we, elektronika – telekomunikacja, środki farmaceutyczne, aparatura naukowo-badawcza, maszyny elektryczne, chemikalia, maszyny nieelektryczne oraz uzbrojenie. Polskie nazwy kategorii dóbr wysokiej techniki przyjęto zgodnie z publikacją GUS, *Nauka i technika w 2015 r.* (2016 r.).

[2] Na relację wydatków na badania i rozwój do PKB składają się wydatki w czterech sektorach – przedsiębiorstw (*business enterprise sector*), państwa (*government sector*), ośrodków akademickich (*higher education sector*) i organizacji non-profit (*private non-profit sector*).

[3] W latach 2011-2015 udział produktów *high-tech* w polskim eksporcie zwiększył się z 5,1% (24. miejsce wśród krajów Unii) do 8,5% (19. miejsce).

[4] W latach 2011-2016 import dóbr wysokiej techniki w krajach Unii Europejskiej rósł średnio 3,5% rocznie, na co złożył się wzrost handlu wewnątrz Unii o 3,6% rocznie oraz wzrost importu z krajów trzecich o 3,4% rocznie. Prawdopodobnie wyższa była dynamika popytu na produkty *high-tech* w otoczeniu UE. Eksport zewnętrzny krajów Unii rósł w tym samym okresie w tempie 6,0% rocznie.

[5] Na Węgrzech obniżeniu się udziału dóbr wysokiej techniki w eksporcie ogółem towarzyszył w ostatnich latach spadek znaczenia zagranicznej wartości dodanej w eksporcie komputerów, wyrobów elektronicznych i optycznych.

[6] Wysoka dynamika eksportu sprzętu lotniczego i środków farmaceutycznych była kontynuowana także w I kw. 2017 r. Wartość eksportu w tych kategoriach wzrosła łącznie o ponad 70% r/r, podczas gdy w pozostałych kategoriach obejmujących dobra wysokiej techniki – zaledwie o 5% r/r.

[7] Sprzęt lotniczy i środki farmaceutyczne stanowiły w 2016 r. jedynie 16% eksportu dóbr wysokiej techniki i 1,4% eksportu ogółem.

[8] W eksporcie UE najmniejszy udział rynków pozaeuropejskich charakteryzuje sprzedaż elektroniki i telekomunikacji oraz komputerów i maszyn biurowych. Prawdopodobnie wynika to z faktu, że głównymi producentami tych wyrobów w Unii Europejskiej są korporacje spoza Europy, które otworzyły tu swoje filie w celu zwiększania sprzedaży na rynki krajów europejskich, a ich produkcja *de facto* zastępuje import. Ponadto w celu podniesienia konkurencyjności tych wyrobów część produkcji lokowano w krajach Europy Środkow-Wschodniej, w celu obniżenia kosztów produkcji.

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■

BREXIT: RISKS AND OPPORTUNITIES OF DISINTEGRATION[1]

*Miklós Somai**

Introduction

Throughout most of its decades-long history, the European Union has proved to be an extremely strong and crisis-resistant organisation. It stubbornly survived all crises thanks to its leaders' ability and willingness to engage in compromises and/or ever deeper integration. Since the outbreak of the global financial crisis, however, overcoming the difficulties has become more and more difficult. Naturally, when exploring the origins of these difficulties we will find events and developments both in and outside the EU, all having occurred or started well before the 2008 crisis, and having led, by the early 2000s, to a situation in which solutions to the problems of the European integration could only be found through disproportionate concessions, offered freely or under pressure by one or two member states, or even a small group of them[2]. Dissatisfaction associated with bad compromises added to the general bad feelings caused by the 2008 crisis and the ensuing austerity measures throughout Europe.

European disintegration can take several forms ranging from allowing governments to ignore EU rules with impunity (e.g. France flouting Eurozone's fiscal rules) being the mildest, to letting member states to exit (like Brexit) being the wildest[3]. Apart exploring the origins of the current disintegration tendencies, with a special regard to those of Brexit, the purpose of this paper is to map both the risks and the opportunities associated with these disintegrative tendencies in Europe. For, as a hypothesis of this study, the author presumes that in such difficult times, perceived by many as crisis, it is not only a possibility to overcome the problems, but also a must to find out new ways of thinking, and proposing new paths of development in order to minimize the risks and turn challenges into opportunities.

Roots of disintegration as mirrored in literature

Concerning the origins of difficulties in Europe, one can mention the German reunification, undermining the former balance of power within the integration; the Eastern enlargement, bringing in a lot of relatively poor countries hence rendering decision-making even more difficult due to increasingly diverging interests; and the creation of the single currency which, by overlooking the need for a fiscal union, carried in itself the germ of a core-periphery rift in the euro area[4]. As for developments related not only to the European but also the broader international community, the most important change to consider was the economic paradigm shift away from Keynesianism and postwar social contract between business and labour towards the new concept of neoliberalism, with extensive liberalisation, privatization and deregulation, tax cuts favouring the wealthy but austerity in public finances, all emerging to become a hotbed for growing imbalances, inequalities, and anti-elite hostility.

All these developments – both in and outside the European Union – which got even worse with the global financial crisis and the way the crisis was handled, have led to growing mistrust in politico-economic elites and presented a good opportunity for populist parties to consolidate their electorate[5].

Concerning the literature, the issue of disintegration of a mature, formalized multilateral cooperation of states first came up about the Eastern European integration, better known as Comecon[6] (Roaf et al. 2014; East and Pontin, 2016). According to these studies, the disintegration of Comecon has already started well before the collapse of its institutions. One of the leading destructive factors was the implementation of the use of "hard currencies" (practically the USD) in the trade among the member states in 1991 (East and Pontin, 2016). Cooper (1999) states that disintegration usually begins with a loss of legitimacy of the central authority, which may also be considered as a bad omen for the EU, given the declining trend of citizens' trust in its institutions for the last ten years or so, reflected in the latest Eurobarometer survey (EC, 2016, pp. 14-15).

