



**KAUNAS UNIVERSITY OF TECHNOLOGY**  
**FACULTY OF SOCIAL SCIENCES, ARTS AND HUMANITIES**

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**PERSPECTIVES OF EUROPEAN UNION AND UNITED  
KINGDOM ECONOMIC AND POLITICAL RELATIONS AFTER  
BREXIT**

Final project for Master's degree

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European Union International Relations (621L20016)

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## SANTRAUKA

Šiame darbe apžvelgiami ir tiriami ES ir Jungtinės Karalystės ekonominių ir politinių ateities scenarijų pasekmės po Jungtinės Karalystės pasitraukimo iš Europos Sąjungos. Ši tema vis dar yra nauja ir laiko po „Brexit‘o“ referendumo yra praėję nedaug, todėl nei vienas šiame darbe minimas autorius neįvardija, neturi tikslų duomenų ar tikslų „Brexit‘o“ pasekmių apibrendimo. Šios temos aktualumas yra ryškus, nes derybų procesas vis dar vyksta ir nėra aišku, kurią politinių ir ekonominių santykių kryptį su ES pasirinks Jungtinė Karalystė. Tyrimo objektas – Jungtinės Karalystės ir Europos Sąjungos politiniai ir ekonominiai santykiai. Tyrimo tikslas – pateikti atities politinių ir ekonominių santykių tarp Europos Sąjungos ir Jungtinės karalystės prognozes po „Brexit‘o“. Tikslui įgyvendinti iškelti šie uždaviniai: susisteminti istorinius ekonominių ir politinių santykių tarp ES ir Jungtinės Karalystės bruožus, identifikuoti galimus ateities „Brexit‘o“ scenarijus, iširti galimas Škotijos perspektyvas po „Brexit‘o“ ir išanalizuoti ir palyginti antrinius šaltinius apie „kietąjį“ ir „minkštąjį“ „Brexit‘o“ scenarijus. Uždaviniams įgyvendinti naudoti šie metodai: literatūros analizė ir antrinių šaltinių analizė. Pirmoje darbo dalyje apžvelgiami istoriniai Jungtinės Karalystės ir Europos Sąjungos santyki aspektai. Antroje dalyje apžvelgiami galimi Jungtinės Karalystės ir Europos Sąjungos santyki scenarijai. Trečioje darbo dalyje apžvelgiam Škotijos pozicija „Brexit‘o“ klausimu. Paskutiniuojuose dalyje analizuojami ir lyginami antriniai šaltiniai, autoriai, besigilinantys į „kietojo“ ir „minkštojo“ „Brexit‘o“ galimybes. Tyrimo rezultatai atskleidė, kad ES ir Jungtinės Karalystės santykiai buvo keblūs jau nuo pat ES pradžios, nepaisant to, kad Jungtinė Karalystė buvo viena ir pirmiausiai įstojusių į Europos Sąjungą valstybių. Ilgą laiką tarp ES ir Jungtinės Karalystės kildavo konfliktų, kurie ir lėmė Jungtinės Karalystė norą pasitraukti iš ES. Įvairių šaltinių analizė parodė, kad yra keli „Brexit‘o“ scenarijai, tačiau labiausiai tikėtinas scenarijus yra kietojo „Brexit‘o“ ir tai paneigė iš pradžių išsikeltą tyrimo hipotezę.

Kuzmickas Vykintas. *Perspectives of European Union and United Kingdom Economic and Political Relations after Brexit*: Master's thesis in European Union International Relations. Supervisor assoc. prof. Rasa Daugėlienė. The Faculty of Social Sciences, Arts and Humanities, Kaunas University of Technology.

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## **SUMMARY**

The thesis focuses on research of EU and the UK future economic and political scenarios and consequences after Brexit. The topic is still very new and not researched a lot as there is very little time passed after the Brexit referendum therefore none of the researchers quoted in this paper have specific and final conclusions or data about Brexit consequences. The actuality and relevance of this topic is high as the negotiation process of Brexit is ongoing and is not finalized yet, it is not known what way will the United Kingdom choose for concluding Brexit. The object of the research – UK and EU economic and political relations. The aim of the research – to provide synopsis for the future economic and political model of the European Union and The United Kingdom relations in Brexit case. In order to fulfill the aim of the research, the following tasks have been formulated: to systemize the peculiarities of the UK and the EU economic and political relations from a historical perspective, to identify possible EU-UK economic and political Brexit scenarios, to examine future perspectives of Scotland after Brexit, to analyze and compare secondary data on “Soft” and “Hard” Brexit scenarios. In order to complete the tasks, following methods are used: literature analysis, secondary data analysis. In the first part of this paper, historical perspectives of EU and the UK relation are observed. The second part of the paper deal with the possible future scenario of relations between the EU and the UK. In the third part, position of Scotland in the event of Brexit is observed. The last part of the paper deals with comparison of “Soft” and “Hard” Brexit scenarios by analyzing the secondary data of various researchers on the topic. The research results revealed that the relations of the EU and the UK have been complicated since the beginning of the European Union and despite of the fact that the UK has been the one of the initiators of the EU. There have been many conflicts and tensions between the UK and the EU which led to the current result of Brexit. Secondary data analysis of

various sources revealed that there are many possible scenarios described but the most likely scenario remains the “hard” Brexit which does not support the formulated hypothesis in this work.

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## **ABBREVIATIONS**

**CM** – Common Market

**ECA** – Economic Co-operation Administration

**ECJ** – European Court of Justice

**EEA** – European Economic Area

**EEC** –European Economic Community

**EFTA** – European Free Trade Organization

**EU** – European Union

**FDI** – Foreign Direct Investment  
**FTA** – Free Trade Agreement  
**GATT** – General Agreement on Tariffs and Trade  
**GDP** – Gross Domestic Product  
**MFN** – Most Favored Nation  
**NATO** – North Atlantic Treaty Organization  
**SEM** – Single European Market  
**UK** – United Kingdom  
**US** – United States  
**VAT** – Value Added Tax  
**WTO** – World Trade Organization

## INTRODUCTION

**Relevance and novelty of the topic.** The United Kingdom has been a member of the European Union for a number of years and recently its future became very unpredictable due to the fact that in June 2016 the British voted in the referendum to leave the EU. Since that day, the future economic and political relations between the UK and the EU have been negotiated to propose the most suitable scenario to exit the EU with minimal damage to both the UK and the EU. Although the country has not left the EU yet, the official Brexit should be concluded in March 2019, changes in economy and political situations are being observed every day. Starting from changing stock market prices and finishing with the decrease of British pound exchange rate. It is not clear what economic and political implications will be manifested. There are many areas of external politics which will be influenced by the exit of the UK such as migration policy, labour policy, trade and many others. Moreover, the budget of the European Union will need to be restructured as after the Brexit, the EU might not continue to be funded by the UK – one of the largest contributors to the EU budget. Therefore, a sophisticated plan for compiling a synopsis is an important step towards the smooth transition of the UK on the path to new international relations. Finally, the stability of future relations of Scotland and the EU have been destabilized as well with the Brexit news. Scottish citizens voted against Brexit however will face the consequences together with the rest of the UK just in a different way, therefore analyzing the outcomes of Brexit in Scotland is inclusive in the paper.

There are many scientists and politicians explaining the outcomes of this withdrawal from the Union but each one is different and must be compared side by side. In this paper, books and publications of Peristic (2010), Pruitt (2017), Dedman (2006), Johnson (2005), Daugėlienė (2011) and others are analyzed to reveal the history of the UK in the European integration process. Also, BBC online articles, Scottish Government, HM Government documents were investigated to acquire a broader sense of Brexit negotiation process. Scottish side of events are described by such authors like Meer (2017), MacAlpine (2016). Douglas (2017). Historical aspects are overview by: Bache and George (2006), Podmore (2008), Vojtiskova (2014), Pruitt (2017), Seldon (2007), Vitkus (2008) and others. On one side, there are claims that Brexit might be beneficial to the UK and the EU while others claim the opposite. However, the topic is much broader than this and can affect each side in a different way. Therefore, various analysis and scenario explanations are being produced by Political analysts. Comparisons of several viewpoints might give more detailed descriptions. The scientific novelty is grounded by the fact that the Brexit phenomenon is still new and ongoing and there are still

not so many studies done in the field. Therefore, the above facts raise the problem of how to predict the future economic and political perspectives between the UK and the EU after the Brexit is concluded.

**The object of the research** – UK and EU economic and political relations

**The aim of the research** – to provide synopsis for the future economic and political model of the European Union and The United Kingdom relations in Brexit case.

**Tasks of the research:**

1. to systemize the peculiarities of the UK and the EU economic and political relations from a historical perspective
2. to identify possible EU-UK economic and political Brexit scenarios
3. to examine future perspectives of Scotland after Brexit
4. to analyze and compare secondary data on “Soft” and “Hard” Brexit scenarios

**Hypothesis: The United Kingdom is more likely to keep the close relations with the European Union which might manifest in the “Soft Brexit” scenario.** This means that the United Kingdom will still have access to the Single Market, the contributions to the EU budget will not be demolished completely, duty-free trade in goods and services will stay the same, may need to adhere to EU social and employment rules, will not be able to restrict inward EU migration. However, the UK will be able to negotiate bilateral trade agreements with non-EU trade countries, will not be a part of Common Agricultural Policy.

