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REGIONAL INTEGRATION AND BREXIT: BETWEEN ECONOMIC NATIONALISM AND ECONOMIC INTERNATIONALISM

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ABSTRACT: *The broad objective of this paper is to examine the theoretical justification for the exit of Britain from the European Union in 2016. It agrees that despite the fact that a nation can hardly exist in isolation, it may opt out from an integrating system when the wellbeing of its nationhood is threatened or jettisoned for supra-territorial interest. In furthering this objective, the paper employs the content analysis method to determine whether the duo of economic nationalism and economic internationalism underscore albeit, theoretically, the action of Britain to exit the European Union after the referendum in June, 2016. Part of the findings of the paper show that issues of immigration, underemployment, tax evasion and high support levy for the European Union were chief in undermining the economic prosperity of the Britain and hence the call for referendum. The paper amongst others recommends that the United Kingdom can open its trade policy unilaterally to all countries after exiting the EU, implement deregulation policy at home and negotiate a free trade agreement with the EU.*

KEYWORDS: Brexit, regional integration, European Union, economic nationalism, economic internationalism, globalization

INTRODUCTION

Arguably, the penchant for peace, stability, security and economic prosperity, territorial identity and cohesion amongst many others are necessary instigating factors that drive the desire for integration. Recognizing the fact that Nation-states cannot be better-off in isolation and stark economic autarky, integration is considered as means of consummating interdependence among states in the international system. For some however, integration as in the case of Europe is a need to cooperate arising from the unavoidable outcome of structural devastations from war as in the case of World War 2 experience.

In line with these assumptions, Bosnick argued that, war and peace have played important roles in the thinking and acting of man. Specifically, the disastrous effects of war to well-being, health, and existence have forced individuals, people, and nations to take preventive and adaptive precaution (Bonisch, 1981 cited in Ette, 2014). Thus, integration assumes a greater sphere for wielding super-territorial authority in such a way that the fundamental essence of the state in fostering peace, welfare and security of her individuals are guaranteed at that level.This paper therefore, attempts a critical examination of the integration project in Europe. It also thrusts on a theoretical rationalization of the exit of Britain from the European Union in June, 2016 after a

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breath-taking plebiscite. The interest here is informed by the obvious fact that it is the economic wellbeing of a state that informs its need to pursue an international relation where collectivism, cooperation and integration predicate the objectives. No gainsaying the fact that regional integration eschews insecurity, fosters free trade and movement of persons across state borders. This is because, secured nations can advance a common economic prosperity evidenced in common trade, common custom union, single market, common currency and security only when they integrate.

The paper is divided into five parts. The first introduces the need for the study while the second part demystifies some concepts related to the matter of discourse. The third delves into a background to the formation of the European Union and the fourth part gives a theoretical justification for the exit of Britain from the Union while attempting assumedly, the *pains* and *gains* of their exit. The last part concludes the work and gives policy recommendations on what Britain need do in the face of daunting challenges of globalization and integration that led to her untimely exit from the Union.

CONCEPTUAL CLARIFICATIONS

Integration

In the parlance of International Political Economy, integration means more than cooperation. It is the reduction of boundaries and the mixing of more than two countries within a closely defined geographical location based on the common goal of achieving a single market, common custom union, common currency, similar defense policy and alliance, free movement of goods, services and individual, common market tariffs etc. For Roy Ginsberg integration is:

An interstate reconciliation: a process by which several states, (which might have been) previously engaged in conflict (political, military or economic), engage with one another in order to come to terms with the past, work through differences, negotiate and make amends and restitutions as needed, and agree to establish a new relationship based on structural (institutionalized) peace and mutual respect (Ginsberg, 2007 cited in Jie, 2011).

The Franco-Germany post-conflict cooperation which trickled down to a partnership that led to the establishment of the ECSC readily comes to mind from his definition.
Haas (1958) also beamed his searchlight on the political structures and supranational developments which are present in Europe rather than Asia and Africa when he defined Integration to mean:
the process whereby political actors are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over pre-existing national states. The end of a process of political integration is a new political community.
In this definition, independent states may collapse their boundaries into a federation, which is considered an institutional arrangement involving two or more units of government, with a formal division of authority distinguishing specifically the powers and sources of revenue.
Ette (2014) however attempted a demystification of the concept when he said that:

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In practice, the process of integration comprises measures that effectively discourage some forms of discrimination. It is different from economic cooperation which entails actions aimed at reducing discrimination (Nelson & Stubb, 2003). An example is international agreement on trade policies which maintain international cooperation. There are many different degrees of integration. For instance, "the removal of trade barriers is an act of economic integration".

Suranovic further understands integration to mean "Any type of arrangement in which countries agree to coordinate their trade, fiscal, and/or monetary policies…" (Suranovic, 1998 cited in Ette, 2014). The most obvious example of economic integration is the EU which has "evolved from a collection of autarkical nations to become a fully integrated economic unit" (Holden, 2003 cited in Ette, 2014).

Integration is further characterized by a few compelling international macroeconomic factors which include a free trade area, a customs union, a common market, and an economic union. A *Free Trade Area* implies that tariff and any form of embargo between the participating member-states are terminated (Sheriff, 2016). However, each member-state of an integrating unit maintains its own tariffs against non-members. This practice is perfectly obvious in the EU (Ette, 2014).

