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Brexit and Europe's political economy

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7. Brexit and Europe’s political economy

Amy Verdun

INTRODUCTION¹

On 31 January 2020 the United Kingdom (UK) left the European Union (EU). In the European Parliament (EP), Members of the European Parliament (MEPs) cried together and folded flags. It marked the end of an era. At the end of that year, after much agony, the EU-UK Trade and Cooperation Agreement (TCA) was signed on 24 December 2020 and the ratification was completed in April 2021. The TCA allows both entities tariff-free, quota-free access to markets for goods. Services are not part of the TCA. Part of the agreement are also fishing rights as well as cooperation in the area of security (e.g., in the area of information sharing security related to matters of internal security), but no mention of security and defence collaboration. There are still many unresolved issues. Some of these issues involve fishing matters (Reuters, 2021). But collaboration in security and defence matters is also crucial as demonstrated by the need to deal with the war in Ukraine that erupted following the Russian invasion on 24 February.

The arrangements made with the EU have left the situation internal to the UK not fully settled. The Northern Irish Protocol allows, for the time being, that customs and immigration matters are decided in a way that gives Northern Ireland a special status. Clearing of customs and immigration is done prior to the goods entering Northern Ireland. It avoids having to impose a hard border between Northern Ireland and the Republic of Ireland. This agreement has effectively produced a border in the Irish Sea and has made unionists unhappy.

Besides the situation in Northern Ireland also the Scottish situation is not fully stable. Nationalists are musing about another independence referendum in Scotland (Politico, 2021a). Of the almost four million votes cast in the Brexit referendum in Scotland only 38 per cent were cast for ‘leave’ whereas 62 per cent voted for ‘remain’. In 2014 an independence referendum took place that was narrowly lost (55 per cent voted no to independence with 45 per cent voting in favour of independence). At that time, within only a few days to hold the referendum, as it looked though a majority might vote in favour of independence, there was a lot of uncertainty about whether Scotland would have to leave the EU if it became independent from the UK.² Brexit has reinvigorated these nationalist sentiments in Scotland.

This chapter explores the relationship between Brexit and Europe’s political economy in the post-Brexit era. It does so in the following way: How does the UK remain linked to the European political order? How is the UK related to the EU institutions? The chapter pays particular attention to economic, monetary and financial matters as well as the Single Market. Its bottom line is that the EU and the UK are bound to stay in close contact with one another and may find ways to keep close relations. The two entities will have both formal ties and informal ways to stay together. The challenge for the EU is to enable the UK to be close, but not to make rules that enable the UK effectively to benefit from the EU without being a member. The UK by contrast needs to signal domestically that it is able to decide alone, whilst avoiding major disruption to its economy. This strategy has been part and parcel of the UK Brexit strategy. To discuss these questions the chapter is structured as follows. The next section discusses

briefly the path towards Brexit. The third section examines the most contentious issues from a political economy perspective, thereby covering the usual political economy issues, but also others that have an impact on the political economy dimension. The fourth section reviews the possible options for future relations. The final section concludes.

