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*The views expressed in this background brief are those of the author and do not necessarily reflect the views of the European Union or the EU Centre in Singapore.*

# To leave or not to leave?

## Contentious debates on the United Kingdom's membership of the European Union

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### Abstract

The UK's membership of the EU has become a highly charged topic in British politics these days. In January 2013, Prime Minister David Cameron promised an in/out referendum if his Conservative Party won the 2015 General Election. Now that the Conservatives have formed a new government after winning a slim majority, David Cameron will push on for EU reform ahead of his referendum promised for 2017, while hoping that British voters would choose to remain in the EU for the benefit of a stable economy.

What is really at stake for the UK, with regard to its membership of the EU? This background brief charts the arguments for and against Brexit – the term coined for the potential exit of the UK from the EU. Various analyses from think tanks and observers across the political spectrum are presented here. While attempting to offer a balanced coverage of the debates on Brexit, this background brief nevertheless seeks to offer a fact-based assessment of the merits of the UK leaving the EU, or otherwise. Economic considerations, rather than ideological underpinnings, are therefore the key here.

A separate section charts out the economic relations between the UK and Singapore, a key political and economic partner of the UK in Asia, to discuss the potential impact of Brexit internationally.

*The EU Centre is a partnership of:*



## Executive Summary

- The Conservatives have been re-elected in the 2015 elections to form the next government. Despite having promised the in/out referendum if re-elected, **David Cameron and his government have consistently stated their preference for the UK to remain in the EU**, albeit with reforms to the EU, and possibly renegotiating the UK's relationship with the EU. That could take place as soon as the next European Council meeting in June 2015. The promise of an in/out referendum has often been explained as an attempt for the Conservative Party to win over potential defectors (both voters as well as their own MPs) from crossing over to the more eurosceptic UK Independence Party (UKIP).
- Proponents of Brexit have cited the **costs of EU membership, excessive EU regulations, intra-EU immigration** as the prime reasons for leaving the EU.
- Much of the policy debate on the UK leaving the EU has centred on whether the UK would be worse off in terms of trade. The question in particular is **to what extent the UK can enjoy the benefits of the EU Single Market without being a fully participating EU member state**. While economic modelling research cannot definitively prove it one way or the other, the overview of current analyses indicates that a UK outside of the EU would be a risky move.
- An assessment of **the UK's alternatives to EU membership**: There have been various calls from eurosceptics for the UK to adopt a **Swiss or Norwegian style arrangement with the EU** instead. The trajectory of most arguments, however, suggest that would be pointless – because the UK would still be subject to a majority of the same EU regulations, with the added disadvantage of not having a seat at the table. It is also uncertain if the remaining EU member states would agree to grant the UK the same concessions as Norway as Switzerland received back in previous decades.
- The **international community**, as well as the **business community**, has been **firmly in support of the status quo** of the UK remaining in the EU. In particular, there have been concerns that a UK exit would undermine the liberal, free-trade character of the EU, since the UK is regarded as the leading advocate of free trade within the EU.
- Analysts believed that the **impact on Singapore** of the UK leaving the EU is **likely to be minimal**. This is because the political and economic ties between the UK and Singapore, as well as the surrounding circumstances, are not likely to be affected by the UK's membership of the EU. **However, unpredictable shifts in global trading patterns** as a consequence of Brexit (e.g. major international firms withdrawing investments from a UK that has “lost” its position as a gateway to the EU) could affect Singapore, a city-state highly exposed to global economic trends.

# To leave or not to leave?

## Contentious debates on the United Kingdom's membership of the European Union

LOKE HOE YEONG<sup>1</sup>

### Introduction

*“The relationship with Europe has poisoned British politics for too long [...] and come close to destroying the Conservative Party. It is time to resolve the matter.”*

- John Major, former British prime minister, 2013<sup>2</sup>

### Path to the 2017 in/out referendum on the UK's EU membership

In a January 2013 speech, Prime Minister David Cameron first committed the Conservative Party to seeking a renegotiated position for the UK within the EU, which would then be put to the British people for an in/out referendum, should his party win the 2015 general election<sup>3</sup>.

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<sup>1</sup> The author wishes to thank Holger Standertskjöld, Reuben Wong, Annmarie Elijah, and, over the years, Yeo Lay Hwee, for their insights. Nonetheless the usual disclaimers apply, and the author is solely responsible for any errors or shortcomings in this brief. While this brief does not seek to advocate any position on the issue of the UK leaving the EU, it would perhaps be prudent to also state that any views or conclusions expressed here are the author's, and does not necessarily represent those of the EU Centre in Singapore, or the EU institutions, or any government.

<sup>2</sup> Major, John (2013). 'The referendum on Europe: opportunity or threat?' Chatham House, London, 14 Feb 2013.

<sup>3</sup> See for instance, Oliver, Tim (2015). "To be or not to be in Europe: is that the question? Britain's European question and an in/out referendum". *International Affairs*, 91: 1, p. 77.

This is not the first time a national referendum on EU matters has been promised by a British government. Aside from the 1975 referendum held on the UK's membership of the EEC, in which a clear majority of 67.2% voted to remain in the EEC, Prime Ministers John Major and Tony Blair promised referendums on the UK's membership of the euro in 1992 and 1999 respectively, while Blair promised another one on the EU Constitutional Treaty in 2005<sup>4</sup>. These did not come to pass, as the UK never came near to adopting the euro, while the EU Constitutional Treaty had already been rejected by French and Dutch voters. The coalition government of David Cameron had enacted a "referendum lock" through the European Union Act of 2011, in which any future proposed transfer of UK powers to the EU such as through a treaty would have to be presented to the British people in a referendum – a referendum that would be separate from the in/out referendum on the UK's continued membership of the EU.

However, there is no doubt that the in/out referendum has been far more deeply ingrained in British political consciousness, compared to the other referendums cited above that were previously promised. The promise of a referendum represents a major election carrot by the Conservative Party, and it would be unthinkable that the incumbent Conservative government would not hold one as promise even though no legislation mandates it.

While having promised a referendum on EU membership, the Conservative government of David Cameron has nevertheless been consistently in favour of the UK remaining in the EU, albeit with reforms to the EU, and possibly renegotiating the UK's relationship with the EU. The promise of the referendum have been read as an attempt by the Conservative Party to win over potential defectors from crossing over to the more eurosceptic UK Independence Party (UKIP) – both voters as well as their own MPs, Members of the European Parliament (MEPs), local councillors and rank-and-file members. Even though it was under a

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<sup>4</sup> See for instance: *ibid.* pp. 82-3.

Conservative government that the UK entered the European Economic Community (EEC) in 1973, the party's support base had always tended to be reluctant in signing up to European institutions, if only for narrow economic motivations of accessing European markets. It was only with Margaret Thatcher's premiership in the 1980s did the Conservative Party take a clearer eurosceptic stance in government. Moreover, the previous general election of 2010 saw the entry of a particularly Eurosceptic batch of new Conservative MPs who came of age, politically as it were, during the euro crisis<sup>5</sup>.

