BREXIT: THE ECONOMIC AND POLITICAL IMPACT OF A POSSIBLE WITHDRAWAL OF GREAT BRITAIN’S FROM THE EUROPEAN UNION

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Abstract: - Great Britain’s withdrawal from the European Union would not only change the internal political climate, but it could have important political repercussions within the EU and also on its relations with other European Community’s countries. Also, it could stimulate the other EU Member States to re-evaluate the terms and conditions of their membership. The same applies if Great Britain fails to renegotiate these terms and conditions while keeping the status of EU member. A priority for the UK is to maintain close trade relations with the EU, even if politically it would opt for withdrawal. In the event of possible withdrawal from the EU, Great Britain could conclude an agreement with the EU following the example of a customs union (after Turkey’s model). In this case, it would not be obliged to contribute to the EU budget or accept immigration from the EU member states. Last but not least, from a geopolitical point of view, Great Britain's exit from the EU could be seen externally as a sign of decline, EU losing its financial, economic, political and military powerhouse. From this point of view, the European Union itself have a significant political and economic interest to conclude a mutually beneficial agreement with Great Britain considering that it could terminate its EU membership.

Key-Words: BREXIT, Great Britain, Uk’s withdrawal from the European Union, EU Membership

JEL Classification: F10,F13, F15, G00, G20, J10, J60, K00

1. Introduction: Brexit and the Problem of the Right of Voluntary Withdrawal under the EU Treaties

Until the adoption of the Lisbon Treaty (2009)[1], voluntary withdrawal from the European Union was not explicitly stated neither in the constitutive treaties of the EU nor the accession treaties of the Member States. The lack of regulations on the right to withdraw from the Union, most likely, a deliberate omission to not weaken the Member States' commitment to the political project of EU. Before the adoption of the Lisbon Treaty, given the absence of any express provision regarding the withdrawal from EU, there were two approaches to the problem (Miheş 2012):

[1]The Lisbon Treaty was signed by EU Member States in 2007 and entered into force in 2009. The purpose of this treaty is to make amendments and additions to the two treaties representing the constitutional basis of the European Union: the Treaty of Rome (1958) and the Treaty of Maastricht (1993), also known as the Treaty of the European Union.

1. According to the first approach, there was a unilateral right of withdrawal, even if there were no explicit stipulations in this respect –by the right of any sovereign state to withdraw from concluded international treaties. This approach was not universally accepted, particularly given that the European Court ruled for EU member states, that the accession to the EC brings a permanent limitation to sovereign rights.
2. Therefore, before Lisbon Treaty, the main way of withdrawal from the EU was consensual withdrawal. In very restrictive conditions, it would have been possible also for member states to exit the union under the Vienna Convention (1969), mentioning as the main reason the fundamental change of circumstances about the time of contract.

The Lisbon Treaty established the right of Member States to withdraw voluntarily and unilaterally. Currently, to terminate its membership of the EU, the UK could invoke, from a legal point of view, Article 50 of the Treaty on the European Union (TEU). Thus, according to par. 1, art. 50 of the TEU **"any Member State may, by its constitutional rules, to withdraw from the Union".** Formally, a Member State who intends to withdraw from the EU must make known the withdrawal request to the European Council. Further, the European Union must negotiate and conclude a withdrawal agreement with the state that wants to give up the EU member status. The negotiation of the withdrawal agreement is under **Article 218, par. 3 of the Treaty on the Functioning of the European Union** (TFEU). The agreement is concluded on behalf of the EU by the Council of Ministers which approve the agreement by a qualified majority after it has been voted in the European Parliament.

Article 50 of the TEU stipulates that EU Treaties shall cease to apply to the Member State, which has withdrawn from the EU or, if negotiations failed and did not reach any agreement, two years after the EU Member State sent the notification. The constitutional rules in force in each Member State and have the freedom to determine the withdrawal procedure, must take the decision to withdraw from the EU.

EU Member States option to withdraw from the European Union draws the attention of European politicians and analysts for the first time several years ago, when Greece was unable to pay its foreign debt. From that moment, the legal provisions on the right to withdraw from the EU were analyzed and debated extensively. The second country questioning its EU membership is the UK.

In January 2013, David Cameron, the Prime Minister of Great Britain, has asked for the renegotiation of terms and conditions for Britain's membership of the EU and a referendum is to be held by the end of 2017, given the fact that the Conservative Party won the general elections in May 2015. If British exit from EU will take place, a process of deliberation regarding the desirability of preserving certain laws and regulations imposed by EU will be held at the national level.

2. Agreements and Trade Treaties - the Main Choices for Great Britain in the event of a Withdrawal from the EU

In the case of British exit from EU, the UK main options regarding the conduct of foreign relations with the EU Member States and also with other countries are the following:

- The Norwegian model - following terms and conditions of the Agreement on the European Economic Area (EEA). This agreement was signed in 1992 between the EU Member States and several other member states of the European Free Trade Association (EFTA) and entered into force in 1994;
- The Swiss model (which is EFTA member, without being part of the EEA) – following EFTA terms and conditions and, moreover, signing bilateral treaties with the EU. Switzerland has, so far, 120 bilateral treaties with the EU concluded in two rounds (in 2002 and 2005 respectively);
- The Turkish model – following the terms and conditions of the EU Customs Union (EUCU);
- Bilateral agreements under WTO auspices.