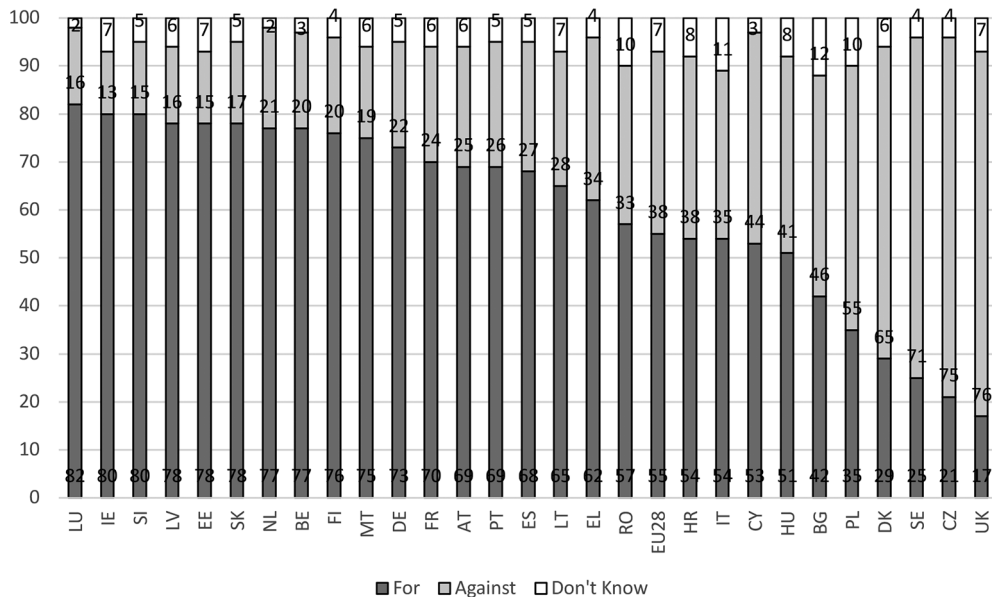
BREXIT IN THE MAKING

Five years before the UK left the EU, it was not at all clear that the referendum on the UK leaving the EU (held on 23 June 2016) would be one where a majority would favour 'leave' (Cini and Verdun, 2018). In part, the surprise came because most of the elites were in favour of 'remaining'. Even the majority of the Conservative government and the at the time main opposition parties (Labour and Liberal Democrats) were on the whole still more or less in favour of remaining, as were most people in the City of London as well as business owners – those who would be the typical 'Conservative' voter (James and Quaglia, 2019). Political economy issues, such as the overall economic well-being related to the UK membership of the EU were part of the rationality of why elites favoured remaining. Early assessments of why the Brexit referendum even occurred pointed to the choices made by then Prime Minister David Cameron who used the referendum to try to discipline Conservative backbenchers and his overly risky strategy to poach voters away from the UK Independence Party (Glencross, 2018). Another challenge was the paucity of the UK constitutional system that did not meet the needs for these kinds of situations (Eeckhout, 2018; Weale, 2018). Effectively, a slight majority of voters (52–48 per cent) were able to determine the course of the future of the UK, even if the referendum itself was formally only an advisory one.

In fact, right away, one of the main concerns was that it was unclear what UK voters actually wanted to get out of Brexit; no one really knew what Brexit would look like. More than anything, Brexit was an idea (see Parsons, Chapter 6 in this volume). Even though in the run-up to the referendum, it was not clear what would be done if a referendum was close. Numerous reports indicated that a second referendum was possible, especially because whether or not to hold a second referendum lay squarely in the hands of Parliament (Institute for Government, 2019). Yet, once the results came in, and in the ensuing months, a second referendum seemed not to be feasible. The arguments made were both legal and political, although as Richard Bellamy argues, from a philosophical point of view it is unclear why such a referendum was impossible (see Bellamy, Chapter 28 in this volume).

What was clear, however, was that the majority of UK voters were uneasy with the path that the EU was on. Looking at Eurobarometer statistics, UK voters had been for years the least enthusiastic about European integration and shared few ambitions for deeper integration. In spring 2016, as the UK prepared for the referendum, the UK scored the lowest on a number of questions on EU achievements. On the question 'Which of the following do you think is the most positive result of the EU? Firstly and then?' EU citizens as a whole identified 'the free movement of people, goods and services within the EU' and 'peace' as the two most important ones (at 55 per cent) and the euro in third place (32 per cent). Of those interviewed in the UK, 44 per cent chose 'the free movement of people, goods and services within the EU', 52 per cent chose peace, and only 5 per cent chose the euro (Standard Eurobarometer 85 'European citizenship', in European Commission, 2016a: 7). Likewise, if asked whether they felt a citizen of the EU, in the UK, only 28 per cent answered 'yes definitely' and 25 per

cent yes to some extent, with 25 per cent and 20 per cent, respectively, responding ‘no not really’ or ‘no definitely not’ (Standard Eurobarometer 85 ‘European citizenship’, in European Commission, 2016a: 16). UK citizens were the only ones of the 28 member states who had a score higher than 50 per cent to the question whether they saw themselves as their nationality only (in the UK 62 per cent) – not as European. All other member states had 50 per cent or lower answers to the same question; in other member states, the identity was to national and European (only Cyprus and Bulgaria had rates slightly below 50 per cent, see Standard Eurobarometer 85 ‘European citizenship’, in European Commission, 2016a: 22). The UK was a clear outlier when it comes to attitudes towards the euro and Economic and Monetary Union (EMU) (Figure 7.1).



Source: European Commission (2016b: 14).

Figure 7.1 Attitudes for and against EMU

Another element that was emotional but salient in the Brexit debates was UK voters’ concern with immigration (Staiger, 2018). Research on migration in the UK highlights that a number of UK voters have expressed dissatisfaction with their own lives, and have blamed change in the community on the increase in numbers of immigrants (Burrell and Hopkins, 2020). The UK was, however, quite well integrated into the EU economy. Many of the workers in the UK were from the EU and many UK citizens worked abroad. Eurobarometer data of spring 2016 indicated that 63 per cent of respondents found that ‘Immigrants contribute a lot to our country’, a much higher amount than the EU average at 40 per cent (QD4.2) (Standard Eurobarometer 85 ‘European citizenship’, in European Commission, 2016a: 48). Similarly, in the UK there was in that same timeframe a high level of willingness to support refugees (75 per cent in the UK compared to 63 per cent in the EU average (QD4.5) (Standard Eurobarometer

85 'European citizenship', in European Commission, 2016a: 49). It is remarkable, though, that areas with high percentages of 'leave' voters also showed a higher turnout level, and correlated with lower levels of education as well as with areas in decline – often areas that did not actually feature high levels of migrant populations (Goodwin and Heath, 2016). Some analyses on why people voted leave have indicated that UK elites had not been paying much attention to those voters who were so-called 'losers of globalisation' (cf. Hobolt, 2016).

