

# What's at stake in a possible Brexit?

A personal view

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# What a difference water makes

- Britain's relationship with 'the continent' shaped by geography and war
- Always been ambivalent Europeans
- The Channel means the British haven't had to come to terms with the neighbors...
- Consequently they have frequently been insular and condescending
- Any illusions they still have about their place in the world will be ended by Brexit

# Why is Brexit even possible?

- Relations with EU always been problematic for the Conservatives
- Cameron promised in/out referendum to placate the skeptics/unify the party (!) if they won 2015 election (which they didn't expect)
- Much greater divisions in leadership now make loss of referendum real possibility –
- Especially because the issues are complex

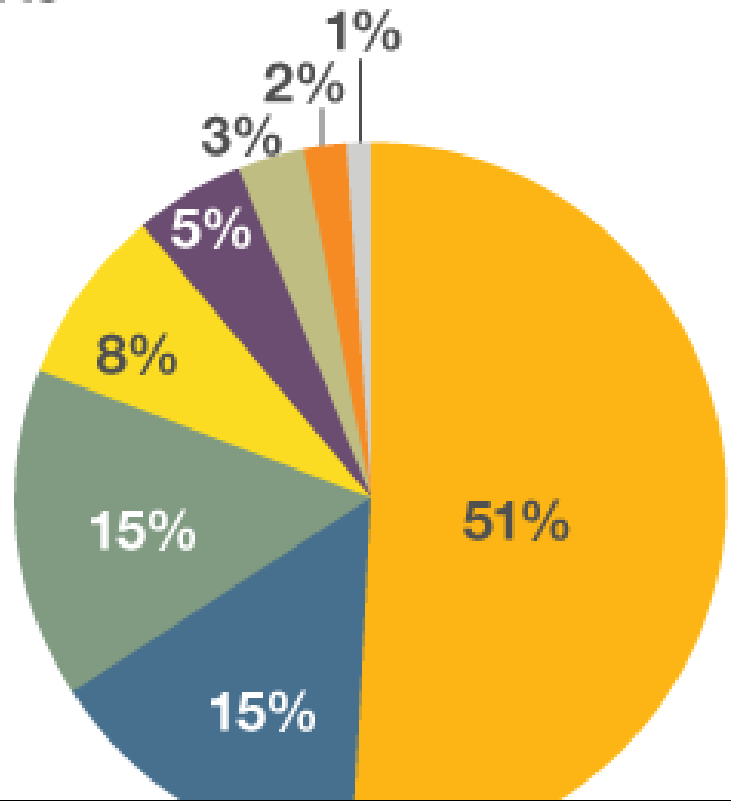
# The economic impact (1)

- EU provides 60% of UK FDI – over 50% of MNCs say they'll reduce it
- Carney warns of recession, £ devaluation - planning for a run on sterling, higher inflation
- BoE forecast economy 6.2 per cent smaller in 15yrs, costing each household £4,300 a year.
- Actual cost of membership only 0.5% of GDP (!)
- EU would undoubtedly punish UK for leaving – still have to follow EU rules with no capacity to shape them.
- Have to renegotiate many trade deals bilaterally 'from the back of the queue' (Obama)

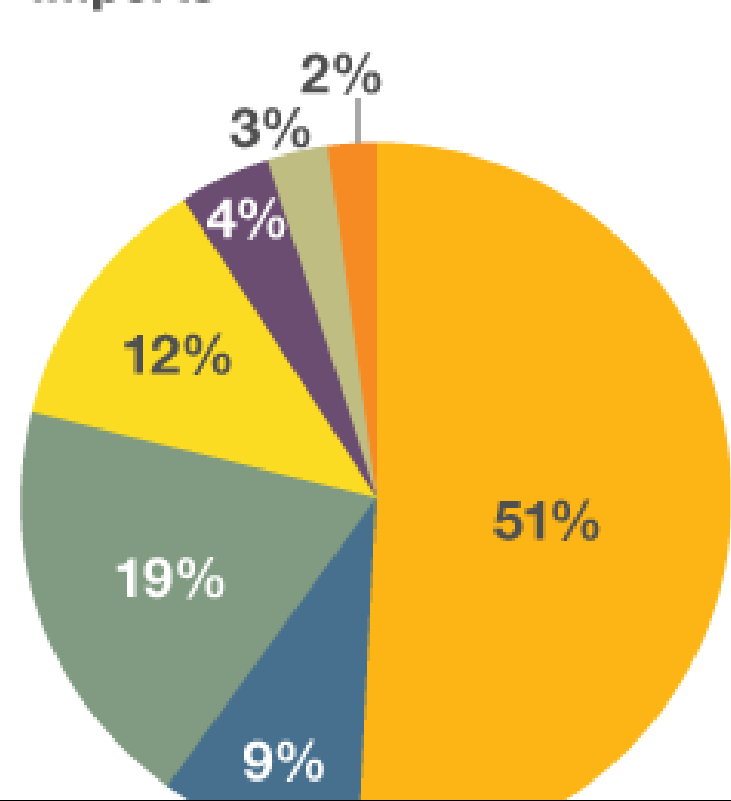
# The UK is deeply reliant on access to the EU



Exports



Imports



# The economic impact (2)

## Equities

FTSE 350 sector indices, rebased



Source: Thomson Reuters Datastream

● Financial groups, retailers and construction companies could feel the heat ●

## Sterling

Bank of England trade-weighted index



Source: Thomson Reuters Datastream

● A sterling sell-off is a safe bet ●

# The failure of political leadership

- We want, in an ideal world, to stay in a reformed European ... It's better for us to stay in, but to stay in a reformed EU. That's where I am.' (Johnson 2015)
- "If Mr Cameron fails to deliver a good package or one that reduces the social gains we have previously won in Europe, he needs to understand that Labour will renegotiate to restore our rights and promote a socially progressive Europe." (Corbyn)