Holden also maintains that formal economic integration takes place in stages, beginning with the lowering and removal of barriers to trade and culminates in the creation of an economic union. Economic integration within the EU could be summarized in four stages: free trade agreements, customs union, the common market, and the economic union (Holden, 2003; Leonard, 2010; McCormick 2004; Suranovic, 1998). According to Holden, the first level of formal economic integration is the establishment of free trade agreements (FTAs). Once FTAs are in place, they eliminate import tariffs and import quotas between member states and signatory countries. In many cases, such as in the North American Free Trade Agreements (NAFTA), FTAs also include formal mechanisms to resolve trade disputes.
Holden, 2003; Nelsen & Stubb, 2003 further submit that:

The Customs Union (CU) builds on a free trade area by removing internal barriers to trade; it also requires that participating nations harmonize their external trade policy. Harmonizing trade policy requires establishing a common external tariff (CET) and import quotas on products entering the EU from third party countries.

Holden also maintains that in order to gain the benefits of a customs union, member states would have to surrender some degree of policy freedom specifically, the ability to set independent trade policy (Holden, 2003 cited in Ette, 2014). The Common Market (CM) is a factor that represents a major step towards significant economic integration. In addition to containing the provisions of a customs union, the common market removes all barriers to the mobility of people, capital and other resources within the area of operation. Furthermore, it eliminates non-tariff barriers to trade, such as regulatory treatment of product standards (Holden, 2003; Lairson & Skidmore, 1997; Nelsen & Stubb, 2003).

Apparently, this is a successful manifestation in the EU as indicated by unfettered mobility that has enhanced labor and capital to easily respond to economic signals within the common market. As a result, there is a more efficient allocation of resources within the EU. The use of a common currency too and a unified monetary policy are other factors and features of (economic) integration. These help to eschew exchange rate disparities and improve the functioning of an economic union by allowing trade to flow efficiently without being affected by exchange rates. As part of the economic union, a supra-national institution is required for a complete economic integration to occur (Holden, 2003, Suranovic, 1998; Urwin, 1991). In the European Union, for example, supra-national institutions regulate commerce within the union to ensure a uniform application of the rules. It is also the responsibility of supranational agency to carry out some fiscal spending responsibilities (Suranovic, 1998). Having understood the concept of integration as manifested within the European Union region, the concepts of EU, Economic Nationalism and Internationalism will be explicated thus.

What then is the European Union?

It is hard to answer the question - what is the European Union? The hard part lies in the fact that there has never been an organization including the AU, NAFTA, or governing institution like the European Union, with which one may make a comparison. Leonard (2005 in Ette, 2014), for want of comparison, likened the EU to the Visa credit card company which operates in almost one hundred and fifty countries as a financial network. Like Visa, the EU is a decentralized network that is owned by its member states. Because it is a network rather than a state, "negotiation is not a part-time activity: it goes on every single day around the clock" (Ette, 2014). Although the EU is a network, of member states, "it is the national government that sets the agenda for the future of Europe".

Craig, Cramme, and Craig (2006) attempt to define the EU as:

an economic and political union of twenty-seven member states, located primarily in Europe (Craig, 2006). Established by the Treaty of Maastricht in November 1993, upon the foundations of the pre-existing European Economic Community, it has a population of almost 700 million citizens, and generates approximately thirty percent share of the nominal gross world products (GWP) (Craig, 2006).

Europe's political leaders have been struggling to define the limits of power of the European Community even at the inaugural stage of a united Europe. Among these leaders, two groups were prominent. The federalists-who support a system of government with two levels, national and local, with (shared) or separate powers and functions. There is also a direct relationship between citizens and each level of government in the federalist's proposal (McCormick, 2005). The federalists also wanted the ceding of more powers to the Community.

On the other hand, the confederalists (those who believed in the system of governance with a higher authority without exercising power over individuals) proposed the type of governance that retains power in the hands of member states (McCormick, 2005). But when the European Community became the European Union, Europeans thought of the EU more as an intergovernmental forum whereby national objectives should be coordinated and each member states' interests remained strengthened (Rifkin, 2004 in Ette, 2014).

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Economic Nationalism and Internationalism

The duo is two concepts hinged on protectionism on one hand and liberalism on the other. While the latter emphasizes trade liberalization, deregulation and interdependence, Economic Nationalism emphatically denotes statism and every attempt by a state to regulate and protect its economic institution from foreign domination and participation. Economic nationalism is analogous to economic realism. While the apologists of economic idealism chants the tenets of liberalism, globalization and opening of markets, the adherents of economic protectionism further the need to place restrictions on external influence and participation in the local economy given the reason that it could make the local industries to be porous susceptible foreign domination. Most of the literature that mentions economic nationalism directly refers to and gives examples of protectionist measures in the trade area of economic nationalism, including goods and services.

According to Fölster (2009 in Karen, 2013), economic nationalism in trade is often used by EU governments to prevent "companies from changing economic environments." This threat mainly includes the increase of foreign competition in companies, from which the state wants to protect the domestic market. Trade protectionism has been a debatable issue in the EU for some time, even before the financial crisis. While in the UK the markets have been relatively open to foreign investors in telecoms, construction and energy companies, economic nationalist measures appear in continental Europe more often. Foreign takeovers are for instance prevented in France through the creation of corporate 'national champions' in the energy sector and Germany has protected their national champions from being taken over by foreign ownership (Cooper 2007 in Karen 2013).