As for the literature dealing with disintegration tendencies within the European Union, the long-lasting theoretical gridlock – based on the standard approach (of Haas, 1970 and others like Hoffmann, 1982; Marks et al., 1996; Pierson, 1996; and Radaelli, 2003) pushing an overwhelming majority of scholars into thinking, as a matter of course, that the EU institutions together with those of the member states possess all competences and capabilities to successfully manage also serious crises within the framework of the European integration, thus providing almost no clarifications for European disintegration – can explain why only some very few single papers (e.g. Vollaard, 2008; Auer, 2010; and Webber, 2014) have dealt with the issue until recently.

The paper of Vollaard (2008) deserves special attention due to its comprehensive approach to treating integration and disintegration as being two sides of the same coin, and its exhaustive summary of relevant literature. It presents an inventory of theories rooted in different schools – like realism (Mearsheimer 1990), federalism (Riker, 1964, Franck, 1968), (neo-) functionalism (Mitrany, 1966; Haas, 1968), transactionalism (Deutsch et al., 1957; Sandholtz and Sweet, 1998) or communitarianism (Etzioni, 2001) – and explains that all of them suffer from a territorial bias by taking the state for granted as the necessary outcome of disintegration, or, in other words, the only option in case integration fails. After drawing lessons from theories on decline and fall of past empires – e.g. that disintegration of the EU may not only stem from internal weaknesses (like inability to control its periphery) but also from the strength of external players to attract capital – and devoting a whole chapter to Rokkan's ideas[7] on polity- (re)formation (Rokkan, 1999), Vollaard tries to offer a synthesis of some (then) more recent research (e.g. Maier, 2002; Caporaso and Jupille, 2004; Bartolini, 2005). He concludes that the patterns of integration and disintegration being not evenly distributed across the EU, it seems unlikely the European Union would, at least in the foreseeable future, fall apart into Westphalian states again.

Auer (2010) argues that the attempt to continue with the integration process as before – i.e. to move towards a more federalist Europe with a "post-national citizenship" à la Habermas (2001) – is no longer feasible. He states that populism and ethno-centric nationalism are emerging in Europe *not despite* but arguably *in response* to its elites' cosmopolitan agenda. Likewise, unrealistic expectations about Europe's future may even contribute to the demise of the whole integration project. Auer calls for more realism in facing the challenge of growing nationalism, which would help both to better understand the European integration and address the appeal of populist politics. He advises to look at the heterogeneity and diversity of the (enlarged) Europe as an opportunity to seize, rather than a burden to overcome.

Finally, Webber (2014), by assessing whether the existing integration theories could predict under what conditions the EU might disintegrate, suggests that the future of the European Union is more contingent upon the rise of anti-European movements, as well as on Germany's engagement than most such theories allow. The unified and economically resurgent Germany aims, for domestic policy reasons related to the sustainability of its traditional role as a regional paymaster, to restrict the autonomy of supranational organs and favours intergovernmental decision-making in order to preserve a veto on key issues, *inter alia* making sure that the Eurozone is managed according to its priorities[8]. To the extent, however, that Berlin tries to assert its influence over EU policy, resentments against Germany may increase in other member states which, in turn, risks strengthening anti-European forces.

Antecedents and origins of Brexit

A significant part of the British elite – raised on imperial tradition with a global mindset and with attitudes deeply rooted in their specific political culture – could never embrace European integration wholeheartedly, or confine their ambitions to the pursuit of regional interests. The British have always been leading advocates of free trade; in case the European cooperation exceeded this level, they either skipped it (e.g. Eurozone or Schengen) or tried to slow it down (e.g. in common budget or social and employment policy matters).

Indeed, one of British businesses' principal objectives with EU membership was to extend the UK's liberalised model of capitalism into the European Union with the intention of open up new markets, especially before the country's large companies and financial services industry. In other fields, the British business relied upon the UK government's capacity to defend the country's deregulated markets and shape EU policies in line with its vested interest – e.g. by limiting the supranational up-regulation of labour standards (Lavery, 2017)*.*

