

# Opinions

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## The Irresistible Temptation of Brexit and its Foreseeable Tragic Ending



KIM Heungchong

Ph.D., Senior Research Fellow, Europe Team  
Korea Institute for International Economic Policy 

After several years of the hustle and bustle with Greece, Europe came back to the world stage in the spotlight with Brexit - the UK's Referendum on the British Exit from the EU. On the 23<sup>rd</sup> of June, UK citizens will decide their destiny, of whether they remain in the EU or leave it. Recent opinion polls show a close race, with a slight inclination toward "remain", but nobody can easily forecast what the final results will be.

It is not news that the UK holds a fundamental skepticism on the European integration. Stemming from her major role in balancing power within Europe since the medieval times, the British Empire's memories from the 19<sup>th</sup> and 20<sup>th</sup> centuries left a signifi-

cant legacy well remembered in modern times. The uniqueness of the transatlantic relationship with the United States has strengthened the UK's mindset of "independence from Europe." Her trade dependence on the community has remained near 50%, which is among the lowest, together with Greece, of EU member states. The UK's FDI attraction from outside of the EU is roughly three-fold of that of Germany or France, which makes the UK seem much more independent from Europe in comparison.

The pro-Brexit group, called "Vote Leave", argues that the UK can build a more liberal and open economy after Brexit: the UK can formulate her own tailor-made, innovative economic and social policies in the fields of trade and investment, regional development, immigration, R&D, etc. Moreover, the UK no longer has to make massive contributions to the EU budget, which has recorded a tremendous net deficit. Vote leave, and open a prosperous era for a new UK, the group argues.

Could this be true? We need to examine the pending issues closely. First, Brexit implies that the UK escapes from the single market of the EU. Without any negotiation on a new preferential trade agreement with the EU, the UK's status in trade relations with the EU would be downgraded to Most Favored Nation (MFN) under the WTO. This will bring about disastrous outcomes in the UK's trade with the EU. This will prove particularly difficult for the UK and the EU in the cumulation of origin. It will become more difficult for them both to satisfy the criteria of origin in Product Specific Rules (PSR). The two parties could reach an agreement to keep cumulating the other party's added value as before, but outside trading partners such as Korea have no reason to provide such a big favor, to accept the two parties' agreement on cumulation in PSR, for nothing.

Second, Brexit can present an enormous challenge to the British service industries. British service providers have enjoyed preferential market access to the EU over the decades, although the EU services market has not yet been fully integrated. Brexit will strip them of their privileged access, leading to a big loss in the UK service industries, considering their dominant status in the EU. Even worse, as they will lose seats in the EU decision-making process, they have no choice but to wait and see, unable to voice strong opinions in line with the core interests of British service industries. An "Exit" strategy could, from another perspective, be a "losing a voice" strategy.

Third, the UK may lose its place as the second largest country in terms of hosting FDI internationally, after Brexit takes place. Investment in the UK has been popular due to its simple,

advanced and transparent rules, English usage, advanced technology and well-trained human capital, and its role as a gateway to the EU market. Among others, this particular role has been instrumental in investment decisions made by outside investors. Brexit would mean that the UK is no longer the gateway to the EU market.

In addition, the “Vote Leave” group argues that Brexit implies significantly less contribution to the EU budget, independent immigration control, and freedom from burdensome EU regulations; which is, I believe, implausible. Take Norway or Switzerland, which have stayed out of the EU, as examples. Following negotiations with the EU, Norway has made contributions of about 90% of what it would have if it were an EU member, and approximately 55% in the case of Switzerland. This is simply a matter of how much you should contribute in exchange for how much you would like to benefit from the EU. With regards to immigration, the UK hopes it can attract high-skilled labor from outside of the community, curbing uncontrollable immigration of unskilled labor from the inside. The reality is that immigration from inside the EU has contributed greatly to the British economy, and there is no clear evidence that immigrants from the inside exploit too much of the British welfare system without making any contribution. As for the EU rules, it is true that British industries are not comfortable with some of the regulations, especially in the labor relations area. However, considering their business relations with the EU, it would be very hard for them to establish new labor rules. Business with EU counterparts means abiding by EU regulations, so there will be no big changes after the labor law is amended.

I believe the UK people will make a sensible decision on the 23<sup>rd</sup> of June, but history shows us a long list of surprisingly irrational and unpredictable outcomes in referendums related to EU matters. The realization of Brexit will bring disaster to the UK and the EU, and negative impacts will fall upon the Korean and global economy, at least in the short term. “The Sea of Faith” will once again be empty, and we will “only hear its melancholy, long, withdrawing roar, retreating, to the breath of the night-wind, down the vast edges drear and naked shingles of the world.”<sup>1</sup> **KIEP**

<sup>1</sup> Excerpt from a lyric poem, *Dover beach* by British poet Matthew Arnold, 1867