While Fölster (2009 in Karen, 2013) has recognized that member states have initiated their own responses to the financial crisis through economic stimulus packages in order to maintain economic stability in the domestic market, the research of Bussière (2010) has indicated that no member of the World Trade Organization has resorted to extensive protectionist measures or trade restrictions. The Brexit is however an attempt to demystify this anyway.

Invariably, the concept of economic nationalism as hitherto argued obviously contrasts the position of economic internationalism which in no small way underscores the need to integrate. The two theories have had age-long opposing strands of thought. In tracing the origin and rational for internationalism, Angell (1911) set out many of the central ideas of internationalism and sought to refute the supposedly "realist" views as espoused by thinkers such as von Clausewitz (1832, republished 1968), whose contemporary successors include Kissinger (1994). Angell (1911) argued that the use of war to pursue national economic objectives was outmoded in a modern, internationally interdependent economy. He also argued that, even if an aggressive power could conquer its neighbours, it would gain no economic advantage from doing so. Workers in the conquered territories would still have to be paid, as would owners of capital, and any taxable surplus would be minimal in comparison to the cost of maintaining an occupation force. Angell (1911) concluded that rational governments should therefore eschew war as an instrument of policy. The main concession to internationalism in this period was the creation of the League of Nations. After a promising start, the League collapsed when the major powers failed to support it (Quiggen, 2005).

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After the Second World War, the Soviet Union persisted with "realist" attempts to extract the spoils of victory, but the dominant Western power, the United States, pursued exactly the opposite approach through the Marshall Plan, giving massive aid to allies and former enemies alike in a successful bid to reconstruct their economies and benefit from the resulting opportunities for trade and cooperation. The creation of international bodies such as the United Nations, the World Bank and IMF also reflected the internationalist outlook (Quiggen, 2005).Although it received comparatively little attention at the time, an equally significant internationalist initiative was the creation in 1952 of the European Coal and Steel Community through the initiative of Jean Monnet and Robert Schumann. The Coal and Steel Community, the first step toward the current EU, was explicitly designed to promote the kind of economic—and ultimately social and cultural—integration that would render war unthinkable (Quiggen, 2005).

By contrast, internationalist theories see trade as providing a basis for more extensive international cooperation. Comparing the EU to the WTO, which, under former Director-General Renato Ruggiero, aspired to "write the constitution of a single global economy", may show the contrasts between the two approaches. As has already been noted, the constitution of the EU, currently embodied in the Treaty of Amsterdam, sets out basic requirements across the entire spectrum of public activity, from the environment and social welfare to defence and criminal justice. By contrast, the constitution envisaged by the WTO consists almost exclusively of negatives, that is, prohibitions on activities that may be seen as improper constraints on the free flow of goods and services. The now-abandoned Multilateral Agreement on Investment would have extended the same protections to flows of capital (Quiggen, 2005). Therefore, internationalism shares with neoliberal theories of globalization a belief that international trade and economic integration are beneficial. However, neoliberal theories envisage trade taking place in unregulated or lightly regulated markets, disciplined by international capital flows, and acting as a lever to promote competition in domestic markets. In this vision, only goods, services and capital flow across international boundaries, while governments, unions and NGOs are, as far as possible, confined within them and constrained by them (Quiggen, 2005).

Brexit and Regional Integration: Policy Implications for Britain

Having conceived albeit critically the concepts of regional integration, Economic Nationalism and Internationalism, one would readily agree that except (and even) when a nation's sovereignty is threatened, integration plays a strategic role in advancing the common good of a nation and even promote her international relations within and outside the zone where it is integrating and that State's would not want to subscribe to isolationism at that. However, after a prolong disaffection with the European Union, Britain consummated their exit with the recent referendum which saw a non-landslide of 52% to 48% in favour of the exit. Like most policy actions however, BREXIT has come with so many implications on the part of Britain. They are explicitly explained below:

Implication for Trade

There is no gainsaying the fact that the European Union (EU) is the UK's largest trade partner (CEP, 2015). Around a half of the UK's trade is with the EU. EU membership reduces trade costs between the UK and the EU. This makes goods and services cheaper for UK consumers and allows

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UK businesses to export more. Leaving the EU ('Brexit') would lower trade between the UK and the EU because of higher tariff and non-tariff barriers to trade. In addition, the UK would benefit less from future market integration within the EU. However, the main economic benefit of leaving the EU would be a lower net contribution to the EU budget.

With BREXIT, the trade monopoly wielded by most British firms under the auspices of the European Union will and has begun to decline. While buttressing this point, John Bachtler (2016) suggested that: Different parts of the UK will be affected very differently from a Brexit vote. Some areas will be more exposed than others depending on their reliance on foreign investment, trade with the EU, or dependency on EU migrants to fill low-paid, unsociable or seasonal jobs. Stiftung (2015) while making some prospects on the possible implication of a Brexit said that, it is certainly clear that a Brexit would have substantial effects on the United Kingdom and other EU nations because the UK's economic interdependence with other EU member states is significant for some obvious reason which he stated as thus:

1. The United Kingdom's trade continues to focus very heavily on the EU: More than 50% of its exports go to the EU, and more than 50% of imports come from other EU nations. In the mid-1960s, these percentages were significantly less than 40%.

2. More than half of the foreign direct investments in the UK come from the EU. This percentage has remained relatively stable in recent years. However, the absolute investment volumes have more than tripled since the beginning of the millennium.

