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Brexit Discussion Paper



Disclaimer

This is an academic paper related to an academic project. This paper is not an investment suggestion and it does not in any way represent an invitation to purchase the securities we virtually invest in.



Table of Contents

United Kingdom Economic Outlook	3
Brexit under Different Scenarios	5
The Pound	14
Impact on EU Policy Making	15
Conclusion	17

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United Kingdom Economic Outlook

Britain's gross domestic product expanded 1.0% year-on-year in the third quarter of 2019, slowing from 1.3% in the previous period and missing market consensus of 1.1 percent, that is the weakest growth rate since the first quarter of 2010. Industrial production is the driving force behind economic slowdown, falling 1.4 percent year-on-year in September of 2019, following a 1.8 percent drop in August. It marks the fourth straight month of losses in industrial output.

UK is likely to keep on slowing down during 2020 (Table 1) for both structural – surge in trade protectionism – and idiosyncratic – Brexit – risks. In particular, Brexit-related uncertainty is going to weigh investments down because of lack of clarity about future trading arrangements (Figure 1), and the fall in investments is also reflected in deteriorating business confidence, whilst consumer spending has remained resilient. Job market is tight and there are signs that is starting to cool, as unemployment rate has ticked upward and the number of vacancies started falling.

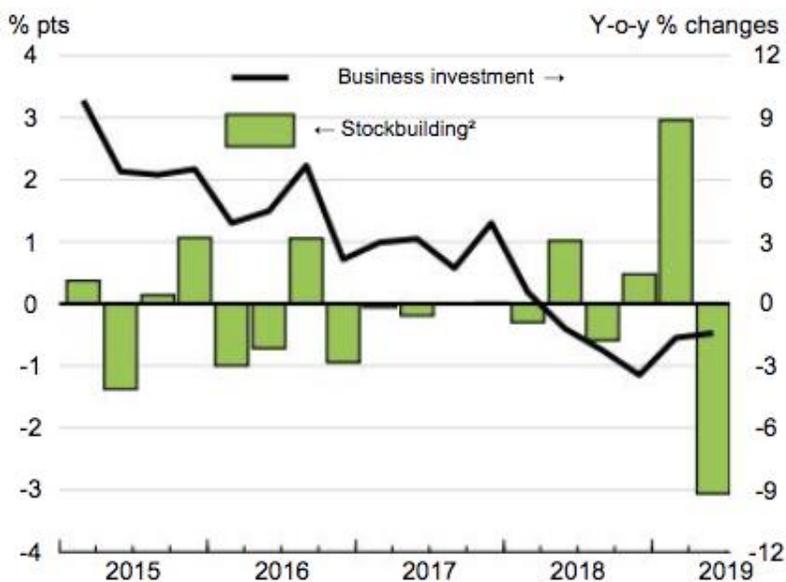


Figure 1: Fall in investment. Source: OECD Economic Outlook 106 database

Annual percentage growth	2019	2020	2021
GDP	1.2	1.0	1.2
Harmonized index of core inflation	1.7	1.8	1.8
Private consumption	1.2	1.0	0.7
Government consumption	3.3	3.1	2.1
Gross fixed capital formation	0.0	0.0	1.3
Final domestic demand	1.3	1.2	1.1
Stockbuilding	0.3	-1.5	0.0
Total domestic demand	1.6	-0.3	1.1
Exports	0.2	1.2	1.6
Imports	2.5	-2.8	1.2
Government financial balance (% GDP)	-2.6	-3.2	-3.2
Government gross debt (% GDP)	85.2	85.4	85.6
Unemployment rate (% labor force)	3.7	4.0	4.1

Table 1: Demand, output and prices. OECD Economic Outlook 106 database

Monetary authority has still a buffer for easing expected slowdown and Brexit-related drawbacks. The Monetary Policy Committee (MPC) raised interest rates from 0.5% to 0.75% in August 2018 in response to stronger growth and raise of wages. So far, MPC has taken a ‘wait and see’ approach to Brexit, in fact it has left rates on hold and we might not see any base rate changes until after the exit. However, there are some ambivalent signals. During this year the MPC has been signaling its intention to raise interest rates very gradually over the next few years. But during its last meeting, when MPC has held interest rates at 0.75% the decision hasn’t been taken unanimously for the first time since June 2018. The Bank’s MPC voted 7-2 to keep interest rates. The two dissenters wanted to lower rates to 0.5%.

Regarding fiscal policy, Boris Johnson’s government has announced a significant increase in spending for the years 2020-21 in the Spending Round, which is set to add around 0.2 percentage point to growth. The government has also anticipated future tax cuts and additional spending increases, which have not been included in the OECD projections. Nevertheless, the stance of fiscal policy depends upon next elections and who will run the country.