The **research methods** for the theoretical part, are analysis of relevant literature, studies and research papers. For comparison of “Soft” and “Hard” Brexit scenarios, secondary data analysis is used.

**Structure of the thesis.** The thesis is composed of the following four parts. The first part presents the historical background and picture of the United Kingdom and the EU relations. The second part analyses Brexit possible future economic and political scenarios. The third part examines the Brexit case from the viewpoint of Scotland. The last part provides specificity of comparison and evaluation of “Soft” and “Hard” Brexit scenarios. The thesis includes 48 pages, 9 tables , 3 graphs and 1 illustration. 45 theoretical sources used in this paper.

# **1. PECULARITIES OF ECONOMIC AND POLITICAL RELATIONS BETWEEN THE UNITED KINGDOM AND THE EUROPEAN UNION FROM A HISTORICAL PERSPECTIVE**

In this section of the paper, analysis through a historical perspective is made, focusing on the role of the United Kingdom in the development of the European Union. Economic and political aspects and events leading to the years of Brexit referendum are distinguished to reveal the causes of the British decision to leave the EU.

## **1.1 Role of the United Kingdom in the development of the European Union**

In 1957, Italy, Belgium, France, West Germany, Luxembourg and the Netherlands signed the Treaty of Paris, which established and confirmed the European Economic Community (EEC) which later on formed today's European Union. (Bache and George, 2006) The first steps of reaching today's Union began when the government of the United Kingdom (UK) government created a plan to join the European Community (EC) and at that time it was explained as a trading agreement but not a political or economic union. (Podmore, 2008) The UK applied to join the EU for the first time in 1961 and finally became a member of it together with Ireland and Denmark in 1973. The Prime Minister Edward Heath at that time organized referendums for the entry and brought the country to the EU without a democratic mandate. In 1975 the vote was introduced in the form of a referendum to answer the question "Does the UK should stay in the European Community (Common Market)?" which allowed the UK government to persuade the EC to renegotiate the entry conditions in favor of the UK (Bache and George, 2006). The 67,23% were in favor and the vote included most of the UK's 68 administrative countries, regions and Northern Ireland whereas Shetland and Western Isles voted to leave (Vojtiskova, 2014). The Prime Minister tried to assure that there will not be a destruction of national sovereignty and that the EC membership will never result in a monetary union as it was written in the white paper.

In 1969 upon recommendation of the European Commission, the European Community heads of government committed to obtain an economic and monetary union (EMU) (Bache and George, 2006). The Council had selected a program that would manifest in EMU between 1971 and 1980. However, the UK had unsuccessful experience with federations which were based on single currencies from their colonies and the people of the UK feared such agreement (Podmore, 2008).

Since the end of 1970's, the UK started to experience increasing unemployment and the slowdown

of growth which was then referred to as “eurosclerosis”. The solution was to create continental market that would persuade European industrialists to invest in Europe. Furthermore, several years later when building tensions between the EEC and the UK have reached their peak, in 1984 Prime Minister Margaret Thatcher introduced a strict standpoint on the EEC budget in order to reduce British payments to the Community (Pruitt, 2017). Although at that time the UK was one of the poorest country in the Community, it was contributing significant more money into the budget than other member due to the fact that there was a shortage of farms in the country. Margaret Thatcher convinced the EC and negotiated the UK “rebate”. The rebate has reduced Britain’s contribution to the EC budget and still remains in place today (Pruitt, 2017).

In 1993 the Maastricht Treaty (The Treaty on European Union – TEU) took effect and the European Community has evolved into Brussels-based European Union (EU). The main goals of the EU were to integrate members of the union politically and economically with a common foreign policy, citizenship rights, a single common currency – the Euro (Pruitt, 2017). However, Prime Minister at that time, John Major, whose government ratified the Maastricht Treaty in 1992, has removed the section of the Treaty which deals with social policy also the part regarding monetary and economic union. In such case the UK has kept the Sterling and remained in a strange position (Peristic, 2010). One of the most important areas of the Maastricht Treaty was the European citizenship which allowed EU citizens to live in any EU country and to have the same rights as the natives. The UK welcomed immigrants even from Central and Eastern European countries (CEE) to work and earn a living with equal rights to the natives; However other countries set up quotas for CEE immigrants (Bache and George 2006).

Having moved forward, in 1997, the new Prime Minister and the leader of the Labor Party, Tony Blair, was very positive and believing in the future of the Union and enthusiastically announced the referendum for the adoption of the euro. However, the referendum did not take place during his service. During the same period, another important issue came to the forefront – the UK alliance with the United States of America which presented itself right after the terrorist attacks in September 2001 (Peristic, 2010). Tony Blair has decided to announce that Britain will support the USA and has sent many British troops to Afghanistan and Iraq. The decision of T. Blair made him unpopular in the country; however, the Prime Minister did not change his standpoint and continued to support close ties with the United States (Seldon, 2007).

In 2002 the euro as the new currency was adopted in 12 member states excluding the UK which did not enter this final stage of integration and the government of the UK decided not to hold a

referendum. Before and since this time, the UK and the EU were collaborating quite smoothly with some minor issues occurring once a while. For instance, in 2000 after long negotiations. The European Court of Justice (ECJ) in Luxemburg permitted the UK to sell British chocolate in Spain and Italy. The problem was believed to be – high amounts of milk in the chocolate and had to be labeled as “household milk chocolate”, “chocolate substitute” or “vegetate” containing vegetable oil instead of cocoa butter (Pruitt, 2017).

The European Union had plans to adopt an official EU constitution, however in 2007 the plans failed. The member states negotiated the controversial Lisbon Treaty which provided wider powers to Brussels (Vasboo, 2015). In 2011, David Cameron became the first UK prime minister to veto a EU treaty with the aim to protect Britain’s financial sector. D. Cameron clearly stated the challenges of Europe and promised to the people that if he became president, the UK’s membership would be renegotiated (Pruitt, 2017). In May 2015, Cameron won the reelection and started what he promised – renegotiation process of EU-UK relations. In February 2016 he announced the date of promised referendum which was set for June 23. The referendum turnout was 71,8 percent (>30 million voters) and the people voted 51,9 percent in favor and 48,1 percent against (Pruit, 2017). Northern Ireland voted to remain in the EU as well as Scotland which lead for another aim – Scottish independence referendum. However, England and Wales voted in favor of Brexit. After the results got published, David Cameron announced about his resignation and the steer of the UK was taken by the new Prime Minister, Theresa May. The new Prime Minister announced in October 2016 that the Article 50 of the Treaty on European Union will be triggered. On March 29, 2017 Theresa May signed the order which was delivered to the Council of the European Union setting the date March 30, 2019 as an official deadline for the UK’s separation from the EU.

The UK entered the EC not in the best times which led to further decrease of economy resulting in recession and struggles for the first 2 decades of the membership; although economic integration was the purpose why the UK entered the EC in the first place. One of the most important factors in the Union for the UK was to keep its sovereign rights which also did not end up in Britain’s favor. Moreover, the UK’s government was not always the most enthusiastic about the EU integration. Furthermore, the United Kingdom was one of several countries to support the entry of Central and Eastern European Countries to the Union. The fact that it was difficult for Britain to adjust to political interests of the EU and other events led Britain to be the first member state to trigger the Article 50 of TEU.

According to Vitkus (2013), in the start of the 20<sup>th</sup> century, it was expected that the UK would star

playing the leader role in order to unite Europe. Winston Churchill as well “published articles supporting the idea of ‘United States of Europe’ in 1930 and 1938” (Dedman, 2006). Another author, Johnson (2015, p.305) stated that Churchill was a federalist and supported the United States of Europe. However, Churchill “believed that the UK was not a part of Europe but should support its economy from outside and that the French and Germans should create it”. (Dedman, 2006, p. 16)

Even though there were very few advocates of the ‘outright European federation’ between 1942-1945 (Dedman, 2006), Winston Churchill still wanted to have this idea alive. He once written that his vision of post-war Europe included minimized barriers for the countries and free and easy travelling conditions (Johnson, 2005) and the picture he was creating looks like the current Schengen Area.

On the other hand, Roosevelt, the President of the USA was against it. He was concentrated to divide the world powers which meant dividing the USA, the UK and the Soviet Union. Moreover, Roosevelt even stated that annexed grounds of Poland and Baltic states was supposed to be for the Soviet Union in order to avoid “any prospect of European federation”. (Dedman,2006, p.24).