Those concerns culminated in October-November 2014 when two MPs of the governing Conservative Party defected to UKIP, resigned their parliamentary seats and triggered the by-elections in the English constituencies of Clacton, and Rochester and Strood. The issue of the UK's continued membership of the EU was naturally the main campaign issue in those by-elections. While the entry of two UKIP MPs – albeit ex-Conservative Party MPs – is unlikely to have any impact in a UK Parliament of 650 MPs in the House of Commons, the concern of the Conservative Party is of their vote share being shaved off at the 7 May 2015 General Election. That could cost them a number of marginal seats, an especially precarious prospect in a parliament that is increasingly fragmented.

### **EU referendums in other countries**

The in/out referendum is not the first to be held among European countries on the issue of EEC/EU membership. Norway has held two referendums on EEC/EU membership, in 1972 and 1994 – the Norwegian public voted against membership on both occasions. Switzerland held a referendum in 2001 on whether to open accession negotiations

with the EU, and was resoundingly rejected by voters.

Ever since the project of integration in Europe began in the second half of the 20th century, there were 28 referendums on EU issues that either have been promised or actually held in EU countries to date.<sup>6</sup> Most notably, the 2005 referendums in France and the Netherlands on the Treaty establishing a Constitution for Europe resulted in wins by the “No” camp. Voters in Denmark narrowly rejected the 1992 Maastricht Treaty in a referendum, which led to opt-outs for Denmark in areas of the treaty such as in its participation of the common currency, and in the Common Security and Defence Policy (CSDP).

### **Legal procedures for exiting the EU**

To withdraw from the EU, such as in response to a referendum result, the British government of the day would only need to invoke Article 50 of the Lisbon Treaty and notify the European Council of its intention to do so.<sup>7</sup> All the EU treaties will then cease to apply to the UK two years from this date of notification.

The EU and the UK would then negotiate a treaty setting out the arrangements for the latter's withdrawal, addressing in particular the framework for future relations between the EU and the UK. If the UK government wishes to, the date of entry into force of this withdrawal agreement could also be made the date whereby the EU treaties cease to apply to the UK, if it is earlier than the two-year deadline from the date of notification of withdrawal mentioned above. In any case, the UK government should stick to the two-year deadline, so as to steady the markets.<sup>8</sup>

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<sup>5</sup> See for instance: Boffey, Daniel (2013) “Out, out, out! Can anybody stem the Eurosceptic tide?” *The Observer*, 18 May 2013; Economist, The (2014) “Why Britain is so Eurosceptic”. *The Economist*, 3 March 2014; Usherwood, Simon (2012) “The Conservative Party and Euroscepticism”. *E-International Relations*, 11 November 2012.

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<sup>6</sup> *Ibid.* p. 80.

<sup>7</sup> Article 50, Lisbon Treaty.

<sup>8</sup> Mansfield, Iain (2014). *A Blueprint for Britain: Openness not Isolation* (IEA Brexit Prize). Institute of Economic Affairs, p. 7.

## The UK in the EEC: the first referendum, 1975

The in/out referendum promised by David Cameron would not be the first in the UK on the issue of its membership of the EU – the first was held in 1975, on Britain’s membership of the then European Economic Community (EEC). The UK had already joined the EEC in 1973 under the Conservative government of Edward Heath. When the Labour Party regained power in the general election the following year, divisions in the cabinet of Harold Wilson emerged following a renegotiation of the UK’s EEC membership. Wilson then called for a national referendum on the matter, which some read as a move to delay a split in the Labour Party and allow Wilson’s government to continue in power. The uncanny similarities between that episode and that of David Cameron’s current Conservative government have been pointed out.<sup>9</sup>

The fact that the 1975 referendum on EEC membership was also the first nation-wide referendum ever held in the UK is indicative of how long and deeply the European question has occupied British politics.<sup>10</sup> Back in 1975, it was the Labour Party which had generally been resistant towards membership of the EEC, and after Harold Wilson’s government, had been campaigning outright for the UK’s exit from the EEC until the early 1980s. Traditionally, the Labour Party feared that the loss of some aspects of economic sovereignty would hinder them in enacting socialist industrial policies. The Conservative Party had campaigned successfully for the UK to stay in that 1975 referendum. Since then, the two parties have fundamentally switched their positions on the EEC/EU membership, especially since the premiership of Margaret Thatcher. This is perhaps indicative of the political motives behind the parties and governments for promising referendums on EU matters – that they are but a

<sup>9</sup> Oliver, Tim (2015). “To be or not to be in Europe: is that the question? Britain’s European question and an in/out referendum”. *International Affairs*, p. 83.

<sup>10</sup> *Ibid.* p. 79. The only other UK-wide referendum ever held took place in 2011, on the reform of the British electoral system. Many regional or local level referendums have been held though, a notable recent one being the September 2014 referendum on Scottish independence.

political tool used for dealing with internal party splits.

It has often been pointed out that in the 1975 referendum, the British electorate voted to stay in an institution that was a very different one from what the EU is today – a Common Market, rather than the all-pervasive European Union it has since evolved into.<sup>11</sup>

In that referendum held on 5 June 1975, a clear majority of 67.2% voted “Yes” in support of the UK’s continued membership in the European Economic Community (EEC).

## 1. Charting out the debate on “Brexit”

### Why should the UK leave the EU?

The UKIP’s 2015 Manifesto said that “the tentacles of the EU stretch into almost every area of our national life” and that “the EU has complete control over British financial services, fishing, farming, energy and trade. It dictates UK business and employment legislation and immigration rules”. It characterised the EU institutions as an “out-of-sight, unaccountable, pan-European bureaucratic elite”, against which the “European Parliament is no safeguard... our MEPs are not allowed to generate or re-visit existing legislation”.<sup>12</sup>

### *The costs of over-regulation*

In a UKIP publication titled “How much does the European Union cost Britain?”, updated through several editions since its first publication in 2006, the argument is that the “ever increasing” costs of EU membership is coupled with an “ever increasing” trade deficit with EU countries. In its latest, 2014 edition, it calculated the total cost of EU membership – which it defined as both direct payments to EU institutions as well as indirect

<sup>11</sup> See for instance: UKIP (2015). *UKIP Manifesto 2015*, p. 70.

<sup>12</sup> *Ibid.*

costs such as jobs lost and resources misallocated – at 11.5% of GDP, or £185 billion per year.<sup>13</sup>

The largest portion of these estimated costs was assigned to “Costs of regulation” – 6% of GDP. It described this category as “reduced employment due to ‘Social Chapter’ type legislation, cost of renewables agenda and financial regulation, businesses closed because of substance and procedure regulations”.<sup>14</sup>

Complaints about “red tape” from the EU institutions have been chief among those frequently raised by businesses, particularly small- and medium-sized enterprises (SMEs). Using data from the UK Government’s own Impact Assessments, Open Europe estimated that the cost of the 100 most burdensome EU-derived regulations to the British economy stands at £33.3 billion a year.<sup>15</sup> To give a sampling of the kinds of regulations that were to blame, that report identified the top five of them:

- 1) The UK Renewable Energy Strategy
- 2) The Capital Requirements Directive (CRD IV) package
- 3) The Working Time Directive
- 4) The EU Climate and Energy Package
- 5) The Temporary Agency Workers Directive.

The Open Europe report nevertheless stated that if the UK were to leave the EU and take on the “Norway option” (that is, to be a part of the European Economic Area – see more below), the UK would still be subjected to 93 of the 100 most burdensome EU-derived regulations.