What are all these options involving?

a. As a member of the EEA and EFTA, Great Britain would maintain its access to the EU market under the rights EEA member states have (free movement of goods, services, and capital). At the same time, though, it should recognize the same rights for the EU Member States, including the free movement of people (immigration) and, partially, it should adopt the provisions of the Treaties and EU laws.

b. EEA and the EFTA Member States should contribute to the operational and administrative expenditure of the EU, by Protocol 32 and Article 82 of the EEA Agreement. The contributions of the EEA and the EFTA Member States to the operational costs of EU programs are set out in Article 82.1 of the ASEE and is established annually, based on a proportionality factor determined according to the relative size of the GDP of the EEA and the EFTA States compared to EEA total GDP. Also, these states contribute and support the administrative expenditure of the European Commission (EC). Thus, if Britain would become a member of the EEA and /or EFTA, the contribution to the EU budget would not be canceled, but it is possible to be significantly reduced. According to the latest data and estimates of HM Treasury (2014), in 2014 UK was the 4th largest contributor to the EU budget (10.97%) after Germany (21.26%), France (16.27%) and Italy (12.22%). Britain's net contribution to the EU budget in 2014 was 9.8 billion pounds.

c. EEA and EFTA members have a smaller number of EU regulations to implement internally. Thus, as a member of the European Union, Great Britain must annually implement over 1000 EU regulations while, a member of the EEA, have to implement only 350. These regulations may concern any field depending on the regional impact (infrastructure, energy, climate change and general interest services, for which the local authorities and regions initiate draft laws that are subsequently adopted by EU authorities). EFTA members do not need to implement regulations annually, but by signing the bilateral treaties they should apply, at least partially, the provisions of the Treaties and EU law.

d. In the event of possible withdrawal from the EU, Great Britain could conclude an agreement with the EU following the example of a customs union (as in Turkey); in this case, it would not be obliged to contribute to the EU budget or accept immigration of persons EU member states.

Table 1: Great Britain options in the event of withdrawal from the EU

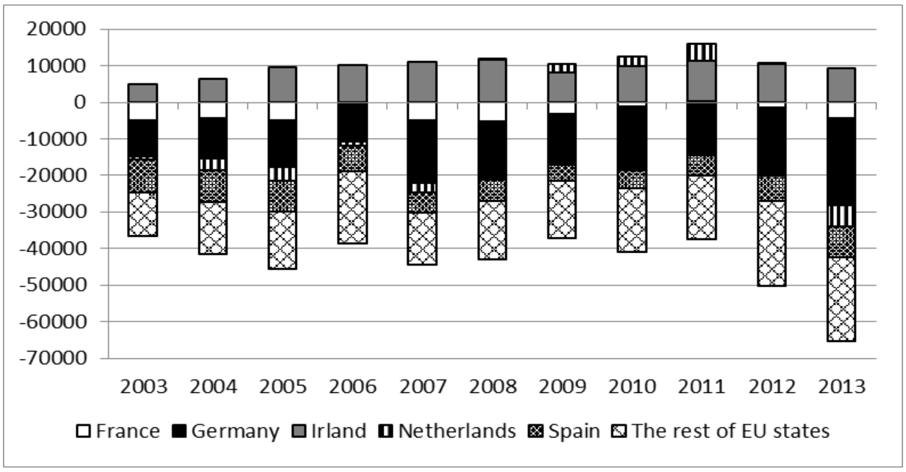
	EU/EEA	**EEA/EFTA (Norwegian model)**	**EFTA/bilateral agreements (Swiss model)**	**EUCU (Turkish model)**	**Bilateral agreements /WTO**
Free movement of goods	Yes	Yes	Yes	Yes	Custom duties
Free movement of services	Yes	Yes	Yes	No	Custom duties
Free movement of capital	Yes	Yes	Yes	No	Yes
Free movement of persons	Yes	Yes	Yes	No	No
Contributions to EU budget	Yes	Yes	Yes	No	No
The application of EU laws	Yes	Yes	Yes	Partial	No

	EU/EEA	EEA/EFTA (Norwegian model)	EFTA/bilateral agreements (Swiss model)	EUCU (Turkish model)	Bilateral agreements /WTO
New regulations per year (the EU legislation)	1000	350	0	0	0
The possibility of independently negotiate trade agreements with the EU	No	Yes	Yes	No	Yes
Control of fisheries resources	EU	Great Britain	Great Britain	Great Britain	Great Britain
Control over agriculture	EU	Great Britain	Great Britain	Great Britain	Great Britain
Responsibility for home affairs	EU	Great Britain	Great Britain	Great Britain	Great Britain
Responsibility in the Justice field	EU	Great Britain	Great Britain	Great Britain	Great Britain
The legal basis for international trade	EU Treaties	EEA	EFTA / Bilateral agreements	EUCU/ Bilateral agreements	Bilateral agreements

Source: Synthesis of authors based on the analysis of literature in the field (Randwyck van, Hugo (2013), Efta or EU, Qs and As, The Brouges Group; Randwyck van, Hugo (2013), Efta or EU, Qs, and As, The Brouges Group)

e. Assuming that Great Britain would decide to leave the EU and would not enter into any trade agreement with the European Union, relying solely on the General Agreement on Customs and Trade (WTO), the EU could decide to introduce customs duties for products imported from Great Britain, as for any third country. Although Great Britain's trade balance with the EU is unfavorable - especially given the trade surplus of Germany, Spain and, more recently, of the Netherlands - however, approximately 50% of British exports go to the EU (Ireland, in particular). At the same time, less than 10% of EU exports go to the United Kingdom (see Chart 1, Table 2).