The Brexit debacle did not emerge in a vacuum, but rather followed a range of crises (Nugent, 2018). The referendum in June 2016 came on the heels of a major migration crisis that affected all of Europe during 2015–16, when more than a million migrants arrived in Europe seeking refuge and a better life. The EU was unable to conjure up a collective response (Scipioni, 2018). Prior to that, the EU experienced a financial crisis (including a banking crisis) and shortly after that, the sovereign debt crisis. Many EU member states had a difficult time in those years; the UK was no exception. The perception among some UK voters, however, about the link between the problems and the solutions of the global financial crisis, the banking crisis and the sovereign debt crisis may not have been clear. After all, the UK had stayed outside of Europe's monetary union. The UK was not part of the euro and chose to stay outside the Banking Union and opposed the so-called fiscal compact (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union or 'TSCG', 2012) – an intergovernmental treaty that stipulated a need for balanced budgets. EMU has been asymmetrical from the outset (Verdun, 1996) meaning that its monetary union is managed by a supranational institution, the European Central Bank, whereas fiscal policies are national. Many EU policy makers realise that this incomplete EMU needs deepening and that this deepening will only occur when the time is right (Schure and Della Posta, 2021). Therefore, in the aftermath of the sovereign debt crisis, and reflecting on 60 years since the signing of the Treaty of Rome that created the European Economic Community, the EU issued a number of reflection papers about the future of the EU (European Commission, 2017a, 2017b, 2017c). Even though the exact path was not clear, the EU was still in search of the next steps to complete Europe's monetary union. The felt need, in this domain, was different for UK voters than for most of the EU member states.

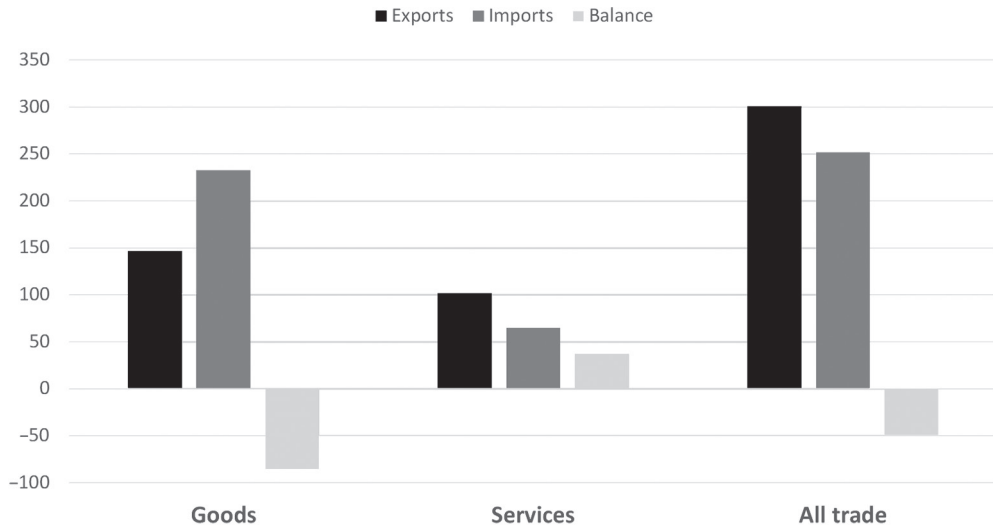
Eventually the UK left the EU. This outcome prevailed not only because its electorate voted to leave. In fact, there was an extended period of heated parliamentary debates about what the next steps would be to digest the referendum results. The internal domestic political establishment was unable to find a path that would satisfy the need to find a different relationship with the EU, a clear communication strategy to articulate such a path and a political vision that competed with that of the Conservative Party (Lynch, Whitaker and Cygan, 2019). The domestic ordeal that the UK went through in 2016–20 was painful. Political observers disagree on many things regarding the substance of the policies and possible paths that could have been taken. But few disagree about the sheer frustration and difficulties that the UK political system went through during those years (Farrell and Suiter, 2019; McConalogue, 2019). Ironically, by the end of 2020 it was still not fully clear what the relationship would be between the EU and the UK. But the COVID-19 pandemic that erupted in its full severity in March 2020 worked as a lightning rod to reorient the political debate (Harvey, 2021).

CONTENTIOUS ISSUES

One of the most difficult matters in the Brexit dossier, during the negotiations before the UK formally left, remained that the UK was hoping to have access to the Single Market whilst remaining outside it. The government wanted to find a way to be exempt from the legal provisions that would make it a member of the Single Market. Norway, Iceland and tiny Liechtenstein, for instance, are not EU member states. Yet they are connected to the Single Market through the European Economic Area (EEA) (Eliassen and Sitter, 2003; Fossum, Chapter 21 and Frommelt, Chapter 22 in this volume; Frommelt and Gstöhl, 2011; Kristjánsson and Kristjánsson, 2000). Similarly, Switzerland, although not a member of the EEA, has made bilateral agreements with the EU that allows that country to be part of the Single Market. Choosing to be heavily integrated into the EU means that in some areas the Swiss have had to implement more laws from the EU than others, even though they do not have a say over the details of the original EU law (Linder, 2013: 191–2). Having those provisions has, however, enabled EEA countries and the Swiss the same rights to live, work and travel in the EU as EU citizens. But the downside of this arrangement is that the Swiss have not had any say over EU laws during the legislative process. Instead, once laws have been adopted, the Swiss subsequently have had to take it as a basis for their own laws (see also Lavenex and Veuthey, Chapter 20 in this volume). In this way one could argue that the TCA has features that resemble the trade relations between the EU and Canada, the Comprehensive Economic Trade Agreement (CETA) (see also Neuwahl, Chapter 23 in this volume).

