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A Friendly Economic Divorce?©
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The consequences of Brexit would largely depend on the agreement that replaced it. Similar to a divorce, Britain and the EU can decide to split bitterly, or to stay friends. Britain could join Norway and Iceland in the European Free Trade Association after Brexit. EFTA countries have access to the European single market, except for agriculture and fisheries, and having a single market without agriculture sounds tempting for the British. But the single market is not simply a lack of tariffs. For the EU, it has to come with the free movement of persons, contribution to the EU budget, and the adoption of EU legislation. It is a set menu, it's not *à la carte*. Since immigration, British contribution to the EU budget and "Brussels red tape" are a key part of the Leave argument, Eurosceptics would find it hard to swallow. Britain might gain some symbolic political freedom but at the cost of taking a back seat: EFTA countries have little influence on this legislation.

Britain could also decide to leave the single market completely, and rely on the World Trade Organization. Under WTO rules tariffs are already quite low, so the impact on industry should be small. However tariffs on manufactured goods are no longer the main drivers of trade. Services represent a very strong share of output, and the WTO says little about them. Outside of the EU or the single market, it could become much harder for a financial firm to export its services to EU countries: if France or Germany want to promote financial stability, they have to make sure that financial transactions take place in a market that they can control, and not some remote offshore location.

Regulations also play a very big role. Since EU countries have to follow the same legislation, this means that anything produced in one country can be sold directly to another. Goods don't need to be inspected and verified, and products are more likely to be fully compatible. It's like people landing at an airport, and not having to fill in a long immigration form because they are coming from a trusted and recognised country. This is one of the reasons why the US, Canada or some Asian countries are signing new trade agreements that deal mostly with legislation. If Britain sets its own standards, different from anyone else's, some countries might not recognize them. The various inspections would be time and energy consuming for British exporters.

The last solution for Britain would be to secure a bilateral deal with the EU. According to Leave campaigners, the EU would need the UK so much that they would be ready to sign any trade deal. This is highly dubious. Firstly, the EU is often criticised for giving too much importance to detail and moral principles. But that means that even if a bilateral agreement was mutually profitable, the EU might refuse it just to punish Britain, and maintain that free movement of goods, services and capital must come with the free movement of people, and financial solidarity. Some other European countries might be tempted to follow suit and leave the EU, so the EU would have an incentive to punish the UK and deter other countries.

Secondly, Britain probably needs the EU more than the EU needs Britain. Britain has a trade deficit with the EU: It imports more than it exports. There is also a net investment from the EU to the UK: Europeans lend money to the UK. It's hard to tell who needs whom in such a case. The EU relies on the UK as a destination for its goods, but Britain is happy to finance its boom through borrowing. However looking at net figures is not the most important thing. Even if the UK and the EU had a balanced trade their economy is strongly integrated. But the UK economy is more integrated with the EU than the EU is with Britain. Except for Ireland, Britain is not the biggest trading partner for most European countries: the UK represents less than 10% of their trade. On the other hand, the EU is by far the biggest trading partner for Britain: it's 50% of its trade. The UK has far more to lose: hurting trade relations would be bad for the EU, but it would be disastrous for Britain.