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# 15 Brexit – a view from north of the border

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*Citizens of the UK voted to leave the EU, but voters in Scotland and Northern Ireland expressed a strong wish to remain. Taking a trade perspective, this chapter argues that resolving border issues will be central to finding a Brexit outcome that preserves the UK in its present form. Continued membership of the EEA — with Scotland either a part of the same country or a fellow, independent member — would be the best outcome for the UK.*

Full disclosure: I am a Scottish, international economist with a career-long interest in preferential trading agreements (PTAs). As the Brexit vote has thrown up a PTA conundrum of unprecedented complexity for both the UK and Scotland, I feel duty bound to weigh in on what should come next.

The result of the referendum seems to have little to do with the economic benefits or otherwise of EU membership. They seem to have been driven more by issues of sovereignty and a negative reaction to the Westminster ‘establishment’. Nonetheless, the implications of the UK’s trading relationships post-Brexit are important. A central issue is whether ideology or pragmatism will emerge triumphant from the negotiations that will soon begin between the UK Government and the EU.

## **The vote**

The result of the overall vote was clear, with a majority (51.9%) of those who voted choosing to ‘Leave’ the EU. But north of the borders in the British Isles there was a very different outcome — voters both in Scotland and in Northern Ireland expressed a strong wish to ‘Remain’ in the EU, with majorities of 62% and over 55%, respectively.

Finding an outcome that simultaneously respects the collective wishes of the British people, while addressing the concerns of the citizens in Scotland and Northern Ireland in order to preserve the United Kingdom, will be difficult. A dialogue has already been opened between the new prime minister of the UK and Scotland's first minister. Prime Minister May has indicated that she does not intend to trigger Article 50 until she believes that there is a UK-wide approach and objectives for negotiation. On her part, Ms Sturgeon has established a commission to investigate Scotland's options in light of the vote to Leave.

### **The border issues are critical**

I shall argue that resolving border issues will be central to finding a Brexit outcome that preserves the UK in its present form. As it turns out, the economic issue is not whether the UK is or is not a member of the EU. It is whether it remains part of the Single Market as a member of the European Economic Area (the so-called Norway option) or otherwise.

While the EU has evolved in non-economic dimensions, at its heart remain the four freedoms enshrined in the Treaty of Rome ensuring free movement of goods, capital, services, and people. The Single Market encompasses all four of these elements and I would be very surprised if European negotiators would be willing to give the UK free access to some markets (e.g. goods and services) and not others (e.g. workers). Therefore, for the remainder of this chapter, I shall assume that for any agreement with the EU over these freedoms, the UK will have to accept all four or get none.

In my opinion, the best outcome for the UK (short of ignoring the outcome of the referendum and remaining in the EU) is what is frequently referred to as the 'Norway option'. This would involve an application to re-join the EFTA, of which the UK was one of the founding members before leaving to join the European Economic Community in 1973.

Why do I argue in favour of this? Quite simply, any other form of trading relationship with Europe would be costly economically and create political problems that would put further pressure on the integrity of the UK. Labour migration is a major element of this

and is the reason why I cannot envision a free trade agreement in goods and services as being a satisfactory solution (even when we ignore the enormous costs of negotiating and implementing free-trade agreements).

Were the UK to apply and be accepted as a member of EEA, it would retain full access to its largest trading market. In many respects, from an economic perspective, it would be business as usual. There would also be some repatriation of powers from the EU, the most significant of which might be with respect to agriculture and fisheries where the UK would no longer be part of the Common Agricultural Policy and would also regain control over its 200-mile fishing limit. Indeed, the Norwegian people narrowly rejected membership of the EU over concerns regarding their sovereignty over agriculture and fisheries. However, from the UK's perspective, Westminster might not be the beneficiary of this greater autonomy. As these are not reserved powers, the default position will be that responsibility for these aspects of the economy falls to the devolved governments.

Would Britain exiting to the EEA satisfy Brexiteers? If, in the words of the prime minister, "Brexit means Brexit", would this perceived increase in autonomy would be enough to satisfy those opposed to the EU? I don't know, especially as membership of the EEA would involve both direct financial costs and continued acceptance of free migration. In addition, as a non-member of the EU, the UK would be unable to vote on issues of the Single Market, including many of the rules and regulations that drew the ire of those in favour of Brexit. Leave campaigners argued that the UK had little influence on the evolution of the Single Market, so little would change if the UK were not in the room to vote. Fundamentally, the UK Government (with its sole Scottish Member of Parliament) has to weigh up the benefits of continued free trade with Europe and the desire to regulate immigration of Europeans.