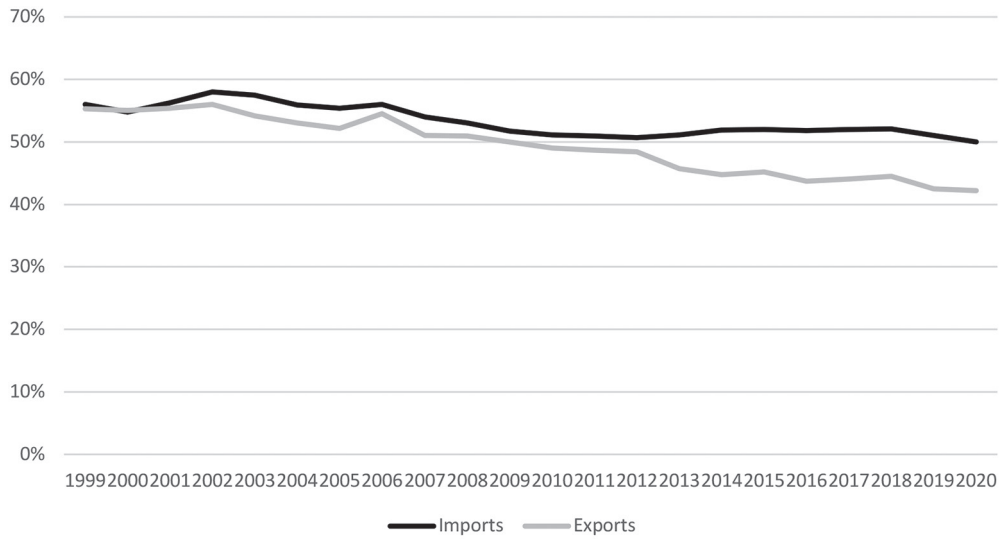
The freedom of movement of people and their rights was one of the factors the UK government was keen to control: it wanted to curtail EU flows of people and migration. At the same time, it had the desire to maintain full access to a market of 450 million consumers and 22.5 million small and medium-sized enterprises. However, in deciding to withdraw from the Single Market and the Customs Union, the UK needed to reintroduce customs and the accompanying formalities for products imported and exported between the EU and the UK. This red tape is a major nuisance for importers and exporters, which led to long delays at the border (Morris, 2022). The reason was that goods that were crossing into the UK had to be entered into a so-called HMRC Goods Vehicle Movement Service (GVMS) in order to determine if further inspection would be needed.³ The effect of the delays at the border has a larger impact on the UK than on its EU partners as the UK does a larger percentage of its trade with the EU than individual member states do with the UK (Figures 7.2 and 7.3).

Trade was likely going to be affected in the short-run (Figure 7.4). Adjustments would be taking place, but there were still also questions as to whether trade would pick up in the medium run (Thissen, van Oort, McCann, Ortega-Argilés and Husby, 2020). In terms of the balance between trade in goods and services, in 2020, the UK exported £251 billion in goods and services to EU member states, which is 42 per cent of total UK exports. In terms of imports from the EU, the total amount in goods and services imports was £301 billion (50 per cent of total UK's imports). These movements led to a trade deficit for the UK with the EU of –£49 billion (but it did have a surplus with non-EU countries of £54 billion). In terms of the balance between goods and services, the UK had a deficit in goods with both the EU and non-EU countries (of –£86 billion and –£43 billion, respectively). By contrast, in terms of services, it had a trade surplus with both the EU and non-EU countries (£37 billion and £96 billion, respectively). These amounts in terms of percentages show a significant share for the continent: 47 per cent of UK goods exports and 36 per cent of services exports went to the EU



Source: UK Parliament (2021: 4).

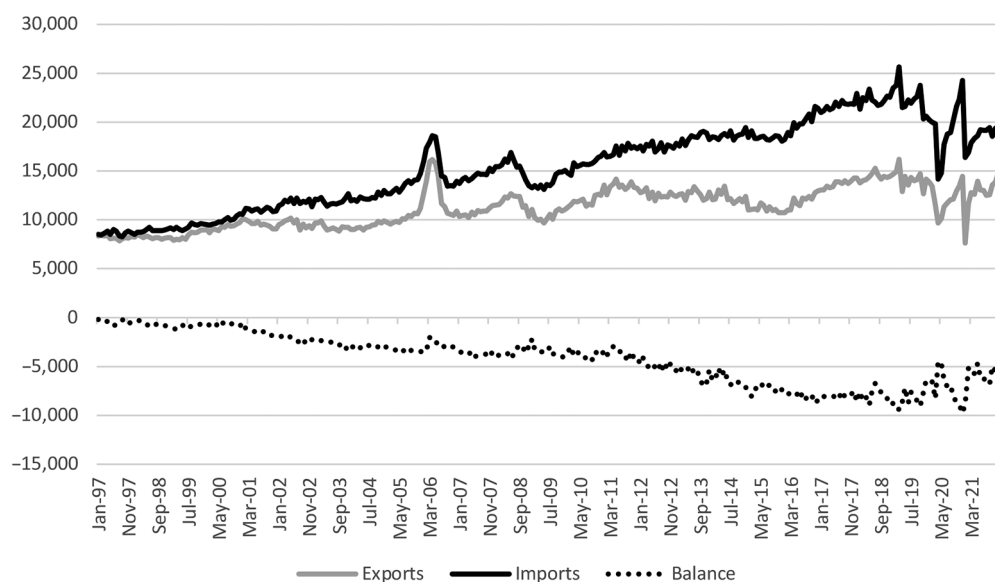
Figure 7.2 UK trade with the EU



Source: UK Parliament (2021: 4).