Chart 1: Great Britain's trade balance with the EU's main trading partners during the period 2003-2013, in million pounds



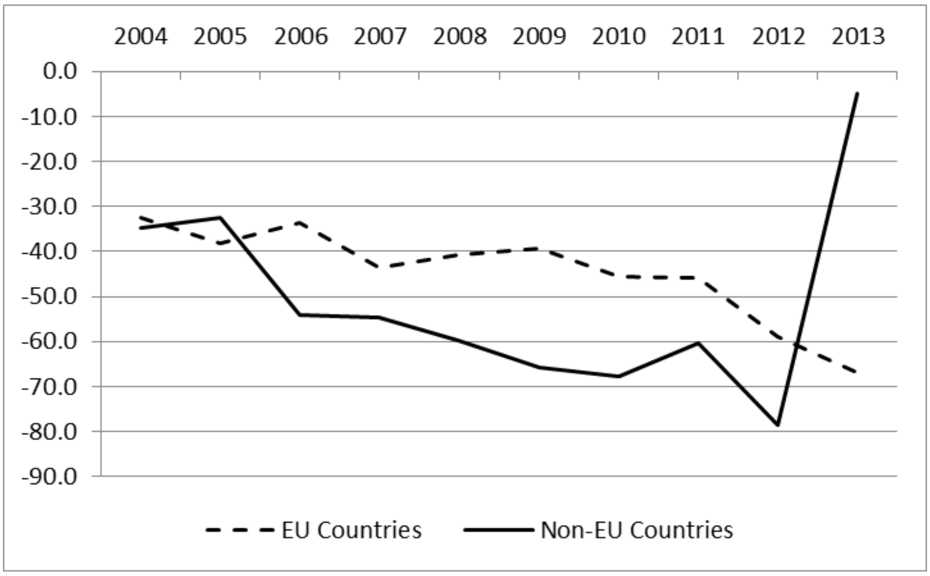
Source: National Bureau of Statistics, UK, 2015

Table 2: Great Britain's exports during 2004-2013 (% of total exports)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Countries outside the EU	41.1	43.4	37.3	42.1	44.4	44.9	47.2	49.8	49.7	56.4
EU Countries	58.9	56.6	62.7	57.9	55.6	55.1	52.8	50.2	50.3	43.6

Source: Eurostat, 2015

Chart 2: The evolution of Great Britain's trade balance during 2004-2013 (in billion pounds)

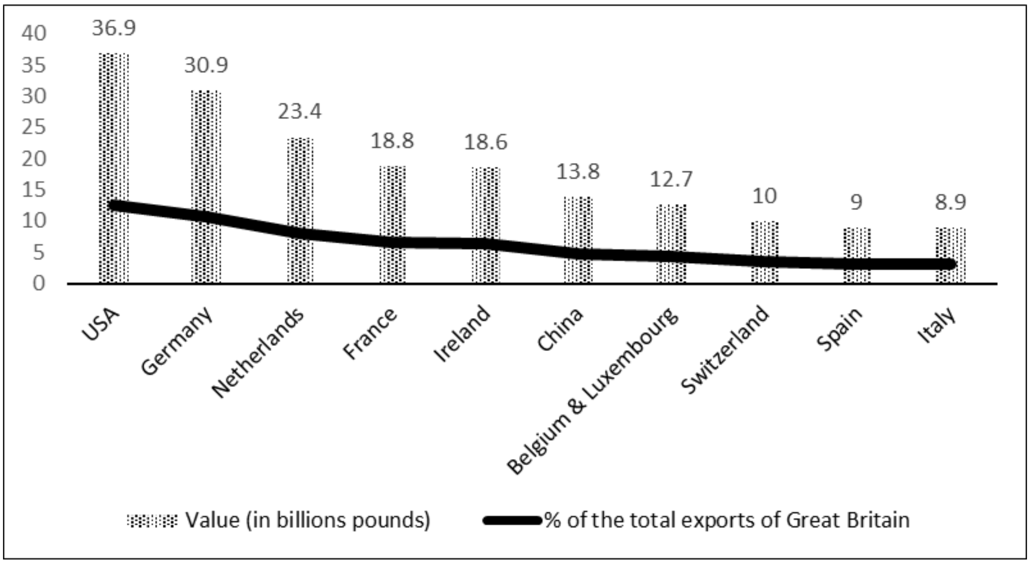


Source: Eurostat, 2015

From the statistical data presented above, it is noticeable that UK has an interest in maintaining close trade relations with the EU, even if politically it would opt for the withdrawal from the EU. In the absence of a preferential trade agreement with the EU, UK could have difficulties in maintaining the current level of trade and the pressure to conclude bilateral trade agreements as quickly as possible with countries outside the EU would increase considerably. Finally, non-tariff barriers are rising globally, and the practice of the rounds of negotiations in the WTO shows that commercial disputes can last for years.