3. A little over 2 million citizens from other EU member states live in the United Kingdom. Just over 1 million of those come from the new member states, primarily Poland, but Ireland and Italy as well. Around 1 million UK citizens live in other EU countries, predominantly in Spain, France and Ireland.

Suppose the UK leaves the EU without putting in place any of the alternative arrangements discussed above. Then the country's trade with both the EU and almost all the rest of the world would be governed by the WTO. As of 2015, the WTO has 161 members comprising all major economies and most minor ones. Under WTO rules, each member must grant the same 'most favoured nation' (MFN) market access, including charging the same tariffs, to all other WTO members. The only exceptions to this principle are that countries can choose to enter into free trade agreements such as the EU or EFTA and can give preferential market access to developing countries (CEP, 2015).

As a WTO member, the UK's exports to the EU and other WTO members would be subject to the importing countries' MFN tariffs. Compared with EU or EFTA membership, this would raise the cost of exporting to the EU for UK firms (Ottaviano et al, 2014). The UK's services trade would also be subject to WTO rules. Since the WTO has made far less progress than the EU in liberalising trade in services, this would mean reduced access to EU markets for UK service producers (CEP, 2015).

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The WTO has no provisions for free movement of labour, so under this scenario, free labour mobility between the UK and the EU would cease. But free movement of capital between the UK and EU would probably continue, as the EU prohibits restrictions on capital mobility not only within the EU, but also with countries outside the EU. After leaving the EU, the UK would no longer be bound by the EU's common external tariff, but would be free to set its own MFN tariffs on imports. As a starting point, the UK would be most likely to inherit the EU's tariff commitments, but it could then choose to reduce its import tariffs below EU levels to lower import costs for UK consumers and firms and increase the competition faced by UK businesses (CEP, 2015).

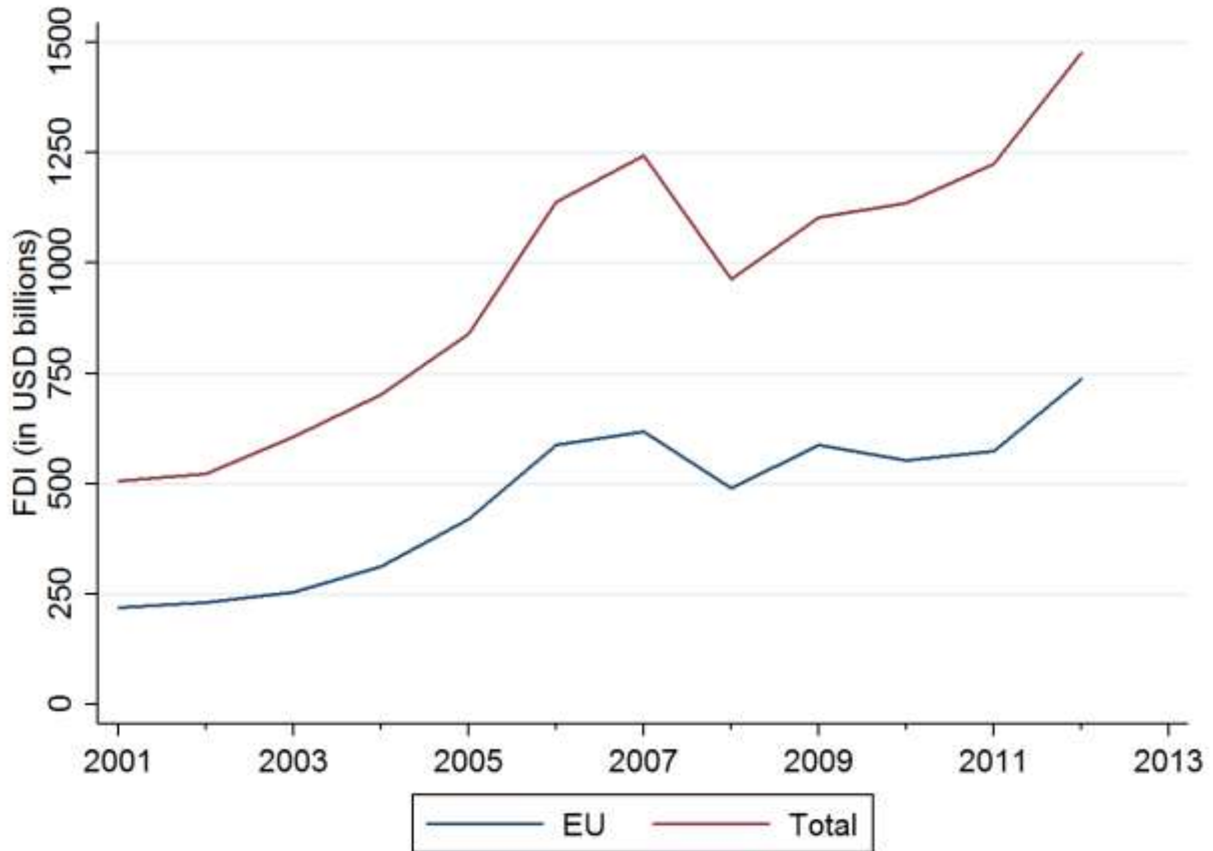
But since the average tariff charged on imports to the EU is only 1% (World Bank, 2015), there is limited scope for further tariff reductions. There is also limited scope to lower nontariff barriers through unilateral action since reducing non-tariff barriers often requires harmonizing policies, regulations or product standards across countries, which requires international agreement.The pay-off for the lack of economic integration would be greater political sovereignty. Being outside the Single Market would enable the UK government to set economic policy and regulatory standards without taking account of the preferences of other EU members. But any divergence in regulation between the UK and the EU would still act as a non-tariff barrier to trade and raise the cost of doing business with Europe (CEP, 2015).