On gross payments alone from the UK to the EU, and after accounting for rebates, the UKIP report claims that has been in the region of GBP 16.7 to 20 billion for the year, disputing the accuracy of estimates regularly published by HM Treasury and the Office for National Statistics.

Two major pieces of EU policy have been cited in particular as being expensive and wasteful – the Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP). The CAP, a major subsidy programme for the farming industry, has long been a controversial and most expensive of all EU policies, although the proportion of the total EU budget it occupied was about 70% of the total EU budget during the 1970s and has now fallen to around 40%. Meanwhile, the CFP has been accused for “crippling” the UK’s fishing industry, by giving EU countries access to the UK’s rich fish stock such as in the North Sea. About 9,000 jobs in fishing and 88,000 jobs in dependent industries onshore have been said to be lost since the UK joined the EEC.<sup>16</sup>

Critics of these calculations have generally responded that they do not take into account the benefits the UK enjoys through trade, or how the British economy would suffer if the UK left the EU and thereby the EU Single Market. However, eurosceptic commentators have pointed out that the UK ran a significant current account deficit of over £2 billion with the rest of the EU in 2010, but a healthy surplus with non-EU countries amounting to nearly £16 billion. They have also claimed that less than 15% of the UK’s GDP relates to trade with the EU.<sup>17</sup> And while the UK was the fifth or sixth largest economy in the world in recent years, the UK has a disproportionately small influence on regulations of the EU Single Market, as the system of qualified majority voting (QMV) gives the UK just 8.5% of the vote.<sup>18</sup>

Their conclusion, therefore, is that if the UK exited the EU Single Market, there would likely be little disruption to UK-EU trade, because trade disruption would not be in the interests of EU countries which run surpluses with the UK. Similarly, it is unlikely that flows of foreign direct investment would be allowed to be severely disrupted.

<sup>13</sup> Congdon, Tim (2014). How much does the European Union cost Britain? (2014 Edition) UK Independence Party, p. 5.

<sup>14</sup> Ibid, p. 25.

<sup>15</sup> Open Europe (2015). “Top 100 EU rules cost Britain £33.3bn”. 16 March 2015.

<sup>16</sup> Congdon, Tim (2014). How much does the European Union cost Britain? pp. 24-25.

<sup>17</sup> Lea, Ruth and Brian Binley (2012). “Britain and Europe: a new relationship”. Global Vision, p. 3.

<sup>18</sup> Ibid.

## Immigration

While the intricacies of the debates on Brexit may be lost on a large swathe of voters, the issue of immigration alone has consistently emerged as one of the top issues in the UK General Election. The whole spectrum of the usual concerns about immigration have been raised here, such as that immigration suppresses the wages of the lowest paid in the UK,<sup>19</sup> as well as some of the more [racially-charged] and xenophobic comments about immigration from the eastern parts of the EU.

The 2015 UKIP Manifesto took the nuanced approach that since the UK is not able to control immigration from EU countries, the UK “can only reduce numbers by slamming the door in the face of people from around the rest of the world”.<sup>20</sup> In particular, it charges that the mainstream political parties in the UK “support blatant discrimination” against immigrants from Commonwealth countries, with whom “Britain has traditionally had long and friendly relationships”. The UKIP leader, Nigel Farage, had stated a preference for immigrants from Commonwealth countries like Australia and India, rather than from other parts of Europe, since they “speak English, understand common law and have a connection with this country than some people that come perhaps from countries that haven’t fully recovered from being behind the iron curtain”.<sup>21</sup>

### What are the economic consequences for the UK leaving the EU?

The economic rationale for the UK to remain in the EU is perhaps best summed up in a 2014 report by the Centre for Economic Reform (CER):

*In short, the high degree of economic integration between the UK and the EU will always require*

<sup>19</sup> Open Europe (2014). “Save EU free movement: Make it fair to keep it free”. 24 November 2014.

<sup>20</sup> UKIP (2015). *UKIP Manifesto 2015*, p. 12

<sup>21</sup> Mason, Rowena (2015). “Nigel Farage: Indian and Australian immigrants better than eastern Europeans”. *The Guardian*. 22 April 2015.

*some system of shared governance. The EU will not allow the UK, upon leaving, to have the same level of access than it now has without paying a price.*<sup>22</sup>

Ever since the UK joined the EEC in 1972, the share of today’s 27 EU member states (including the 15 countries who were not yet EEC members back in 1972) in the UK’s total goods trade leapt from 41% that year to 52% by the end of the 1970s, and to a peak of 59% in the early 1990s.<sup>23</sup> (This has sometimes been cited to show how much the EU and its Single Market policies have enlarged trade on the European continent.)

Since the 1990s though, the rise of emerging markets has seen the EU countries’ share in total UK trade decline; but at 45% of all UK exports, the EU remains the UK’s most significant market destination by far.<sup>24</sup> Nonetheless, the establishment of the Single Market has helped trade between the UK and the rest of the EU grow by 74% in real terms from 1997 until 2006 - the year before the financial crisis began.<sup>25</sup>

Some would argue that the UK’s trade with EU countries would have increased, with or without the UK joining the EU. However, a study by Europe Economics has shown that the UK’s trade with the other EU countries was higher than would be the case, had the UK not joined the EU – the figure was up to 50% for some member states.<sup>26</sup>

Some researchers acknowledge that assessing the economic impact of the UK’s withdrawal from the EU is a challenging task, given the variety of factors that have to be considered. One such factor is whether the UK would leave every single

<sup>22</sup> Centre for European Reform (2014a). *The economic consequences of leaving the EU: The final report of the CER commission on the UK and the EU single market*. Centre for European Reform, p. 14

<sup>23</sup> Haver Analytics IMF DOT database/IMF Direction of Trade, quoted in Confederation of British Industry (CBI) (2013). *Our Global Future: The business vision for a reformed EU*. CBI, p. 60.

<sup>24</sup> Office for National Statistics (2013). *The Pink Book 2013*. Export values are converted to constant prices using the UK GDP exports deflator.

<sup>25</sup> Ibid.

<sup>26</sup> Europe Economics, ‘Optimal Integration in the Single Market: A Synoptic Review’, 2013

arrangement with the EU entirely, and whether the UK would sign agreements to retain some access to the EU Single Market.<sup>27</sup>

Researchers at the National Institute of Economic and Social Research, using macroeconomic modelling methods, estimated that leaving the EU would permanently reduce the UK's GDP by 2.25%, mainly as a result of reduced foreign direct investment.<sup>28</sup> It should be noted, however, that this study dates from 2004. A more recent report from 2014 by the Centre for Economic Performance (CEP) using a quantitative model of international trade shares similar projections, estimating the sum of the static and dynamic trade losses would be almost 2.2% of GDP, with a worst case scenario of a long-term income loss of 6.3% to 9.5% of GDP.<sup>29</sup> The scale of these losses has been compared to that resulting from the 2008/09 global financial crisis, during which the UK's GDP fell by 7%.<sup>30</sup> The CEP report concluded that it would be "a very risky gamble" for the UK to leave the EU, given the potentially substantial costs on the British economy.<sup>31</sup>

If the UK leaves the EU, there might not only be difficulties arising from fully participating in the EU Single Market, but it would also be excluded from future free trade agreements (FTAs) between the EU and external countries. In this regard, the UK's future in the Transatlantic Trade and Investment Partnership (TTIP), a mega-FTA currently being negotiated between the EU and the US, would be

<sup>27</sup>; Centre for European Reform (2014a). *The economic consequences of leaving the EU: The final report of the CER commission on the UK and the EU single market*, p. 16.