On the contrary, after the Second World War, the events changed and the situation took another direction. Churchill spoke about the United States of Europe in Zurich in 1946 (Johnson,2005) however this time he had more support. After the death of Roosevelt, the following President of the US took over and put an effort in the process of containment of communism which was done with the help of American aid to control both communist internal insurgency and the possible external aggression. (Dedman, 2006, p. 25) After that, the events were followed by Marshall Plan (Dedman, 2006, p. 25)

According to Dedman (2006), the Marshall Plan was a four-year programme, (1948-1952) with more than 22 billion dollars in American aid to 16 European states. As a result, the UK has received the highest amount of financial support (3,189 billion dollars). (Daugėlienė, 2011).

**Table 1.** Distribution of budget of the Marshall Plan for the European Countries  
(Daugėlienė, 2011, p.18)

<b>Country</b>	<b>Millions of US dollars</b>
United Kingdom	3189,9
France	2713,6
Italy	1508,8
West Germany	1309,6
Netherlands	1083,5
Greece	706,6
Austria	677,8
Belgium and Luxemburg	559,3
Denmark	273,0
Norway	255,3
Turkey	225,1
Ireland	147,5
Sweden	107,3
Portugal	51,2
Iceland	29,3

Marshall Plan was a turn to regional cooperation because Marshall Aid was implemented by two agencies: Economic Co-operation Administration (ECA) and European Economic Co-operation (OEEC). (Daugėlienė, 2011, p. 19). ECA was providing humanitarian aid to Europeans and supporting special projects, specifically infrastructural ones. (Vitkus et al., 2008). At the same time, OEEC was supposed to make sure that the countries involved in the program commit to the possibilities of creation of customs union or a free trade area also to improve payment systems, to create a suitable, friendlier environment for labour and some specific requirements for free trade movement of capital. (Daugėlienė, 2011)

The real start of the European Communities began in May 1950 with the proposed Shuman Plan. Winston Churchill had a positive opinion about this plan but there was a lack of supporting opinions in the Parliament as the Parliament had doubts and was afraid of UK's sovereignty. (Johnson, 2005) The Treaty of Paris was signed in 1951 and came into force in 1952 with the establishment of the European Coal and Steel Community (ECSC) (Bache and George, 2006) This has created a

common market for steel, coal, coke, iron ore and scrap among six signing countries (Dedman, 2006) Finally, the ECSC was a start line for a further economic integration and the UK returned to the pre-war stage of nationalism and had a fear of letting go of sovereignty and transferring the powers to supranational institutions which resulted in staying out of the European Community for two decades.

## 1.2 Historical aspects of economic relations between the United Kingdom and the European Union

By accessing the Single Market, the UK has increased its income levels significantly and much more than it was predicted. These positive results originate from successful trade increase and stronger competition on UK productivity. (Crafts, 2016) The UK and the EU has been going hand in hand with each other. This can be seen in the statistics by Busch (2016) on the comparison of main economic indicators of 2015 between the EU and the UK:

**Table 2.** The EU and the UK: A comparison of main economic indicators 2015  
(Busch, 2016, p. 8)

	<b>UK</b>	<b>EU-28</b>
Gross Domestic Product (GDP), billion euros	2,583	14,611
Population million	65,0	511,5
GDP per Capita, euros	39,700	28,600
GDP per person employed, euros	82,700	63,900
Unemployment rate	5,4	9,5
Real GDP growth in percent	2,5	1,9
Gross fixed capital formation, percentage of GDP	17,2	19,5
Net capital stock at 2010 prices: total economy, billion euros	5,009	39,688
Net lending or borrowing, general government, percentage of GDP	-4,3	-2,4
General government consolidated gross debt, percentage of GDP	88,3	87,8

“The EU-28’s share of global gross domestic product (GDP) based on power parity (PPP) amounted to 17 percent in 2015, while the UK’s share is only 2.4 percent.” (Busch, 2016, p.7) In terms of GDP, the UK is the second largest member state denominated in euros and also expressed in PPP. (Busch, 2016)

Joining the EU assisted the producers and traders of the United Kingdom to be more

competitive inside and outside of the SEM and this is explained by Crafts (2016, p.15): “In the context of 1970s at which point the UK had endured a long period of protectionism, the shock of joining the EU had favorable effects on productivity and was part of an effective antidote to relative economic decline which worked through strengthening competition”. EC economies had been expanding very fast, there were expectations that it would slow down naturally while the UK GDP was continuing to grow by more than 2 percent in spite of the problems with colonies.

**Table 3.** Rates of Growth of real GDP per person (Crafts, p. 20,2016)

	1950-1973	1973-1995	1995-2007
<b>France</b>	4,02%	1,65%	1,75
<b>UK</b>	2,42%	1,76%	2,55%
<b>Germany</b>	5%	1,76%	1,56%

After the accession to the European Economic Community, UK was already requesting an abatement for the contributions to the budget of the EC. (Vitkus, 2013). Furthermore, Webb (2016, p.9) stated that “as with other Member States, the UK’s gross contribution to the EU budget is a function of VAT receipts, gross national income, customs duties and levies on sugar production”. However, government of the UK calculated that because of the principles of own resources, its contributions would exceed receipts the UK has received from the EC. This was because of 2 reasons: British farmers were relatively as a majority of financial support from the budget of the EU and is distributed for European farmers (Vitkus et al.,2008). Second reason was that was successful in collecting value added tax and the problem of contribution was as a disagreement until 1984.

Another aspect is the effect of immigration which had a big part of the decision to leave the EU. Migration is considered as a huge problem despite the fact that the freedom of movement of labour is implemented the least (Vitkus et al.,2008). Crafts (2016, p. 8) had the similar opinion, stating that: “Migration has only been significant since the mid-1990s and has only become controversial since the accession of (relatively poor) eastern European countries in 2004 and 2007”. Having said all the above, it can be assumed that the economic system can be shaken if the free movement is suddenly restricted after the conclusion of Brexit.

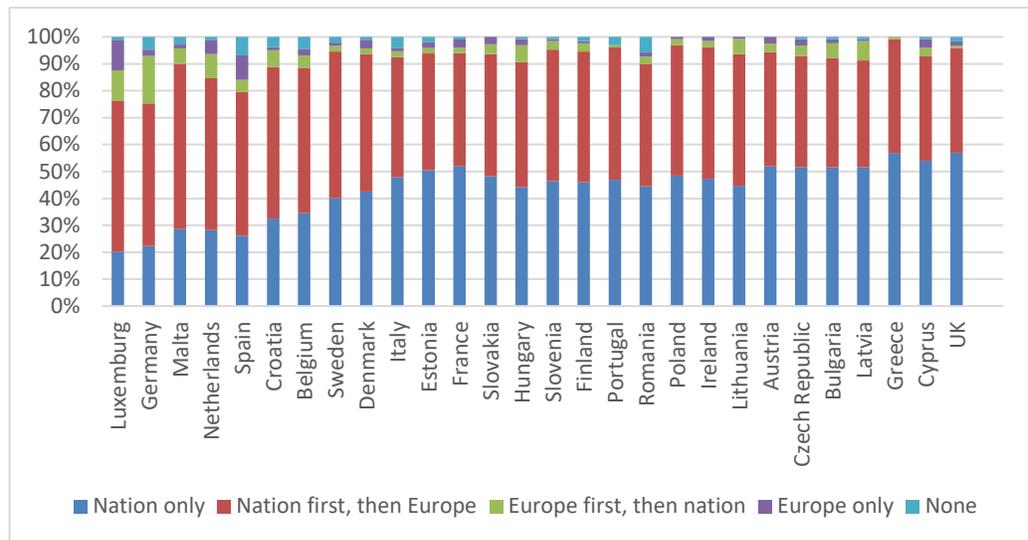
### **1.3 Political aspects of relations between the United Kingdom and the European Union**

The relationship of the United Kingdom and the European Union in terms of politics has been very diverse throughout the history/ The British people view the European Union with suspicion. Tensions have already been seen throughout the history but the situation has peaked in 1984 when the Conservative Prime Minister Margaret Thatcher gave a serious speech about the reduction of British payment to the EEC budget. (Ayiekoh, 2016) According to Ayiekoh (2016), “Though at the time UK was the third-poorest nation in the Community, it was paying a lot more into the budget than other nations due to its relative lack of farms”.

The UK and the EU also argued about food standards, in particular, chocolate in 2000 when the UK won the battle and received a permission from the European Court of Justice to sell british chocolate in Europe. “Purist in France, Belgium, Spain and Italy, among other nations, had argued that only cocoa butter, and not vegetable oil, should be used when making chocolate” (Ayiekoh,2016).

Moreover, the people of the United Kingdom did not trust the European Union. As Dennison and Carl (2016, p. 7) state that “Opposition to Britain’s membership of the EU has fluctuated over the years, but has remained substantial ever since the UK joined the mid-1970s; somewhere between around 30 and 60 per cent of the British public has always been opposed to EU membership”. The following graph perfectly illustrates that the British did not trust the EU.