Overall, it is uncertain how leaving the Single Market would affect the UK's economic policies and regulations and whether any changes would be beneficial. The OECD has found that, even as a member of the Single Market, the UK's labour and product markets are substantially less regulated and more flexible than those of other EU countries (Koske et al, 2015).In fact, the UK's labour and product markets exhibit similar levels of flexibility to Canada and the United States and are much less regulated than those of non-EU countries such as Norway and Switzerland. This shows that the Single Market does provide scope for countries to adapt economic regulations to suit national preferences.

BREXIT and Implication for Foreign Direct Investment (FDI)

In addition to trade relations, the EU and UK were becoming increasingly intertwined through investment relationships until the Brexit. The Figure below shows the chronological development of foreign direct investments (FDI) in the United Kingdom between 2001 and 2012. During the time before the financial crisis, FDI in the UK more than doubled. And FDI from other EU member countries increased from around US$250 billion to more than US$500 billion in this timeframe. During the financial crisis years, a significant decline emerged in FDI from the EU and even more from the total FDI. However, FDI (total and from the EU) began to increase again starting in 2009. The figure below provides information on the EU countries of origin for FDI (as of 2012: 735 billion USD) (UNCTAD, 2015). The Netherlands, France and Germany are the biggest investor nations, comprising around 60% of FDI from the EU. The top 10 investor countries are responsible for around 97% of FDI. Central and Eastern European countries play a subordinate role in FDI in the United Kingdom (Stiftung, 2015). Given the Brexit however, the UK stands no chance of accruing these benefits from FDI flow subsequently as they these FDI may be forced to stop by the implicit blockage of bilateral and multilateral trade relations arising from the Brexit.

Figure 1: EU and total FDI stock in the UK



Source: UNCTAD Bilateral FDI Statistics.
In addition, the possible implications of a Brexit on the reduction of flow of FDI into UK may be unprecedented. As a shortfall from the above figure, the Centre for Economic Performance estimates that foreign direct investment could fall by 22% over the next decade (Swati, Gianmarco, Thomas and John Van, 2016). Outside the South-East, it is Scotland, North West England, West Midlands, Wales and Northern Ireland - which have gained most FDI over the past decade - that would be most affected by a slowdown in foreign investment (Batchler and Mendez, 2016).

Research by the University of Groningen, shows that rural counties such as North Yorkshire and Dorset, and more urban ones like West Yorkshire, and Lancashire are more integrated with the EU (Springford, McCann, Los and Thissen, 2016). These are regions with a greater dependence on manufacturing, agriculture, mining and extraction, and utilities sectors, which are more skewed towards EU markets, are more vulnerable to disruption of trade if the UK is no longer part of the single market.

A further factor would be the loss of £10 billion of EU Cohesion Policy funding, currently allocated to the UK for regional and local development in the period 2014-2020 under European

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Structural and Investment Funds. In 2013 negotiations on the EU's 'multiannual financial framework' (MFF) for 2014-20, the UK did exceptionally well out of the negotiations; while the overall EU budget fell, and most EU countries lost cohesion funding, the UK retained and even slightly increased its allocation. In all probability, the UK would get a further allocation as part of the European Commission's mid-term review due before the end of 2017, given the relatively weak economic performance of some UK regions in recent years (Batchler and Mendez, 2016). Meanwhile the hope of securing this allocation is slim given the exit.

Be that as it may, the Leave campaign has insisted that regional development grants would be secure until 2020. Yet, they are also arguing that they could stop paying into the EU budget and reallocate the savings to other priorities almost immediately. However, the EU funding currently due to the UK is based on the 2014-20 MFF that requires the UK pay into the EU budget at least until 2020 and possibly until 2023 as the bills for EU-funded projects in the UK become due for payment. The EU would not agree to the UK stopping payments into the EU budget and still getting funding for EU-financed projects. With the cessation of the UK's EU budget contributions, any UK projects awarded EU funding would either have to stop or be funded wholly by the UK Government (Batchler and Mendez, 2016).

Beyond the immediate issue of current projects, there is the question of what might replace EU Cohesion Policy in the UK, described by Jayne Woolford as a 'policy vacuum' given the lack of thinking that has been done (Jayne, 2016). Of course, as Leave campaigners might argue, the UK would be free to implement its own regional policy. It is, though, ill-equipped to do so. Lacking the kind of constitutional commitment to regional equity of countries like Germany, Italy and Spain, the UK has allowed its domestic regional policy to wither away. Regional government offices and regional development agencies have been abolished, and the UK spends less on regional aid (as a proportion of GDP) than most other EU countries and a fraction of spending in France and Germany.

Brexit could well provide the opportunity (or necessity) to develop a new strategic approach to regional development, but certainly in the short term the policy levers to respond to regional economic shocks no longer exist. Further, economic forecasts suggesting that a Brexit would lead to lower public spending would constrain the UK's ability to finance any future regional development policy (Emerson, Ian, Mitchell and Phillips, 2016).