Figure 7.3 Share of UK trade with EU (1999–2020)

whereas 53 per cent of the UK's imported goods and 43 per cent of imported services came from the EU (UK Parliament, 2021: 5).



Source: Statista (2022).

Figure 7.4 Value of trade in goods with the EU in the UK from January 1997 to November 2021 (in million GBP)

For services Brexit means the end of what is known as ‘financial passporting rights’ for the UK services sector. Not covered by the TCA are financial services. These make up 7 per cent of UK GDP (The Economist, 2021). The TCA agreement states:

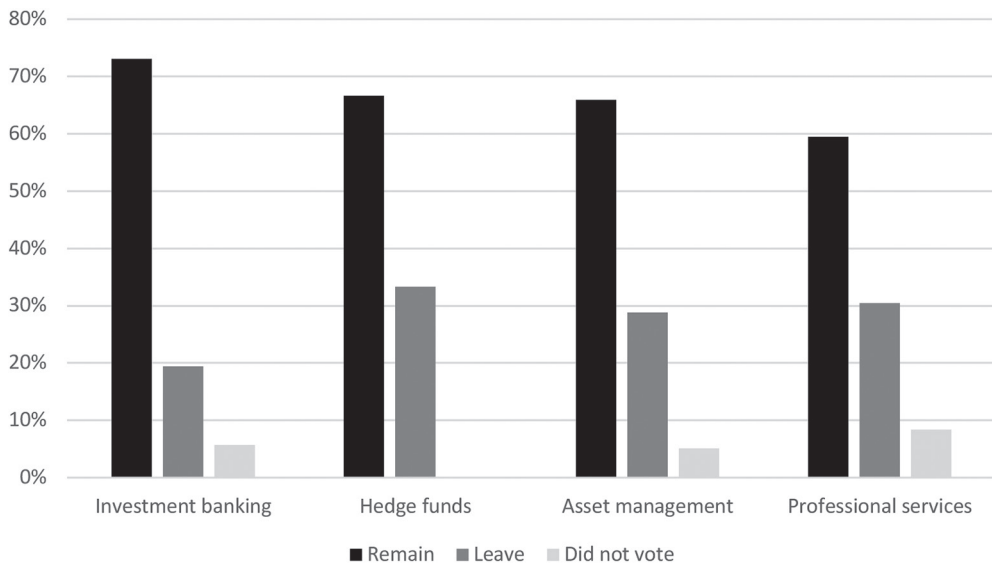
the Trade and Cooperation Agreement does not cover any decisions relating to equivalences for financial services, the adequacy of the UK data protection regime, or the assessment of the UK’s sanitary and phytosanitary regime for the purpose of listing it as a third country allowed to export food products to the EU. Indeed, these are unilateral decisions of the EU and are not subject to negotiation.⁴

It also means that the UK no longer benefits from Community preference. UK product certification will not be automatically recognised in the EU. The immediate result of these non-tariff barriers has been long lines of lorries at the EU-UK borders, restrictions on immigration and disruption of supply chains.

One anomaly has been Northern Ireland. When the negotiations started, few observers, indeed few members of the general public, appreciated the situation on the island of Ireland. The relationship between the UK and Ireland was always going to be a tricky one, due to the interconnection of the two countries, but in particular given the ‘troubles’ in Northern Ireland: the ethno-nationalist conflict in Northern Ireland that took place from the late 1960s until the Good Friday Agreement in 1998. The latter solved the Northern Irish issues but it was linked to the EU rules and institutional structures. When they were to fall away it meant that any change was inevitably going to pose a major challenge to the Agreement (Wright, 2018). As has been extensively discussed in more detail elsewhere (e.g., Duparc-Portier and Figus, 2021; see also in particular Chapter 5 by Keating, Chapter 8 by Piris and Chapter 14 by Laffan in this

volume), the Northern Ireland protocol places the de facto border of the EU and the UK in the Irish Sea. Customs and other formalities are done prior to goods entering into Great Britain. Northern Ireland therefore is treated as if it is still in the Customs Union with the EU. A system of rebates has been set up for Northern Ireland. The Northern Ireland Assembly will decide every four years whether to keep the Protocol. In summer 2021 the UK government expressed concern about the feasibility of the Northern Ireland Protocol, seeking to change the way the border between Great Britain and Northern Ireland was managed – ‘as if it were one between two sovereign states’ (Menon and Rutter, 2021).