Graph 1. National versus European identification. (Eurobarometer survey, 2015)



The graph illustrates the national opposing European identification of all 28 EU member states. It is visible that the UK is ranked 28 out of 28 for the value of European identity. Almost two-thirds of British people do not want to identify themselves as Europeans. In comparison to fewer than 40 per cent of French people do not identify as Europeans and fewer than 30 percent in Spain and Germany.

*To sum it all up, the economic and political relations with respect to history has been not easy or smooth. In spite of the fact, that British in the beginning were the ones that conceptualized the European integration, however it required for the UK almost twenty years to fully become a member of the developing European Union. This number of years have brought positive as well as negative outcomes to the UK. With all the economic benefits taken into account, still the UK has struggled to rely on the EU which resulted in the beginning of thoughts about the vote to leave referendum.*

## **2. POSSIBLE ECONOMIC AND POLITICAL SCENARIOS OF BREXIT OF THE EUROPEAN UNION AND THE UNITED KINGDOM RELATIONS**

In this section of the paper, economic and political issues are discussed in regards to trade with the EU, consequences for trade. Political concerns discussed in this part include shift in the balance of powers, relations with non-EU countries other related topics.

### **2.1 Identification of possible economic consequences of Brexit to the United Kingdom and the European Union**

The United Kingdom and the European Union have many economic ties and factors which come into the forefront when talking about Brexit. Economy factors cover many areas such as contributions to the EU budget, custom duties and tariffs, trade agreements with non-EU countries, foreign investments, access to single market and many other which become of great importance with the leave of Britain from the EU. The economic impact of changes to Britain's trading relations can be very different across the country and with different EU member states.

When it comes to Brexit economic consequences on a national level, not many sources for such analysis can be found. N. Clayton and H.G. Overman (2017) explains national economic implications in more detail with the help of measuring changes in GVA (Gross value added) value. The performed research focused on "soft" and "hard" Brexit scenarios on a national level. According to the authors, every local authority are likely to be negatively affected but cities are likely to experience higher impact than non-urban areas. The authors state that the average decrease in GVA under the "Soft Brexit" scenario is 1.2 percent in cities compared to 1.1 percent in non-urban areas. Under "Hard Brexit" scenario, 2.3 per cent compared to 2.0 per cent respectively. The most affected city under "soft" Brexit is believed to be are Aberdeen. The biggest changes in GVA under "Hard" Brexit increase the list of affected cities: Aberdeen, Edinburgh, Swindon, Slough, Reading, Worthing. These mentioned cities, according to the authors, which might be affected mostly were more likely to vote remain in the 2016 referendum. Differences in the ability of cities to adapt to Brexit changes may show that there are huge gaps between various cities.

On a external level, Britain is the fifth biggest economy in the World and the second largest in

the EU (Grey, 2017). Theresa May is in favor of “Hard Brexit” which would result of the United Kingdom moving out of the Single Market and the customs union and providing stricter control of national borders and provide obstacles for the free movement of goods, services, capital and people. Having said that, T. May tried to persuade the EU to leave the conditions of this control more flexible. However, the European Union emphasized that the four fundamental freedoms of movement are “indivisible” (Council of the European Union, 2014). It seems that conclusion for the final free trade agreement between EU-UK might be delayed (planned to be finished by March 2019) as it happened with the Comprehensive Economic and Trade Agreement (CETA) which was finalized in October, 2016 (negotiated since 2009). Moving forward to other economic issues, upcoming Brexit will not leave London – the largest European financial center – untouched. Since some of the biggest banks in London such as HBSC and UBS already confirmed to be leaving and transferring a part of their activities abroad when the UK leaves the EU (BBC News, 2017). From the EU standpoint, it is not questionable that Brexit will also leave a mark to the functioning of EU institutions, especially, the European Parliament will have a change of distribution of seats as without the UK, there will be 73 seats less.

Economic consequences are inevitable to both, the EU and the UK as Britain’s economy is the fifth largest in the EU. Free movement agreement on the other side is questionable and will definitely affect Britain after the country leaves the Union. Economic consequences on a national level for the UK, sees an uneven distribution of negative effect of Brexit in the UK cities and non-urban areas.

Economic expectations in regard to trade consequences after Brexit can be seen from various perspectives as scientists and researchers are constantly trying to investigate what trade deal will be chosen for the UK-EU future economic bond. A customs union is one of the likely economic ties to happen between the EU and UK. Such union is a group of countries which have agreed to trade without restrictions and agree on a common external tariff to countries outside the customs union (Krugman and Obstfeld 2009). Customs Union scenario would be less extensive agreement like the EU currently has with Turkey. Turkey has removed internal tariffs, however has to oblige to the EU common external tariff. The tariff rates are determined solely by the EU. Such agreement does not allow freedom for independent trade agreements or being fully active in the Single Market, meaning that the country has a limited market access. It also involves complying with the EU product standards and failing to do so may result in suspension of market access. Furthermore, the next likely trade implication for the UK after Brexit is the exit of the Single

Market. According to Vasbo (2015), the Single Market is a grand project that was built over many years involving deregulation, re-regulation, standardization and issues of social- and labor policies. According to the author, the Single Market is much more than an area with no internal customs; The government of the UK has estimated that countries trade twice as much with each other than they would if it they were not in the Single Market (Webb, 2015). It can be also added that Single Market contributes to a supplement of between 31 to 92 billion of pounds to the UK economy, as stated by the European Commission (2014). From the mentioned examples, it can be seen that the UK highly benefits from the Single Market and with the absence of such integration, the UK's economy would experience a decrease of money flows to the national budget.

To conclude, it can be noted that among various scenarios or consequences for trade, most likely scenarios as the authors described are customs union which would not require extensive negotiations or the UK would belong to the Single Market which is more favorable and beneficial.

Just like many factor, budget was a major influence for the British decision to leave the EU. After the departure of the UK from the Union, as the Brexit concludes, together with possible negative outcomes, situation also offers an opportunity for restructuring the EU budget. Researchers Hass and Rubio (2017) estimate that the "Brexit" gap in the budget would become approximately 10 billion Euros per year. The member states would need to decide on three options. Adjusting to the shortage by increasing national contributions (1), cutting expenditure (2) or applying a combination of both options (3). According to European Policy Center (2017) the UK's withdrawal from the EU, would leave a financial gap of 14-19 percent (20-27 billion Euros) in the EU's budget which would need to be dealt within 2019-2020. According to the source, the influence of the EU budget shortage can be crucial for the current political reality is a threat rather than opportunity. European Policy Center suggest approaching the financial shortage though four main mechanisms:

- adjusting the budget size to fit the future relations between the EU and UK. Funding for the Cohesion Fund minimization would be a suitable solution for the UK decreased proportionality to selected member states for disparities reduction, income from customs duties also could be taken into account;
- keeping EU27 payments to the EU budget that were for the covering of UK rebate cost;
- making reductions/cuts in the budget in all of the areas corresponding to one of the UK's receipt;
- minimizing lower priority area funding and addressing political priorities such as migration,

security or higher education and others.

All in all, the above actions could facilitate the transitional period before the new arrangements are in place in terms of revenue and expenditure side of the EU budget. New rules could help keeping and maintaining the EU revenue level as before the Brexit.

The UK is one of the world's most open economies with total value of combined exports and imports of 60 percent of GDP. Non-EU states, collectively receive 55 percent of what the UK export overseas which account for 47 percent of imports in the UK, according to the British Chambers of Commerce, 2016.

Upcoming Brexit will have a direct impact on Free Trade Agreements which are signed by the EU and its member states. EU currently holds 63 Free Trade Agreements with third countries (mixed or exclusive competence), such percentage of agreements account for 20 percent of the UK's markets or goods (University of Oxford, website of Faculty of Law, 2017). The most important issue in regards to these trade negotiations is the UK's ability to maintain its participation in the mixed Free Trade Agreements with third countries after Brexit. According to the IMF World Economic Outlook, it can be suggested that the share of EU markets as a destination for UK exports of goods and services is likely to fall to around 37 percent by 2030 (p. 30, 2016). UK exporters may be challenged to be able to increase exports to other geographical markets to compensate. However, there exists also other opinions where it is thought that Britain would have a little to no trouble negotiating free trade agreements with non-EU countries as the UK has a large trade deficit, the EU would lose more exports earnings from Britain (Springford. J, Tilford. Simon, 2014). According to the authors, there may be two ways in which the UK's membership of the single market can constrain its trade with non-European countries. The initial one is a membership of the EU in the customs union as trade is without tariffs between states however the EU sets tariffs on imports from outside the bloc. The second way, the authors state, is how EU removes non-tariff barriers, it can be regulated at a European level that makes trade with non-European countries very difficult.

Finally, the UK may be struggling to negotiate comprehensive bilateral trade agreements with non-EU countries. Small, similar economies might succeed but high risk are for such agreements as with China or India. UK would not be able to stimulate liberalization of EU service markets and in some sectors inward investors would switch their money to countries inside the EU which would result in UK difficult negotiations for non- EU agreements.