For all these reasons, the 2019 United Kingdom general election scheduled for 12th December 2020, is considered a crucial event with considerable impacts on the economic, social and political future of the



country. In fact, after the 2016 referendum, the economic growth of the country has not been as strong as it was expected to be, mainly because of the high uncertainty.

The election is something which should give the country a stable majority which can definitely conclude the entire process. We will assume, according to the latest polling data, a victory of the Conservative Party and its candidate Boris Johnson. The latest projections show the following vote shares: Conservatives 43%, Labour 34%, Liberal Democrats 13%, Brexit Party 2%. However, the first-past-the-post system used in UK general elections means that the number of seats won is not directly related to vote share. Thus, several approaches are used to convert polling data and other information into seat predictions and all these data show off a stable Conservative majority.

This scenario would be positive for the Britain economy as uncertainty will decrease because a Tory majority would ratify the Brexit deal. On the contrary, a win for Labour would increase doubts due to the ambiguous stance taken by the party and its leadership. It is likely that Labour may support a new referendum on the withdrawal of the UK from the EU.

However, the approval of the Brexit deal will not end volatility because the withdrawal agreement has not got any economic scope. In fact, under the deals struck by Theresa May as well as Boris Johnson, the UK has until the end of a transition period to conclude its future relationship negotiations with the EU. This leaves the government with just 11 months to close not just a trade deal, but a deal on security and other activities such as science, education and international development.

Brexit under Different Scenarios

There are three different scenarios which can present themselves by the end of 2020:

1. UK crashes out without a deal on 31 December 2020 and defaults to World Trade Organization rules, with tariffs on most goods coming into the UK.
2. UK follows Theresa May's and Philip Hammond's plan and concludes a comprehensive and close alignment with the EU. This would almost certainly involve an extension to the transition period of up to two years.
3. UK negotiates a bare bones free-trade deal and outline agreement on the rest.



Unlike his predecessor, Boris Johnson wants a free-trade deal with the European Union “on the model of a super Canada plus arrangement”, rather than a closer economic partnership, In particular that agreement, which would be very similar to CETA agreement, aims to eliminate most tariffs on goods but does not remove regulatory barriers.

As Canada is not in the EU’s single market its products must still undergo border checks. There are even provisions for mutual recognition in services, a sector representing most of the UK economy. Boris Johnson set out his “Super Canada” Brexit plan by saying that it would involve zero tariffs and quotas on all imports and exports, mutual recognition of standards, technological solutions, and would cover goods and services.

The main advantage of the Canada-style (CETA) deal, from the British government’s perspective, is that it would allow the UK to leave the EU customs union and set its own tariff rates. However, this will surely create several costs for companies related to bureaucracy.

In the case of small and medium sized businesses, compliance costs are so high that companies prefer to pay more expensive WTO tariffs than filling out the additional paperwork to use the deal. For example, only 37 percent of EU exports to Canada, the professed model for Brexiteers, were exported under the CETA trade deal.

Another important issue is timing. Even if Johnson has declared that Britain can have a “super Canada-plus” free trade agreement with the EU by the end of 2020, Canada’s free trade deal with the European Union (known as CETA), which came into provisional effect in 2017, took seven years to negotiate, it runs to almost 1,600 pages and it will take several more years to implement fully. His supporters argue that a trade deal should be made easier by the fact that the two sides start from a position of convergence, but this is disputed.

EU rules and institutions play a big role in how member countries trade with one another. The EU is also responsible for negotiating and signing trade deals between the bloc and other non-EU countries. Therefore, one of the most obvious and direct impacts of leaving the EU will be on how, and at what cost, the UK is able to trade goods and services with the EU and with non-EU countries in future. Most studies point out that, as tariffs (in the worst-case scenario) and non-tariffs barriers (unavoidable) hinder trade between UK and EU countries, GDP growth will be smaller than what UK would achieve inside EU

(Figure 2). Nonetheless, there is no trace of studies predicting technical recessions, even in the worst-case scenario of a no-deal and, hence, UK will trade with EU members under WTO rules.

