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What To Do With the UK?

EU perspectives on Brexit

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6 Greece and the upcoming Brexit negotiations

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For a number of years after 2010, most commentators believed that Greece would be the first country to leave the Eurozone, and possibly the EU. European solidarity and the will of the Greek people to remain in the European family has so far averted 'Grexit', despite a close call in July 2015.

Now Brexit is before us, and Greece, among others, is called upon to form a position concerning the post-Brexit EU-UK relationship.

There are two possible outcomes of the Brexit negotiations. One is a 'hard Brexit', in which Britain leaves the Single Market, abandons the 'four freedoms' – the free movement of people, goods, services and capital – and resorts to a kind of 'fortress Britain' in which there will be a significant reduction in the volume of trade of goods and services between Britain and the EU. The second possible outcome is a 'soft Brexit', in which Britain remains in the Single Market, retains the *acquis communautaire*, and accepts mainly cosmetic restrictions to the free movement of people.

The question that arises for Greece is whether it should push for a hard Brexit, or whether it should aim for a negotiation that would make it possible for Britain to accept a soft Brexit.

In this, Greece should balance political and economic considerations, as well as the possible contagion effects that would be generated if Britain were to be perceived as having secured an outcome in accordance with its own objectives.

The political background between Greece and the UK

Britain is an important trading partner for Greece, but not as important as the longstanding close historical political ties between the two countries would have led one to believe.

It was in London that the two ‘independence’ loans were raised in 1824 and 1825, even before the creation of the Greek state, with the aim of helping finance the Greek war of independence against the Ottomans. It was through the 1827 Treaty of London that the three Protecting Powers (Britain, France and Russia) agreed on the autonomy of Greece from the Ottoman Empire, and intervened in the war of independence, leading to the creation of the modern Greek state in 1828. It was through a protocol signed at the London Conference of 1832, between Bavaria and the Protecting Powers, that Greece was declared an independent kingdom, free of Ottoman control, following the assassination of Governor Kapodistrias. It was on a British warship that King Otto, the first king of modern Greece, arrived in Greece in 1833, and it was on a British warship that he fled in 1863. It was at the urging of Britain that Greece adopted a more democratic constitution in 1864. It was through London finance houses that Greece was contracting its foreign loans throughout the 19th century. The close political relationship continued through the first half of the 20th century, culminating in the post-1944 British intervention to secure that Greece did not become a communist state.

The impact of a hard and soft Brexit on trade, tourism, migration, the EU budget and the European economy

Economic ties between Greece and the UK are not as deep or as strong as the history of their political ties and the size of the UK economy would suggest.

Exports of goods and services

Britain is only the sixth largest market for Greek exports, accounting for exports of $1.28 billion in 2014, or 3.8% of total Greek exports of goods. Turkey (13% of Greek exports) is the top export market for Greece, followed by Italy (9.3%), Germany (6.8%), Bulgaria (5.0%) and Cyprus (4.9%). France (2.6%) follows the UK in 7th place, followed by Romania (2.4%) and Spain (2.1%).

Almost half of the exports of Greece to the UK are chemical products (such as pharmaceuticals and beauty products), metals (such as copper pipes and aluminium plating and foil), foodstuffs (such as processed fruits, nuts and vegetables), and machines (such as insulated wire, telephones and broadcasting equipment). Animal and vegetable products (cheese, yogurt, grapes, etc.) are also important exports of Greece to the UK, as are minerals, textiles and plastics. In many ways, the exports of Greece to the UK have the same general structure as total Greek exports (see Table 1).

Table 1 The structure of Greek exports in 2014

	Greek exports to the UK	Total Greek exports
Chemical products	16.0%	8.4%
Metals	15.0%	12%
Foodstuffs	12.0%	7.9%
Machines	11.0%	7.4%
Animal products	9.5%	4.3%
Vegetable products	9.2%	5.3%
Minerals	8.6%	36%
Textiles	5.9%	4.7%
Plastics and rubbers	4.8%	4.3%
Other	8.0%	9.7%

Source: Observatory of Economic Complexity, MIT Media Lab.

Does this mean that Greece would find it easy to find other markets in the case of a hard Brexit? Not at all. The UK is a significant export market for Greece, and would be hard to replace. Greek export markets are generally quite small, and it would not be easy for Greek exporters to redirect these exports to other developed economies or other markets. Thus, based on bilateral trade considerations, Greece should opt for a soft Brexit, as this would imply the least damage for Greek exports.

