

# **Brexit: Hard vs. Soft**

## **(Do we still need each other?)**

Daniel Dăianu

Presentation made at a roundtable on Brexit,  
Bulboacă & Associates - 26 September 2016

# Brexit

- Brexit, a huge shock for an overwhelmed EU
- But Brexit epitomizes a wider syndrome across the industrialized world
- *Nota bene*: the UK is still a EU member
- The separation is going to be painful and a very complicated, time consuming process
- We realize how intricate links inside the EU are, be a member state outside the euroarea

# The global context

- Huge uncertainties
- Breakdown of models; looming secular stagnation...
- EU structural weaknesses
- Shift of economic power
- Tail events proliferate
- Geopolitical crises (European and world order are questioned)
- Chaos in parts of the world (Arab countries)
- Climate change
- Not least: US elections...

# ***A Union under siege***

- Migrants' crisis (inadequate response)
- Fallout from the financial crisis (over-debt...)
- Euroarea crisis (governance crisis)
- Fragmentation tendencies
- Widespread anti-establishment attitude (“Anti elites age”)... political strain
- *Trust in short supply* (Brussels-Gvts; Gvts-Gvts; Brussels-citizens)... reputation of EU institutions (scandals, Luxleaks... Barroso, Neelie Kroes etc.)

# Brexit: *Hard vs. Soft*

- ***Soft***: a special arrangement for the EU-UK, a “***continental partnership***” (Bruegel proposal -- Pisani Ferry, Roentgen, Sapir, Tucker, Wolff: Single Market with restrictions on labor movement; UK would contribute to EU Budget)....a template for other arrangements (Israel, Ukraine, Turkey?)
- ***Hard***: *Schadenfreude*, to punish the UK as a demonstration effect: no SM free access, no labor movement arrangements – it is an unwise policy stance...
- UK would seek to “join” its Anglo-Saxon keens in the global economy and develop ties with Asia (as the growing economic hub in the global economy)
- But in a Bloc-based global economy it would be hard for the UK to act on its own...

# **Brexit: *why a special arrangement is needed***

- One of the largest European economies
- The UK needs free access to the largest world market
- British excellence in R&D
- The UK is militarily and technologically of prime interest to EU foreign and security policy
- The UK matters for the balance of power in Europe, in general
- Democratic Europe confronts enormous challenges, some of them over the longer term...
- The future of NATO is under scrutiny (a EU joint defense capability?)
- So, damage control is badly needed

# Brexit and EU dynamics (I)

- More Europe vs stalling integration
- A respite is needed (Dijsselbloem)...a lot of fatigue...*More Europe* later: see **The Five Presidents' Report** (deeper integration of the euroarea by 2025, including Fiscal capacity, a collective deposit insurance scheme, political integration eventually)
- Redesigning the relationships between EU institutions and national governments (more national prerogatives): the Visegrad Group
- **Concentric circles**: euroarea, aspirant states to euroarea membership (BU), opt-out states (Scandinavian); UK...

# Brexit and EU dynamics (II)

- Can the Union deal with major shocks without proper supply of EU public goods (protection of frontiers; intelligence and defense, combat terrorism, climate change etc.)
- The EU budget issue: spending and revenues (“juste retour/just return” principle...)
- Can Germany exert its growing influence in a balanced manner? Role of France (Italy, Poland...)
- The North-South (euroarea) and West-East cleavages
- Brexit and national elections in 2017, Italy referendum



# Brexit and EU dynamics (III)

- The future of the Single Market (labor movement vs. freedom of travel...)
- Fragmentation tendencies,
- Assertion of national interests
- What will happen with the euroarea? (SSP, SRM/SRF....)
- The big question: can the euroarea make it without fiscal/ political integration?
- Capital markets union: very much at the beginning... (if Hard Brexit, no passport for UK banks and non-banks)

# Brexit and EU dynamics (IV)

- Slower economic growth in the Union and in the UK (EC, IMF, ECB forecasts)
- Impact on the UK economy (the BoE will be forced to increase its recourse to standard and non-standard measures; a fiscal stimulus too)
- The Pound will depreciate further...
- A lot hinges on when negotiations start and how they will proceed

# Reconsidering the Single Market

- The Single Market needs a revamped conceptual framework (Monti Report)
- Increasing income inequality, “winners take all” competition, harm economic growth over the longer term (OECD and IMF studies; Draghi, Yellen, Carney...)
- The issue of *fairness*, especially in democracies
- **Tax evasion and avoidance** when public budgets are under huge strain

# Romania economy

- Rapid economic growth (cca. 5% in 2016, probable less in 2017), but fiscal consolidation under menace...
- Inflation will pick up next year (positive again)
- External deficits under control, albeit the trade imbalance is growing (but not as during 2006-2008); structural changes in the economy...
- Structural reforms must go on (big efficiency reserves)
- Combating rent-seeking
- Build up of infrastructure is a must (EU funds)

# Romania - UK

- Maintain the bilateral partnership (security, military, economic, treatment of EU/Romanian citizens in the UK)
- Close links within NATO
- Support a special arrangement between the EU and the UK (the Bruegel proposal?)

Thank you