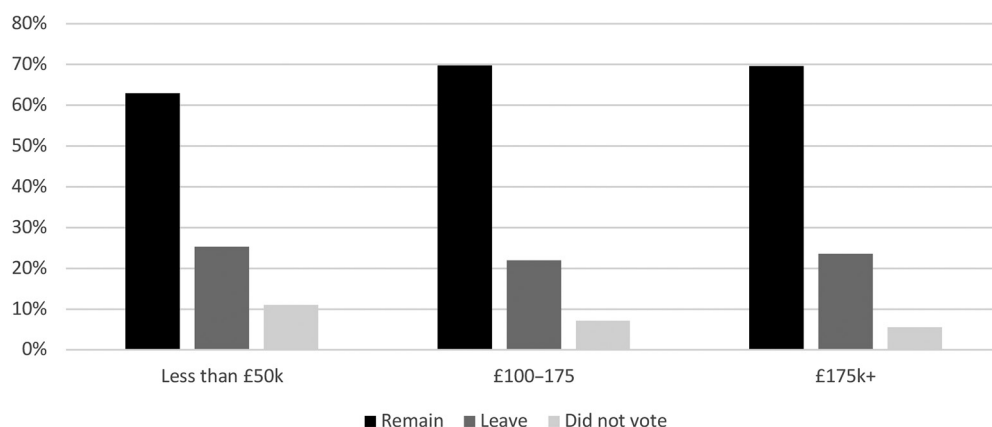
Not only the situation in Ireland but also the capital city had a special position in the Brexit vote. Although a majority of those in England who voted in the referendum voted ‘leave’, the City of London did not vote ‘leave’. Only 25 per cent of people who worked in the financial sector voted ‘leave’ and only 19.4 per cent of investment bankers voted to leave (Clarke, 2016) (Figure 7.5). Furthermore, those with higher salaries in the City of London voted in larger numbers to ‘remain’ than those on the lower end of the salary spectrum (Figure 7.6).



Source: Clarke (2016).

Figure 7.5 How the City of London voted on Brexit by sector

In fact, the City of London has been the financial capital of Europe for decades. The notification of Brexit has led to numerous companies (such as Panasonic and Sony) moving their headquarters to within the EU (Financial Times, 2018, 2019). During the COVID-19 pandemic it is difficult to know the exact outcome. Most of the analyses suggest that on the whole more companies have left (or are due to leave) than have come (or will be coming) (MoneyWeek, 2020; Investopedia, 2021). Having said that, in some cases, the reverse has happened. For instance, Unilever (a Dutch/UK company that a few years ago was planning to become fully Dutch) changed to fully British, in part to be listed on the London Stock



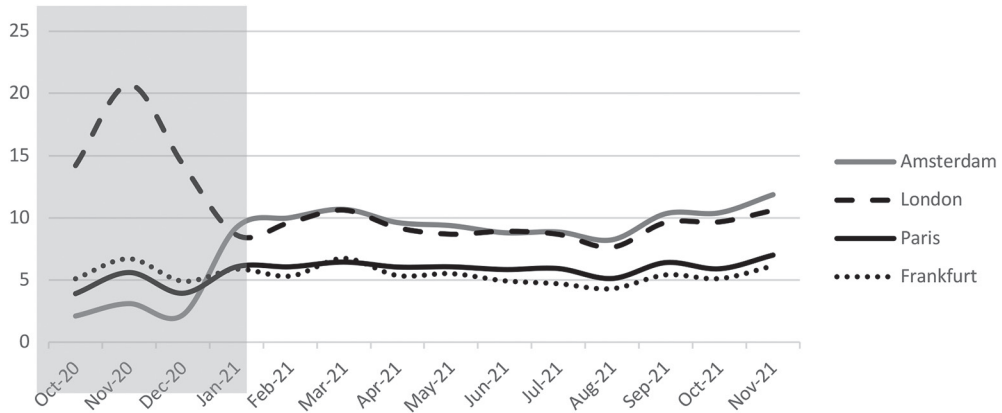
Source: Clarke (2016).

Figure 7.6 How the City of London voted on Brexit by earning power

Exchange. British shares are, however, still listed on the Dutch Stock Exchange (NL Times, 2020). Political economists Scott James and Lucia Quaglia examined early on the risks the City of London's financial sector would face. They found that the City of London was unable to influence the government stance on Brexit proportional to its impact on the UK economy (James and Quaglia, 2019).

US-American economist Barry Eichengreen, writing before the formalities were complete, argued that the effects of the implications of Brexit would be 'potentially far-reaching' (Eichengreen, 2019). Seeing that London is the financial centre of Europe, he argues that the impact of the change is potentially significant. Focusing on capital flows and international finance, he finds that governance and institutional structures might change in the post-Brexit period, some of it due to regulatory changes. Prior to Brexit more than 90 per cent of the euro-denominated interest rate swaps of euro area banks, and the vast share (three-quarters) of foreign exchange transactions and about half of bank lending and securities transactions took place in London (Eichengreen, 2019). By February 2022, the share of euro-denominated derivatives handled by the London Stock Exchange had remained unchanged. Eichengreen in 2019 forecast that European regulators might impose rules that could change the status quo, for instance, by requiring that UK banks would not be permitted to trade currencies and securities for European account holders. In fact, UK banks wrote to European customers asking them to close their accounts. Some banks moved some of their business to the EU (Barclays moved some business to the Republic of Ireland; and some clearing houses already exist in continental Europe that are as of yet fully integrated into the UK financial market; Sapir, Schoenmaker and Veron, 2017). In terms of the inflow of foreign direct investment (FDI), the literature prior to Brexit actually happening suggested that the UK would most likely experience a reduction in FDI inflows, and possibly government responses to these risks, for instance, by reducing corporate taxation (Welfens and Baier, 2018). Indeed, in February 2022 the European Commission started a four-week consultation period to examine how to provide incentives to firms so that they would move their business away from London to one of the EU financial centres (Frankfurt, Amsterdam, Milan and Paris) (Financial Times, 2022b). Brexit