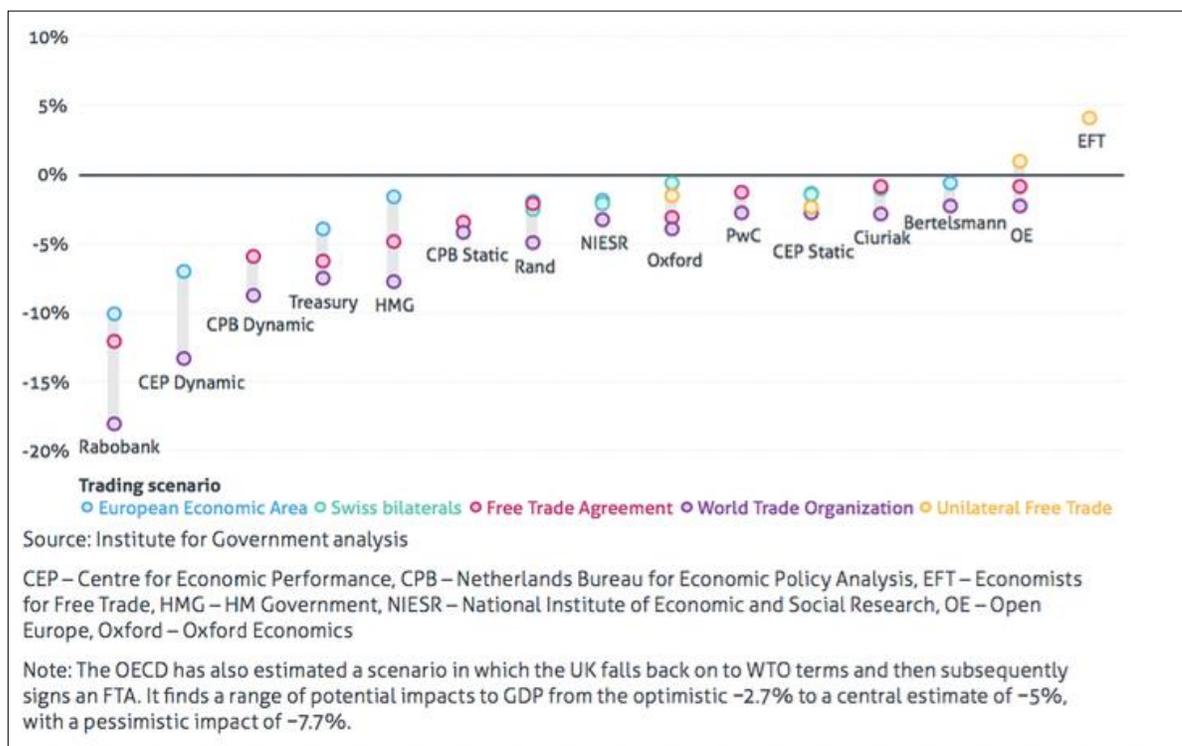


Figure 2: Studies on Brexit impact on GDP growth under five trade arrangements scenarios

Even in the best-case scenario, Brexit will impact on UK-EU trade by means of so-called non-tariffs barriers. Two major non-tariff barriers that are becoming increasingly the focus of trade agreements are regulatory barriers and customs checks.

Regulatory barriers arise as long as different countries (quite legitimately) have different legal regulations on health, safety and environmental protection. Customs checks – including any other paperwork required at the border, such as rules of origin paperwork and customs declarations – can cause delays and costs.

Non-tariff barriers between the UK and the EU could be lower than those facing other non-EU countries, because the UK and EU start with identical regulations. However, depending on the deal reached, there still could be some barriers. For example, if the UK is outside the EU Customs Union, there still could be additional costs for exporters to complete the necessary paperwork, in order to demonstrate rules of origin.

The EU also offers less access to financial services and other markets to businesses based outside the Single Market. Figure 3 offers a highlight of estimates of non-tariff barriers by sector according to different econometric models.

