

THE RESEARCH COLUMN

Fog in Channel - Great Britain cut off

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Mounting EU-scepticism and domestic populism in the UK have resulted in the popularization of the Brexit, i.e. the idea that Britain should leave the EU in order to regain lost sovereignty. Here are some considerations why this will never happen.

A possible Brexit can come under essentially two forms. What London is aiming for right now is a renegotiation of the country's relationship with the Union in terms of employment regulation and social protection, without losing free access to Europe's Single Market. This would introduce cheaper British exports, against which the other member states would have no protection. It would also require a re-opening of the treaties, which has been equated by Martin Schulz, the President of the European Parliament, with the opening of Pandora's box. He stated, "David Cameron's idea of unilaterally renegotiating Britain's relationship with the EU simply won't work. Why shouldn't everybody else use this opportunity to sneak their special interests through too?". The likely backlash from the other member states is a certain guarantee this approach is impossible.

The other option for a Brexit comes from Europe's immediate institutional periphery, the European Economic Area (EEA), Switzerland (bilateral agreements) or Turkey (customs union). These alternatives would decrease Brussels' influence on some key policy fields, e.g. Common Agriculture and Fisheries Policies, Customs Union, Common Trade Policy, Common Foreign and Security Policy, Justice and Home Affairs and the Monetary Union. However, all of these arrangements obligate the non-member states to implement a considerable portion of EU legislation, and they have no direct influence on the formation of this legislation.

The economic reality of Britain's place in the EU entirely eliminates the possibility of the UK undertaking any of these options. Estimates of the contribution of the EU to the British economy vary. The National Institute of Economic and Social Research estimates that the EU contributes around 2 % to UK's GDP, whereas the British Department for Business Innovation and Skills calculates that the EU contributes 6 % to the British GDP. Other estimates go as high as 15

%. The impact of Europe on the British economy is most important in terms of the development of financial services, and more specifically in the financial district of London, the City. According to TheCitiUK, an independent organization promoting financial services in the UK, the trade surplus of financial and professional services (18.2 bn euros) is approximately equal to the combined surplus of all other net exporting industries, and the sector is critically important for the employment of over 2 million people in the UK. In 2011 financial services contributed 9.6 % to the GDP, a percentage which has been continuously growing since the introduction of the euro.

Concordantly, TheCitiUK finds that 84 % of business owners want the country to remain a member of the EU. The adverse effect of isolation of the UK from the EU has already been identified by Michael Sherwood and Richard Gnodde, co-chief executives of Goldman Sachs International. When speaking of a possible Brexit Michael Sherwood stated clearly "Every European firm would be gone in very short order". This view is echoed in the newly published report by the Confederation of British Business (CBI), the largest business lobby on the island. The report states that some 50.000 businesses in the country would face bankruptcy and potentially 1.5 million would become unemployed.

The Brexit is thus an entirely political endeavour, which finds next to no support in the business class in the country. It reflects the heightened anti-EU rhetoric in the Conservative Party and *ipso facto* the degree of its detachment from the reality of the British economy. If the UK were to leave the EU it would find itself with a marginalized economy, dwarfed by the world's largest trading block, which would be essentially unaffected – approximately half of the UK's total trade is within the Single Market whilst only 8 % of EU trade is with Britain. Combined with its small size and lack of any considerable natural resources, the UK would be reduced to a negligible version of Canada. It is therefore likely that a Brexit would be followed by negotiations to return to the EU. A Brexit would thus be the best thing the Tories could do for the opponents of Britain's position in the EU. It would also be a strong signal for anyone else thinking of leaving. In effect a Brexit would only strengthen the EU and weaken the UK.

The researcher column is written in turn by the researchers at the Centre for European Politics. The column does not represent a common CEP-position.