will no doubt eventually have a negative effect on the dominance of the City of London as the main financial centre of Europe, but the fact that various centres on the European continent are competing for a share of the pie is an obstacle to change. Only small changes have been observed: in terms of equity trading, Amsterdam has outpaced London in average daily value, but is still ahead of Paris and Frankfurt (Financial Times, 2022a) (Figure 7.7).



Source: Financial Times (2022a).

Figure 7.7 Equity trading: average daily value (€bn)

The influence of the City of London is much older than either the creation of the Single Market or the start of EMU (Strange, 1988). In fact, it can be argued that as much as the UK will suffer from Brexit, the EU also loses out. Some of the major financial institutions (such as the London Stock Exchange) are now outside the EU. The European institutions will not be able to influence the development of the City of London as much as when the UK was still in the EU (Politico, 2020).

Another major area of contention surrounding Brexit was in Scotland. As mentioned above, a significant majority of the Scottish vote was in favour of 'remain'. Given the situation around the Scottish independence referendum in 2014, this Brexit referendum result may foreshadow another independence referendum. If there was a vote in favour of independence, it could affect the UK constitutional settlement. The 1707 Act of Union brought the Scottish and English Parliaments together to form Great Britain. Wales had formally joined the Kingdom of England in 1536. Ireland was added with the Act of Union in 1801, uniting Great Britain (England and Scotland) and Ireland to become the United Kingdom of Great Britain and Ireland. In 1922 Catholic Ireland seceded and Northern Ireland joined the UK again. By 1927 the formal name was the United Kingdom of Great Britain and Northern Ireland. Devolution in the UK occurred in the 20th century in different stages. Most of this devolution process was built on the principles of being part of the EU. The referendum on membership in the EU was not voted upon in the same way in all four nations (or 'countries') of the UK. Northern Ireland and Scotland voted 'remain' and Wales and England 'leave'. The referendum results, and the lack of consideration of these different realities in each of these nations, has further triggered nationalist tendencies in each of these nations – especially in Scotland where 62 per cent

voted to remain (BBC News, 2016). At the end of November 2021, First Minister of Scotland, Nicola Sturgeon, announced the start of the planning for a referendum due to take place by the end of 2023 (Financial Times, 2021). The situation in Scotland is considerably different in a post-Brexit period. Scotland is much more closely tied to the rest of the UK than to the EU. Scottish business exports three times as much to other parts of the UK than it does to the EU. Should Scotland be independent there could also be checkpoints and border controls. The UK government argued during the Brexit negotiations that technology could be used to avoid physical checks, but to date this issue remains a challenge as argued above with reference to the situation in Ireland (Reuters, 2022). The matter of the currency is also a major challenge. If Scotland were to become independent would it introduce its own currency and if so would it be tied to the pound? But then, after some time, it would presumably replace the new currency with the euro. Given the significant trade between the two nations, such a choice would not be immediately obvious. Barry Eichengreen (2020) highlighted that in addition there would be other political economy issues that would need to be settled such as the income from North Sea Oil (would it be based on regional distribution or per capita for instance), how to divide up the national debt of the UK and so on. These are not minor issues and would have to be negotiated.

The situation is even more extreme in the tiny overseas territory Gibraltar where 96 per cent voted to remain. This small piece of land at the tip of Spain is still a part of the UK but has become closer to the EU (Mardell, 2021). Negotiations were still ongoing in early 2022 to find an agreement in a treaty between the UK and the EU so that Gibraltar could become part of the Schengen area, so that there would not need to be border checks between Gibraltar and Spain (Politico, 2021b).

FUTURE OPTIONS FOR THE EU-UK RELATIONS

With the UK having left the EU, the challenge for the EU has been how to facilitate good relations between the EU and the UK whilst avoiding giving the impression that the UK is given a special deal. The EU has needed to signal that there are benefits of being a member of the EU that cannot be obtained by making side deals. This principle has been at the heart of the relationship between the EU and Switzerland as well as between the EU and the EEA countries. The EU has tried to ensure this outcome by ensuring that the Single Market would not be undermined and also that the Court of Justice of the EU would have jurisdiction over the Single Market and the rules with these third countries pertaining to Single Market access. The UK demanded that the Court of Justice of the EU (CJEU) not have jurisdiction anymore in the UK. Thus the CJEU only plays a role in Northern Ireland as part of the Northern Ireland Protocol; the CJEU does not oversee the TCA. Article COMPROV.13(3) of the TCA specifically states: ‘For greater certainty, an interpretation of this Agreement or any supplementing agreement given by the courts of either Party shall not be binding on the courts of the other Party.’ British negotiators were at first keen to remove the CJEU jurisdiction over Northern Ireland, but more recently the negotiators have moved to more practical considerations (Irish Times, 2021).

