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THE BREXIT ISSUE FROM AN ECONOMIC PERSPECTIVE

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- The UK's postwar economy went from stagnation to growth with EC accession.
- The UK and EU have extraordinarily strong economic ties, and an exit from the EU would no doubt have seriously adverse effects on the UK economy.
- Japanese companies and the majority of Japanese economists hope to see the UK remain in the EU to help buttress a democratic Europe.

Before entering the economic side of the present-day "Brexit" debate, let us take a historical retrospect. The UK's accession to the EC marked the turning point from stagnation to growth in the country's postwar economy.

Following World War II, the UK sought unsuccessfully to achieve economic development through a British Empire economic bloc and then through the European Free Trade Association (EFTA). In Western Europe, six EEC countries enjoyed strong growth through intense corporate competition and the expansion of intra-regional trade on the way to completing a customs union. Lacking such a competitive environment, the UK economy suffered a long-term economic decline known as "the British disease." During the 30-year period stretching from the 1950s through the 1970s, the UK's rate of economic growth was far surpassed by those of both West Germany and France.

After the UK joined the EC in 1973, UK companies gained access to a big common market and sharpened their competitive edge through competition with their continental counterparts, reviving the UK economy in the process. Over the 30-year span from the 1980s through the 2000s and on into the 2010s as well, the UK posted higher economic growth rates than either Germany or France, and its unemployment rate is now on par with that of Germany. More extensive trading in the euro has buoyed London's financial markets, and this in turn has underpinned the UK's prosperity.

EU membership has thus made the UK wealthier. The prospects for the future are bright as well. Forecasts published by the European Commission in 2015 show Germany with a population of 70 million in 2060, more than 10 million fewer people than it has at present, and the UK as the EU's most populous nation with 80 million. A growing population is the wellspring of economic growth. As it struggles with a population decline, Japan cannot help but envy the UK.

Even so, approximately half of the UK public is in favor of withdrawing from the EU. Visible income disparities, difficulties stemming from globalization such as the management issues faced by small and medium-sized enterprises and the suppression of workers' wages, and the influx of immigrants from Eastern Europe are among the factors that have heightened criticism of liberalistic EU integration.

Brexit supporters criticize European rules which they say impose growth-stifling regulation on the UK economy. Such a stifling effect is not supported by reports and assessments from several international institutions such as the OECD, the World Bank and the Centre for European Reform. Product and labour market regulation in the UK is more similar to that in the United States than that in Western Europe, and the UK is ranked higher than the US as a pro-business country. Other leading EU countries such as Germany and France have more impediments to doing business, but their problems do not stem from Brussels.

Is withdrawal from the EU really the right choice to increase opportunities for British exports? The UK does about half of its trade with the EU, and about half of the foreign direct investment (FDI) into the UK comes from the European continent. A Brexit may result in a risk of trade disruption coming from high tariff barriers in the EU, though chances for similar EU access may be proposed through EU-UK negotiations after a Brexit in sectors with EU-wide supply chains such as cars, aerospace and machinery. Problems would happen in sectors such as chemicals and food & beverages which are lacking in such close supply chains.

British financial services would be exposed to more severe risks, as various EU market access regulations will become barriers. Additional harm would come from weakening inward FDI in this sector and the eventual exodus of continental and American financial institutions from London. The booming of London’s financial markets thanks to large numbers of financial institutions from continental Europe would come to an end. Countermeasures such as lowering British corporate tax drastically would cause international friction. Another problem that a Brexit would cause is prolonged uncertainty in financial markets and a heightened risk premium on UK assets, as the Bank of England Financial Policy Committee has warned. The Pound Sterling has been depreciating since Boris Johnson declared his change of mind. The referendum itself is making financial markets unstable, as the IMF warned recently.

Would leaving the EU create new robust trade opportunities that otherwise would not exist, either with the US or with big emerging markets such as China or India? The EU is a major player in the age of mega-FTAs, but it hardly seems likely that the UK, as a minor player on its own if it leaves the EU, will be able to conclude advantageous FTAs with the US, China, India and other major countries. The UK's trade would be pushed into an inferior position for many years, as it takes a very long time to conclude a FTA agreement nowadays.

Summing up the trade issues, the loss of welfare benefits to the UK arising from a Brexit would be much bigger than the sums it would save, including the UK's annual net contribution of 7 billion euros to the EU's budget. The UK's economic growth rate would drop, its unemployment rate would rise, and the living standards of its workers would decline. A sudden drop in the number of immigrants from Eastern and Central Europe would also stall its population growth. Over the short term at least, the value of the pound sterling would plunge and international financial markets would waver, both of which would be detrimental to the UK. The adverse impacts could even extend to scientific, technological and cultural endeavors and university exchange programs. A Brexit would thus seem to be fraught with bad outcomes.

Another cause for concern is that no clear post-Brexit policy has been established ahead of the national referendum. The demands being made by advocates for a Brexit vary due to their differing interests, with small and medium-sized enterprises opposed to globalization seeking protected trade and workers dissatisfied over disparities and wages calling for a halt to immigration. Putting together a policy that would unify these diverse positions appears next to impossible, and it seems extremely unlikely that the pro-EU David Cameron would continue leading the UK as prime minister after a Brexit. In that case, who or what party would formulate the policy, and on the basis of what principles would they negotiate the UK's withdrawal from the EU? Exiting the EU with no clear idea of the road ahead would inevitably cause major disruptions in the UK.

The EU is currently confronting the most difficult challenges in its history, the refugee crisis and counter-terrorism efforts being prominent among these. Europe is confronted with hard FTA negotiations with the US and Japan. The way forward for the UK would be to overcome these challenges as a major power within the EU, as only the EU can enable a unified Europe to attain greater development in the 21st century.

Japanese companies and financial institutions want to see the UK retain its status as a gateway to Europe, and the great majority of Japanese economists with whom I have spoken recently hope that the UK will remain in the EU and play a leading role in developing democratic Europe. They believe that the UK staying in the EU will surely be good for the UK, for Europe and for the whole democratic world.

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