# The political impact (1)

- Entrench divisions in Tory politics – more insular, isolated as a consequence?
- No more likely to be able to ‘control borders’ anyway – especially from France
- (1.2m) UK residents won’t be able to access EU in same way
- Given Corbyn’s lukewarm support, new political alignments are possible
- Scots will undoubtedly demand referendum on independence and readmission to EU

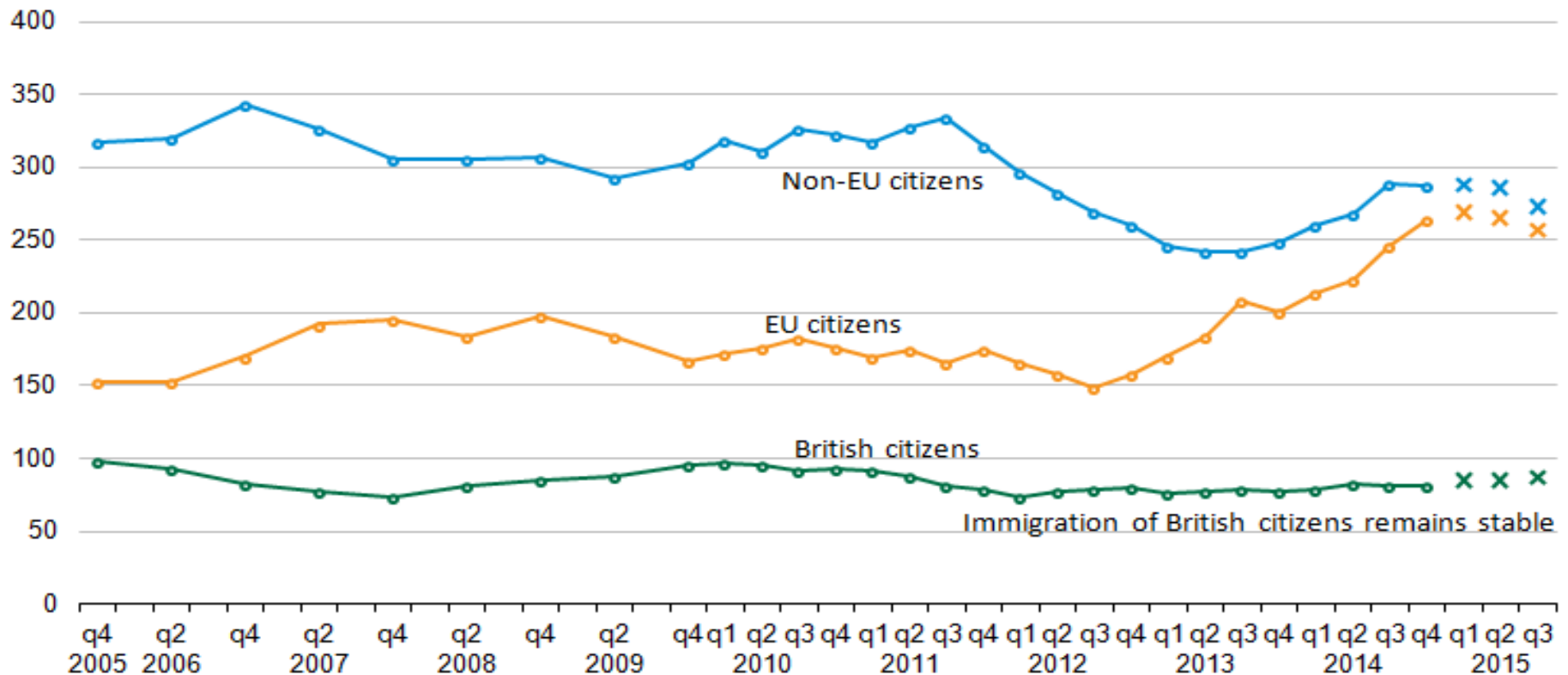


# The political impact (2)

- UK would be a diminished international presence (especially without Scotland)
- No influence in EU/less significance to US
- EU diminished too – Germany loses key ally, EU loses British military capability
- Demonstration effect on EU could be dangerous
- ‘UK’ could lose UN SC/other positions
- 2<sup>nd</sup> rate middle power in middle of nowhere?

# Brexit wouldn't fix the immigration 'problem'

Immigration (thousands)



q1 YE March    YE=Year Ending  
 q2 YE June  
 q3 YE September  
 q4 YE December

Rolling years

Immigration of British citizens remains stable

# The way out via Article 50

- 2 year timetable under Lisbon Treaty
- Other members decide UK terms by majority
- New trade deal requires unanimous approval
- Timetable could be extended if European Parliament didn't ratify – or not
- Couldn't have 2<sup>nd</sup> referendum – anti-democratic
- EU-Canada deal taken 7 years – still not ratified
- Why would Europe be generous?

# The impact on EU and the possibility of political progress

- The real importance of EU is that it demonstrates cooperation is possible
- Pacification of world's bloodiest continent it's greatest (and most enduring) achievement
- Rise of nationalism across EU and RoW a reminder of what's at stake and indeterminate nature of history
- Agents make (sometimes very bad) choices in structured environments
- The collapse of the EU would be a deeply pessimism-inducing triumph for 'realists' everywhere