On the side of the UK, the political establishment has tried to signal that as Theresa May had stated repeatedly ‘Brexit means Brexit’, namely, that it would matter that the UK is no longer in the EU. Repeated analyses of the various models that the UK could choose from, whether it be the Norway model or the Canada model confirmed that the UK needed to signal to its

domestic constituency that it was able to 'take back control'. There is a clear paradox in the situation. The best access to the EU Single Market and access to rule-making is by being part of the EU. Leaving the EU effectively means becoming a rule-taker in so far as access to the Single Market is concerned, or simply not have access to that market.

A number of other elements of the relationship between the EU and the UK will be less straightforward. As we mentioned above, given the dominance of the City of London, it is as of yet unclear whether the UK will lose influence or the EU will lose influence in the role of financial centre. Some reorientation and adjustments are to be expected. But a priori, without seeing the politics of regulation play out, it is unclear whether the UK will come out much weaker in the post-EU era. The EU does have the power to reduce the ability of the UK to remain the dominant financial centre, or at least, it has the power to weaken it. It is not immediately clear if that is in the interest of the EU. Although, as mentioned above, the Commission in February 2022 is seeking ways to entice business to move their euro-swaps to EU financial centres, away from London. Again, the EU needs to signal the relative value of being a member of the EU and try to find ways to keep some form of jurisdiction over the financial market, that with Brexit has now moved outside the reach of EU law. But it also needs to keep a good relationship with the UK as one of its most important neighbours.

As the line-ups at UK borders and shortages persist, some might think that Brexit is only doom and gloom. Experience from other forms of economic collaboration across the globe suggest otherwise. The relatively sudden departure of the UK from the EU and the 11th-hour negotiations have not given the UK economy time to adjust. Over time new rules will be made and the UK will adjust. What is perhaps more disturbing is that UK citizens have not had a chance to have a good discussion about exactly what Brexit entailed in the run-up to the referendum. Few understood exactly what Brexit meant. The government did not do a careful study of the costs and benefits of leaving the EU, nor did it offer careful scenarios with analyses. Even the Scottish referendum of 2014 was better prepared in that regard (Scottish Government, 2013; Constitution and Cabinet Directorate, 2017). Finally, if the constitutional set-up of the UK changes, parts of the UK might consider joining the EU again. Whether this is a real prospect remains to be seen, as all four countries in the UK trade more with one another than separately with the EU.

CONCLUSION

This chapter explored the relationship between Brexit and Europe's political economy in the post-Brexit era. It reviewed the path that the UK took that ended up in its departure from the EU. Even though the dust has not yet settled on the TCA, we can already start thinking about the question of how the UK will remain linked to the European political order. In terms of the UK link to EU institutions, the UK has tried to put distance between itself and the process of deepening of European integration. In particular in the area of the EMU, the UK has lacked enthusiasm (both government and its electorate).

With reference to financial matters, as well as the Single Market, the UK government, but also the business community and voters, have been keen to stay closer to the EU. The situation with the Northern Ireland Protocol remains a bit unstable. It is as of yet unclear whether it would need to change sooner rather than later. Brexit itself may also change the constitutional make-up of the UK, which in turn could lead to separate countries of the British Isles one

day joining the EU again. The EU managed to keep a single voice in the negotiations. Brexit has been an example that has given Eurosceptics moments to pause. However, when the time comes that the adjustment has occurred it is not clear that the UK will only have negative effects from being outside the EU. The EU will then need to ensure that the relationship that the EU has with the UK is not so comfortable that Eurosceptics may more easily point to the UK situation as one that is desirable. Therefore, for the foreseeable future, both sides have some incentive in demonstrating that the relationship with the EU and the UK will remain somewhat rocky.

NOTES

1. An earlier version was presented at the 117th American Political Science Association's Annual Meeting & Exhibition, virtually from 28 September to 3 October 2021. The author thanks James A. Caporaso, Sergio Fabbrini, John Erik Fossum, Chris Lord, Craig Parsons and Vivien Schmidt for comments on earlier versions of this chapter. She is grateful to Malcolm Thomson for research assistance and for Zoey Verdun for assistance with the figures and graphs. Some of the research funding was provided by the Social Science and Humanities Research Council (SSHRC) of Canada.
2. At the time European Commission President Barroso spelled out: 'If part of the territory of a member state would cease to be part of that state because it were to become a new independent state, the (EU) treaties would no longer apply to that territory.' Barroso (2013) quoted in European Parliament (2013). Various scholars did, however, indicate that Scottish membership of the EU should not be too difficult, but the general public was a bit concerned (Douglas-Scott, 2014). But no matter how one looks at it, the UK has left the EU, which in turn has lost one of its largest member states.
3. <https://www.fleetpoint.org/logistics/distribution/customs-clearance/new-border-rules-trigger-long-queues-of-trucks-in-calais/>, accessed 11 February 2022.
4. https://ec.europa.eu/info/strategy/relations-non-eu-countries/relations-united-kingdom/eu-uk-trade-and-cooperation-agreement_en, accessed 11 February 2022.

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