Another area which is influenced highly by the Single Market is Foreign Direct Investment

flows (FDI). The UK, as it was already mentioned in the paper, receives direct funding from the EU. The goal of the EU investments is to benefit the EU as a whole and as a result, EU funding to one country should have a positive outcome to other members (EC, 2014). With the introduction of the Single Market, and later in 2015 the UK has benefited from investments from the EU countries – 50 percent of UK's total received FDI (CER, 2014). Furthermore, investment flows from outside the EU might also be affected by Brexit. As Britain has a big size market which attracts a lot of FDI from non-EU countries. The market size directly influences foreign direct investments, thus many companies try to establish in the UK in order to get some access to the Single Market. As a result, non-EU businesses might relocate their headquarters from the United Kingdom to Single Market countries if the UK drops out. It is very hard to assess how much or what part of investment would be affected in the event of Brexit but it can be said that a significant decrease is expected in such scenario. Other author Tim Summers (2017) summarizes relations of the EU with non-EU countries as follows:

- The extent of current UK relations with non-EU countries (particularly China) will significantly reduce the scale and diversity of overall economic and commercial interactions however the impact will vary across different areas.
- Particularly, there will be some relative shift in Chinese interment in Europe away from the UK.
- The impact of UK relations with non-EU countries will highly depend on which type of Brexit the UK will choose.

Taking into account that Brexit is a part of wider phenomenon of global issues, including changing approaches to globalization and regional integration, it will be one of the factors of changing relations of EU with non-EU countries and which will highly depend on UK's strategic approach over the upcoming years.

## **2.2 Identification of possible political consequences of Brexit to the United Kingdom and the European Union**

When talking of political side of Brexit, balance of powers is another important factor in Brexit negotiations process. Currently the UK has been one of the major powers in EU market and political arena however after the conclusion of Brexit deal, this might change dramatically. If the UK leaves the UK, there might occur a shift in powers in the Council away from liberals, who will struggle to assemble a blocking minority even with the German votes (Global Counsel, 2015). According to the source, the UK has played a significant role of shaping policy debates in the EU in such ways that the UK voting weight is not a significant factor.

Moreover, it can be said, that it is very debatable that the UK by leaving politically powerful European Union, would regain a full status of a sovereign state. Dennis Leech (2017) states that:

“A political actor may well have more influence by being a member of a powerful group than it has acting alone outside it. It gives up its power over decisions taken within the group in order to gain power indirectly from the greater power of the group: in other words, it benefits from the power of combined forces.”.

By taking another route (exiting the Union), the UK is risking gaining too much control and not having the strength to control everything at once. By overviewing the analysis done by Dennis Leech, we might draw such conclusions: the UK would lose voting power in case of exiting the EU. In the worldwide arena, the UK standing alone, may be seen as a weak country with given powers which it cannot control. The centre of power in the EU could also shift. Germany's already strong position could be further strengthened with implications for the Franco-German axis (T. Oliver, 2016). France could be left facing an EU where the centre point has shifted further eastwards and where Germany's restraints and preference for geoeconomic thinking over the geopolitical, comes to shape the EU's international standing (Kundanani, 2011). However, Germany may also be left feeling weak at the withdrawal of an ally that has helped it push an economically liberal, free-market agenda or uneasy at the prospect of being expected to lead even more. The political and geographical EU centre could shift to the east and south. Some member states may benefit from the withdrawal, giving them a chance to improve their position within the EU.

Finally, the major role-playing UK is in the center of ruling powers however the situation after the conclusion of Brexit is going to change that and it is inevitable. The UK shift in powers might turn out in different scenario, one – gaining too much or no powers at all, finding it difficult for

international negotiations. Moreover, Germany or France could be left as major powers in the Union and the political geographical center might over to the east and south.

## 2.3 Determination of most likely Brexit scenario

With the unexpected referendum votes which took place in 2016, both sides of Brexit in the beginning did not have a clear view of what actions should be taken at the current situation although one thing was quite obvious, it was a challenge for the globalization and the EU. Brexit even can be compared with the change of the world order: “Like the fall of the Iron Curtain and the subsequent implosion of the Soviet Union, the consequences of Brexit could be momentous” (Blockmans, 2016, p.182). There are a lot of pressures around: the global economic crisis, problem with Greece and finally Brexit, all these factors influence free trade and free movement of persons.

Therefore, it is of great importance to investigate which Brexit scenario will the event turn out in. There are a lot of information on negotiation process and speculations on the media. Such data can help compose an opinion or side of the events.

As portrayed in the media, Theresa May, the current British Prime Minister that her aim is to put attention on two in EU law contradicting goals: restriction of movement of persons from the EU to the UK and the ability to remain in SEM. However, as Angela Merkel, the Chancellor of Germany, opposed: the UK could have the ability to stay in SEM with the condition that the free movement of persons is maintained. In January of 2017, Theresa May declared that the UK will be leaving the EU and leaving the SEM, the Customs Union as well as the EEA. Furthermore, there are several Brexit case scenarios and Piris (2016) has distinguished 7 of them. However, by taking into account the speech given by T. May, 5 of them including customized relationship with the EU, EEA, Customs Union, EFTA and Swiss model are highly unlikely and unrealistic. What is left according to the author is the free trade agreement with the EU or the possibility to rely on World Trade Organization rules. Plus, the UK Policy Paper explains an additional mode as “the Norway model.”

By exiting the Single European Market and Customs Union, the UK will have direct effects which will result in drastic changes. Kierzenkowski (2017) argues that after this exit, the UK would get additional costs as trade between the UK and the EU becomes costlier, which would lead to trade diversion outside the EU. In regard to FTA or WTO, another issue comes up which is trade with non-EU countries. The EU could have international trade treaties with non-EU countries but these treaties should be signed and ratified by the member states (*Europos Sąjungos teisė*, 2007).

## 2.4 Theoretical implications of presumable European Union – United Kingdom Free Trade Agreement and relations based on World Trade organization rules

The trade agreements between the EU and the UK is one of the most complex factor in the topic. As there are other 27 Member States, the UK would need a ratification of any Free Trade Agreement by the member states. Each FTA agreement could have different impact and regulations. What is common in all free trade agreements is the length of negotiation process which is assumed to be quite lengthy in all of the cases. For instance, the Comprehensive Economic Trade Agreement took 5 years of negotiation process.

Kierzenkowski (2016) explains that in terms of the EU and the UK Free Trade Agreement, the talks will be about the current zero-tariff regime for the trade of goods and services, however not all the sectors will be affected.

**Table 4.** Length of FTA negotiations, examples (Kierzenkowski et al., 2016, p.17)

Negotiation	Time (years)
Switzerland - China	4
EU – South Korea	4
EU - Mexico	4
US - Australia	3
EU - Canada	5
EU - Switzerland	10

When it comes to talks about EU common external tariff, the EU external for car is 10 percent for example. These days, UK producers of car sell their production without tariffs or regulatory barriers however in case the UK is no longer in SEM and the Canada model will be applied, “UK car manufacturers would still be subject to the bureaucracy and associated costs of complying with EU” (*Alternatives to membership: Possible models for the United Kingdom outside the European Union, 2016, p. 33*)

Discussing a situation where the agreement is not concluded and the UK will need to rely on World Trade Organization (WTO) rules in terms of trade, it can be said that the UK might face set limits on the maximum tariffs that are applied to trade in goods. (Piris, 2016) According to the Most

Favoured Nation (MFV) principle which is included in GATT “if GATT country grants a trade concession to another GATT country, this concession automatically applied to all other GATT countries as well”. (Van Marrewijk, 2012, p. 243) If the UK is no longer a part of the EU, the UK will instantly need to adhere EU Common External Tariff and EU exporters will have tariffs applied by the UK. In such scenario, the UK would break free from the EU as “under WTO rules neither the UK nor the EU could offer each other better market access than that offered to all other WTO members”. (Piris, 2016, p.11)

Furthermore, there are many industries to respect and rely on tariff- free imports from the Single Market. The effect of tariff application would be such: the individual price calculations behinds complex supply chains would change. This would have direct implications for the competition of UK businesses (Alternatives to membership: Possible models for the United Kingdom outside the European Union, 2016). HM Government (2016) advises that “components sourced from the EU would become more expensive for UK vehicle manufacturers. As over 40 percent of components purchased by these manufacturers come from the EU, this could place such exporters at further disadvantage” (p.35) On the other side, the EU could not face any change in tariff application for their exports to the European Union. However, this is not justified and as a form of hypothesis. The events could take a completely different route and the UK exporters will need to pay the maximum tariff.