<sup>28</sup> Pain, Garry and Nigel Young (2004). "The macroeconomic impact of UK withdrawal from the EU", *Economic Modelling*, 21:3

<sup>29</sup> Ottaviano, Gianmarco, Joao Paulo Pessoa, Thomas Sampson and John Van Reenen (2014). "Brexiteer or Fixiteer? The Trade and Welfare Effects of Leaving the European Union". Centre for Economic Performance, London School of Economics. Paper No. CEPPA016.

<sup>30</sup> Ibid, p. 4; National Institute of Economic and Social Research (2013). "October 2013 GDP estimates".

<sup>31</sup> Ottaviano, Gianmarco, Joao Paulo Pessoa, Thomas Sampson and John Van Reenen (2014). "Brexiteer or Fixiteer? The Trade and Welfare Effects of Leaving the European Union", p. 1.

uncertain.<sup>32</sup> That would be a loss of a politically and economically crucial position for the UK.

However, an opposing view from the think tank Civitas stated its belief that the UK would be able to negotiate FTAs "more swiftly and more appropriately" than as an EU member state. It believes that the EU is too large, divided and unwieldy to secure trade agreements with the most important markets of the US, China and India – which it has indeed not done so to date.<sup>33</sup>

In a 2011 report, the Bruges Group emphatically claimed that the UK does not need the EU Single Market at all. It believes that the EU Customs Union is redundant for the UK because over 90% of UK imports are tariff-free, and moreover, it believes, that the costs of membership of the EU and the Single Market are "absolutely colossal".<sup>34</sup> In this vein, it estimates that by the year 2020, the split in the UK's worldwide exports would be two-thirds outside the EU and only one-third to the EU, because of the faster rates of growth of UK exports outside the EU.<sup>35</sup>

## 2. How is the UK government planning to reform the EU ahead of the referendum?

### Programme of EU reform and membership renegotiation

Having won the 7 May General Election with a slender majority in Parliament, the Conservative government of David Cameron would have their first opportunity to kick-start their agenda for reforming the EU and for renegotiating the UK's relationship with the EU to his 27 European counterparts at the June 2015 meeting of the European Council. Previously, David Cameron had

<sup>32</sup> Böttcher, Barbara and Eva Schmithausen (2014). "A future in the EU? Reconciling the 'Brexit' debate with a more modern EU". EU Monitor, European Integration, Deutsche Bank Research, p. 4.

<sup>33</sup> Lindsell, Jonathan (2013). "Does the EU impede the UK's economic growth?" Europe Debate No. 2. Civitas, p. 9.

<sup>34</sup> Milne, Ian (2011). "The Single Market and British Withdrawal". The Bruges Group, p. 5.

<sup>35</sup> Ibid, p. 7



said that if re-elected, he would “sit at that negotiating table with a mandate from the British people to reform the EU and fundamentally change Britain's relationship with it”.<sup>36</sup> In contrast, the opposition Labour Party had stated during the election campaign if they form the next government, they would “re-engage” after five years of “being sidelined in Europe”.<sup>37</sup>

Ahead of the in/out referendum he promised for 2017 if re-elected, David Cameron had stated his preference for the UK to remain in a reformed EU. The new Conservative government would therefore be ramping up its efforts in negotiations with their European counterparts to reform the EU and the UK's relationship to it. They would then present this negotiated deal to the British electorate in the 2017 referendum. Some observers though have read the Conservatives as using the threat of withdrawal from the EU to gain leverage and obtain better concessions in the renegotiations of its relationship with the EU.<sup>38</sup>

Cameron's proposed reforms, especially those on introducing tighter immigration controls to the UK from within the EU, would require changes to existing EU treaties. Donald Tusk, the President of the European Council, had warned that his intuition led him to believe that “treaty change is close to mission impossible today”, because that would require “unanimity between 28 member states, in the European parliament, in 28 national parliaments in the process of ratification”.<sup>39</sup> Nonetheless, Tusk added that he had “no doubt that we have to help [David Cameron] in a limited and rational framework”.

<sup>36</sup> Holehouse, David (2015). “David Cameron: 'I will triumph in Mission: Impossible on EU reform'”. *The Telegraph*. 20 March 2015.

<sup>37</sup> Labour Party, UK (2015). *The Labour Party Manifesto 2015*; EurActiv (2015b). “Labour launches manifesto, with promise to stand up for Britain in Europe”. EurActiv. 14 April 2015.

<sup>38</sup> For instance, Möller, Almut and Tim Oliver (eds) (2014). *The United Kingdom and the European Union: What would a “Brexit” mean for the EU and other States around the World? DGAPanalyse*, German Council on Foreign Relations (DGAP - Deutsche Gesellschaft für Auswärtige Politik), pp. 106-7.

<sup>39</sup> EurActiv (2015a). “Tusk calls Cameron's EU reform plans ‘mission impossible’”. EurActiv. 20 March 2015.

In preparing for a renegotiation of the UK's relationship with the EU, the then Foreign Secretary William Hague launched a major “Balances of Competences” review in July 2012.<sup>40</sup> The resultant document would then form the government's policy basis in deciding which powers to repatriate from Brussels. When the full review was completed though, it was found that there was effectively not a single subject in which reducing EU powers would benefit the UK. It has therefore been downplayed by David Cameron and his government.<sup>41</sup>

### The UK's agenda for EU reform

In the lead-up to the May 7 General Election, both the Conservative Party and the opposition Labour Party were deliberately vague about what they would reform regarding the UK's relationship with the EU.<sup>42</sup>

The clearest articulation yet of the Conservative government's agenda for reforming the EU can perhaps be found in two important, though little reported speeches by David Lidington, the British Minister for Europe, given in May and June 2014 in London and Berlin respectively.<sup>43</sup> It was

<sup>40</sup> HM Government (2014). *Review of the balance of competences between the United Kingdom and the European Union – complete reports*, available online at: <https://www.gov.uk/review-of-the-balance-of-competences>, accessed 20 April 2015; Centre for European Reform (2014b). “Review of the balance of competences between the UK and the EU”. Centre for European Reform.

<sup>41</sup> See for instance: Kerr, John (2015). “David Cameron is short on specifics over Europe”. *Financial Times*. 20 April 2015; Fox, Benjamin (2015). “UK election: Don't expect candour on the Brexit debate”. *EUobserver*. 17 April 2015.

<sup>42</sup> Kerr, John (2015). “David Cameron is short on specifics over Europe”. *Financial Times*. 20 April 2015; Menon, Anand (2015). “Manifesto Check: Labour keeps it vague on EU reform”. *The Conversation*, 14 April 2015.

<sup>43</sup> Lidington, David (2014a). “Priorities of the next European Commission: A British perspective”. Speech by Foreign Office Minister David Lidington, 13 May 2014, London; Lidington, David (2014b). “Minister for Europe sets out UK approach to EU reform”. Speech by Foreign Office Minister David Lidington, 25 June 2014, Berlin; McNamara, Tim (2014). “Cameron's EU reform agenda laid bare”. *Policy Review*, May 2014.

unmistakable from the speeches that the Conservative-led government wants the UK to remain in the EU, albeit while pushing for reforms in the EU. The May speech emphasised four planks of David Cameron's reform agenda for the EU – enhanced competitiveness, non-discrimination among member states, changes to free movement within the EU, and greater democratic accountability to national parliaments.

