

# Three Questions on Brexit

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The following questions were posed to Prof. Walter by *The World Orders Forum*.

**1) Do you anticipate that Britain's economy will be substantially, adversely impacted as a result of Brexit?**

Estimates about the fallout of Brexit on the UK economy vary widely, but virtually all agree that at least in the short-to-medium run, there will be considerable damage to the UK economy. The first post-Brexit months have seen a sharp drop in trade between the UK and EU-27 countries<sup>1</sup>, and an increasing exodus of financial firms from the city.<sup>2</sup> Of course, due to the pandemic, it is difficult to distinguish the economic fallout from lockdowns from Brexit-related fallout. Moreover, some of these effects may be short-term transition problems, that may abate as soon as businesses have adjusted to the new regime. As a consequence, not all commentators see the future as bleak.<sup>3</sup>

Nonetheless, one of the most important determinants of international trade volumes is distance: countries that are closer to each other trade much more. The fact that Brexit has erected considerable trade barriers between the UK and its nearest neighbors is as such likely to have a significant effect on the UK economy. What this will mean for the long-term, and who will be the losers and the winners of the resulting transformations will depend significantly on how the UK government will manage the Brexit process in the coming years.

**2) Is it at all within the realm of possibility that a British government might seek re-entry into the EU at some point within the next 10 years?**

Brexit has significantly politicized the issue of European Union membership in the UK. Whereas this issue was not a major topic of debate among the British public until the early

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<sup>1</sup> <https://www.euronews.com/2021/03/31/brexit-three-months-on-uk-eu-trade-trouble-deeper-than-teething-problems-say-producers>

<sup>2</sup> <https://www.reuters.com/business/finance/city-london-brexit-hit-worse-than-expected-says-study-2021-04-15/>

<sup>3</sup> See e.g., <https://www.bloomberg.com/opinion/articles/2021-04-12/brexit-s-economic-carnage-might-not-be-so-bad> or <https://www.nytimes.com/2021/04/16/business/london-financial-hub-worries.html>

2010s, Brexit has turned into an identity issue at least as strong as partisan identification.<sup>4</sup> Brexit also has created a strong pro-European movement in the UK, which did not exist prior to Brexit. This suggests that pressures may emerge that push for the UK's re-entry into the EU. However, there are also reasons to be skeptical that a British government will seek re-entry into the EU within the next 10 years. The first is that support for Brexit and re-entry cuts across partisan lines. The issue therefore has the potential to be hugely divisive for political parties, which makes a push for re-entry politically risky. Second, the difficult Brexit negotiations and the downsides of being a third country rather than an EU member are likely to harden feelings towards the EU in the UK. For example, even though Switzerland enjoys very close relations with the EU and a rather advantageous setting of bilateral treaties, euroskepticism has significantly increased in Switzerland over the years. Support for EU membership has dropped massively and a plurality of Swiss citizens now views the EU as somewhat or very negative.<sup>5</sup> This development suggests that there is considerable potential that British attitudes towards the UK may harden in the coming years, making an application for re-entry less likely. Finally, the UK always has been somewhat of an outlier in EU decision making, pushing for more liberal policies than many other EU member states. Now that it is no longer sitting at the negotiation table, it is likely that EU policy will move into a more statist and less liberal direction. Once more, this makes re-entry even less attractive to the UK, as it would have to sign up to a set of rules that are even further away from its ideal point than if they had remained a member of the European Union.

**3) If Britain were to seek re-entry, would you anticipate that the EU would welcome Britain back in, or would you anticipate that that door will remain shut for quite a long time to come?**

The EU and the EU-27 member states have always been clear that they regret the UK's decision to leave the Union. It is therefore very likely that the EU member states would welcome the UK back into the Union should it decide to re-enter the EU in the future. It is unlikely, however, that such a re-entrance would mean a return to the status-quo-ante. While an EU member, the UK had many privileges and opt-out that had given the UK a special status. Best known, perhaps, is the rebate, through which the UK paid less into the EU budget than other member states of equal size. Another privilege is the UK's opt-out from the common currency. Any new member state joining the European Union does not have such privileges, and given the difficulties associated with the Brexit divorce, it seems unlikely that the remaining member states have much appetite of offering the UK a better deal than they are themselves enjoying in return for membership. Add to that new EU rules that are likely to move away from the UK's deal point, a renewed EU membership of the United Kingdom is likely to be significantly less attractive than the status quo ante. This, in turn, is likely to make re-entry less attractive to the UK, however, and may harden attitudes towards the EU even further.

Of course, it is conceivable that certain developments push the EU-27 and the UK back together, so that new room for compromise emerges. Geopolitical shifts, for example, that put Europe as a whole under pressure, may increase the need to stand together and increase the willingness to compromise more than what at present seems possible. Yet this would also mean overcoming the nationalist pressures that have grown in recent years and that put national interests and

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<sup>4</sup> Hobolt, Leeper, & Tilley, 2020

<sup>5</sup> <https://twitter.com/DISINTEGRATIONp/status/1367387941669122052/photo/1>

sovereignty above international cooperation and compromise. From this perspective, a British re-entry into the European Union in the near future currently appears rather unlikely.