Brexit and the EU a lose-lose effect? Politics and economics

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Brexit Timeline: unknown

- June 23rd, 2016: Brexit referendum – “leave Wins”
- March 30th, 2017: UK notifies European Council with Article 50
- June 19th, 2017: negotiations begin
- October-December 2017: divorce principles agreed ??
- October 2018: deadline for the agreement ratification process ??
- March-June 2019: possible extension of Article 50 deadline
- Post Bexit general arrangements with the EU-2019-2023(2025)
- The swiss scenario 10 Y a for complete agreement
Apparently UK is the main looser for economic quantities it is true for political and economic qualities is more complicated

- Italy is not convinced that hard brexit is useful to EU and EMU
- A different approach to avoid hard brexit:
  - Not a general agreement but
  - Sectoral and functional agreements.
  - Defence
  - Finance
  - Research
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<th>2016</th>
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<tr>
<td><strong>Population (ml)</strong></td>
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<td>Euro area (19 countries)</td>
<td>minus 19%</td>
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<td></td>
<td>340.0 ml</td>
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<td>European Union (28 countries)</td>
<td>minus 13%</td>
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<td>511.0 ml</td>
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<td>United Kingdom</td>
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<td>65.0 ml</td>
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<td><strong>GDP at Market Prices(tril(\text{€}))</strong></td>
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<tr>
<td>Euro area (19 countries)</td>
<td>minus 19%</td>
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<td>10.7 tr</td>
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<td>European Union (28 countries)</td>
<td>minus 13%</td>
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<td>14.8 tr</td>
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<td>United Kingdom</td>
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<td>1.9 tr</td>
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<td><strong>International Trade (EX+IM) (trl$)</strong></td>
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<tr>
<td>Euro area (19 countries)</td>
<td>minus 12%</td>
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<td>European Union (28 countries)</td>
<td>minus 10%</td>
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<td>United Kingdom</td>
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<td>800.0 mil</td>
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EFFECTS OF BREXIT ON REAL GDP: UK AND EU

Source: ‘The Economic Consequences of Brexit: a Taxing Decision’, OECD 2016; graph based on OECD data
Effects of Brexit on Real GDP: UK and EU

• -1.3%: real UK GDP contraction in 2018
• -3.3%: real UK GDP contraction in 2020
• -2.5%: real UK GDP contraction in 2023
• -1.1%: real EU GDP contraction in 2018 excluding the UK
• -0.9%: real EU GDP contraction in 2020 excluding the UK
• -0.8%: real EU GDP contraction in 2023 excluding the UK
The cost of imports will increase in term of pound.
£550bn: UK total goods and services export (underestimated as to services)
80%: of UK trade is made up of services; 20% of goods
£240bn=44% of UK export goes to EU countries
53%: the entity of the UK’s total imports from the EU
12% GDP: the total of UK’s exports goes to EU (240bn/2000bn)
2-3% GDP: The entity of EU’s exports to the UK (310bn/15000bn)
£310bn: EU’s total volume of exports to UK
£70bn: UK trade deficit with the EU (310-240)-this do not explain everything
Dependency ratio

Real GDP Growth with Contributions

Source: ‘The Economic Consequences of Brexit: a Taxing Decision’, OECD 2016 (graph elaboration on OECD data.)
European Immigration in the UK

A successful pattern

- 2.4mln: EU nationals working in the UK (on a total workforce of 32 mln people)
- 0.35%: UK real GDP growth contribution by EU born workers in 2005
- 0.71%: UK real GDP growth contribution by EU born workers in 2015
- 10 Y increase of 0.36%

- -2.7%: best-case scenario GDP reduction by 2030 (100,000/year immigration quota)
- -5%: central scenario GDP reduction by 2030 (67,000/year immigration quota)
- -7.5% worst-case scenario GDP reduction by 2030 (34,000/year immigration quota)

EU budget in light of Brexit

Opportunities and threats from UK withdrawal

EU budget in light of Brexit
Opportunities and threats from UK withdrawal

- €10-11bn/year: prudential estimation of UK budgetary commitments until 2020 (net of Tatcher rebate - €3bn/year)
- €24.5-72.8bn: estimated UK exit bill range (controversial issue)
- €5-17bn/year: estimated range of the possible budgetary gap after UK withdrawal

Hot topics:
1. Future negotiations of post 2020-2026 MFF;
2. Potential entrenchments between net contributors (Germany, Austria, Netherlands and Sweden) and rebate beneficiaries
Relocation of the two EU agencies currently based in the UK

The 4-step procedure to decide on the new locations of the European Medicines Agency and the European Banking Authority:

1. Interested EU27 member states submit their offers by 31 July 2017.
2. Commission assesses the offers based on agreed criteria by 30 September 2017.
4. EU27 ministers vote and decide on relocation in November 2017.
Survey of Brexit views in UK defence, aerospace and space industry

Does EU membership have a positive or negative impact on your company?

73%

- Positive
- Neutral
- Negative

In the event of a referendum, would it be better to remain in or leave the EU?

86%

- Better to remain
- Don’t know
- Better to leave

Free trade, cross-border simplification and growth are seen as benefits to the UK

Benefits to my business of the UK being in the EU

- Free trade within the EU: 59%
- The simplification of regulations and tariffs within Europe: 35%
- Overall economic growth in the UK economy: 32%
- Access to European suppliers/supply chain: 27%
- Free movement of Labour: 23%
- Free trade agreements outside the EU: 14%
- Non-EU FDI to the UK: 14%
- FDI from the EU: 10%
- None of the above: 7%
- Don’t know: 6%
- Other: 3%

Defence and Security

• 20%: UK’s share in EU’s overall military power

• €97.3bn: the annual economic value of EU-UK joint military R&D: Leonardo (former Italian Finmeccanica) owns Selex and Agusta-Westland; Airbus and Thales joint ventures in the UK; Rolls-Royce takes part in the A400M transport-aircraft development (data from Aerospace and Defense Industries Association of Europe, 2015)

• 2.1%: share of UK’s GDP devoted to defence spending in 2016 (the highest, after Greece, in the EU28)

• In case of Brexit: the most probable scenario would be a reduction in overall GDP growth, forcing EU member to find alternative budgetary accommodations to fund Joint R&D under EDA

• In case of Brexit/2: potential loss of a major defence spender, partially vanifying the pooling and sharing policy recently laid out in the framework of a EU common defense

Source: Eurostat, own graph based on Eurostat data
THE CITY IS THE LEADING EUROPEAN (AND NOT ONLY) FINANCIAL CENTRE

UK exports of FS took off in 2000s

Source: ‘The Economic Consequences of Brexit: a Taxing Decision’, OECD 2016, Graph based on OECD data