## **The EEA/Norway option is the least bad outcome for Scotland and Northern Ireland**

My contribution to this discussion focuses on the impact of this decision on the people in the devolved administrations of the UK who voted strongly to remain in the EU. My argument is that the Norway option of EFTA membership is the least-bad outcome for

Scotland and Northern Ireland and is the UK government's best hope to retain a United Kingdom.

- First of all, continued membership of the EEA would resolve the potentially explosive issue of a re-introduction of border controls between the Irish Republic and Northern Ireland.

An outcome that restricted trade or factor movements would require border controls with passport checks, in order to prevent the Irish border being an open door to immigration from the EU into the UK. Any form of trade relationship short of continued membership of the Single Market could jeopardise the relationship between Northern Ireland, the Republic of Ireland, and the rest of the UK.

- Similar concerns arise with respect to the border between Scotland and England, although issues are less-potentially catastrophic in their consequences.

Scotland's first minister has indicated that the Scottish Government will explore every option to retain Scotland's status in the EU, including a further referendum on Scottish independence early in 2017, if necessary. Given the strength of support in Scotland for the EU revealed in the Brexit referendum and taking into account that the franchise for an independence referendum includes younger voters (16 and 17 year olds) who seem to be more pro-European, the outcome of the last independence referendum may be reversed. Indeed, a series of opinion polls since the Brexit vote have put the 'Yes' side in the lead.

### **Scottish independence would pose its own set of problems**

Independence would however, throw up its own complex issues of trade and border arrangements. Whether an independent Scotland achieved immediate membership of the EU or initially joined EFTA, it would still be part of the Single Market. If the rest of the UK's response to Brexit was anything less than being part of the EEA, a border would have to be established between North and South Britain both to monitor the flow of goods and to restrict the movement of workers between the two countries.

It might be argued that fear of a future border with England might convince Scottish voters to remain with the union, particularly given the deep economic linkages between Scotland and the UK. However, fear over the loss of membership in the EU seems to have been a decisive factor for some voters in the last independence referendum. This has now been turned on its head. A future independence referendum might now give Scottish voters the option of either Europe or the UK. As many of us in Scotland identify as being ‘European’ ahead of being ‘British’, it would be a risky strategy for anyone in favour of the union to give voters such a stark choice.

## **Concluding remarks**

In light of this, a Brexit agreement ensuring continued membership of the EEA would give the UK the best outcome, regardless of whether Scotland remains part of the same country or becomes a fellow, independent member of the Single Market.

All of this suggests that the negotiations with the EU on post-Brexit trading arrangements will not be straightforward. Unfortunately, as was the case in the Brexit referendum itself, the final outcome is more likely to be determined by politics than economics. However, it will be the economic details of the deal that will have the biggest impact on standards of living in the UK. Resolving the complex issues around trade agreements will not only determine the future economic performance of these islands, but will have a major bearing on the prospects for the continued survival of the UK itself.

## **About the author**

Ian Wooton is Professor of Economics and Vice-Dean (Research) in Strathclyde Business School at the University of Strathclyde in Glasgow. He previously was the Bonar-Macfie Professor at the University of Glasgow and an Associate Professor at the University of Western Ontario, Canada. He studied at the University of St Andrews and Columbia University, from which he received his PhD in 1982. He has held visiting positions at leading research institutions around the world and has served as a consultant to a number of governmental and international agencies including the World Bank and UK Treasury. He is a Research Fellow of the Centre for Economic Policy Research, London

and a Fellow of the CESifo Research Network, University of Munich. In 1999, Ian and Joseph Francois (University of Bern) established the European Trade Study Group (ETSG) as a means of promoting research in international trade, especially for young European scholars. ETSG has now grown to be the world's largest annual international trade conference. Ian's research focuses on international trade theory and policy. He has published on many facets of that area including customs union theory, international factor migration, trade and the environment, economic geography, trade in services, and international tax competition. He has a longstanding interest in the determinants of the location choices made by multinational enterprises for foreign direct investment and is currently engaged in a number of research projects investigating these decisions.