**Table 5.** EU maximum MFN applied duties on non-agricultural products

(World trade organization, 2016)

Product group	EU’s maximum tariff (percent)
Fish and fish products	26
Minerals and metals	12
Petroleum	5
Chemicals	13
Wood, paper, etc.	10
Textiles	12
Clothing	12
Leather, footwear, etc	17
Non-electrical machinery	10
Electrical Machinery	14
Transport equipment	22
Manufactures, n.e.s.	14

*All in all, not all thought scenarios are applicable to Brexit negotiation process and according to T. May speech, there are only two. The focus of the UK Government after leaving the EU is to more strictly control the immigration which might manifest in “Hard Brexit” case scenario. Possible relations between the EU and the UK will probably be based on FTA or WTO rules as the researchers suggested. The Free Trade Agreement might provide the UK more access to the Single European Market than in WTO scenario. The negative side of such agreements would present itself in tariff form as tariffs are inevitable.*

### **3. FUTURE PERSPECTIVES OF SCOTLAND AFTER BREXIT**

In this part of the paper, effects of Brexit to Scotland will be discussed. Scotland has tried to exclude from the United Kingdom which could have saved them in the European Union and as the referendum votes showed, the Scottish votes against leaving the EU therefore investigating the reasons and peculiarities of this opinion is of great importance.

#### **3.1 Interpretation of Scotland's Referendum Votes**

Since the Brexit referendum took place and it was revealed that Scotland voted against leaving the EU, a big storm Scotland referendum started to arise. Although Scotland has already voted for its independence with no success however this time, the talks are even more elaborate. A significant majority (61 percent) voted in favor of leaving the EU.

As a small country that benefits greatly from diversity across many labor market sectors, also in education and science, Scotland continues its path in which Scottish national identity is being changed to include ethnic differences. According to N. Meer (2017), there are currently three million EU citizens who live and work in the UK and about 181 thousand (3,4 percent) of whom are in Scotland. Therefore, migration to Scotland and work permits, residency becomes a vital part of discussion. The current Scottish Government has been promoting and stressing the requirement for Scotland to stay outward-looking and welcome immigration even in the aftermath of the Referendum on EU membership and presented a view to sustain immigration as a strengthening tool for international ties and celebrating diversity.

Moreover, Scotland wants a different kind of Brexit and views of England and Scotland are overlooking the opposite directions. In December, it published a white paper in which it proposed that the UK as a whole should be seeking to remain in the EU single market and that it should continue to adhere to the freedom of movement provisions of the European Union. It also proposed that even if the UK were to be outside the single market and no longer observing the freedom of movement provisions, Scotland could and should be able to do so, even while remaining part of the UK (Scottish Government, 2016). Summarizing the standpoint, the Scottish Government suggested that the UK may have a diverse and different relationship with the EU and having closer relationships with ones rather than the others. On the other hand, the UK government would instead seek to secure an 'ambitious and comprehensive Free Trade Agreement' with the EU (HM

Government, 2017). Scotland currently exports around 46 billion to the rest of the United Kingdom, 3,5 times more than it exports with the EU (12.9 billion), according to Scotland's Global Connections Survey,2013.

On the other hand, published Scotland in Union's briefing note, 2016, states that independent Scotland could face damaging additional barriers to trade if it left the UK after the Brexit is concluded. The events could take the following form:

- tariffs on cross border trade in goods and services;
- exclusion from the UK single market;
- discriminatory procurement rule;
- diverging regulatory rules in financial services and other sectors;
- barriers to cross border investment including mergers.

Under many scenarios, Brexit can be predicted to have a negative impact on Scotland's economy. Based on the modelling and assumptions set out in J. MacAlpine report (2016), over the long-term a decreased level of trade can be expected to result in Scottish GDP presented itself between 2% and 5% lower than would otherwise be the case. The range of impacts determined by the nature of any post-Brexit relationship between the UK and the EU – the stronger the economic integration with the EU, the smaller the negative impact. Finally, England and Scotland have different point of views in terms of Brexit negotiations therefore Scotland is opting for independency. However, Political scientists suggests that there are dangers in Scotland's desire to separate.

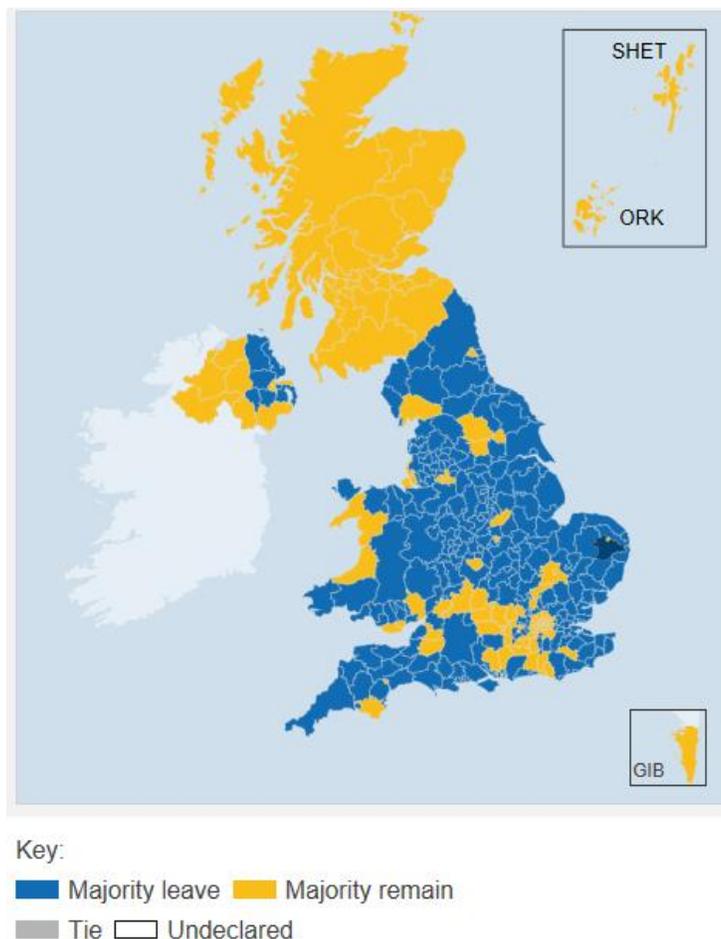
The United Kingdom has a long and rich history prior entering the European Economic Community and later on European Union. There were advantages and disadvantages for the UK staying in the Union which led to the referendum and Brexit negotiations. With the presence of wanted referendum and Brexit negotiation, many economic and political factors arise which have to be negotiated for EU and the UK to find the best possible collaboration scenario. Migration, trade, shift in powers in Europe stay major points of discussion with both negative and positive aspects. Not to mention international relations and non-EU ties with the UK which inevitably going to change. Furthermore, Scotland, as a part of the UK, has internal and external business which might influence its relations with the EU. Finally, it can be said, that negotiation process of Brexit on many levels is highly sophisticated and will time-consuming both for the EU and for the UK.

### 3.2 Presumable obstacles of Scotland in the United Kingdom

Brexit might affect Scotland differently in comparison to England. Therefore Scottish people wanted to organize another Scottish independent referendum after they heard the Brexit vote results. According to Douglas (2017), the Scottish government in the light of Brexit has three options: staying in the United Kingdom, and in the European Economic Area and the European Customs Union. Another option is to have specific arrangements within EEC and CU or lastly, to become an independent country and be a member of the EU. (Douglas, 2017)

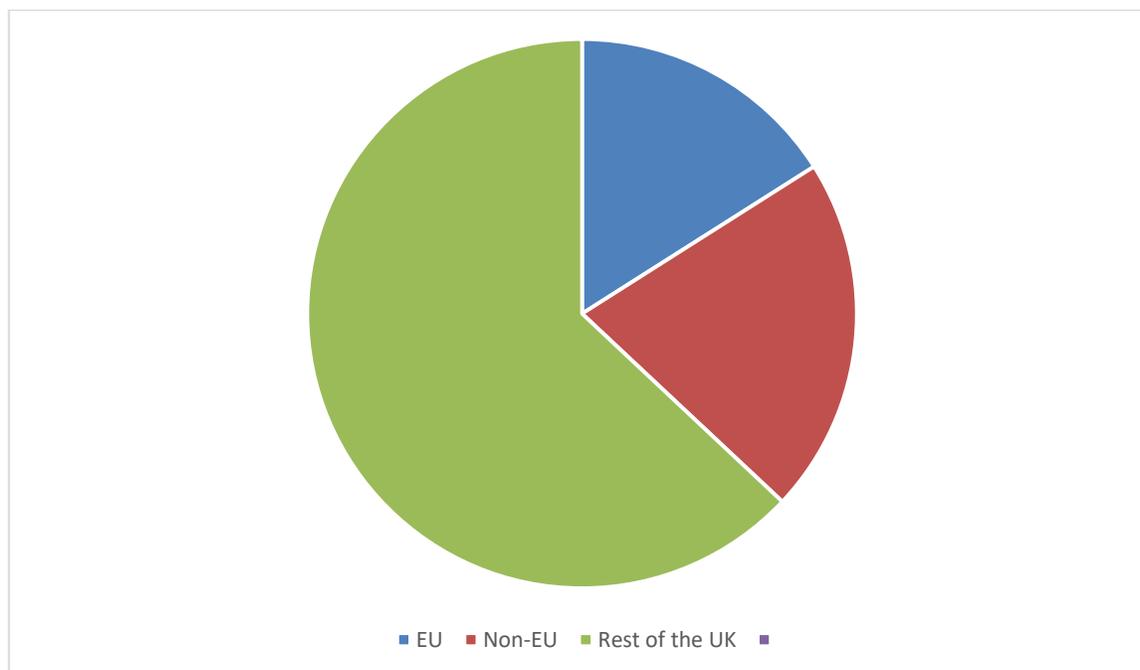
The issue with the Scottish membership in the EU is that pro Brexit citizens are highly nationalist and do not support different Scottish opinion: “millions of Scots today feel squeezed between nationalist narratives north and south of the border and identify with neither” (Douglas, 2017, p.141)

**Illustration 1.** UK Votes to leave the EU (Source: BBC News)



Moreover, the EU is Scotland's major trading partner. According to Scottish Government Export Statistics, in 2015 Scotland exported 12.3 billion of goods and services to the EU which accounts to 40 percents of Scottish International exports.