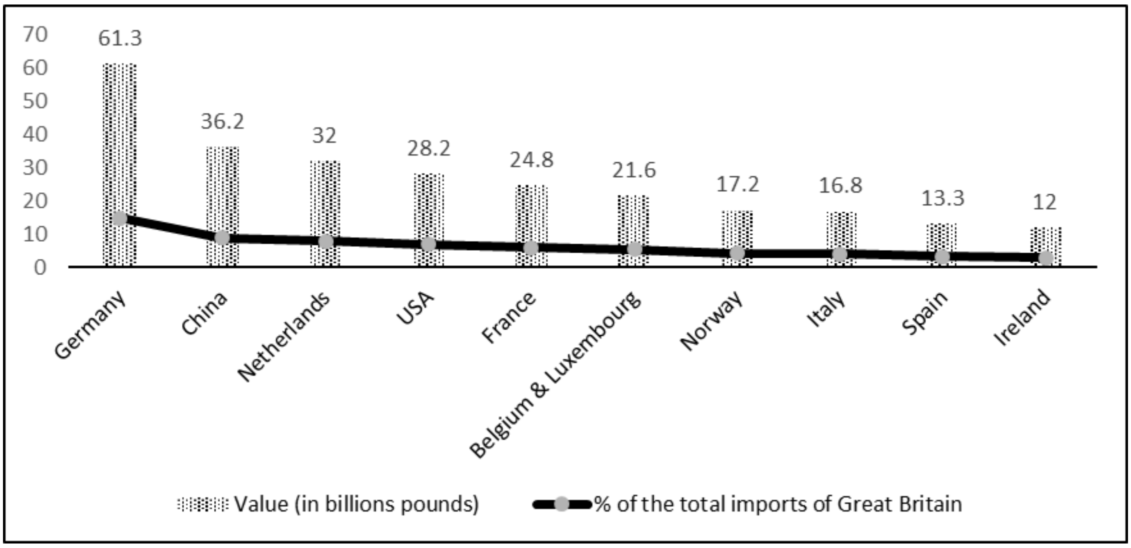
From this perspective, the negotiation of bilateral trade agreements with countries from outside the EU is not easy or without risk. However, since 2012, Great Britain's trade deficit with non-EU countries narrowed considerably, indicating UK orientation towards non-EU markets, increasing exports to these markets. In last three years, a trend reversal regarding the commercial trade of Great Britain with the EU took place (Table 2 and Chart 2). More precisely, while in 2004, 41% of Great Britain exports went to countries outside EU and 59% in the EU Member States after ten years, gradually, the ratio has almost reversed: in 2013 56.4% of great Britain exports went to non-EU countries and 43.6% to the EUIn 2014, Britain preserved tight trade relations with the US, which occupies a leading position among UK' trading partners (12.6% of total exports) - see Charts no. 3 and no. 4.

Chart 3: Great Britain's main trading partners, 2014 (export destinations)



Source: National Bureau of Statistics, UK, 2015

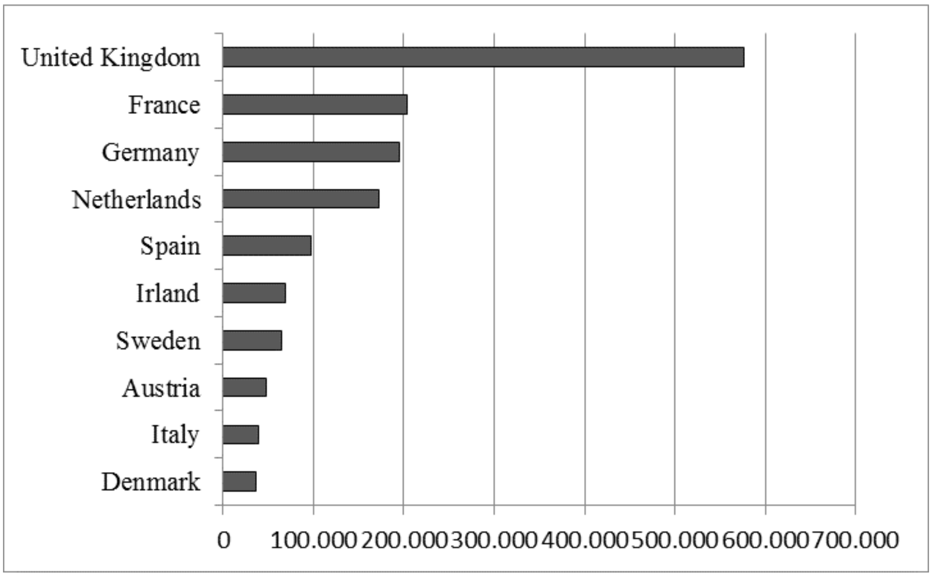
Chart 4: Great Britain's main trading partners, 2014 (imports)



Source: National Bureau of Statistics, UK, 2015

Regarding the foreign direct investments (FDI), United Kingdom remains the largest recipient of FDI in the EU. Most of the foreign direct investments received by EU are coming from the USA, and the United Kingdom is the top destination. For example, in 2013, over 30% of the foreign direct investment flows received by the United Kingdom came from the USA (13.451 million out of a total of 43.359 million pounds). Being a member of the EU plays an important role, given that most of the companies investing in the European Union are seeking an EU member state where they can distribute their products without trade barriers. The market size is also an important factor in attracting FDI, therefore, and EU membership is an advantage, from this point of view, for the UK. The majority of foreign direct investment received by the UK (60% of the total) are in services, and half of these are in the banking sector.