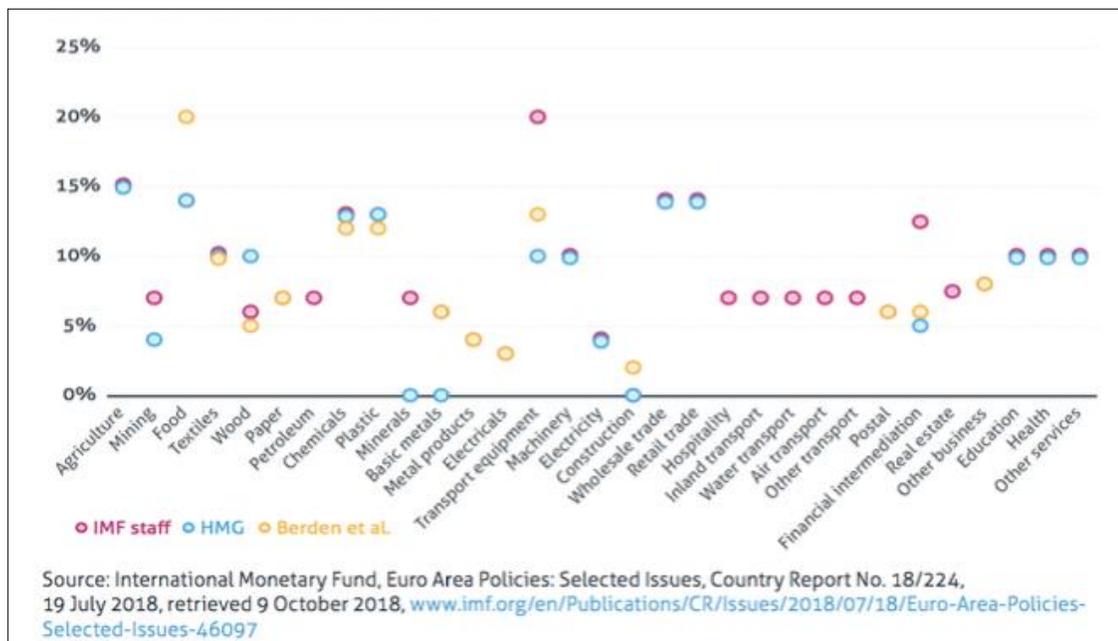


Figure 3: Comparison of estimates of non-tariff barriers by sector (% tariff rate equivalent)

Brexit’s impact on UK’s economy is, indeed, heterogenous according to which sectors are the most dependent upon EU-UK trade, as shown by Table 2 and Table 3.

ISIC4 Code	Top 5 manufacturing export industries	Value of Trade (bn USD)	ISIC4 Code	Top 5 manufacturing import industries	Value of Trade (bn USD)
2910	Motor Vehicles	47.4	2420	Basic precious and other non-ferrous metals	67.7
2100	Pharmaceuticals and medicinal chemicals	28.8	2910	Motor Vehicles	60.6
3030	Air and spacecraft and related machinery	28.1	2100	Pharmaceuticals and medicinal chemicals	32.7
2420	Basic precious and other non-ferrous metals	23.2	3030	Air and spacecraft and related machinery	22.8
2011	Basic chemicals	12.7	1410	Wearing apparel	21.2

Table 2: UK’s largest export and import manufacturing sectors. Source: ONS Pink Book 2017

ISIC4 Code	Top 5 manufacturing export industries	Value of Trade (bn USD)	ISIC4 Code	Top 5 manufacturing import industries	Value of Trade (bn USD)
1520	Footwear	89.0	1050	Dairy products	98.7
1074	Macaroni, noodles, couscous, etc.	87.9	2394	Cement, lime and plaster	93.6
1702	Corrugated paper and paperboard	87.1	1071	Bakery products	92.5
1621	Veneer sheets and wood-based panels	84.3	1104	Soft drinks, mineral waters, other bottled waters	90.2
1430	Knitted and crocheted apparel	83.8	1062	Starches and starch products	90.2

Table 3: UK'S manufacturing sectors most dependent on trade with the EU. Source: ONS Pink Book 2017

With manufacturing making a large contribution to the UK's international trade - manufacturing represents (just) 10% of the British economy but it accounts for a higher proportion of trade than of GVA or employment- Brexit is likely to bring about far reaching implications for the manufacturing industry.

Prices are estimated to increase for Transport, and for Chemicals and Pharmaceuticals. In the No-Deal scenario prices increase by 9.8% for the Transport group, and 7.5% for Chemicals and Pharmaceuticals. The smallest impact on prices is for Wood, Paper and Printing (1.0% in the 'no deals' scenario).

Table 4 shows the heterogeneity of the results across these broad groups. It is important to put emphasis on the fact that there is also heterogeneity within groups. For example, within the Transport grouping prices rise by less than 1% for the Building of Ships, but by over 14% for Motor Vehicles.

	Scenario 1: EEA	Scenario 2: FTAs with EU and FTA67	Scenario 3: FTA with EU	Scenario 4: No Deals	Scenario 5: FTAs with FTA67 and ROW
Percentage change in prices					
Food processing	0.6	2.3	2.5	3.7	2.9
Textiles, apparel and footwear	1.2	2.5	3.2	6.1	1.3
Wood, paper and printing	0.4	0.8	0.8	1.0	0.8
Chemicals and pharmaceuticals	2.0	4.9	5.2	7.5	6.1
Rubber and plastic	0.9	2.1	2.3	3.7	2.7
Metals and non-metallic minerals	0.7	1.4	2.1	2.7	1.2
Electronic and scientific	1.4	3.3	3.5	4.3	3.3
Electrical	1.4	3.1	3.4	4.7	3.3
Machinery	1.7	4.0	4.1	5.6	4.5
Transport	1.8	5.5	5.9	9.8	8.4
Other	1.1	2.6	2.7	3.3	2.6