BREXIT and UK' Gross Domestic Product

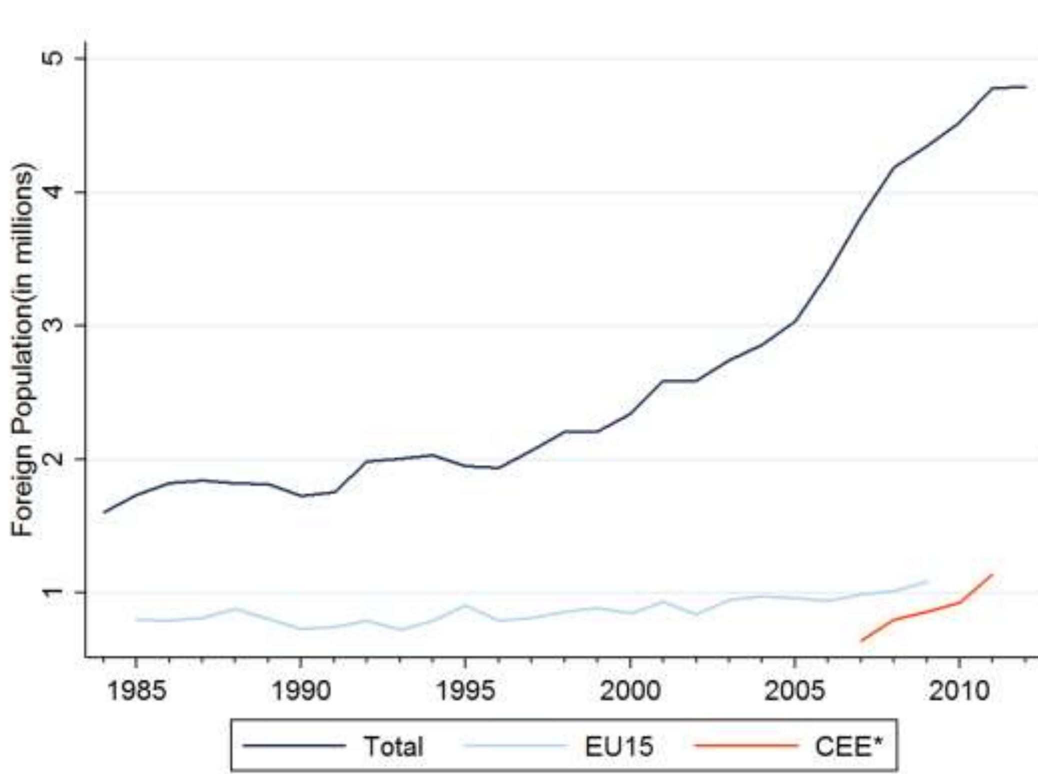
Unarguably, given the possible reduction in volumes of trade and projected exports, the UK will experience a downward GDP growth after Brexit. Given the above, the UK may not be able to see itself as the largest economy in Europe. Stiftung (2015) had argued that Economic growth in the United Kingdom was similar to Germany and the EU countries in the 1970s and 1980s (Figure 2). The decades were marked by two oil crises and subsequent economic surges. In the 1990s and early 2000s, the UK achieved higher growth rates (between 2 and 4%) than both Germany as well as the average of all EU countries.

Invariably, even before the 2016 Brexit, the financial crisis from 2007 to 2009 had hit all European countries hard and led to a substantial slump in economic performance. The United Kingdom saw a 6% decline in the GDP per capita. Germany was similarly impacted and had a growth rate of -5% in 2009. There was a slight recovery between 2010 and 2013 with growth rates between zero and 1%. Germany was able to recover quickly from the crisis in 2010; the UK's upturn was not as strong.

BREXIT and Migration Within UK

The UK's population has grown continually since the 1960s. In 1960 it was approximately 52 million residents13, and had already grown to around 56 million by the year the country joined the EU (1973.) In the 1970s, the UK population plateaued at around this level. Strong population growth took off again at the beginning of the 1980s. By the year 2013, there were approximately 64 million people in the UK. With Brexit, the possible outlawing of inland migration within UK by foreign national will be greatly eschewed. Therefore, the employment opportunities reserved for foreign nationals hitherto, would be made vacant. On the other hand, the fate of British nationals living and working under the EU may remain bleak with lingering option of restricted movement (Carl, Paul, Ian and David, 2016).

Figure 2 Foreign population growth in the UK



Source: OECD International Migration database. *CEE (Central and Eastern European EU member states) excluding Estonia, Slovenia and Malta.

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Figure 2 above, shows the population growth of foreign nationals in the United Kingdom. This number has risen sharply since the mid-1990s. Around 4.8 million foreign nationals were recorded in the 2012 census, almost 8% of the total population. By contrast, the number of immigrants from other EU15 states has scarcely changed between 1985 and 2009. It stayed below the 1 million mark, which was exceeded for the first time in 2008. Since the EU's eastward expansion in 2004 and the expiration of the 2-year rule, migration from Central and Eastern European states has increased heavily. More than 1 million migrants from CEE countries were living in the UK in 2011.

A breakdown of EU foreign nationals in the UK by country of origin for 2011 shows that out of a total of 2.3 million EU migrants, Poland is the largest population group at 658,000, followed by Ireland with 386,000. Italy, Germany, Lithuania, Portugal and France also have large immigrant groups living in the UK.