On the first two points, the government wants to uphold the integrity of the single market, in order to enhance competitiveness in a global context – through labour market reform, deregulation, completing the single market initiatives in services. In these policy areas, discrimination between members of the euro common currency and non-members comes to the surface – a new, in-built qualified majority voting system would give eurozone members the collective weight to write rules on behalf of the whole EU such as in labour market reforms. This could be calamitous for the UK's financial services industry, the largest in the EU, if eurozone members caucused together to impose financial services legislation on the UK, even if they are countries with little or no financial services industry themselves.

David Cameron has also been attempting to address the hot-button issue of immigration as upholding the principle of the free movement of labour, but in clamping down on “welfare shopping”, the phenomenon in which migrants from less wealthy EU states relocate to richer ones like the UK to take advantage of its comparatively more generous welfare system.<sup>44</sup> Much of this would depend on the UK government removing the entitlement to benefits for a significant period, such as six or 12 months. It appears this would be achievable without requiring any changes to the EU treaties. The Conservative Party underscored this approach in their 2015 election manifesto, which called for reducing internal EU migration by restricting tax credits and access to benefits to people living in the UK for four years, and for a

migrant to live in an area for four years before being eligible for social housing.<sup>45</sup>

To bolster democratic accountability, the speech underpinned the introduction of a “red card” mechanism that would enable national parliaments to block EU legislation. This entails making choices such as whether to require more than one-third or half of votes in national parliaments to block EU legislation. It appears that this could be achieved with an informal agreement within the EU, rather than any treaty change.

### 3. If the UK leaves the EU, what are its remedial options for trade?

As has been noted, the UK is member of the following important international institutions in its own right, and its leaving the EU would not change its membership status – the G8, G20, NATO, OECD, WTO and the UN Security Council.<sup>46</sup> Additionally, the UK currently has the status of being the world's fifth largest economy.<sup>47</sup> Mansfield has proposed that the UK should step up its engagement with the OECD countries on the issue of global standards, which would repay economic dividends.<sup>48</sup>

But the main issue for the UK to consider, should it leave the EU, is what sort of trade arrangement it wants to enter into, such that its trade relations with the EU as a whole are not negatively affected.

#### The “Norwegian option” – EEA and EFTA membership

If the UK were to leave the EU, the UK could then adopt the “Norwegian option”, in which it would

<sup>45</sup> Conservative Party UK (2015). *The Conservative Party Manifesto 2015*.

<sup>46</sup> See for instance: Mansfield, Iain (2014). *A Blueprint for Britain: Openness not Isolation* (IEA Brexit Prize). Institute of Economic Affairs, p. 22.

<sup>47</sup> Centre for Economics and Business Research (2014). “World Economic League Table 2015 Highlights”, 26 December 2014; Chan, Szu Ping (2014). “Britain edges past France on world stage”. *The Telegraph*, 26 December 2014.

<sup>48</sup> Mansfield, Iain (2014). *A Blueprint for Britain: Openness not Isolation*, p. 22

<sup>44</sup> Osborn, Andrew (2014) “UK says to use Merkel visit to push curbs to 'welfare shopping'”. *Reuters*. 23 February 2014.

be a member of the European Economic Area (EEA) and the European Free Trade Agreement (EFTA). According to a report by the Bruges Group, EEA/EFTA membership means that the UK would only be subjected to the 4,500 EEA regulations and not the additional 15,000 EU regulations, of which there are around 350 new EEA regulations and an additional 650 EU regulations each year.<sup>49</sup> The report also estimates that the UK would save £3 billion per year, out of the current net payment of £6 billion it makes to the EU (2013 figures as computed by the Bruges Group report).<sup>50</sup>

This arrangement would allow the UK to maintain full access to the EU Single Market, although of course it means that it would have to maintain the four freedoms and comply with EU laws that are associated with the Single Market – all this, without having any representation in the EU to influence the shaping of these laws.<sup>51</sup> In the words of the CBI report, the UK would then be a “standards-taker”.<sup>52</sup>

### A “Swiss option” – EFTA membership

Alternatively, the UK could imitate Switzerland’s arrangements with the EU, in which it would be a member of just the EFTA. Effectively, this would primarily entail the removal of the UK’s annual contribution to the EU budget, and it could exit EU policies such as the Common Agricultural Policy (CAP) and Justice and Home Affairs (JHA).

However, while Switzerland is under no formal obligation to adopt EU legislation, EU legislation and rules still remain prevalent in that country. Thus, in the opinion of a Deutsche Bank Research report, the benefits of such a post-withdrawal relation appear to be marginal and could entail

<sup>49</sup> Randwyck, Hugo van (2013). “EFTA or EU? Qs & As”. The Bruges Group, p. 6

<sup>50</sup> Ibid. p. 7.

<sup>51</sup> Böttcher, Barbara and Eva Schmithausen (2014). “A future in the EU? Reconciling the ‘Brexit’ debate with a more modern EU”, p. 15.

<sup>52</sup> Confederation of British Industry (CBI) (2013). *Our Global Future: The business vision for a reformed EU*. CBI, p. 16.

some risks too.<sup>53</sup> The CBI report warns that the UK could suffer from reduced market access into the EU, and there would be no guarantee that the UK would reach agreements with the rest of the EU even on prioritised areas such as financial services.<sup>54</sup>

In such a situation, the UK’s access to the EU Single Market after it exits the EU would be subjected to EU rules that would then be made without the UK’s participation, and clashes could result. Here, the pertinent case of Switzerland may be cited – in February 2014 a referendum resulted in a narrow vote to limit the free movement of people, in contravention of Switzerland’s commitment to EFTA, a row in the EU ensued.<sup>55</sup> This resulted in the suspension of Swiss participation in some of the science and research collaboration projects under the EU. (Swiss voters, however, soundly rejected proposals to dramatically reduce immigration from 74% to 26% in a later referendum in November 2014.)

### The “Turkey option” – EU Customs Union only

Turkey, currently a candidate for EU membership, is a member of the EU’s customs union. If the UK leaves the EU and follows the Turkish option, it would only be able tackle tariffs to enter the EU market, and would not be able to address non-tariff-barriers that are increasingly the major obstacle to trade in the modern global economy.<sup>56</sup>

### “Going it alone” – individual WTO membership

As trade policy is an exclusive EU competence, the 28 EU countries negotiate trade agreements as one voice, delegating the power to the EU trade commissioner. If the UK leaves the EU and hence becomes simply an individual member of the

<sup>53</sup> Böttcher and Schmithausen (2014). “A future in the EU? Reconciling the ‘Brexit’ debate with a more modern EU”, p. 16.

<sup>54</sup> CBI (2013). *Our Global Future: The business vision for a reformed EU*, p. 16.

<sup>55</sup> Zuleeg, Fabian (2014). “**Britain outside Europe? Fewer EU concessions to UK post-Brexit**”. *Commentary, European Policy Centre*, p. 2.

<sup>56</sup> CBI (2013). *Our Global Future: The business vision for a reformed EU*, p. 17.