Table 4: Sectoral groups and Brexit: impact on prices¹. UK Trade Policy Observatory – M. Gasiorek, I. Serwicka, A. Smith (2018)

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Scenario	Features
EEA	‘Softest’ Brexit scenario, where we assume that the UK leaves the EU Customs Union (CU), but has a Free Trade Agreement (FTA) with the EU, keeps full membership of the Single Market, and rolls over the existing EU FTAs with 67 countries.
FTA with EU + FTA67	In this scenario the UK is again assumed to leave the CU, and in addition leaves the Single Market. However, it signs an FTA with the EU, which results in bilateral tariffs with EU being zero.
FTA with EU	Here we replicate the previous scenario, except we assume that the UK does not roll over existing EU FTAs to which it is a party as an EU member
No Deals	No trade agreement between the UK and the EU and no rolling- over of the EU’s FTAs to the UK; hence, it trades on World Trade Organisation (WTO) terms with all countries.
FTA with FTA67 + Rest of the World	No EU deal’ (as in Scenario 4), but now assume that the UK signs FTAs with all non-EU countries. This involves rolling over existing EU FTAs and agreeing new FTAs with all other countries with which the EU does not currently have such agreements.

Table 5 shows that Scenario 4 leads to export declines for all sectors. Trading on WTO terms (with no other trade agreements in place) could translate into a decline in exports value as large as 72% (and a 19% decline for the median sector).

	Scenario 1: EEA	Scenario 2: FTAs with EU and FTA67	Scenario 3: FTA with EU	Scenario 4: No Deals	Scenario 5: FTAs with FTA67 and ROW
Percentage change in the value of exports					
Food processing	-6.9	-24.7	-26.2	-38.4	-33.7
Textiles, apparel and footwear	-8.4	-16.5	-17.8	-33.5	-29.7
Wood, paper and printing	-9.2	-14.8	-17.1	-20.2	-13.0
Chemicals and pharmaceuticals	-6.6	-14.4	-15.8	-21.3	-14.6
Rubber and plastic	-4.4	-9.9	-10.8	-17.4	-13.4
Metals and non-metallic minerals	-6.7	-12.6	-21.2	-25.5	-7.1
Electronic and scientific	-4.0	-9.2	-9.8	-11.9	-9.1
Electrical	-5.3	-11.6	-12.6	-16.7	-11.0
Machinery	-3.3	-7.3	-8.3	-10.7	-6.0
Transport	-3.0	-8.7	-9.8	-14.2	-9.1
Other	-3.7	-8.3	-9.0	-11.1	-8.2

Table 5: Sectoral groups and Brexit: impact on exports. Source: UK Trade Policy Observatory – M. Gasiorek, I. Serwicka, A. Smith (2018)

As Table 6 shows, the biggest declines in imports to be in the Food Processing group: varying from 6.8% in the ‘EEA’ scenario to 46.3% in the ‘no deals’ scenario. Wood, Paper and Printing is the only other group in which the decline in imports reaches double-digits, with the effects on imports for all remaining sectoral groups expected to be modest. The larger declines in both exports and imports for the Food Processing group are driven in good part by the size of the tariff and non-tariff barriers in these sectors, coupled with the extent of trade with the EU.

	Scenario 1: EEA	Scenario 2: FTAs with EU and FTA67	Scenario 3: FTA with EU	Scenario 4: No Deals	Scenario 5: FTAs with FTA67 and ROW
Percentage change in the value of imports					
Food processing	-6.8	-26.9	-29.0	-46.3	-28.6
Textiles, apparel and footwear	-0.2	-0.5	-0.7	-1.3	-0.2
Wood, paper and printing	-5.9	-11.1	-11.2	-13.7	-12.1
Chemicals and pharmaceuticals	-0.8	-2.0	-2.2	-3.9	-3.3
Rubber and plastic	-2.2	-5.1	-5.5	-9.4	-6.5
Metals and non-metallic minerals	-1.0	-2.2	-2.3	-3.3	-2.6
Electronic and scientific	-0.2	-0.5	-0.5	-0.6	-0.5
Electrical	-1.0	-2.4	-2.7	-3.9	-2.3
Machinery	-0.4	-0.9	-0.9	-1.3	-1.2
Transport	-0.7	-2.3	-2.5	-4.5	-4.1
Other	-0.8	-1.7	-1.7	-2.1	-1.6

Table 6: Sectoral groups and Brexit: impact on imports. Source: UK Trade Policy Observatory – M. Gasiorek, I. Serwicka, A. Smith (2018)

Unlike prices (which are all projected to increase) and exports/imports (which are largely expected to fall), there is a more mixed picture for output (Table 7). Increasing tariffs and NTMs on UK imports ‘protects’ domestic industries and encourages output to increase. Protection is at the expense of consumers and intermediate goods purchasers who face higher prices. In some sectors, the consequent expansion of domestic production is greater than the negative impact arising from lower export sales.