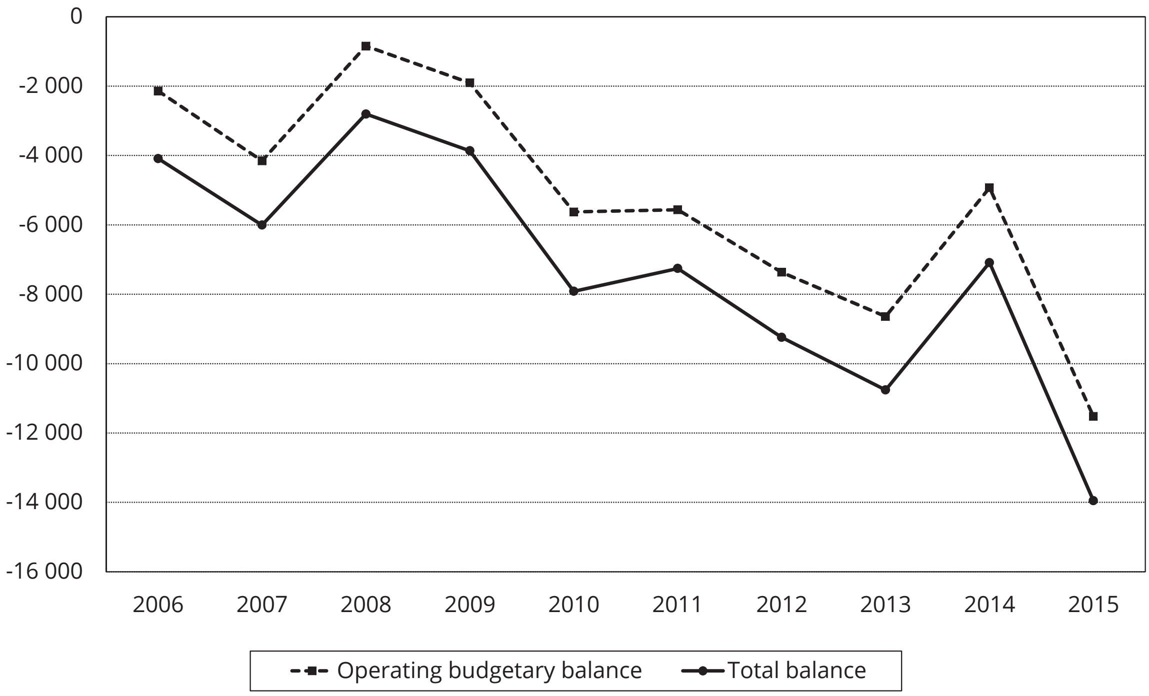
When the UK entered, the European integration already had had its own institutional arrangement, several common policies, e.g. common commercial and agricultural policies, the regulations of which had been elaborated and codified ignoring British interests completely. It soon became clear that the country could only continue its membership if granted special, exceptional rights in several areas. Accordingly, although the United Kingdom is not the only country where EU legislation applies selectively, with opt-out rights in four key areas – i.e. not having to take part in the third phase of the EMU (i.e. introducing the euro), as well as in the Schengen Cooperation; gaining dispensation from some parts of the Charter of Fundamental Rights (in particular regarding labour, family, health, environment, and consumer protection issues); finally, the fourth opt-out concerning justice and home affairs of the Treaty of Lisbon – the UK has been the member state with the most exemptions in the EU (Somai and Biedermann, 2016).

As for the deeper societal and economic reasons behind the British choice of leaving the European Union, let us recall here four of them.

The first one relates to UK's excessive net contribution to the EU budget, caused by both the country receiving too little sources from the common funds and having to contribute too much to them. This situation had, for more than twenty years, been mitigated by the rebate secured by Margaret Thatcher at the Fontainebleau Summit in 1984, but started to deteriorate again (Figure 1) following the decision of the Blair cabinet – at the December 2005 Summit closing the negotiations on the multiannual financial framework (MFF) for the period 2007-13 – to cede a significant part of the rebate in order the British take their due part in the burden of Eastern enlargement.

Figure 1

UK's operating/total balance in EU budget (euro million)



Note: Operating budgetary balance does not take into account either administrative costs on the expenditure side, or traditional own resources (mainly customs duties) on the revenue side. As both administrative costs and the so-called Rotterdam effect are insignificant for the UK, it is relevant to calculate the total balance, too.

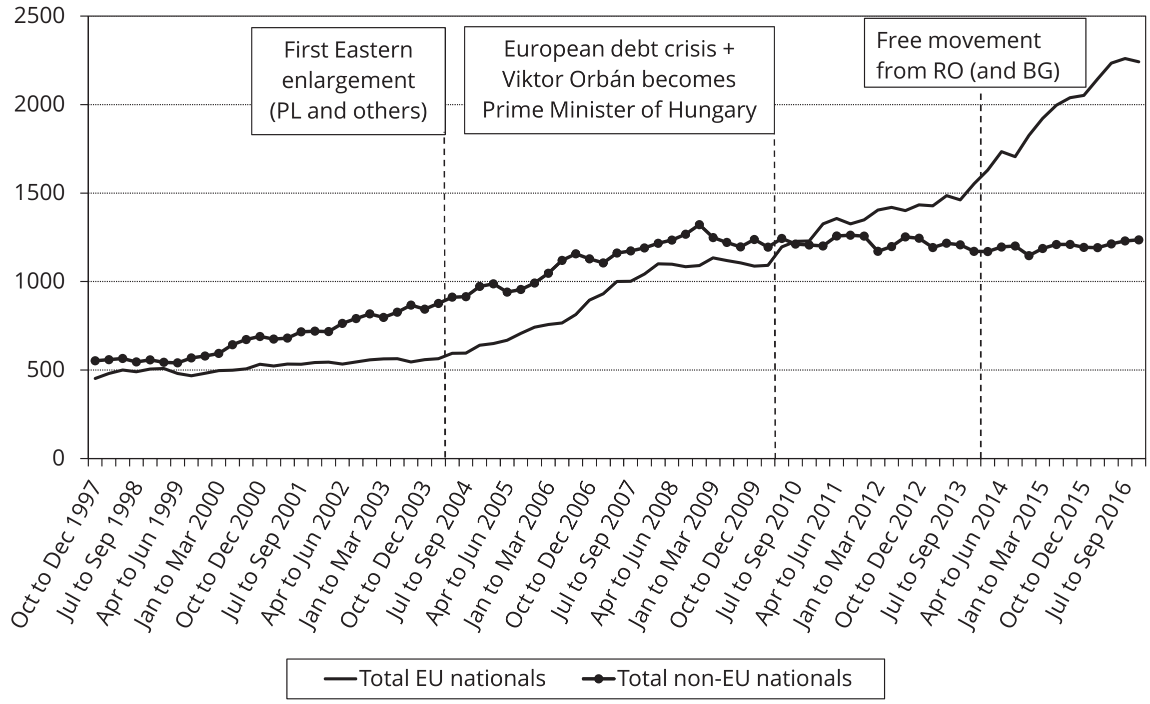
Source: own calculations based on "EU expenditure and revenue 2014-2020" - http://ec.europa.eu/budget/figures/interactive/index_en.cfm

At the mathematical level (i.e. comparing data for 2004-2009 and 2010-2015), the effect of partial renouncement on rebate resulted in a deterioration of approximately 5 billion euro in the British net budgetary position due to the Eastern enlargement. The British (together with France) became the second-third most important net contributors of the EU after Germany – second with a great difference if we take into account the customs payments (European Commission, 2016).