World Trade Organization (WTO) like all other countries outside of the EU, it would of course have the prerogative to pursue trade agreements with any country of its choice, on its own terms. This new-found freedom, however, would be offset by risks posed by a period of dislocation given the UK's new status, and could possibly sign fewer comprehensive bilateral deals than the EU can achieve.<sup>57</sup>

### A Commonwealth Free Trade Area?

The idea of reviving the Commonwealth of Nations, an intergovernmental organisation of 53 countries that were mostly territories of the former British Empire, and turning it into a free trade area as an alternative to the EU for the UK, has gained currency in some circles.<sup>58</sup> These proponents cite the “Commonwealth factor” – that English is the common language, similar laws and shared history among these countries – and the fact that some emerging markets like India are in this grouping.<sup>59</sup>

However, the reality is that UK's earnings from exports to the Commonwealth constitute only 9.76% of its total exports, compared to 43.6% for its exports to the EU (2011 figures).<sup>60</sup> In terms of trade in services, the performance of the Commonwealth as a whole is even weaker – the three Commonwealth countries of the UK, India and Singapore make up 69% of all Commonwealth trade in services (2010 figures).<sup>61</sup> It is telling that leaders have only made ambivalent declarations at

Commonwealth meetings, and they have never once held a formal meeting of all Commonwealth Ministers of Trade.<sup>62</sup>

All this begs the question about how much economic potential the Commonwealth grouping actually holds. What the proponents of growing Commonwealth links as an alternative to the EU actually refer to is perhaps the “Anglosphere”<sup>63</sup> – Australia, New Zealand and Canada, where the links to the UK are closer and their shared heritage more similar, as championed by the Mayor of London, Boris Johnson.<sup>64</sup> Some include the United States, though not a member of the Commonwealth, and even India in this grouping.<sup>65</sup>

Even then, the trade figures do not support this reading. In 2012, the above five “Anglosphere” countries (Australia, New Zealand, Canada, UK and the US) accounted for 32% of the total stock of foreign direct investment in the UK, compared to 50% from the EU. In that year, investment from the EU increased by £95 billion, while the level of investment from all the five countries, except the US, fell.<sup>66</sup>

The Commonwealth FTA concept has been described as “an idea whose time has long passed”.<sup>67</sup> It has also been described, disparagingly, as an “old empire-commonwealth dream” which has “long roots among British Conservatives, roots that go back to the 1950s”.<sup>68</sup>

<sup>57</sup> Ibid. p. 16.

<sup>58</sup> Dominiczak, Peter (2013). “Britain must look 'beyond' the EU and focus on links with the Commonwealth”. *The Telegraph*. 25 August 2013.

<sup>59</sup> Hannan, Daniel (2015). “Forget the EU - let's take on the world with our TRUE friends”. *Daily Mail*. 23 January 2015; Ahmed, Kamal (2012). “Forget Europe, its time for the Commonwealth”. *The Telegraph*. 11 February 2012; Lea, Ruth and Brian Binley (2012). “Britain and Europe: a new relationship”.

<sup>60</sup> Sanders, Ronald (2012). “A Commonwealth Free Trade Area is neither likely nor desirable”. Commonwealth Advisory Bureau, Institute of Commonwealth Studies, p. 4; Report of Office of National Statistics, London, 11 September 2012.

<sup>61</sup> Sanders, Ronald (2012). “A Commonwealth Free Trade Area is neither likely nor desirable”, p. 5.

<sup>62</sup> Ibid. p. 6.

<sup>63</sup> See for instance: Wellings, Ben and Helen Baxendale (2015). “Euro-scepticism and the Anglosphere: Traditions and Dilemmas in Contemporary English Nationalism”. *Journal of Common Market Studies*, 53: 1.

<sup>64</sup> Dominiczak, Peter (2013). “Britain must look 'beyond' the EU and focus on links with the Commonwealth”. *The Telegraph*. 25 August 2013.

<sup>65</sup> Hannan, Daniel (2015). “Forget the EU - let's take on the world with our TRUE friends”. *Daily Mail*. 23 January 2015.

<sup>66</sup> Cousins, Will (2015). “Europe or the Commonwealth” is a false choice”. BNE Blog, Business for New Europe. 23 January 2015.

<sup>67</sup> Sanders, Ronald (2012).

<sup>68</sup> Anne Deighton, quoted in: Quinn, Ben (2013). “Could Britain move away from EU and toward the Commonwealth?” *The Christian Science Monitor*. 17 January 2013.

## Joining NAFTA?

Some have advocated the UK leaving the EU and joining the North American FTA (NAFTA), possibly renaming it as the North *Atlantic* FTA.<sup>69</sup> The proponents of this idea on both sides of the Atlantic have tended to be political conservatives who speak of the “special relationship” between the UK and the US. But they perhaps miss the elephant in the room – the UK’s special importance to the US is very much linked to the UK’s position in the EU/Europe.<sup>70</sup> Since the days of the postwar Marshall Plan, the US has been a firm supporter of European integration, and starting from the John F. Kennedy administration, the US has been pushing for the UK to participate in European integration.

## 4. Opinions and views

### UK citizens and voters

Recent survey data appear to indicate that the British public has not been consistently getting more eurosceptic over the years, contrary to intuition shaped by the fact that the UK is now at the threshold of an in/out referendum on the EU. It would appear that recent developments in the political dynamics in the UK – in particular the politicking between the Conservative Party and UKIP for voters from each other’s bases – were in fact the reasons driving the debate on EU membership.

Survey results appear to suggest that British opinion on EU membership is getting more polarised – UKIP supporters are twice as likely, to place importance on the issue of EU membership, than supporters of the other parties, and are far more sceptical towards the EU.<sup>71</sup>

An October 2014 survey by Ipsos MORI indicated that 56% of respondents said they would vote for the UK to remain in the EU – one of the highest levels of support for the UK’s membership of the EU since 1991 on the eve of the signing of the Maastricht Treaty, when 60% of respondents said they would vote to stay in the then European Community.<sup>72</sup>

Furthermore, that survey showed that British public’s support for EU membership had actually grown during the period that UKIP’s electoral popularity soared. In the period since November 2012 when support for UKIP rose from 3% to 16% in the Ipsos MORI survey, support for EU membership had increased by 12 percentage points from 44%.<sup>73</sup>

A similar pattern of a high in support for EU membership was recorded in a separate, but more recent survey by YouGov. In February 2015, 45% of respondents said they would vote for the UK to remain in the EU – the highest since YouGov began polling the question in September 2010. It is also the result with the biggest lead for the “in” voters – 10 percentage points more than those who would vote to leave the EU.<sup>74</sup>

### UK businesses

A 2013 report by the Confederation of British Industry (CBI), a key business lobbying organisation in the UK, indicated that 8 out of 10 CBI members would vote to stay in the EU in a referendum. This includes 77% of SMEs.<sup>75</sup> That same report also indicated that despite frustrations, 52% of CBI member companies said that they have directly benefitted from the EU’s common rules and

<sup>69</sup> Lea, Ruth and Brian Binley (2012). “Britain and Europe: a new relationship”. Global Vision, p. 27

<sup>70</sup> See for instance: Lightfoot, Jeffrey and Tim Oliver (2013). “Britain Outside Europe? The US View”. German Council on Foreign Relations (DGAP).