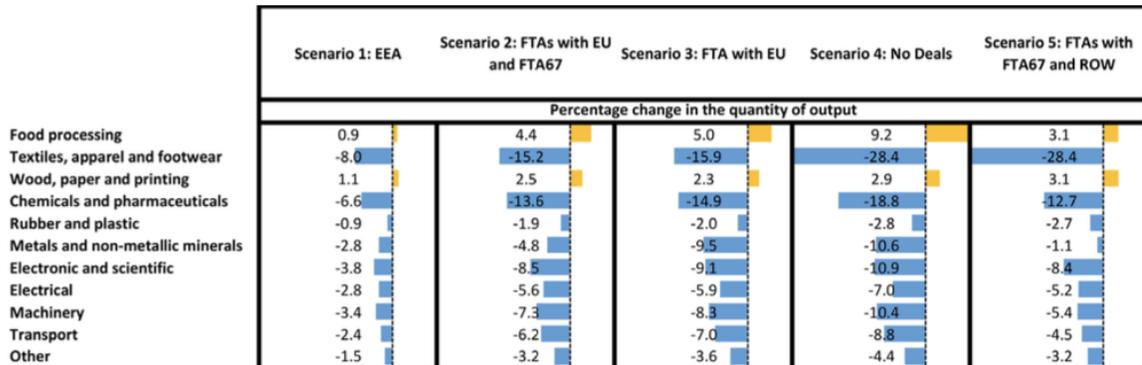


Table 7: Sectoral groups and Brexit: impact on outputs. Source: UK Trade Policy Observatory – M. Gasiorek, I. Serwicka, A. Smith (2018)

Understanding how Brexit may affect high R&D sectors relative to low R&D sectors may help shed some light on the possible longer-term implications of Brexit. Table 8 shows that across all Brexit scenarios, Medium-high R&D intensive manufacturing sectors will see the largest price rises, from 2.0% in the ‘EEA’ scenario to 9.2% in the No-Deal scenario. The lowest price increases are in the ‘Medium’ and ‘Medium-low’ sectors.

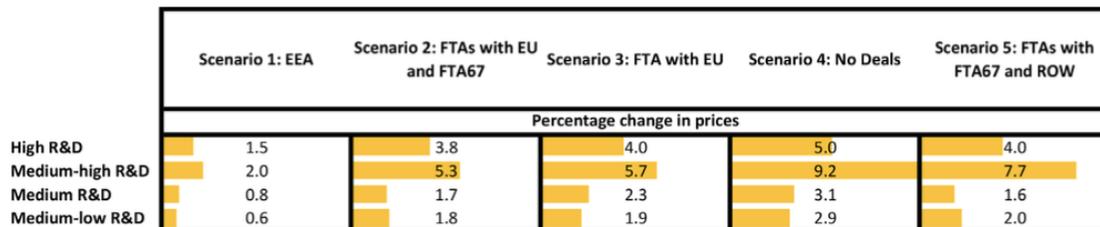


Table 8: R&D intensity and Brexit: impact on prices. Source: UK Trade Policy Observatory – M. Gasiorek, I. Serwicka, A. Smith (2018)

Tables 9 and 10 show that it is the ‘Medium-low’ sectors which may face the largest reductions in trade, both exports and imports, with export declines of more than 20% and import declines of up to 20% (except in the ‘EEA’ scenario). On the import side, the most striking feature are the large declines in the ‘Medium-low’ sectors and the small effects in the ‘High’ sectors.

