free movement of people
 - Negotiating FTA
 - Usually takes years
 - Must include rules of origin

Options

- 3. WTO only
 - Same as US and others today
 - All trade subject to “MFN tariffs” and often NTBs

Figure 1: The effect of Brexit on living standards across countries



Source: CEP calculations (see Dhingra et al, 2016, for technical details).

Notes: Same assumptions as in notes to Table 1 except net fiscal savings not included (since we do not know how Brexit would affect the budget contributions of other EU members).

From: Dhingra et al, “The consequences of Brexit for UK trade and living standards”

Outline

- European Union
- The referendum and its aftermath
- Issues to be negotiated
- Options
- **Other problems to be addressed**

Other Problems

- Other FTAs
 - Will UK achieve free trade with the EU's FTA partners (it has around 40 FTAs, some with multiple countries)?
 - Will UK be able to negotiate an FTA with the US?

Other Problems

- Will UK hold together?
 - Will Brexit prompt Scotland to leave the UK?
 - Will Brexit prompt Northern Ireland to leave UK and join Ireland?

Conclusion

- Brexit is not good for almost anybody
 - Best economic hope is that UK will join the EEA and remain in the Single Market
 - But then those who voted Leave will be very unhappy, even though they will be economically better off