**Graph 2.** Scottish exports by destination – 2015 (Scottish Government Export Statistics)



Such provided information show how important the EU is for Scotland as a trading partner and that changing trade relationships might bring new obstacles to Scottish exports.

*To sum up, Scotland is one of the major trading partner with the EU. Brexit is threatening to change the smooth economic relations between Scotland and the EU as UK nationalist do not approve the Scottish to leave the UK. As observed, many obstacles lie ahead of Scotland's path without the membership in the EU, especially concerning Scotland's economy.*

## **4. THE SPECIFICITY OF “SOFT” AND “HARD” BREXIT SCENARIOS BASED ON SECONDARY DATA ANALYSIS**

The theoretical information shows that Brexit cover various spheres of politics and economics and issues which arise from those spheres. Evaluating and providing strict and precise conclusions for the events which have not happened or been finalized yet is of great difficulty therefore only by composing synopsis and comparing scenarios, constructive assumptions can be presented.

### **4.1 Substantiation of Research Methods**

In order to analyze and compare the possible “Soft” and “Hard” Brexit scenario outcomes, it is vital to overview and look into other researchers’, political scientists’ analysis and compose grounded conclusions based on the secondary sources. The chosen method – secondary data analysis – as described by Creswell (2009), the research method consists of how the researcher collects, analyzes and interprets the data in the study. Secondary data analysis is systematic method with procedural and evaluative steps, however there is a lack of literature to define a specific process, therefore Johnston (2014) proposes a process that begins with the development of the research questions, then the identification of the dataset, and a thorough evaluation of the dataset. The secondary data analysis comes with benefits and drawbacks. The major advantages associated with secondary analysis are the cost-effectiveness and convenience it provides (Dale et al., 1988; Glaser, 1962; Smith, 2008). As there is an advantage that the data was collected by someone else, the researcher does not need to devote a lot of time for collecting primary data and analyzing it. In such way, the research process is significantly accelerated. Moreover, secondary data analysis is sometimes the only option and no other method can be used. Telešienė (2008), defines three main reasons for choosing secondary data analysis:

- specialists of specific areas (e.g. historians) are able to perform only secondary data analysis as there is no possibility for them to directly research or monitor researched phenomena. The phenomena which interest them do not exist anymore;
- secondary data analysis enables longitudinal studies, repetitive and historically comparative studies (when two different historical periods are being compared);
- secondary data analysis is a lot cheaper as in order to collect primary data, high budget for research is required. By doing a secondary data analysis, there is no need to devote funds for data collection. According to the same motives, qualitative data can be used for the secondary

data analysis.

Furthermore, Heaton J. (1998) provides a complimenting characteristics of secondary data analysis:

- Secondary analysis involves the utilisation of existing data, collected for the purposes of a prior study, in order to pursue a research interest which is distinct from that of the original work;
- The approach has not been widely used in relation to qualitative data;
- Various methodological and ethical issues need to be considered and are more problematic if the secondary analyst was not part of the original research team;
- Further work to develop the approach is required in order to see if the potential benefits can actually be realised in practice.

Finally, although nowadays there are many sophisticated methods of research, not all of them are suitable and can be applied. Secondary data analysis for in some specific areas is the only option. This research methods benefits other by its time and money saving feature for primary data collection and analysis. However, during the secondary analysis, the conclusions and insights made by the analyst can be biased as it sometimes depends on who is performing the secondary data analysis. Lastly, for this current research of “Soft” and “Hard” Brexit scenarios analysis, this method is of great importance and suitable as the research object has not got specific and finalized results (Brexit is not yet concluded).

#### **4.2 Secondary data analysis of “Soft” and “Hard” Brexit scenarios**

In this subchapter, secondary data analysis results of various research papers on the topics of “Soft” and “Hard” Brexit scenarios are presented. Arguments of likely “Soft” or “Hard” Brexit are compared in order to reinforce the produced hypothesis: The United Kingdom is more likely to keep the close relations with the European Union which might manifest in the “Soft Brexit” scenario.

To begin with, the first found research paper on a Soft and Hard Brexit “The Brexit Scenarios: Towards a new UK-EU relationship” puts together the papers which were presented at the workshop “Scenarios of a new UK-EU relationship”, which was held at CIDOB (May 20th, 2016) and the co-organizer was the London School of Economics. Dhingra (2016), a lecturer in Economics, presented the “Soft Brexit” scenario arrangements and the effects of it to the economy of the UK.

The authors explain that, first of all, the cost of leaving the EU, clearly depends on what policies in Britain would be adopted. The authors in the paper summarize the effects of Brexit on UK living standards comparing Optimistic Scenario (Soft Brexit) and Pessimistic Scenario (Pessimistic Scenario) by using the quantitative economic model:

**Table 6.** The effects of Brexit on UK living standards (Dhingra, 2016)

<b>Optimistic Scenario</b>	<b>% GDP</b>
Due to increase in EU/UK Tariffs (0%)+ due to increase in EU/UK Non-Tariff Barriers (2% current + 5,7% future)	-1,37%
Due to Fiscal Benefit	+0,09%
<b>Total Welfare Change (£850 per household per year)</b>	<b>-1,28%</b>
<b>Pessimistic Scenario</b>	<b>% GDP</b>
Due to increase in EU/UK Tariffs (0%)+ due to increase in EU/UK Non-Tariff Barriers (6% current + 12,8% future)	-2,92%
Due to Fiscal Benefit	+0,53%
<b>Total Welfare Change (£1,700 per household per year)</b>	<b>-2,61%</b>

By analyzing this table, it can be stated that Brexit would increase non-tariff barriers to trade and minimize or reduce Great Britain's participation in the future moves towards the better integration in the EU. Britain provides resources to the EU or in other words – subsidies to agriculture and poorer member states. However, any direct or indirect benefit to Britain from such fiscal transactions are ignored and from the table can be seen that there is an increase of GDP due to Fiscal Benefit in Hard Brexit Scenario. However, it also visible that Hard Brexit Scenario only brings benefits in terms of Fiscal Benefit in GDP, other criteria is lower.

Furthermore, in terms of a Hard Brexit, or as the author Oliver (2016) names – Harsh Brexit, it is a one scenario which every party should want to avoid however from the latest speeches of Theresa May which can be found on the media, it can be understood that currently the UK is heading to the Hard Brexit way. A hard Brexit could worsen the situation by declining the UK-EU trade, financial sector or the UK FDI, failure of TTIP and the EU suffering from the effects of reduced trade with the UK. Therefore, some researcher as Proutat (2017) in his economic research state that “a hard Brexit is doomed to fail”. This could be a disasters choice for the UK because

the recent CEPPII studie showed that in terms of the UK automotive industry, common tariff of 10 percent which would trigger a 3 percent drop in sales and many job losses, not to mention 6 percent increase in car prices. (See Mayer, 2016)

Moreover, it has been mentioned that the UK government in negation process of Brexit is in favour to achieve a “hard” Brexit. (Oltermann et al., 2017). Therefore, a researcher Curtice (2017) compiled a questionnaire based research which was based on statements about Soft and Hard Brexit given to British citizens to tell if they are against, in favour or neither. The participants were questioned the following questions about Soft Brexit:

*Following the decision to leave the European Union, the UK will have to negotiate a new agreement with the EU. For each of the following things, to what extent would you be in favour or against it being part of that agreement?*

- 1. Allowing banks located in EU countries to provide services to people living in Britain while allowing British banks to provide services to people living in the EU*
- 2. Allowing companies based in the EU to sell goods and services freely in Britain in return for allowing British companies to sell goods and services freely in the EU*
- 3. Requiring British-owned airlines to follow EU rules that require them to pay compensation to passengers who have been seriously delayed*
- 4. Britain continuing to follow EU regulations which set minimum standards for the quality of the water at beaches where people swim*
- 5. Britain continuing to participate in EU programmes for funding cross-national university research*
- 6. Requiring British mobile phone companies to follow EU regulations that limit what they can charge customers for calls made abroad*

And the following statements presented about Hard Brexit:

- 1. Requiring people from the EU who want to come to live here to apply to do so in the same way as people from outside the EU*
- 2. Reintroducing customs checks on people and goods coming to Britain from the EU*
- 3. No longer requiring farmers in Britain to follow EU regulations on the use of pesticides*
- 4. No longer allowing people from Britain who are visiting a EU country to get health treatment for free*

5. *Requiring people from Britain who want to live and work in a EU country to apply to do so in the same way as anybody else from outside the EU has to do.*
6. *Ending the ability of the EU to determine the minimum level of annual leave to which workers in Britain are entitled*
7. *No longer allowing migrants from other EU countries to claim any welfare benefits in Britain*

After the researcher gathered the data, it showed that in the questionnaire about Soft Brexit, all of the items had the support of the respondents which was then summarized as follows:

**Table 7.** Attitudes towards Possible Contents of a „Soft“ Brexit (Curtice, 2017)

	In favour	Neither	Against
	%		
Free Trade	88	9	3
Swimming water	73	17	9
Mobile phone charges	71	19	9
Airline Delays	68	22	8
University Research	67	23	9
Bank pass porting	65	26	7

As the Table 7 shows, all of these factors chosen in the survey are popular and show a support the “Soft” end of Brexit events. However, a small amount of respondents oppose such point of view.