The second reason behind Brexit was immigration (Figure 2). While the effects of inward and outward migration flows more or less offset each other in the United Kingdom during most of the 20th century, the number of people migrating to the UK has, since the early 1990s, constantly surpassed that of emigrants. Immigration gained further momentum after the Eastern enlargement, net immigration reaching 200 thousand regularly every year since 2004, and even 300 thousand between December 2014 and June 2016 – based on data of the last twelve months (Hawkins, 2016, pp. 9-10)[9]. What made the massive inflow of people from new member states even worse was that they took on jobs at significantly lower wage levels than local people or those coming from the old member states. The Eastern enlargement has largely added to the number of those low-skilled, low-waged workers whose bulk had arrived earlier to the UK from the Indian subcontinent. Mass migration from new member states has not only had a negative impact on average UK wages, but has also certainly (regionally and depending on occupational groups) displaced local nationals from their jobs. The latter were replaced by Eastern European migrants willing to work either for lower pay or under inferior conditions than British natives (Conway, 2014, pp. 70).

Figure 2

Non-UK nationals working in the UK



Note: After Eastern enlargement a great wave of Polish people migrated to the UK. In 2015, Poland overtook India as the most common non-UK country of birth leaving in the UK (916,000). The number of people arriving from Romania is growing very fast. In 2013, there were 94,000 Romanians in the UK, in 2015 their number reached 223,000 and this country ranked first (with 182,000) as for its NINo (National Insurance number) registrations for the year ending March 2017 registrations.

Source: Office for National Statistics, UK labour market: 2017 March https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/mar2017

The third factor to be considered here was the gradual shift in balance of power in Europe since the German reunification at the end of the 1980s. The British have always been interested in membership until a certain balance of power could be maintained, with Paris and Bonn/Berlin being the main engines of the integration and London playing its traditional role to keep these powers balanced. The fact that Germany emerged from the global crisis even stronger and the balance of power between Paris and Berlin seemed to have been lost for long, was one of the main factors contributing to pushing Britain towards Brexit. As responses to the Eurozone crisis were designed to fit into German economic policy standards (ever closer union, ever more austerity), London started to face increasing pressure either to join the Eurozone in order to influence decision-making, or leave the EU completely (Conway, 2014). But the first option was not real as a significant part of the British elite was always viscerally rejecting the vision of such extreme pooling of sovereignty, and especially "being bossed by" Germans dominating the integration (Lawson, 1990).

The fourth factor leading to Brexit finds its roots in British political culture whose fundamental principle since the Civil War has been the repudiation of absolutism; absolutism in the sense of ruling by decree, i.e. with the sovereign decreeing the law without having to discuss it with Parliament. While the law-making activities of the Commission are viewed with distrust in Britain, continental Europeans view them as nothing more than an extension of the normal doings performed by national bureaucrats to the community level. The British people's adherence to the tradition of democratic accountability was probably the most important argument against the maintenance of membership in an ever more integrated European Union (James, 2016).

Finally, one can add a general factor behind the Brexit vote which stemmed from the increase of income and wealth inequalities. As globalisation reached the average British citizens, the production of goods they consumed shifted to a foreign country if manufacturing was cheaper there, and if they complained about it or did not want to take low-paid jobs, they were easy to be replaced with someone from abroad. The free outward movement of capital and inward movement of labour both hit the average British citizens. The way the UK government (similarly to those in most other developed countries) handled the global financial crisis – i.e. placing the burden of consequences on the society as a whole, rather than on those responsible – has not only further increased income, wealth (and opportunity) inequalities, but has also led to widespread anti-elite sentiments. The referendum on EU membership was far from the mere technical issue of whether staying or leaving the integration. To most British citizens it was a desperate and legitimate answer to British and European (especially Brussels) elite politics that had discredited themselves. Will the elite learn from the result, will they reach a reasonable conclusion? The problem they are in is a Catch 22 situation: a hard Brexit means even more suffering for both the UK and the EU, but a soft one could be seen by them as a "dangerous" precedent for leaving the integration "unpunished" and thus trigger a disintegration of the remaining EU.

Risks and opportunities

Since the day of Brexit referendum in June 2016, it is obvious and clear that, for the first time in post-war Europe such a highly coordinated system based on international cooperation as the EU is, will certainly have to suffer a certain degree of disintegration. The European disintegration is unquestionably underway and those socio-economic processes in and outside Europe that strengthen it, will, at least in the medium-term, continue to run. Other worldwide current processes like anti-globalism, economic patriotism and protectionism are, however, mingling with (core) EU elites' desire to strengthen European cooperation and institutions, which thus makes the EU swinging like a yoyo between disintegration and ever further integration. Briefly, as all these events are of a rather uncertain and unpredictable character, also Brexit being a moving target, one has to recognize that it is impossible to predict how the EU might disintegrate and/or further integrate in the near future.

Now, what is not only possible, but also useful to do, is to consider both the risks and opportunities of the disintegrative process of Brexit.