Chart 5: The main EU member states recipients of FDI outside the EU from 2012 (stock - billion pound)



Source: Eurostat, 2015

3. Brexit and the possible influence on the UK banking system

London's financial sector includes over 250 banks (30.5% being EU banking institutions), all of them enjoying free entry to the European single market, given the fact that Great Britain is a member of the European Union. The UK potential exit from the European Union could be done according to the art. 50, therefore it would take place within two years from the submission of the formal application for withdrawal. This period would be marked by a decreased influence of Great Britain's at the negotiating table in Brussels as well as by increased uncertainties. In 2013, combined financial services and insurances recorded a surplus of 19.1 billion pounds (Agnew, 2015).

UK's withdrawal from the European Union would generate the relocation of banks in countries that allow them to maintain their access to the EU single market (for example Ireland), which sums up over 500 million consumers. Already, the number of banking units in the UK has declined from 2009 to 2012 by 4.11% (from 11,869 to 11,381 units). Also, the number of employees has decreased by 10.53% from 2009 to 2013 (471,129 to 421,508), according to the European Central Bank (ECB, 2015). The same statistics indicate a reduction in the EU banking institutions operating in the United Kingdom by 19.5% (from 77 in 2009 to 62 in 2013) and those from outside the EU from 91 to 90 in the same range (1,09%). The value of the assets held by British subsidiaries of EU credit institutions decreased by 25.7% (from 508.13 billion pounds in 2009 to 377,600,000,000 pounds) in 2013. It is noticeable a downward trend regarding financial cooperation between the banks of the UK and the EU banks, strengthened by the decrease of the British foreign direct investments in Europe's countries and, especially, in the European Union (see Table 3).

Table 3: The evolution of the value of net British FDI in geographical areas

Region	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Europe	**16.899**	**90.683**	**50.863**	**15.690**	**11.374**	**27.312**	**2.008**	**-17.582**
European Union	4.038	69.836	47.298	-7.047	9.761	15.856	-2.262	-12.430
Other countries from	5.935	17.227	1.088	18.188	145	9.621	-331	-5.763

Region	2006	2007	2008	2009	2010	2011	2012	2013
Europe								
Of which:								
Russian Federation	-13	1.334	3.919	-353	-1.859	467	-2.662	-9.627
Off-shore British Islands	5.023	14.752	-4.278	17.848	1.036	8.468	1.720	3.522
America (North and South)	**19.100**	**53.837**	**33.574**	**-2.218**	**-13.814**	**14.675**	**15.791**	**27.997**
ASIA	**7.992**	**7.734**	**6.364**	**8.575**	**8.401**	**20.526**	**-3.099**	**-4.165**
Asian Australian and Oceania	**3.132**	**2.149**	**7.662**	**-3.543**	**11.704**	**803**	**1.139**	**8.064**
AFRICA	**-235**	**4.726**	**881**	**6.590**	**7.822**	**-3.186**	**11.554**	**2.923**
World Total	**46.887**	**159.129**	**99.322**	**25.094**	**25.486**	**60.130**	**27.392**	**17.237**
OECD	21.276	125.975	83.393	1.164	7.674	36.119	20.257	19.459
Central and Eastern Europe	76	0	53	40	-26	-3	10	55

Source: National Bureau of Statistics, UK, 2015

Foreign banks hold about 50% of the banking assets in England. The financial banking sector contributes to about 16% to the UK's budget (more than the oil industry in this country). At the same time, the financial sector in London's Citi generates 10% of Great Britain’s GDP, UK being the biggest exporter of financial services in the world and, therefore, also in the Eurozone (The Economist, 2014).

According to the same analysis of the prestigious British magazine, From 2007 until now, given the financial and banking crisis, a decrease in the financial and banking service revenues took place and, therefore, the state budget revenue halved. Also, a reduction in international banking flows to London would create problems of financing UK’s current account deficit, in the context of the EU's trade surplus with the United Kingdom.

According to preliminary statistics published by the Bank for International Settlements, in the third quarter of 2014, the total exposure of Great Britain to European banks was £ 989.4 billion (details in Table 4).

Table 4: UK banks' exposure to countries in the EU - information from reporting institutions (in billions of pounds)

2014	European banks	Belgium	France	Germany	Italy	Spain
Total exposure	989.5	12.8	142.1	250.9	29.8	5.5
Public sector	88.1	0.4	17.0	16.4	0.2	21.3
Banks	298.8	6.7	75.9	76.5	12.1	11.5
Nonbank private sector	596.5	6.1	49.2	158.5	17.0	196.8
Unallocated sectors	6.1	0.0	0.2	-	0.0	-
Other potential exposures	1166.2	7.9	57.1	297.0	68.6	-
Derivatives contracts	702.2	-	23.9	257.5	4.9	46.2
Guarantees	331.0	-	7.3	16.4	52.8	1.8
Credit commitments	133.0	-	26.7	23.1	10.9	39.5

Source: Bank for International Settlements (BIS), 2015

International investors see London as an intermediary between the US, EU and Asia. In the event of UK's exit from the EU, London would lose a great deal of its influence. The importance and attractiveness of London Citi's banking and financial institutions outside the EU would be diminished because they will lose the privilege of exporting free of charge capital, goods, and services on the EU Single Market. Also, business specialists exchange, favored by the free movement of persons in the European Union could be inhibited in the event of the UK exit from EU. In the European Union mainland are working approximately 1.4 million British citizens while in the UK are working 2.2 million European citizens from other EU countries. The UK exiting the European Union would lead to at least a partial exodus of this human capital, depriving Britain of one of its current net benefits (Sanati, 2013).