In the “Hard” scenario survey, the most popular item in the list is immigration and the least is pesticides but it is also visible that the majority of respondent are in favour of “Hard” Brexit items. However, not all of them, British people do not want to end the EU pesticide regulations and want to maintain free health for British visitors in the EU. These results are reflected in the following table:

**Table 8.** Attitudes towards Possible Contents of a “Hard” Brexit (Curtice,2017)

	In favour	Neither	Against
	%		
Treat British emigrants like non-EU migrants	70	15	15
Custom checks	69	15	16
Treat EU immigrants like non-EU migrants	68	16	15
No migrant welfare	63	26	22
Minimum annual leave	45	22	29
No free health for British visitors	37	26	41
End EU pesticide regulations	35	26	37

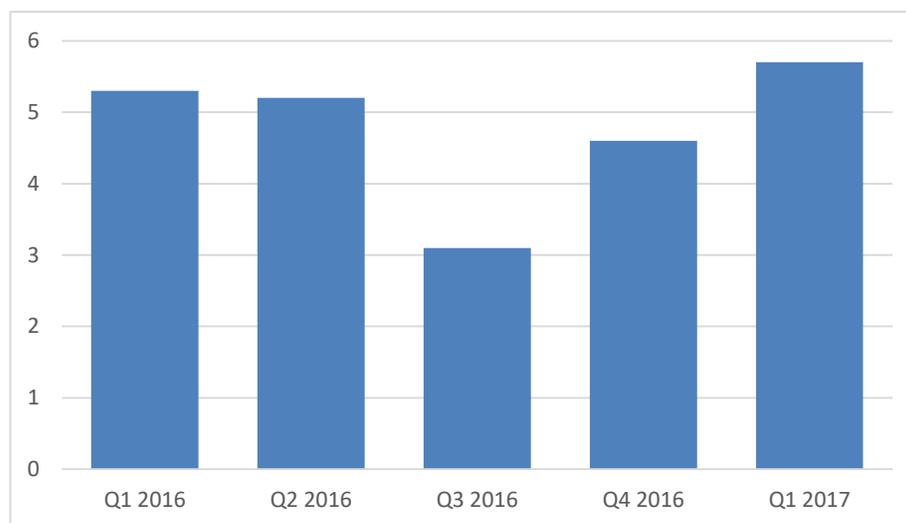
As it is seen from both table, the votes in favour of “Hard” and “Soft” Brexit divided themselves quite equally. However, the most percentage of votes against received the “Soft” Brexit statement about free trade:

*Allowing banks located in EU countries to provide services to people living in Britain while allowing British banks to provide services to people living in the EU*

This may indicate that British people are more interested in “Soft” Brexit case scenario when it comes to trade.

As the Financial Times in the end of March 2017 reported, the UK government to incorporate a big amount of EU rules in the UK law in concluding the Brexit negotiations. Such decision would be beneficial in giving the ability to use Brexit to cut regulations. As the economist Roberts (2017) states in his recent research on “Soft” Brexit, the investors in the UK were triggered by the UK’s referendum but continued to invest in the UK.

**Graph 3.** UK offices investment sales (Billions of pounds).(Source: Property Data)



In relation to the above table, it is noticeable that investment sales in the 3rd quarter of 2016 started to decrease due to the released results of the referendum (down to 3,1 billion pounds). However, in the last quarter of 2016, sales started to grow again and reached 4,6 billion pounds and later increased up to 5,7 billion pounds in the first quarter of 2017. Such data shows that investors in the UK trust that the UK economy will still be strong after the Brexit and not complicated by trade restrictions which are the characteristic of a “Soft” Brexit scenario.

Furthermore, the “Soft” Brexit strategy is a way for the UK to continue to be a meaningful and important player in the European system,. It is also can be seen as a success of the people who voted in favour of Brexit and who are now currently attached by the voters who decided to stay in the EU.

Another research paper by Shen and Barsone (2017) suggest that in the process of negotiation of “Hard” and “Soft” Brexit, there is a possibility that a third scenario might occur which is no Brexit. With the help of Scope Ratings, distinguishing between these three scenarios include some positive and negative drivers as follows:

Table 9. Rating implications of Brexit scenarios. ( Scope Ratings AG, 2017)

Scenario	Favourable rating drivers	Negative rating drivers
Soft Brexit	<ol style="list-style-type: none"> <li>1. Norway model</li> <li>2. Reduced uncertainty</li> <li>3. Solid policy framework</li> </ol>	<ol style="list-style-type: none"> <li>1. Swiss or Turkish models</li> <li>2. High uncertainty</li> <li>3. Policy regression</li> </ol>
No Brexit	<ol style="list-style-type: none"> <li>1. Breversal</li> <li>2. Reduced uncertainty</li> <li>3. Resilient policy framework</li> </ol>	<ol style="list-style-type: none"> <li>1. Weakened policy framework</li> <li>2. Continued uncertainty</li> </ol>
Hard Brexit	<ol style="list-style-type: none"> <li>1. Policies that soften shock, including transitional arrangements</li> </ol>	<ol style="list-style-type: none"> <li>1. Cliff-edge hard Brexit</li> <li>2. Exit from single market and customs union</li> </ol>

The scope suggests that “No Brexit” scenario is the second most popular and probable scenario. However, such scenario should be looked at with caution as it could manifest with weakened policy framework and some continued uncertainty.

*To sum up, the researchers try to distinguish which of the scenarios, Hard or Soft Brexit, is the most likely to occur, however surveys and analysis data reveal that there are many arguments on both sides therefore supporting that the Soft Brexit is the most likely scenario is very hard not to mention the current speeches of Theresa May who is more and more pushing the agenda for a harder Brexit outcomes. From the research papers observed, it is clearly seen that the Hard Brexit would bring more challenges rather than benefits however there are very limited resources on the topic and more broader investigations have to be made before the Brexit deal is concluded.*

## CONCLUSIONS

1. As the history showed, the relations of the United Kingdom with European Union had tensions from the beginning. Although the Britain was one of the first to join the European Union, however issues and tensions occurred very fast and continued for a long period of time which then brought to the current case of Brexit. Although, the UK had economic benefits from being in this Union, however political tensions still remained.
2. In the presence of Brexit negotiations, various EU-UK relation models can be distinguished with most of them being very unlikely. However, “Hard Brexit” scenarios which include relying on WTO rules or FTA remain the most likely ones. The FTA agreement could provide the UK easier access to the Single European Market, on the other side, WTO relationship model would result in inflation and could potentially reduce UK competitiveness.
3. Scotland is one of the main traders with the EU and had voted to stay in the European Union. The referendum has created arguments between England and Scotland as they each have very different opinions and stance on economic and political relations with the EU. Scotland is most likely to be face many obstacles during and after the negotiations of Brexit.
4. Secondary data analysis of various surveys and research papers on “Hard” and “Soft” Brexit revealed that Soft Brexit is not the most likely scenario in the future and the hypothesis of the research has been denied. Hard Brexit case scenario is being seen as equal opportunity as the more softer version of Brexit however the final decisions have not been made therefore the uncertainties still remain.

## **DISCUSSION**

Brexit is currently in the process of negotiations and there are many uncertain areas which could change the way the relations of the EU and the UK look like in the future. Relationship with the United States of America with the forefront of Trump administration after Brexit is one of the topics that could be analyzed in other research papers. What event or circumstances could stop the Brexit process if that is even possible?

Currently, Theresa May has made announcement and speeches which can be interpreted as the support for the hard Brexit however very little specific details have been explained. All in all, further research is inevitable and should be very useful to pinpoint more precisely the possibilities of future economic and political events between the UK and the EU.

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