Risks

The most significant risk associated with Brexit lies in the potential overestimating by negotiators of both sides of their perceived political interests and placing them before real social and economic interests of the country/ countries they represent. Especially, on the EU side there is an enormous risk to treat the Britons as treators and even idiots for their decision to leave, and who therefore deserve to be humiliated and punished[10]. It was small wonder that the first signs of such approach – being at the same time hostile and condescending, expressed in high officials' statements in Brussels and member states' capitals – did trigger similar reactions from the other side[11]. The point is that negotiations, if conducted in such strained ambiance, may easily be derailed and result in a cliff edge in 2019, causing enormous damage to the sectors exposed to international co-operation (like aviation, car industry, pharmaceutics or financial services) both in the EU and the UK.

Of course, one cannot forget that there is life beyond the world of big business, too. There are lots of micro, small and medium-sized enterprises in Britain, not having too many international connections, but employing noticeably more people than big businesses do[12]. Perhaps, the Brexit vote was partly due to the fact that too much attention had been paid to big businesses. At least, economic policy, laws and regulations had increasingly been tailored to favour them, while smaller businesses and a growing part of the population were having a feeling of being completely abandoned[13].

With a view to properly assessing the risks of a cliff-edge Brexit, let us consider two sectoral examples. The first one relates to the automotive industry, one of the most globally organised sectors of the British economy. While producing around 1% of the country's gross value added, and employing 0.5% of total workforce, it accounts for 12% of total UK exports of goods, and invests 2.5 billion pounds in R&D (2015 data). Should, in case of a no deal scenario, the UK withdrawal from the EU result in the introduction of WTO tariffs (i.e. EU bound mfn tariffs specified at the WTO: 10% for cars, 2.5-4.5% for parts) in UK-EU bilateral trade, the associated customs checks, alone costing 100-150 euro, would cause significant delays in delivery in an industry operating both lean and just-in-time procedures. Non-tariffs barriers such as administrative burdens and compliance costs would add, as a conservative estimate, a further 6% to the costs (SMMT 2016).

Naturally, all these negative consequences could be avoided if negotiations are guided by mutual goodwill. This would be all the more logical and mutually advantageous for the UK and the EU as the automotive industry, unlike other ones, "can only take (re-)location decisions once in the 7-year life-cycle of a new product" (PwC, 2016). So, in the absence of a comprehensive free trade deal, only a sector-specific agreement (e.g. by converting production sites into customs free zones) could shield the car industry from uncertainty and make sure the investment cycle remains unbroken.

The other sectoral example is that of financial services, an industry which constitutes 7% of UK GDP, employing directly 1.1 million people. When related professional services – management consultancy, legal services and accounting services – are added, these figures go up to 11.8% of GDP and 2.18 million for the workforce, so a 7.4% contribution to UK employment (TheCityUK, 2016). These services together generate a trade surplus of over 70 billion pounds. From their annual turnover of around 200 billion pounds 45-48% relates to domestic business, 20-25% to the EU, and the rest to rest of the world. They pay over 60 billion pounds a year in tax, half of which as employees' income tax and national insurance contributions (House of Lords, 2016a).

Naturally, a key risk for the sector relates to the uncertainty about how much access to the Single Market the UK will manage to keep. In the absence of clarity, financial institutions will restructure and/or relocate on the basis of a worst case scenario. And, as this would involve the move of several thousands of jobs from London to such financial hotspots like Paris, Dublin or Frankfurt, not only part of the activity will be lost for the UK, but also the related tax revenues (House of Lords, 2016b).

From the UK point of view, the two key arrangements to be preserved are the passport for the single market and the clearing and settlement in the euro.

The EU passport – this mechanism permitting companies based and regulated in one EU member state to do business in the others – matters more to some trunks of the financial services industry (e.g. to retail banking, insurance and investment services) than others. As this mechanism works only for those within the Single Market, and, as things stand today, the UK will not remain in there, London-based business will have to establish subsidiaries in another EU member state in order to have passport rights. But this would be inefficient because of the increasing regulatory complexity and the requirement for the banks to put additional liquidity behind the businesses (Ford, 2017).

The same holds true for other main issue: should Brussels attempt to re-patriate euro-denominated clearing to the Eurozone, depriving the UK of tens of thousands of jobs, it would cost banks and investors tens of thousands of billions of euros over a 5-year period, so a no-win situation for both sides[14]. It is so because unpicking a highly developed ecosystem as the City is has its price. The City of London has developed for decades into what it is today: the world's leading financial centre, regrouping hundreds of banks and thousands of all sort of financial services providers in an environment where all, packaged together and interconnected to the extent that businesses get real scale of capital, skills and infrastructure, in brief, enjoy the benefits of economies of scale (compare the statement of Wilmot-Sitwell, EMEA President, Bank of America Merrill Lynch Int, one of the witnesses at an inquiry on "Brexit and financial services in the UK" held on 14 September 2016 in the House of Lords Select Committee on the EU Financial Affairs Sub-Committee (House of Lords, 2016c)).

The difficulties associated with replicating, at least in the short term, the services currently provided in the UK – and the assumption that much of the business lost by the UK would be more likely to relocate to New York, the world's second financial centre, than to elsewhere in the EU – suggest that it would not be in the EU's economic interest for these services to be provided less efficiently in a smaller European financial centre or in New York instead of London (House of Lords, 2016a). So, perhaps for the sake of both parties, better would be to move towards globalisation, in a sense of accepting that it is a global business, and relying to more and more globally regulated equivalence regimes[15].

Opportunities

Table 1 presents an overview of the main topics concerning both the UK and the EU27.

In this paper, two of the above challenges and opportunities are treated in detail. Let us first see what will be the implications of Brexit for the Union. Based on Prime Minister Theresa May's speech on the subject made at Lancaster House on 17th January 2017, in which she emphasized the need for preservation of the "precious Union", that of the "great union of nations" making up the United Kingdom (May 2017), the so-called White Paper of the UK government set out 12 guiding principles, of which "Strengthening the Union", about their new strategy forging the country's new partnership with the EU.