The discussions and tough negotiations regarding the restriction of free movement of labor in the UK as a Brexit pretext can be better understood in the context of parliamentary elections that took place in Albion in May 2015. European legislation requires that, to access the European Single Market, all non-member countries must have financial and control regulations equivalent to those in the European Union. Therefore, the legislative independence of Great Britain's from EU could be illusion or merely an electoral stake (Karim, 2014). In the event of Brexit, Great Britain would lose its power to influence the EU legislation, including the financial transaction tax issue on the EU agenda, which is vital to Citi of London. Besides, Junker's plan for financing productive activities in the Union via the single capital market diminished already the role of banks în this kind of activities.

In 2013, Great Britain's GDP was 1713.11 billion pounds and in 2014 the total exposure of British banks to EU countries represented about 60% of GDP for the year 2013. According to BIS statistics, (synthesis of the 25 countries whose financial institutions have reported information), Great Britain's exposure to European countries represent 63.17% of the total exposure of the Kingdom. According to Anna Fedorova from Investment Week, the total exposure of British banks in Greece was about 12 billion pounds (according to BIS data), while the exposure to PIGS countries in general (Portugal, Italy, Greece, Spain) has been reduced as the economic situation in southern Europe worsened. At the end of Q4 of 2014, the value of external operations of financial institutions registered in the UK was 188% of Great Britain's GDP in 2013 (Fedorova, 2015).

Table 5: Foreign operations of financial institutions registered in the UK by currency and sector (liabilities) in billion pounds

	2013	2014			
	Quarter 4	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**
Pounds					
Central banks	77	87	89	77	79
Unresident banks	420	438	439	401	392
Other unresident institutions	271	233	244	238	232
Total	767	759	772	716	704
Dollars					
Central banks	157	157	161	160	149
Unresident banks	937	867	878	909	903
Other unresident institutions	866	902	898	899	891
Total	1.960	1.926	1.937	1.967	1.943
Euro					
Central banks	41	30	25	30	24
Unresident banks	971	1.014	1.051	952	900
Other unresident institutions	573	588	569	546	514

Total	1.585	1.631	1.645	1.527	1.438
Swiss Francs					
Central banks	1	0	1	0	1
Unresident banks	46	46	42	39	36
Other unresident institutions	19	18	19	20	17
Total	66	64	62	60	54
Yen					
Central banks	3	2	3	2	4
Unresident banks	95	81	83	78	82
Other unresident institutions	79	80	84	80	80
Total	177	163	171	160	166
Other currencies					
Central banks	78	84	83	70	72
Unresident banks	123	118	122	126	114
Other unresident institutions	89	92	95	94	85
Total	290	295	300	290	271
Unassimilated to currencies	503	491	512	494	464
All currencies					
Central banks	357	362	361	338	330
Unresident banks	2.592	2.560	2.611	2.506	2.419
Other unresident institutions	1.899	1.915	1.913	1.881	1.821
Bonds issued	500	491	511	489	469
General total	5.349	5.328	5.397	5.213	5.039

Source: Bank of England, 2015

Table 6: Foreign operations of financial institutions registered in the UK by currency and sector (assets) in billion GBP

	2013	**2014**			
	Quarter 4	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**
Pounds					
Central banks	7	2	4	5	5
Unresident banks	220	215	212	207	195
Other unresident institutions	214	250	258	244	236
Total	442	467	475	455	436
Dollars					
Central banks	14	19	14	11	11
Unresident banks	1.022	1.059	1.121	1.142	1.129
Other unresident institutions	985	999	1.015	1.035	1.020
Total	2.022	2.077	2.150	2.188	2.160
Euro					
Central banks	13	11	9	10	11
Unresident banks	1.005	1.016	939	862	805
Other unresident institutions	682	712	726	679	675
Total	1.700	1.738	1.675	1.551	1.491
Swiss francs					
Central banks	1	0	1	0	1
Unresident banks	111	104	91	106	89
Other unresident institutions	21	19	20	18	15

	2013	2014			
	Quarter 4	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**
Total	132	124	112	124	104
Yen					
Central banks	1	2	2	0	1
Unresident banks	75	73	89	85	85
Other unresident institutions	121	120	124	111	112
Total	198	195	215	197	199
Other currencies					
Central banks	3	4	4	2	3
Unresident banks	226	235	242	221	205
Other unresident institutions	113	110	114	107	97
Total	342	349	360	329	305
Unassimilated to currencies	-3	7	5	3	1
All currencies	0	0	0	0	0
Central banks	40	38	34	28	33
Unresident banks	2.655	2.708	2.700	2.626	2.508
Other unresident institutions	2.136	2.211	2.258	2.194	2.156
General total	4.831	4.956	4.991	4.848	4.696

Source: Bank of England, 2015

According to an "Open Europe" report, a think tank analysis of the European issues, an exit from the European Union would cost the UK 56 billion pounds annually, if it will not open its borders to trade and immigration.

Table 7: Brexit's initial impact over the financial and insurance services

Sector	**% of exports in Europe**	**The trade balance with the EU (billion pounds)**	**Potential barriers to EU markets**	**Risk level**	**Chance of same access to EU**	**Possible conditionalities**
Financial services	41.4	16.06	Different regulations regarding the access to Single Market	High	Low	Equivalent regulations; Access - possible, punctual
Insurance	18.4	3.85	Different regulations regarding the access to Single Market	Medium	Medium	Equivalent regulations; Access - possible, punctual

Source: Open Europe (2015)[2].