	Scenario 1: EEA	Scenario 2: FTAs with EU and FTA67	Scenario 3: FTA with EU	Scenario 4: No Deals	Scenario 5: FTAs with FTA67 and ROW
Percentage change in the value of exports					
High R&D	-3.3	-8.1	-8.7	-10.5	-7.2
Medium-high R&D	-5.0	-11.8	-13.2	-18.6	-12.3
Medium R&D	-6.0	-11.9	-18.7	-23.1	-8.1
Medium-low R&D	-7.6	-20.2	-21.6	-31.7	-25.7

Table 9: R&D intensity and Brexit: impact on exports. Source: UK Trade Policy Observatory – M. Gasiorek, I. Serwicka, A. Smith (2018)

	Scenario 1: EEA	Scenario 2: FTAs with EU and FTA67	Scenario 3: FTA with EU	Scenario 4: No Deals	Scenario 5: FTAs with FTA67 and ROW
Percentage change in the value of imports					
High R&D	-0.2	-0.6	-0.6	-0.7	-0.7
Medium-high R&D	-0.8	-2.4	-2.6	-4.5	-3.8
Medium R&D	-0.9	-2.1	-2.3	-3.4	-2.6
Medium-low R&D	-3.7	-11.8	-12.7	-19.5	-12.5

Table 10: R&D intensity and Brexit: impact on imports. Source: UK Trade Policy Observatory – M. Gasiorek, I. Serwicka, A. Smith (2018)

Table 11 displays the output changes. Medium-low R&D manufacturing sectors stand out, in that for three scenarios they are predicted to see a growth in output and only modest declines for the remaining two Brexit scenarios. The other three aggregates show output declining in all scenarios. This has implications for the UK government’s ambition to support economic growth and drive productivity through R&D and innovation.

	Scenario 1: EEA	Scenario 2: FTAs with EU and FTA67	Scenario 3: FTA with EU	Scenario 4: No Deals	Scenario 5: FTAs with FTA67 and ROW
Percentage change in the quantity of output					
	-3.5	-8.3	-8.9	-10.6	-7.2
	-4.3	-9.2	-10.3	-13.1	-8.0
	-2.8	-5.0	-8.9	-10.2	-2.2
	-0.2	0.8	1.0	2.2	-0.2

Table 11: R&D intensity and Brexit: impact on output. Source: UK Trade Policy Observatory – M. Gasiorek, I. Serwicka, A. Smith (2018)



The Pound

The value of pound has been one of the main indicators affected by Brexit and the instability of the country. For the last three years, the pound has been highly volatile and the changes in its price have related to crucial events linked to Brexit.

The first instance was on 23 June 2016 when the result of the Brexit referendum took markets by surprise. As the news spread, the pound experienced its largest intra-day collapse in 30 years reaching lows of \$1.32 against the dollar and €1.20 against the euro. Market panic was exacerbated by the news that David Cameron would be stepping down as Prime Minister. Throughout the Brexit process, the GBP has faced periodic volatility in conjunction with important events. For example:

- October 2016: The Pound fell as Theresa May announced that the UK would trigger its exit from the EU in March of the following year. Sterling sunk to €1.11 and fell against the dollar to \$1.23 – reaching intra-day lows of \$1.18 for the first time in 30 years.
- June 2017: Sterling fell back 2% as the results of the election confirmed a hung parliament. The Pound fell from \$1.29 to a low of \$1.26, while falling to €1.12 on the Euro side.
- First 10 days of October 2019: Sterling lost 1.31% of its value against the euro, and 0.42% of its value against the dollar. This was after statements from European leaders unconvinced by Boris Johnson's withdrawal agreement. However, on 10 October it was clear that a deal was possible by 31 October. Sterling strengthened on the news, rising from an open of €1.11 euros to the pound to a close of €1.29.

The pound's depreciation has driven up the cost of living and increased the price of imported food, fuel and other goods. Inflation hit 3% in September 2017, its highest level since 2012.

The Pound has been trading fairly robustly over the last few weeks as there are expectations that the Conservatives would come out on top on 12th December and that a majority in Parliament may allow Boris Johnson to push through his Brexit deal and enact more business-friendly policies. However, Sterling is still vulnerable to pressure as there are odds to see a hung parliament and it will be highly sensitive to events connected to Brexit and future trade deal between UK and EU.