In theory, as responsibility for international relations, negotiations with the EU included, lies with the UK government, Westminster might have sought to impose a Brexit deal without much involving the devolved administrations. But this would have broken with the tradition of 'legislative consent convention' under which the UK government seeks consultations in order to reach devolved agreement before legislating (Paun, 2016). So, a Joint Ministerial Committee has been established bringing together leaders of the devolved administrations of Scotland, Wales, Northern Ireland, to meet on a monthly basis, to understand and consider each administration's priorities, and to contribute to the process of planning of Brexit.

Table 1

Challenges and opportunities related to Brexit: implications for the UK and the EU27

UK	EU27
- Maintenance of the Union with Scotland, Wales and Northern Ireland; - Maintenance of CTA; - Foreign policy matters; - Social policy/fairer society; - Trade with the EU and third parties; - Common policies becoming national ones (commercial, CAP, cohesion, R&D); - Access to the Single Market (financial services and automotive industry included).	- Further shift in balance of power (Germany/France/the funding Six); - Member States' stances in a post-Brexit EU; - Future of EU common budget (own resources and expenditure, rebate and rebates of the rebate); - Future of other common policies (CAP and others); - EU-UK relationship (trade, investments, citizens' rights); - Deepening *versus* multi-speed or multi-tier EU.

Source: Own compilation based on the White Paper (HM Government, 2017) and the webpage of EU Taskforce on Article 50 negotiations with the UK (https://ec.europa.eu/info/departments/taskforce-article-50-negotiations-united-kingdom_en)

However, as there is an evident conflict between May government's stance of leaving both the EU Single Market and Customs Union and that of the devolved administrations to remain in them, there is a risk of growing tension triggering political deadlock, legal battles or, ultimately, even the possible breakup of the UK. If this risk cannot be considered as too high, it is because, firstly, Scotland (or Northern Ireland) has almost no chance to keep EU membership if Britain leaves, as several member states (notably Spain) worry about secessionist trends and are unlikely to encourage or agree to such a precedent of swift accession of a successor state to the EU in case the UK disintegrates. Secondly, as devolved regions' exports to the rest of the UK are estimated to be several times greater than those to the EU27, it deters them to put at risk their relationship with the UK (UK Government 2017:19).

Viewing from a more positive angle, Brexit could be seen as an opportunity for strengthening intergovernmental collaboration between Westminster and the devolved administrations, rather than driving the Union apart. Accordingly, in its White Paper the UK government hastens to commit that no decisions will be removed from the devolved administration and when it will be about to repatriate competences from Brussels, the opportunity of ensuring power sits closer to the people will be used by making sure that more decisions are devolved (UK Government 2017:18).

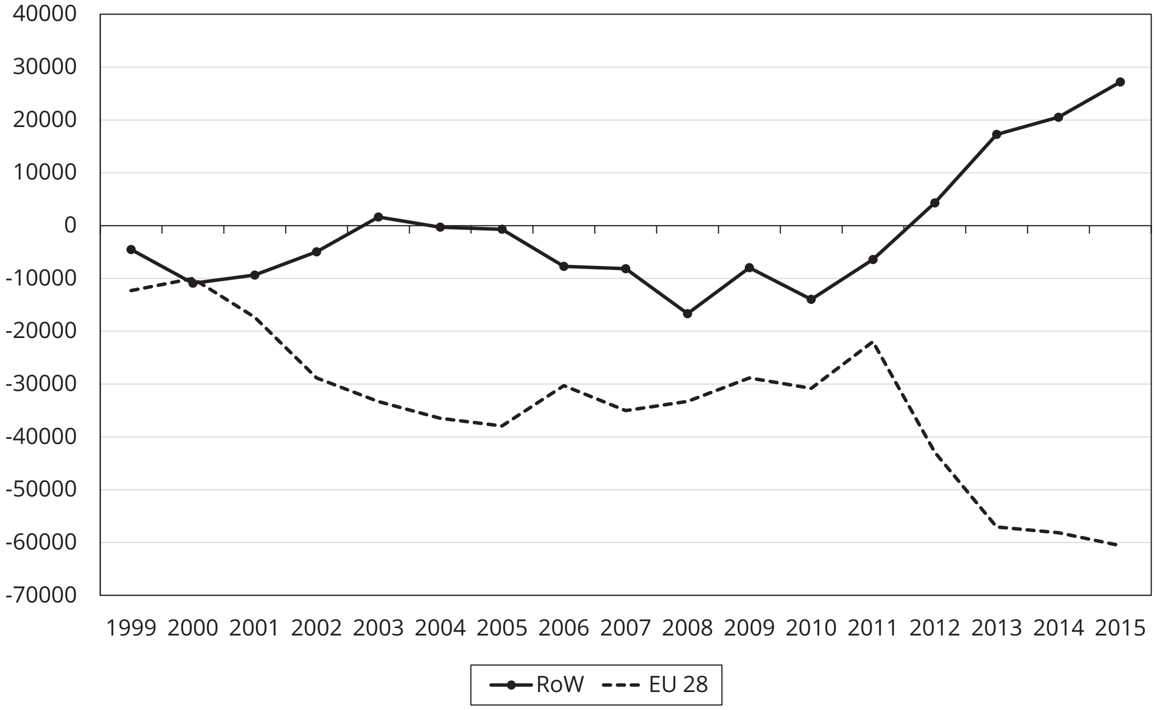
The other big issue to be addressed here is the problem of how to ensure the continuation of free trade between the UK and the EU. While the White Paper insists on that UK new partnership with the EU should allow tariff-free trade in both goods and services as freest and frictionless as possible, there are growing doubts about whether this goal could be achieved. The UK government, by way of the Prime Minister's speech in January 2017 and the White Paper which followed in February, have rejected two of the broad frameworks considered by many experts as options: the one that the UK remains in the Single Market (called the Norway option), and the other that the country stays within the EU customs union. By these developments the range of formal options and negotiating priorities has been restricted to what the White Paper calls a "bold and ambitious" or an "ambitious and comprehensive" free trade agreement (FTA) and a "mutually beneficial new customs agreement with the EU" (UK Government, 2017, pp. 7, 35).