Lord Roger Liddle, Labour MP, former special adviser on European issues to the British Prime Minister Tony Blair and adviser to European Commission President José Manuel Barroso, asserted that out of the top priorities of UK, exiting the EU is not one of them, according to polls. The most important issues that

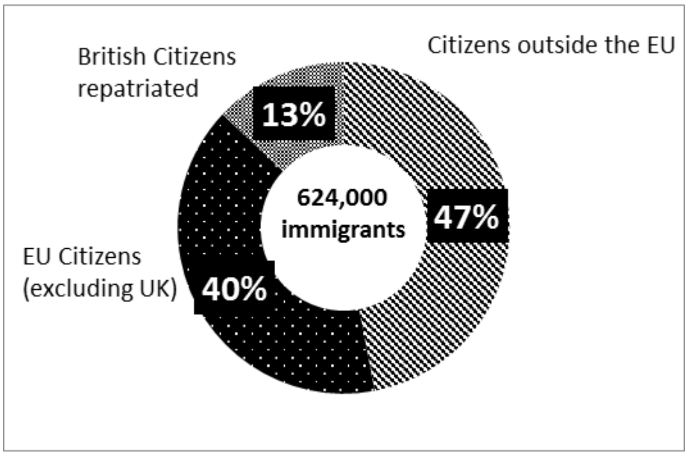
[2]http://openeurope.org.uk/intelligence/britain-and-the-eu/securing-free-trade-eu-brexit-likely-goods-sectors-far-harder-services/

will test the relevance, purpose and unity of the EU, are security threats to the EU borders, Russian nationalism, the fascism and the chaos in the Middle East North Africa.

4. Immigration and its impact on public finances

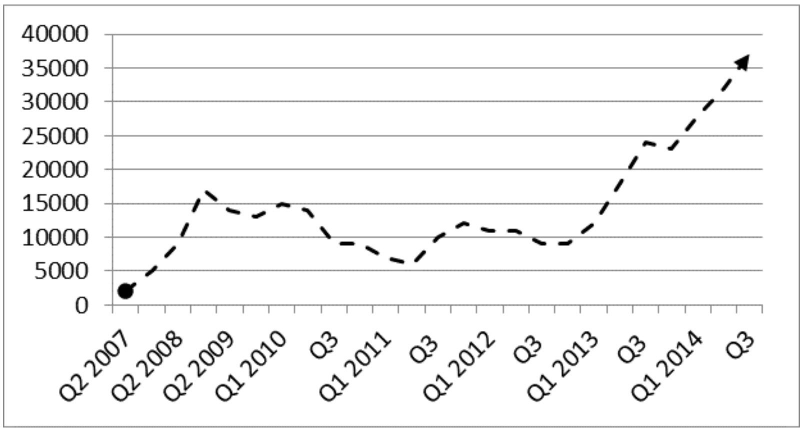
Immigration in the context of labor market liberalization in the EU has been and still is one of the main complaints of the British people and also one of the reasons why most British people support the withdrawal from the EU. The main concerns of the British government correlated with the rising immigration from the EU Member States, particularly from the eastern and southern Europe (Charts 6 and 7) are related to: (a) fewer jobs for the British workers and wage cuts in some sectors; (b) the conditions under which immigrants become beneficiaries of the public services provided by the British government.

Chart 6: Immigration in the UK in 2014



Source: National Bureau of Statistics, UK 2015

Chart 7: The immigration evolution of citizens from Romania and Bulgaria in the UK (2007-2014)



Source: National Bureau of Statistics, UK 2015

Numerous studies reveal, however, that, in economic terms, immigrants are not a burden but an asset. On the one hand, they represent the workforce needed to maintain a developed economy, given that Great Britain is facing an aging population. On the other hand, according to statistics, immigrants were found to be net contributors to the public finances of Great Britain. According to a recent study (Dustmann & Frattini, 2014) conducted by two researchers from the Centre for Research and Analysis of Migration (CReAM) immigrants from the EU (both from western and eastern Europe) have contributed more to Great Britain's public finance than they benefited from during 2000-2011. More specifically, immigrants from the EU (15)[3] have contributed to 64% more than they benefited from UK's public finances (15 billion pounds) while immigrants from EU countries in Central and Eastern Europe have contributed to 12% more than they benefited (5 billion pounds).

Last but not least, it is possible that on the long term, the demand for migrant workers in the British labor market will be on the rise, being rather complementary, filling low paid jobs that do not require high qualifications. Nevertheless, the British government does not intend to restrict the free movement of persons but to change EU rules regarding the immigrants access to social benefits, aiming to limit it.

5. External Grants provided by the European Commission to the United Kingdom

UK has an expenditure budget of 805 billion euros, which is five times higher than the EU, and represents over 42% of the cumulative GDP of all other Member States. Comparatively, Germany has an expenditure budget of 1.223 billion euros and Romania, of 28 billion euros.

At the end of 2014, the United Kingdom had an absorption rate of EU funds from the programming period 2007-2013 of 73,1% out of the 10.6 billion euros, which is a very high rate that gives the premises of a final rate of absorption of over 90%, based on a strong economy.