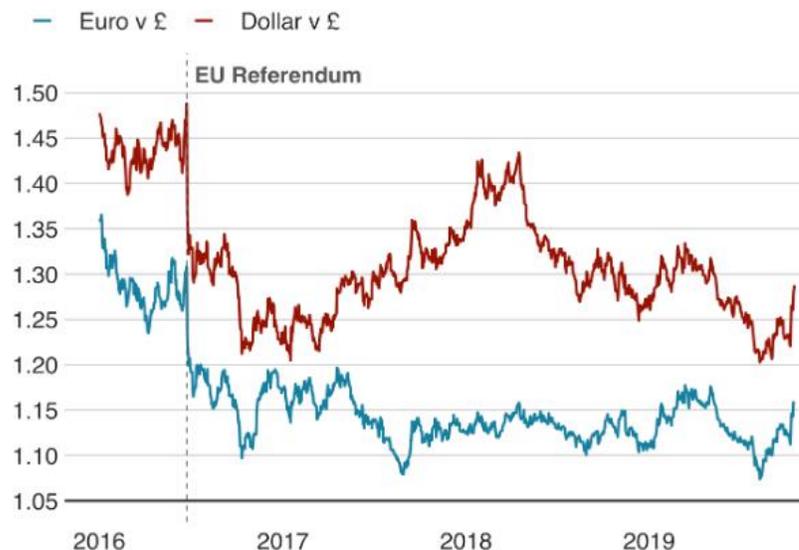


Figure 4: Euro and US dollar vs Pound. Source: Bloomberg

Impact on EU Policy Making

The arrival of Brexit will shift political balances inside the European Union. UK is currently the third most represented country in the Parliament and, hence, a decisive player in the policy-making process. UK's departure would weaken the liberalist bloc as the UK has been a proponent of an economically liberal Europe and larger trade deals with third countries.

Weakening the liberal bloc would also strengthen Germany's individual position in the Council through the loss of a key counterweight. Think tanks have posited that, absent UK, there will be heavier regulatory burden on EU businesses. British politicians are substantially more favorable to reducing red tape than their continental counterparts. If they no longer take part in the decisions regarding the internal market, the pressure on the EU decision-making apparatus to simplify legislation and reduce red tape would be much weaker.

On the other hand, the forces that are of the opinion that reducing red tape has a negative impact on labor and environmental standards would become stronger and would find it easier to influence the decisions their way. Similarly, British MEPs from the three main parties in the European Parliament, Conservatives, Labour and UKIP, have traditionally supported a more flexible labor market. All three believe this is



needed in order to strengthen the competitiveness of the European enterprises. These three parties have also been staunchly against the introduction of minimum wages across the EU.

Another important result could be weaker copyright protection in the EU. In September 2010, the EU Parliament adopted a report titled “Enforcement of intellectual property rights in the internal market”. The final shape of this non-legislative resolution was largely in favor of strengthening the position of rights holders and called for the introduction of a set of measures to combat Intellectual Property Rights (IPR) infringements in an active manner.

This copyright resolution was controversial and was only approved by a small margin. MEPs from the two main British delegations, Labour and the Tories, all voted in favor of the text. If the British MEPs had not been there to vote, harmonization of regulations across the EU would have been more likely.

One of the best-known instances of UK’s influence in European affairs is its rejection of a call for EU-wide tax harmonization that took place in March 2015. The Socialist, Liberal-Democrat and Greens/EFA parliamentary groups wanted to adopt a measure calling on the EU to put forward tax harmonization measures. The proposal was rejected, by 308 votes in favor to 370 against, as most of the center-right MEPs (EPP and ECR) voted against tax harmonization.

Interestingly, inside the Socialist and Democrats group, the British Labour delegation also disagreed with the position expressed by their continental colleagues and voted alongside the center-right. Without the UK Members, the majority against the harmonization of taxation would have been much thinner: 298 votes in favor and 317 against.

In the energy sector, there will now be less support for nuclear and exploitation of unconventional energy sources such as shale gas. Supporters of nuclear energy would lose a strong ally in the EU institutions if the British MEPs were to leave the Union. An amendment to a report asking Member States “to refrain from any shale gas exploration and exploitation activities” was also rejected by 289 votes in favor, 388 against and 25 abstentions. Without the British delegation, the outcome of the vote would have been 276 votes in favor, 329 votes against and 25 abstentions.



Conclusion

The interdependence between the United Kingdom and the rest of Europe runs deep. It is clear that Brexit poses a serious risk to both parties. Within UK, uncertainty and volatility are the new normal. Swings in the value of the Pound make it hard to conduct business. Volatility will also come from political sources. While pollsters widely expect the Conservative Party to win the election, they may only do so with a slim majority. The effects of Brexit will be felt by consumers as everyday goods become more expensive. Businesses with complex supply chains will undoubtedly be hurt as well. In short, it is not a good position to be in.

Across the channel, UK's absence will be felt by the rest of the European Union. Although the UK has recently grown disillusioned with the EU, it is hard to forget that the UK's contribution to the EU has been extremely valuable. For example, the Common Market, now one of the key pillars of European economic unity, was initially championed by the UK.

For now, the people and government of the UK need to think deeply about their position in our globalized world. While the official line is that the UK is open for business, the world is not yet convinced. In the EU, member states must prepare for life without one of their biggest economies and reflect on how Europe's institutions can be reinforced to better handle the challenges in the years to come.