UK citizens are also drawn in the other direction to other EU countries. In 2009, at least 934,000 Britons lived in another EU country. Spain, France and Ireland are the most popular destination countries. This indicates UK retirees in particular who have relocated to Spain and France. If the UK were to exit the EU, the question arises of what would happen to the status of immigrants (in both directions). Pension payments and how health care benefits are received would also need to be clarified.

BREXIT and UK's Public Finances

The net impact of BREXIT if considered on one hand may be advantageous to the British economy. This is because, if the UK were to leave the EU, the direct impact on the public finances (i.e. regardless of any impact via, for example, changes in national income) would come from the end of existing contributions to the EU budget. This would give rise to a reduction in UK public spending, although replacing at least some of the spending that is currently undertaken by the EU in the UK would presumably offset some of this fall. Furthermore, some form of contribution to the EU budget might be required if the UK wanted continued access to the EU's single market, particularly in services, which would further offset budgetary savings. This chapter looks at the potential size of this direct impact on the public finances and sets it in the context of overall UK government spending and borrowing. The size and composition of the EU budget, the methods of calculating the financial contributions of each member, and the resulting level of contributions from each member are all described in detail in Browne, Johnson and Phillips (2016). This section provides a summary of the key numbers relating to the UK's contribution. Section 2.2 describes the contributions to the EU budget currently made by some countries that are outside the EU (Carl, Paul, Ian and David, 2016).

The overall EU budget accounts for about 1% of gross national income (GNI) across the 28 member states. UK Treasury figures suggest that the UK's gross contribution (i.e. ignoring the UK's rebate) in 2014 was £18.8 billion, which is about 1% of GDP. It is by dividing this number by 52 weeks that one comes to the widely-reported figure of over £350 million a week as the UK's contribution to the EU. But in this context, ignoring the rebate is clearly inappropriate. It is equivalent to suggesting that were the UK to leave the EU and not make any financial contribution

to the EU's budget, then remaining EU members would continue to pay the rebate to the UK! After taking account of the rebate, the UK's contribution in 2014 was – again on the basis of Treasury figures – £14.4 billion, or 0.8% of GDP.2 (Carl, Paul, Ian and David, 2016).

BREXIT AND REGIONAL INTEGRATION: STRATEGIC CONSEQUENCES FOR EU

i. Estimating the Maximum Damage of a Brexit

In underscoring the effects of Brexit on both the EU and Uk, an alternative thought experiment presents itself in the given context. Let us assume that countries exist which have developed very similarly to the United Kingdom prior to entering the EU (in 1973). Then we can estimate from the development of these countries – compared to the UK after joining the EU – to determine how great the advantages of EU membership could be. Campos et al. (2014) follow this approach. These authors find that from 1945 to 1972, the development of key economic time series for the United Kingdom paralleled best in a weighted average to the corresponding periods of time in New Zealand and Argentina. The number of immigrants (2011/2012) amounts to around 4.8 million people. Of those, about 2.3 million are from the EU. Therefore, a 10% decline in the number of EU migrants would mean 230,000 people. This is approximately 5% of the total number (Aichele and Felbermayr, 2015).

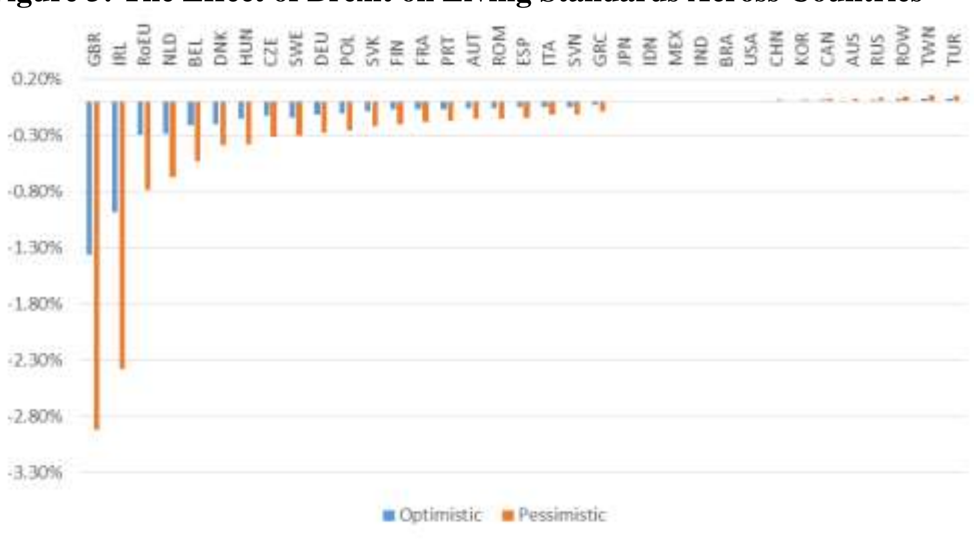
Statistical evidence suggests that the United Kingdom joining the EU in 1973 represents a structural break, because afterward the growth of real per capita income (measured in dollars) diverges significantly between the control group and the UK. The gap grew primarily after the EU's single market program came into effect (Aichele and Felbermayr, 2015).

i. By averaging the last five years under consideration, this advantage comes in at just over 20% – which can potentially be traced back to EU membership. This is a substantial dividend that – in addition to the static and dynamic trade effects – also reflects the positive effects of the free movement of workers and all the other effects not considered previously (especially those related to the freedom of movement for capital transactions). It also reflects the advantages generated by having a common trade policy with non-member states. The number indicates the magnitude of losses that could arise for the United Kingdom through a Brexit (Aichele and Felbermayr, 2015).

