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BREXIT IMPACT ON EU27 ECONOMIES: WHO IS THE LOSER?

On June 23rd 2017, the citizens of the Great Britain voted to exit the European Union (EU), the so-called Brexit vote. This decision has increased uncertainty and has created a wide range of adverse consequences for the United Kingdom, other EU member states, and the wider region overall. A vote for Brexit could be perceived as a starting point for the third European crisis, following the euro zone debt crisis and the migration issue. The result of the referendum generated, above all, quite a large shock to the British economy. Nevertheless, for remaining EU member states, Brexit is not a zero-sum game, and this will impact each state to varying degrees. The strength of impact depends, between others, on the scale of investment and trade expositions to the United Kingdom, political channel and new regulatory dynamic with the UK as non-EU member state.

The number of supporters and opponents of Brexit seems to be nearly equal, and arguments for both groups strongly relate to geopolitical and social – in some cases extremely populist – fundamentals. While Eurosceptics¹ (see, e.g., Smith 1995; Franklin, Marsh and McLauren 1994; George 1998; De Vries and Edwards 2009; Morris 2013) emphasise the increase of national sovereignty, less EU-rooted regulatory burdens and lower welfare losses as a consequence of lacking EU protectionism. Europhiles (see, e.g., Springford and Tilfors 2014; Hartner and Daniel 2017) tend to concentrate on European unity as a mechanism for reducing political, economic, social or military risks, thus creating an environment free of conflict (for more on economic costs of conflict see Abadie and Gareazabal 2003). Most of authors use a multidimensional approach to assess the Brexit impact. In contrast, we focus purely on economic ramifications, derived from the critical assessment of the disintegration process. Our measurable of interest, ‘Brexit impact’, is defined as the disintegration-specific loss of Common Market gains driven by the United Kingdom’s withdrawal from the European Union. We ask the question: How important for the other 27 European Union member states is Brexit in terms of losing just one link (the United Kingdom) from the EU Common Market (Internal Market) chain?

This paper analyses the Brexit impact on the EU-27 economies, with a special focus on ranking the potential losers resulting from the Brexit process. The main objective of the study is to identify and assess the consequences of Brexit within the Common Market rules perspective. The study does this by creating rankings of countries in terms of losers. In this way, this paper contributes to the ongoing debate on European disintegration process (Vollaard 2014; Oliver 2015; Rosamond 2016). The study – through analysing different scenario consequences on relative basis – sheds also light on the political dimension of the Brexit negotiation process.

The remainder of this paper is organised as follows: The paper begins with a literature review, which identifies two dominant approaches to analysing the impact of Brexit (i.e. aggregate versus individual). The next section presents possible scenarios for future

¹ Paradoxically, the term Euroscepticism appeared for the first time in the context of the United Kingdom, in the 1980s (FitzGibbon, Leruth and Startin 2017).

arrangements between the EU and the UK (United Kingdom). The final section employs empirical techniques in order to rank the EU-27 economies by their degree of vulnerability to Brexit, both in an overall perspective (i.e. aggregate measure) and by the specified channel of impact.

Research methods

In order to identify which countries are the most exposed to the consequences of Brexit, we conduct an analysis using linear ordering of objects. The data was gathered from the Eurostat and, aligned with the literature review (Emerson et al. 2017; Ottaviano et al. 2016; Rojas-Romagosa 2016), concerned four fundamental pillars of the EU common market:

- the free trade of goods,
- the free trade in services,
- the free flow of capital,
- the free movement of persons.

Conclusions

The results of the British referendum are a combination of cost-benefit analysis, risk assessment, political trade-offs and emotional attitudes. Regardless the voting factors, both the UK and the EU-27 countries will now face the unknown in a quest to restore the shaken equilibrium. The decision to launch Brexit was entirely in the hands of the British; however, determining the shape of the future UK-EU-27 relationship means satisfying more stakeholders including small and large EU member states.

The initial shock caused by the referendum outcome needs to give place to impartial economic analysis, backed up by a hard cost-benefit calculation. Looking at conducted analyses, most EU-27 countries are not as dependent on the UK as assumed. Since these presumptions proved rebuttable, it would seem that the EU-27 countries would hold advantage over UK in future negotiations. However, similarly to voting determinants, Brexit negotiations are also defined by politics, social expectations, and current affairs. Therefore, referring to economic analysis only is unclear. Neglecting it however, means missing an essential piece of the Brexit puzzle. The national dimension of the negotiation process will force countries to analyse their individual situation rather than to aggregate the EU's post-Brexit position.

The analysis provided here makes two important contributions. First, it specifies the relative position of the EU-27 countries in the ranking of Brexit losers in three different scenarios for the post-Brexit arrangement between the EU and the UK. In many EU countries, there should hardly be discernible impacts on macroeconomic variables according to the applied purely economic approach to assessing Brexit's impact. At the same time, the analysis through the lens of disintegration process highlights that small EU countries are much more exposed to the negative consequences of the hard Brexit. Second, the article offers fundamentals that are free from emotions for the undoubtedly difficult negotiation process that lies ahead. Since the UK withdrawal case is the first one, it creates uncertainty for all actors (small, large countries, EU institutions, societies, companies, etc.) and immediately after the referendum it was perceived as a significant rupture for the EU. Our proposal is driven by the strong belief that

neither the UK nor the EU member states and institutions are interested in escalating tensions and the European disintegration process following Brexit. All stakeholders in the Brexit negotiation process have a stake in both the political as well as the economic stability of Europe, which requires all countries to cooperate to create an optimum public policy response.

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