<sup>71</sup> Ipsos MORI (2014). “Support for EU membership highest for 23 years, even as UKIP rises in the polls”. Ipsos MORI Political Monitor - October 2014.

<sup>72</sup> Ibid.; Culzac, Natasha (2014). “Support for EU membership ‘at highest level since 1991’ with most Brits wanting to stay ‘in’”. *The Independent*. 22 October 2014.

<sup>73</sup> Ipsos MORI (2014).

<sup>74</sup> Jordan, William, (2014). “Record support for staying in the European Union”. 24 February 2015. YouGov. 20% of those polled were undecided though.

<sup>75</sup> CBI (2013). *Our Global Future: The business vision for a reformed EU*, p. 9.

standards – only 15% said that they had a negative impact on their businesses.<sup>76</sup>

That same year, a widely-reported TheCityUK survey of 101 UK-based business leaders from a variety of specialisms, drawn from TheCityUK's member companies indicated that 84% wanted the UK to remain in the EU. In the same survey, 88% agreed that EU membership has benefitted the UK economically as a whole.<sup>77</sup>

### Impact on the rest of the EU

If the UK leaves the EU, there would be less differentials in terms of eurozone membership, and a greater concentration on the eurozone countries, and the marginalisation of those outside it. This will have an impact on the policy making dynamics within the EU.<sup>78</sup>

Some believe that in the event of the UK exiting the EU, this would embolden other countries which harbour wishes of doing so, and thereby break down the spirit of European integration. This, however, appears unlikely, as the EU countries currently most inclined to leave the EU – such as Greece, for reasons unrelated to that of the UK case – tend to be small countries, which are only too aware of the costs of such an action to them.<sup>79</sup> More likely, it would embolden those who like the UK's approach of "Europe a la carte", which could have destabilizing effects for the continent if there were to be "27 or 28 categories of EU membership", as one Irish Minister put it.<sup>80</sup>

For an EU institution like the European Parliament, the exit of the UK – and its MEPs – would mean the weakening of the Socialists and Democrats Group, because the UK Labour Party forms a significant

part of it.<sup>81</sup> The impact would not be felt for the European People's Party grouping, as the UK Conservative Party is outside of it. This would shift the balance between the various voting blocs in the European Parliament.

### The United States

For major powers like the US, the UK outside of the EU will continue to be valuable and strategic partner for them, but one that is reduced in importance, given the UK's inability to influence the EU.<sup>82</sup>

With regard to the US, with which the UK enjoys a much-touted "special relationship", its oft-quoted position on the UK's role in the EU as articulated by the then US Secretary of State Dean Acheson in 1962 has been that:

*"Great Britain has lost an empire and has not yet found a role. The attempt to play a separate power role apart from Europe, a role based on a 'special relationship' with the United States and on being the head of a 'commonwealth' which has no political structure, unity or strength – this role is about played out".<sup>83</sup>*

Ever since then, every US administration has supported the UK's membership of the EU. More recently the Obama administration has emphatically stated that "we want to see a strong British voice in that European Union. That is in the American interest".<sup>84</sup>

<sup>76</sup> Ibid. p. 11

<sup>77</sup> TheCityUK (2013). "The City Speaks: Access to Single European Market key to UK Competitiveness". 29 October 2013.

<sup>78</sup> Zuleeg, Fabian (2014). "Britain outside Europe? Fewer EU concessions to UK post-Brexit". *Commentary*, European Policy Centre, p. 3

<sup>79</sup> Ibid.

<sup>80</sup> Baker, Luke (2013). "Ireland urges Britain to be cautious with EU ties." *Reuters*. 8 January 2013

<sup>81</sup> Zuleeg, Fabian (2014). "Britain outside Europe? Fewer EU concessions to UK post-Brexit", p. 3

<sup>82</sup> See for instance: House of Commons Foreign Affairs Committee (2014). "Government foreign policy towards the United States". Eighth Report of Session 2013–14, HC 695 (London: The Stationery Office, March 2014), pp. 38–40.

<sup>83</sup> See for instance Möller, Almut and Tim Oliver (eds) (2014). *The United Kingdom and the European Union: What would a "Brexit" mean for the EU and other States around the World?* p. 15.

<sup>84</sup> Cousins, Will (2015). "Europe or the Commonwealth" is a false choice". BNE Blog, Business for New Europe. 23 January 2015.

Recent developments in the negotiation of trade agreements would accentuate such a position of the US. The “centre of gravity of transatlantic relations” would shift from NATO to the TTIP when that agreement is concluded.<sup>85</sup> In particular since the Iraq War of the 2000s, the US has been conscious of the resistance from its European partners in organising defence and security matters through the NATO platform – although renewed fears of a security threat from Russia arising from the Ukraine crisis have changed that. Making an economic agreement the new centrepiece of the US’s cooperation with Europe would make much sense, but the withdrawal of the UK from the EU would then significantly weaken the avenues of cooperation between the US, the UK and the EU.

## 5. The impact of Brexit on Singapore

The impact of the UK leaving the EU is likely to be minimal for Singapore, if any at all. UK-Singapore ties feature the Five Power Defence Arrangement (FPDA), but that does not fall under the EU’s purview. Relations between the UK/EU and Singapore are therefore primarily economic. Contrary to popular expectations arising from longstanding, historical ties, the UK is not Singapore’s closest trade partner within EU countries. In the latest available trade data, the total volume of trade between the UK and Singapore stood behind that of Germany, France and even the Netherlands.

Any significant impact on Singapore would most likely arise from shifting trade patterns brought about by Brexit. Here, it is not possible to map out scenarios scientifically. But given how much Singapore is plugged into the global economy, Singapore could be vulnerable to any changing patterns of global and Asian trade, if it does not react in a timely manner.

<sup>85</sup> Möller, Almut and Tim Oliver (eds) (2014), p. 16.

## Defence and security

The UK is the only country in Europe that is a signatory to a formal defence agreement – the Five Power Defence Agreement (FPDA) – with Singapore. Signed in 1971 in the wake of the UK’s withdrawal of its armed forces east of Suez, the agreement also includes Malaysia, Australia and New Zealand. The FPDA commits the UK, Australia and New Zealand to consult each other in the event that Malaysia and Singapore are threatened or attacked militarily, though in practice the partnership has been marked mainly by joint exercises and defence exchanges. Since then, Singapore has also expanded its cooperation in defence with other European countries like France, as well as in defence procurements and joint military technology development with countries like Sweden.<sup>86</sup>

None of these military partnerships or initiatives, however, fall under the EU’s purview. They therefore remain unaffected by the UK’s membership of the EU.

## Economic issues

Relations between Singapore and EU, and their interests in each other, therefore remain predominantly economic.

The EU has been ranked among Singapore’s top three trading partners in goods. The latest available figures (2013) indicate that with trade in goods between the EU and Singapore amounting to €46 billion, the EU is Singapore’s third largest trading partner after China and Malaysia, and ahead of the US and Japan.<sup>87</sup> In terms of trade in services, the EU is Singapore’s top trading partner, amounting to €28.3 billion (2012 figures).<sup>88</sup> The

<sup>86</sup> For instance: Wong, Reuben (2014). “Singapore”, in Möller, Almut and Tim Oliver (eds) (2014). *The United Kingdom and the European Union: What would a “Brexit” mean for the EU and other States around the World? DGAPanalyse*, German Council on Foreign Relations (DGAP - Deutsche Gesellschaft für Auswärtige Politik), p. 97.

