

Brexit: What is at stake for the Single Market?

No. 38 Mai 2016

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With the EU referendum just under 4 weeks away, the debate of the impact of Brexit is growing increasingly fierce and gaining more and more momentum. Euroscepticism has a long history in the UK and for the first time in decades, one member state opting to exit the European Union is a probable scenario. Politicians, businessmen and independent experts alike have chosen sides and support one of the two major campaigns: While the camp “Britain Stronger in the EU” lobbies against Brexit for reasons of EU membership providing a wide range of benefits such as a stronger economy, more jobs and safety¹, the “Vote Leave” side urges its supporters to “take back control”² of migration, trade and security policies by leaving the EU. Either camp has prominent advocates and current polls indicate that the vote will be very close.

One of the most relevant and arguably the most heated issue is the discussion on the economic effects of Brexit. If the UK opts to vote out on June 23rd, a new trade agreement will have to be negotiated, determining to what extent the UK will have access to the Single Market. As two experts from the Cologne Institute for Economic Research observe, “much is at stake for the UK economy in case of a Brexit”³. Seen as “one of the European

Union’s greatest achievements”⁴, the UK has had access to the Single Market and been able to benefit from the enhanced competition as well as the four freedoms the Single Market is based on since its launch in January 1993. One major argument for the British Prime Minister David Cameron and his fellow “Britain Stronger in Europe” advocates thus is for the UK to remain in the EU to continue to be a full participant of the Single Market. In the article Mr. Cameron wrote for the newspaper The Telegraph last month, he made the assessment that exiting the Single Market would be “an act of economic and political self-harm”⁵.

By contrast, in the eyes of “Vote Leave” enthusiasts, the EU imposes “an excessive regulatory burden on [...] the UK economy”⁶ so that there is too much red tape hindering trade and growth. There are two issues with this way of thinking: First of all, the statement is often not placed in a wider context to acknowledge that a lot of EU regulation has been designed to establish as well as to further improve the Single Market, which is, as Piet Eeckhout, Professor of EU Law at UCL notes, one of the only EU projects “which is met with near universal approval in the UK”⁷. Secondly, it must be clear to Brexit voters that leaving the EU does not necessarily mean leaving

its regulatory obligation. If the UK wishes to continue trading with the EU, which is more or less imperative given the geographic proximity and the fact the UK exports almost half of its goods to other EU countries, it will have to continue to comply with EU regulations. As a full member of the EU, the UK currently has a say in making these rules but will lose much of its influence upon leaving, which cannot be desirable.

Like for most supporters of the Brexit camp, the perceived overregulation and excessive labour mobility are a thorn in the side of former London Mayor Boris Johnson, one of the leaders of the “Vote Leave” campaign. He regards the Single Market “as a microcosm of low growth”⁸ and would prefer for the UK to opt for a free trade deal with the EU instead of retaining full access to the Single Market. But is it economically sensible for the UK to (partially) turn its back to the world’s biggest Single Market? The UK might indeed be able to strike new trade deals with rising economies such as India or China but negotiating such arrangements takes time and it is not certain that a deal will be finalised. What is more, the UK would see itself faced with the task of potentially re-negotiating all the settlements the EU has with third countries, adding up to a total of 53 deals⁹. In addition to the length of time needed to conclude all these agreements, the “Vote Leave” camp has also so far not spoken on the concern that numerous experts will be required to lead and assist in these negotiations, which may pose a challenge that shouldn’t be underestimated¹⁰.

Most importantly, it remains subject to negotiations with the EU to what extent the UK will retain access to the Single Market in case of Brexit, which makes it so difficult to determine the economic effects of this scenario. Despite the conditions of a

future trade deal with the EU being of crucial importance to the Brexit debate, Mr. Johnson and the “Vote Leave” camp have repeatedly failed to address this topic specifically and explain how such a deal should be designed in their opinion. In the political and academic discussion, five models have predominately been discussed, ranging from a Norwegian-style EEA agreement to an approach based on a free trade agreement¹¹. Any deal will certainly be subject to lengthy negotiations, which will most likely not be amicable. As the EU will have a strong interest in discouraging Brexit-like movements in other more eurosceptic countries to prevent further disintegration, the remaining 27 countries will have an incentive “not to act with generosity”¹².

It is, therefore, highly unlikely that the EU would agree to a deal that includes the free movement of services, which is very important for the UK as it makes up the majority of UK exports, but not the free movement of people. In turn, it seems impossible that the UK would agree to an EEA agreement like Norway. Even though this would guarantee full access to the Single Market, it would disregard the problems the UK has with the EU, in particular regarding regulation and migration, which sparked off the Brexit debate in the first place. Most trade deals and conditions seem to appeal to one side and be unacceptable to the other, so that the potential Brexit entails a huge level of uncertainty. This uncertainty has already resulted in a weakened pound sterling¹³ and would according to experts lead to a withdrawal of foreign investment, which the British economy so strongly benefits from. At the very least, short-term economic damage thus seems inevitable in a Brexit scenario. Such damage would probably entail a weakened position on the world stage for both the UK and the EU. As this is something

neither of them can afford in particular vis-à-vis ascending powers like China and India, the UK's vote on the 23rd of June 2016 will hopefully be in favour of the EU and the common interests and values they share.

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