According to the Partnership Agreement for the programming period 2014-2020, the UK benefits of 16.5 billion euros, of which: EUR 4.5 billion ESF[4], ERDF[5] 6.5 billion euros, 5.2 billion euros for the CAP Fund and 0.3 billion for the Maritime Fund and Fishery. According to the official website of the British government, in 2014 the EC approved four implementing operational programs, and the first installments of pre-financing of 2% of their financial allocation were paid earlier, leading to a perfect start for the UK in European funds absorption from the new funding period.

The 2014-2020 period is characterized by a series of paradigm changes such as the access to EU funds by the beneficiaries from any Member State, transposing the Agenda of the simplified cost options approved by the Commission in the new European regulations for all EU structural and investments funds. In this context, UK companies are competitive and will follow the Commission’s auction sites to get new important contracts with the beneficiaries of European funding.

5. Political consequences

The possible withdrawal of Great Britain from the EU could have significant consequences regarding the integrity and political unity of the UK. In England, Euroscepticism is more pronounced than in Scotland. Great Britain's withdrawal from EU is not supported by the Scottish National Party (SNP). In the event of the UK exit from EU SNP could demand a second referendum regarding the independence, that would offer the Scots the chance to decide whether to detach from the UK while maintaining relations with the EU.

England's withdrawal from the EU would not only change the domestic political climate, but it would have significant political consequences both within the EU and on the future relations between EU member states and other non-EU countries. For example, UK’s exit from the EU could encourage other member states to re-evaluate the terms and conditions of their membership. The same applies if Great Britain succeeds to renegotiate these terms and conditions while keeping the status of EU member. At the same time Also, if Great Britain manages to negotiate (after a possible exit) a preferential agreement with the EU, this could lead to the

[3]EU Member States prior to the enlargement from May 1st 2004.
[4]European Social Fund
[5]European Regional Development Fund

renegotiation of EU's relations with other European countries that are not part of the EU (Switzerland, Norway, and Turkey).

Last but not least, from a geopolitical point of view, Great Britain's exit from the EU could be seen externally as a sign of decline, EU would lose the financial, economic, political and military powerhouse. From this point of view, the European Union itself would have a major political and economic interest to conclude a mutually beneficial agreement with Great Britain considering that it would want to terminate its EU membership.

Current political domestic situation and the problem of UK’s from the EU

The most relevant domestic political event in the UK are the parliamentary elections hold in May 2015. In this context, the divergences between the Conservative Party and the Labor Party on the Brexit have become campaign issues. Also, for the current prime minister of the cabinet of London, the Conservative David Cameron, there was a post-election stake: to maintain its position as party leader and head of government. To get the votes from a significant part of the population that does not agree with the current European policy, the prime minister pledged to renegotiate Great Britain's terms of accession to the European Union. In this respect, he promises to organize a referendum concerning the country’s withdrawal from the EU by the end of 2017. .

According to a survey conducted by Ipsos Mori in October 2014, 56% of respondents were for Britain's remaining in the EU, while 36% opted for leaving the EU. According to experts, it is the first time since 1990, when the British Eurosceptics are a minority. In 2011, 49% of the population expressed its desire for Great Britain to leave EU and only 41% were in agreement to stay.

Box 1 - Historical elements United Kingdom’s relationship with the European Union

1949 - Britain signs, together with 9 other Western European countries (France, Benelux, Iceland, Italy, Norway and Portugal), the United States and Canada the Washington Treaty which commits signatory countries take the responsability to defend each other in case one of them is military attacked.

1960 - Along with Austria, Denmark, Norway, Portugal, Sweden, Switzerland, the United Kingdom signs the Stockholm Convention which establishes European Free Trade Association (EFTA) as an alternative to the European Economic Community (EEC). EFTA aimed to remove customs duties on industrial products for trade between Member States. The difference between EEC and EFTA was that EFTA was not a customs union, each State could established, in principle, certain customs duties and trade policies in its relations with non-member states.

1961 - The British government, led by the Conservative Prime Minister Harold Macmillan, decides to ask CEE accession to the European structure, however, French President Charles de Gaulle refuses to support Britain's request, considering the integration of the United Kingdom as a threat to the French goal to use EEC in order to amplify France's status in international relations. Also, EEC officials were concerned about the close ties between Great Britain and the United States, but also doubted the political will of the Kingdom to join the EEC.

1967 - United Kingdom once again calls joining the EEC.

1973 - United Kingdom joins the EEC, along with Denmark and Ireland.

1974 - Foreign Affairs Secretary James Callaghan states in front of the Council of Europe the policy changes related to working conditions in CEE, approves the proposal for European Parliament elections and asks the CEE for major changes within the EEC Common Agricultural Policy aswell as viable solutions regarding the Economic and Monetary Union.

1975 - The British government holds a referendum in which 67.2% of the citizens agree to stay in the EEC.

1978 - The Council of Europe constitutes the European Monetary System (EMS) based on the European currency unit (ECU) and the European Exchange Rate Mechanism (ERM). Except for Great Britain, all other Member States sign the agreement on EMS.

1984 - The British government led by Margaret Thatcher obtains the approval of the Council of Europe to reduce its contribution to the Community’s budget.

1990 - United Kingdom enters the European Exchange Rate Mechanism

1992 - United Kingdom is forced to leave the ERM, due to the devaluation of its currency and a fragile internal economy.

1995 - United Kingdom and Ireland refuse to sign the Schengen Agreement, whereby the Member States eliminate internal border controls, because of fears of terrorism and illegal immigration.

2002 – 12 of the Member States adopt the Euro currency, except the UK, Sweden and Denmark.

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