<sup>87</sup> European Commission (2014). *EU-Singapore Trade and Investment 2014*, p. 17

<sup>88</sup> *Ibid.* p. 23

top three sectors in EU-Singapore trade in services are that of transport services, business and management services, and intellectual property.

### ***EU-Singapore FTA***

Singapore is one of two countries in Asia which has concluded an FTA with the EU, the other being South Korea. However, the EU-Singapore FTA has not been ratified by the European Parliament yet at this time of writing.

A European Commission study predicted that over a 10-year period, EU exports to Singapore would rise by some €1.4 billion and Singapore's exports to the EU by some €3.5 billion.<sup>89</sup> The EU's real GDP would grow only negligibly in percentage terms, though in absolute terms, there would be a projected gain of around €550 million. Singapore's economy though would exhibit a significantly higher real growth rate of 0.94%, or an increase of €2.7 billion.

If the UK exits the EU, it would then be free to pursue a new, bilateral FTA with Singapore, if it finds it to be beneficial. EU authorities have not pronounced on the issue, preferring instead to "cross the bridge when we get there". But this is probably inevitable, as there would be no rationale for the EU to keep UK in the trade agreement, reaping the rewards of the EU's trade agreements without being a contributing member.

### ***Trade between Singapore and the EU4***

In the years 2007 to 2013 (latest available data from Singstat),<sup>90</sup> Germany has been consistently the largest trading partner of Singapore within the EU, by total volume of trade conducted. Three EU member states have alternated holding the second, third and fourth place during this same period – the UK, France and the Netherlands. In fact in 2013, Singapore's total volume of trade with the UK at S\$14.3 billion was ranked fourth out of the EU

countries, behind even trade with the Netherlands. In comparison, Singapore's total volume trade with Germany that year stood at S\$20.9 billion.

### **Brexit: The view from Singapore**

The view from Singapore has generally been that the UK's exit could undermine the liberal free-trade character of the EU, negatively affecting both the UK's and the EU's standing in international economics, politics, and security. Nonetheless in the opinion of observers such as Reuben Wong, due to the pragmatic nature of Singapore's policy making process, it is highly unlikely that Singapore's relations with the UK will be duly affected by whether the latter remains in the EU or withdraws.<sup>91</sup>

In economics and business, Singapore has generally echoed the sentiments of the wider Asian business and political community, with regard to the UK's membership of the EU. During a visit to London in March 2014, Singapore's Prime Minister Lee Hsien Loong underscored the importance of the EU-Singapore FTA in allowing Asian companies to "use London as a base to venture into Europe",<sup>92</sup> though short of making any explicit pronouncements on the impact of a British exit from the EU.

Any real and considerable impact on Singapore would lie in the changing patterns of interregional trade brought about by Brexit. Here though, it is difficult to map out and simulate the impact, given various shifting factors. There is no exact science in doing so – no economic modelling can predict this. However, a few scenarios are worth pondering:

1. **Stronger UK ties with Australia/New Zealand:** If the UK leaves the EU, it may seek to strengthen trade ties with its "Commonwealth allies" Australia and New Zealand, as some leaders like London Mayor Boris Johnson have advocated. Could this have the effect of diverting trade away from Singapore? For the record, the volume of trade between Singapore

<sup>89</sup> European Commission (2013). "The economic impact of the EU – Singapore Free Trade Agreement".

<sup>90</sup> Department of Statistics, Singapore (2015). "Trade > Latest News > Singapore's External Trade, Mar 2015".

<sup>91</sup> For instance, Reuben Wong (2014). "Singapore", p. 97

<sup>92</sup> Cited in *ibid.* p. 98.



and Australia have consistently surpassed that with the UK by a large margin – in 2013, that figure was S\$25 billion. Nonetheless, it is more likely that the UK strengthens its economic ties with Australia and New Zealand, and perhaps also India, than with the Commonwealth as a whole, a grouping which includes Singapore. The Commonwealth as a whole is too disparate a group of nations for a free trade agreement of any sort to be feasible (see discussion above).

2. **Fallout from major international firms relocating investments out of the UK after Brexit:** Major car manufacturers in particular – Nissan, Ford and Toyota – have said they would “re-examine investments” if the UK leaves the EU.<sup>93</sup> If such capital movements occur on a large scale, Singapore’s financial community may need to start thinking outside of just focusing on the City of London.
3. **A politically and economically weakened UK post-Brexit:** Singapore may need to focus more energies on building ties with the EU, if it is still interested in the sizeable European market, such as in following through with the EU-Singapore FTA when ratified. This could have ramifications on a wide range of issues. Consider education for instance – would the UK continue to be as attractive a destination for higher education?

## Conclusion

Rather than advocating any position on the UK’s membership of the EU, this brief had set out to provide an overview of the already rich arguments for and against Brexit in public debates. Nonetheless, three key observations may be made in conclusion.

Firstly, whichever party forms the government in the future British elections, the issue of the EU and of euroscepticism will not go away. Any referendum on the UK’s continued membership of the EU, even

if voters decide to leave the EU, is also unlikely to settle the question once and for all. This is because the UK would still have to grapple with how it wishes to relate to the EU, particularly in trade. If the UK wishes to join the alternative trading framework of the EFTA or the EEA after exiting the EU, which it should to protect its trade with the continent, it would be still be subject to EU regulations. The overview of analyses in this brief indicate that rather than to settle the EU question once and for all in British politics, British politicians and voters need to be able to manage the UK-EU relationship in the political, economic and social realms.

Secondly, while faraway countries are unlikely to be impacted by whether or not the UK leaves the EU, the resultant shifts in global trading patterns could be potentially disruptive to trade-dependent countries like Singapore. Major car manufacturers like Toyota have particularly been vocal in warning against Brexit, although it is uncertain how likely it is that they would act on their threat to pull out investments of the UK should it leave the EU. There would most likely some level of uncertainty in the international markets, at the very least, for a period of time after the UK leaves the EU.

Thirdly, while the popular media has portrayed the issue of euroscepticism in the UK as a monolithic one, the reality is of fragmented politics, as would be expected in an age of greater information sharing, and of multiple identities beyond that of attachment to the nation-state and to traditional party politics. The business community, as would be expected, is generally wary of Brexit and the economic uncertainty it brings. The Conservative Party, while currently being the most eurosceptic of the three mainstream Westminster parties, was in fact the party that led the UK into the EEC in 1973 when it was in government. The previous referendum on EEC membership in 1975 was called by a Labour government. Adding to the complexity of the debates on EU membership is the whole issue of Scottish independence, another major issue in British politics currently that is out of the scope of this paper, but one that has links with the EU membership debate. Scottish voters have tended to be more pro-European than English

<sup>93</sup> See for instance: Groom, Brian (2014). “How united is UK business on Brexit?” *Financial Times*. 7 July 2014.

voters. With a small population of around five million, its natural tendencies would be towards closer union with the EU. If it does secede from the UK, it would want to be an EU member state – a point brought to bear during the campaign on the Scottish independence referendum in September

2014. The Scottish National Party swept almost all Scottish parliamentary seats at the 2015 General Election, and will thus have a major political role to play at Westminster.

□

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