ii. The Effect of Brexit on Other Countries

CEP2 (2015) while estimating the unilateral damage of Brexit on other countries has this to say:
…the fall in trade also affects other countries... All EU members are worse off: Ireland suffers the largest proportional losses from Brexit, alongside the Netherlands and Belgium. Countries that lose the most are those currently trading the most with the UK. Some countries outside the EU, such as Russia and Turkey, gain as trade is diverted towards them and away from the EU.
Altogether the EU loses between -0.12% and -0.29% of its GDP which is offset by a 0.01% to 0.02% gain for non-EU countries. These seem small percentages, but the rest of the world's GDP is, of course, much bigger than that of the UK. So whereas the UK loses between £26 billion to £55 billion from Brexit the rest of the EU is collectively £12 billion to £28 billion worse off (IMF, 2014). The 'Brexit shock' is almost half as big in the rest of the EU as it is in the UK.

Figure 3: The Effect of Brexit on Living Standards Across Countries



Source: CEP calculations (see Dhingra et al, 2016, for technical details).

iii. Exploring Alternatives for Britain after Brexit

So many integration alternatives abound for Britain after Brexit. To begin with, the UK could propose a free trade area among Commonwealth countries or could attempt to join Canada, Mexico and the United States as a member of the North American Free Trade Agreement (NAFTA). Of course, the EU is also working to dismantle trade barriers with the rest of the world, such as through the TTIP agreement currently being negotiated with the United States. It is uncertain whether leaving the EU would enable the UK to negotiate more and better trade agreements than it can as part of the EU. Even without the UK, the EU is the world's second largest exporter behind China and the world's second largest importer behind the United States. This makes the EU a desirable trade partner and gives the EU an important voice in trade negotiations. Since the UK is a much smaller market than the EU, the country alone would have less bargaining power in international trade negotiations than the EU currently has (CEP, 2015).

On the other hand, Brexit would enable the UK to seek trade agreements tailored to the interests of UK businesses and consumers rather than having to make compromises to meet the needs of other EU countries. Whether the benefits from greater autonomy in trade negotiations would outweigh the costs from reduced bargaining power is hard to predict, but some insight into how the UK may fare following Brexit can be gained by looking at the experience of Canada – another medium-sized developed economy in close proximity to a much larger market.

Under NAFTA, there is free trade between Canada, Mexico and the United States, but one of the costs of obtaining access to the US market is adoption of the provisions of the 'investment state dispute settlement' (ISDS). ISDS clauses are almost always included in US trade agreements (Poulsen et al, 2013) and they allow US investors to bring claims directly against the Canadian

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government (and vice versa). By contrast, under the WTO's dispute settlement mechanism, investors must go through their home government to bring a claim against another country.
However, reducing trade barriers between the UK and the rest of the world is a laudable aim and would be likely to increase trade and raise UK income. But it is not an adequate replacement for EU membership. The best-known fact in international economics is that international trade and investment fall substantially with distance (Head and Mayer, 2014). Doubling the distance between two countries roughly halves the trade between them. The UK is much closer geographically to the EU than to other large economies such as the United States or China and, therefore, it is not surprising that roughly half of the UK's trade is with the EU (Ottaviano et al, 2014).

Put another way, it is geography rather than policy that makes the EU the UK's most important economic partner. Simply reorienting the focus of the UK's trade policy away from Europe will not change this underlying reality. Whatever agreements are reached with countries outside Europe, the most important decision facing the government following Brexit would still be the future of the UK's relations with the EU (CEP, 2015).

SUMMARY AND POLICY RECOMMENDATIONS

This research has delved into the theoretical justification of British exit from the EU. The BREXIT question does not only concern the UK's fate in the EU. It poses greater concerns, on the one hand about a probable dissolution of the EU. The action also brings to bear a serious concern about the relationship between the Eurozone and the EU as a whole. It is our concern in this paper too that given the leverage of the financial burden relieved of the UK as a member-state of the EU, other member-states might take clue and would wish to leave the EU too. Thus, 'Brexit story' is a mere expression among the 28 members of the EU of the politics of European integration under intense pressure from domestic politics. This scenario comes into force as a decider of the 'economic nationalism' theoretical question. In line with opinions of Chopin and Christian, (2016) a consolidation of the EU will vindicate neo-functionalist theory, which assumes that crisis brings necessarily rationalization and reform of the agenda. Disintegration will mean precisely the opposite. Hence, one thing is certain: the EU will not escape more differentiation in the future.
As a means of proffering a dependable alternative to the BREXIT action, the paper makes the following recommendations:

1. Just like some Eurosceptics, and supporters of British withdrawal in the United States (located on the right of the Republican Party) have posited, the UK joining the North American Free Trade Agreement (NAFTA) or entering into some other form of trade deal with the United States as a substitute for membership of the EU is apt at this point.
2. As agreed by Oliver and Michael (2016) some even talk of the need to engage the United States in building up the 'Anglosphere', especially with Commonwealth countries such as Canada, Australia and New Zealand, and also with some mention of countries such as India or states in Africa.
3. United Kingdom should open its trade policy unilaterally to all countries after exiting the EU, implement deregulation policy at home and negotiate a free trade agreement with the EU.

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