It is, however, quite clear that the existing FTAs of the EU, including the Comprehensive Economic and Trade Agreement (known as CETA) recently concluded with Canada, do not provide anything like as comprehensive access to the European Single Market for businesses as membership of that single market as such would entail. Also, there are great complications in the services trade that most FTAs do not in any detail cover. Finally, while addressing tariff barriers within an FTA could be relatively straightforward, notwithstanding the short timescale to negotiate an agreement, but replicating the prohibition of non-tariff barriers to trade while outside the customs union will be more of a challenge. This includes compliance with rules of origin, regulations and standards. Not to mention the issue of leaving the customs union generates costs and delays resulting from customs procedures and any added administrative burdens (House of Lords Hansard, 2017).

However, there are good reasons to believe that it is possible to reach a good deal, an economically rational FTA that both Britain and the EU should aim for. Perhaps, the EU should a bit even more than the UK, as the Community has, in recent years, developed a considerable trade surplus vis-à-vis its partner (Figure 3).

Figure 3

UK trade balance in goods and services, 1999 to 2015 (£Mn)



Note: EU27 = EU28 minus the UK. RoW = Rest of the World.

Source: ONS, Who does the UK trade with? 21 February 2017, http://visual.ons.gov.uk/uk-trade-partners/

According to mainstream theories, trade is not a zero-sum game: more of it makes us all more prosperous. Free trade between Britain and the European Union means more trade, and more trade means more jobs and more wealth creation. The erection of new barriers to trade, meanwhile, would mean the reverse: less trade, fewer jobs and lower growth. It seems, however, these theories forget an important fact: so long as capital can flow freely, capital owners invest where they can obtain the best mix of quality and cost, i.e. in sites with optimal conditions (like China). As general trade facilitation since WW2 and the proliferation of bi- and multilateral, regional and global trade agreements have brought (especially industrial) tariffs down considerably, even ordinary low-price products can profitably be transported from great distance. The result is that although people as customers might gain a bit by acquiring goods cheaper from low-cost countries than from national manufacturers, however, as employees, they can easily (the less skilled they are, the more easily they can) lose their jobs, or at least their livelihood can become increasingly precarious. So, it seems that theories do not take into account the possible social (not to mention the environmental) drawbacks of international trade. So, the reshaping of the UK's commercial relationship with the EU could, in theory, be linked to a rethinking of the way how this relationship could (socially and environmentally) be better balanced.

Final remarks

Naturally, there are plenty of issues Brexit negotiations can easily be derailed by, like the rights and status of EU residents in Britain and *vice versa*, the permeability of borders between Ireland and Northern Ireland, and first and foremost the size of the so-called exit bill that is expected to remain a stumbling block for months. Areas where the Commission says "sufficient progress" needs to be made before talks can move onto a post-Brexit trade deal. The big question for the EU remains whether it is worth punishing the UK? For what? For a decision mixing tradition, a global mindset, anti-globalism, anti-elitism, and a feeling of being abandoned? There are two reasons why such a punishment would be counterproductive: first, the EU would, in a number of issues (e.g. trade in goods, fishing quotas, budgetary contribution), loose at least as much in profit or jobs as the UK; second, if the EU, instead of seeking for revenge, took a more generous attitude towards the leaving UK, it would make it more attractive in the eye of both its current and potential member states. By doing so, Brussels could avoid a situation in which it would be seen to play the role of a modern Hudson Lowe against Napoleon, but under a reverse angle.

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[1] A paper based partly on the author's lecture "Challenges and opportunities related to disintegration in the European Union" given at the conference "European Economic Integration Theory Revisited Workshop" supported by the European Association for Comparative Economic Studies, held at the University of Szeged, Faculty of Economics & Business Administration on 23rd-24th March 2017, Szeged, Hungary; and partly on the author's lecture "Brexit as a trigger for disintegration: background and consequences" given at the Second World Congress of Comparative Economics «1917–2017: Revolution and Evolution in Economic Development» held at the HSE Campus in St. Petersburg, Russia, on 15–17 June, 2017.

[2] One can refer here e.g. to the inevitable concession about the reduction of the British rebate for better financing the Eastern enlargement in 2005, or the unequal terms of membership for the East European countries as for their agricultural quotas in 2002, or the pressure of the ECB on Greek banks in the run-up to the adoption of the country's third rescue package in 2015.

[3] See Legrain (2016). As an intermediate stage of disintegration, Legrain describes the threat that nationalist anti-establishment parties, playing already a direct role in governance in eight member states (Dennison and Pardijs, 2016), might capture further governments.

[4] The weakness of Eurozone periphery holding the euro at a significantly lower exchange rate against all third currencies than the Deutsche Mark (DM) would have as a free-standing national currency (the DM would likely be as strong as the Swiss franc), the whole euro-system has proven to be a godsend for Germany and for, in economic policy terms, its closest followers (i.e. the Netherlands and Austria, having traditionally been pegging their own currencies to the DM). On the other side of the coin, the same system is thus a bane to the periferial countries (France included), having to suffer from the artificially boosted competitiveness of the German manufacturing industry (Dobozi, 2017).

[5] In order to illustrate the above, let us remind ourselves, first, that the way the European leaders handled the financial crisis is partly explained by the existence of a "*web of personal, business and political relationships, largely obscured from public view, that link Europe's banking establishment with the political classes at national, regional and even local level*" (Barber, 2010); second, that those citizens of the member states "*who have deep economic and social ties with their counterparts across Europe and benefit from Europe materially and culturally account for no more than 10 to 15 per cent of the EU population*" (Fligstein, 2008, referred to in Webber, 2014).

[6] Byname of the Council for Mutual Economic Assistance (CMEA).

[7] Polity-formation was seen by Rokkan as a continuous fight between forces of boundary transcendence versus boundary control. His basic contention may be reproduced in that as external closure of boundaries leaves micro-players no option than to voice when dissatisfied, internal cohesion not only makes the option of exit less profitable, but also enhances external consolidation (Vollaard, 2008, p. 19).

[8] If there were, in the Eurozone, a democratic vote proportional, e.g. to member states' inhabitants, France, Italy and Spain together representing more than 51% of the zone's population (Eurostat, estimates as of January 1st, 2016), they could put an end to austerity and vote for the introduction of eurobonds.

[9] Decreasing by 49,000 to 273,000 annual net migration fell below 300,000 for the first time during the 12 months to the end of September 2016, so just after the June 2016 vote to leave the EU (Hall 2017).

[10] As a matter of fact, since the EU referendum on 23rd June 2016, analysts, experts and other consultants working at the boundaries of business, politics, media, and social sciences have constantly been hammering that Brexit was proposed by unconscientious liars, voted by rural, elderly, relatively less qualified (i.e. easily deceivable) ignorant people, and first of all would be an absolute disaster to the UK if it came true (see e.g. the open letter of Lord Kerr of Kinlochard et al., 2017).

[11] See UK Prime Minister Theresa May's so-called Lancester House speech in early 2017, threatening to transform the UK economic modell in order to attract, with competitive tax rates, the world best companies and biggest investors in case of a punitive deal (May 2017).

[12] In 2016, of all UK private sector businesses 99.9% were small or medium-sized. Their combined turnover was 1.8 trillion pounds, respresenting 47% of all private sector turnover, and they employed 15.7 million people, accounting for 60% of all private sector employment (FSB web).

[13] It is exacerbating to see that when this feeling of being abandoned takes hold of an ever growing strata of society, pushing them towards the so-called populist political parties, the European elite, instead of going to the roots of the problems, can but propose to strengthen education, marketing, i.e. a better orchestration and dissemination of mainstream ideas, so a sort of brainwashing (see e.g. Globsec Tatra Summit 2016).

[14] By assuming that fragmenting LCH's (London Clearing House, the world's biggest clearinghouse) pool of interest-rate derivatives would change the price of every swap – the most popular type of contract – by one basis point (Hadfield, 2017).

[15] Such a regime allows access to an EU member state from third countries if the supervision of the third country is deemed by the Commission to be equivalent to that of the EU.

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THE EURO INFLUENCE ON COMPANIES' EXPORT ACTIVITY[1]

*Grzegorz Tchorek**

Introduction

Intuitively we are prone to think that exchange rate volatility and related risk are important barriers in doing international business. In practice and empirics, there are no convincing proofs that this is true – the relation between exchange rate risk and trade is seen as non-existing or weak and conditioned by many other factors in order to materialise (Taglioni, 2002; Auboin and Ruta, 2013; Brzozowski and Tchorek, 2017a)[2].

The expectations as to the euro impact on trade were more hopeful and the reasons were related to the long history of the European integration and its sustainability as well as creation of many institutions which were designed to govern monetary integration. The irrevocably fixed exchange rate and formation of a big economic area as a driver for exports was also supported by the new concept called the *endogeneity of optimum currency area* conditions. According to Rose's (2000) research on monetary unification and trade and in view of an extraordinary effect of more than 200%, scientists started to think that one country does not have to fulfil traditional optimum currency area conditions (flexibility of labour, similarity of economic structure, business cycle synchronisation, etc.) in order to adopt the euro. One should rather join the euro first and then it would be easier to fulfil the criteria (because of transaction cost reduction and more trade and economic integration). This overoptimistic view accompanied the final phase of the euro introduction.

Finally, initial expectations were cooled down and the euro effect, after almost ten years of this currency being in circulation, was estimated at approximately 3–5% (Bun and Klaassen, 2007, Baldwin et al., 2008). Different methodology approaches, samples of countries and examined periods resulted in some research even questioning a positive euro effect and seeing it as negative (Havránek, 2010).

General consensus implies that bilateral trade between member states did not increase markedly after the euro introduction. It needs to be borne in mind, however, that the euro effects should not be confined solely to changes in the volume of trade. The absence of significant changes in the total flow of trade does not preclude qualitative changes such as new products, their improved diversity and quality or lower prices (Fontagné et al., 2009; Cieślik et al., 2013). It means that no or small euro effect at the aggregate level could be accompanied by changes at the micro level which are not visible in general data because of price compression due to the pro-competitive pressure ensuing from the euro introduction.

Experiences of the euro area members

Based on the literature, we can formulate the following conclusions related to the euro effect understood as a factor accelerating trade, mainly exports[3].

Firstly, the euro effect was lower than expected. After positive expectations as to the endogeneity phenomenon, studies related to monetary unions around the world (usually non-euro area unions) confirmed an important role of monetary unification for trade. Rose and Stanley (2005), using studies on the euro area and other currency unions in their meta-analysis, claimed that the monetary unification effect on trade ranges between 30 and 90%[4]. But based on a meta-analysis using more up-to-date research, Havránek (2010) advises distinguishing between the Rose