This argument is reinforced if one considers third markets in Europe. Greece does not compete with the UK in third markets in Europe, as the structure of Greek and British exports is quite different. As there is little intra-industry trade between Greece and the UK, there are also very limited overlaps between Greek and UK exports in third markets in Europe. Thus, Greece stands to gain very little from the gap that would be opened in these markets in the case of a hard Brexit. The gap would be filled by other industrial economies, such as Germany, France, Italy and the Netherlands, who compete with Britain in similar export markets.

Tourism

A second important export market for Greece is tourism. Of the 23.6 million tourists that visited Greece in 2015, 2.4 million came from the UK. The UK is the second largest tourist market for Greece, almost on a par with Germany (2.8 million in 2015).

It is hard to establish direct links between Britain's participation in the Single Market and tourism. However, if the Brexit negotiations resulted in a hard Brexit, with further negative effects on the value of sterling and a prolonged slowdown for the British economy, then one could anticipate a significant reduction in British tourist arrivals in Greece, with strongly negative effects on the Greek economy.

Table 2 Tourist arrivals in Greece by country of origin, 2014 and 2015 (millions)

	2014	2015
Germany	2.459	2.810
UK	2.090	2.397
Bulgaria	1.535	1.901
France	1.463	1.522
Italy	1.118	1.355
Poland	0.589	0.754
Serbia	0.986	0.728
Romania	0.543	0.540
Russia	1.250	0.513
Europe	19.477	20.716
Asia	1.412	1.515
America	0.890	1.095
Oceania	0.205	0.212
Africa	0.049	0.062

Source: National Statistical Authority of Greece

It is important to note that a rise in arrivals from Britain and Germany between 2014 and 2015 more than compensated for the significant drop of arrivals from the Russian Federation (see Table 2). However, it is hard to contemplate how the gap from a significant drop in the number of British tourists in Greece would be filled.

Thus, in the light of considerations based on tourism, which is Greece's major export industry, Greece should again adopt a negotiating position in favour of a soft Brexit, as this would have minimal effects on the value of sterling and growth in the British economy, and would help maintain the strong tourist flows to Greece.

The EU budget

A third consideration is the EU budget. Britain, is a net contributor of about €7 billion in 2014 to the EU budget, despite its rebate. In the case of a hard Brexit, Britain will pay nothing into the community coffers. In the case of a soft Brexit, the EU could negotiate a reduced contribution, as has happened with Norway. This will still be significantly less than the current UK contribution, but would still better than in the case of a hard Brexit.

Given that Greece, unlike Britain, is a net recipient from the EU budget, to the tune of €5 billion in 2014, it stands to lose a lot in the case of a hard Brexit. Thus, it should again go for a soft Brexit.

Migration

A fourth consideration concerns migration. Both Greece and the UK are host countries for migrants from the rest of the Europe. However, following the 2010 crisis, migration from Greece has grown significantly, including migration to the UK. This has helped lessen social tensions in Greece and allows young Greeks to maintain and improve their human capital. The hope is that when the Greek economy eventually recovers, they might be able to return to Greece and contribute to the recovery.

In addition, many UK citizens have chosen Greece as the country where they reside during their retirement, contributing indirectly to the economy.

Thus, migration issues also suggest that Greece should adopt a negotiating position that would lead to a ‘soft Brexit’, as in that case the impact on the bilateral movement of people between Greece and the UK will face the least possible negative disruption.

Macroeconomics

A final consideration concerns the different macroeconomic effects of a soft and hard Brexit. A hard Brexit is bound to be a major shock for the European economy, and is thus much more dangerous for the recovery of Greece from the ‘great depression’ that was forced upon it by the ‘sudden stop’ of 2010. Most analysts expect a recovery in the next two to three years, but this prediction is based upon a smooth path for the economies of Greece’s trading partners in Europe. If this path were to be disrupted by a hard Brexit, the Greek recovery would be put in grave danger as well.

Thus, the macroeconomic effects of a hard Brexit on the European macroeconomy, and the dangers for the recovery of the Greek economy, is an additional reason for why Greece should be aiming at a soft Brexit.

Conclusions

These are in my view the five most important considerations for Greece in the forthcoming Brexit negotiations: trade, tourism, the EU budget, migration and macroeconomics.

Based on these considerations, the negotiating position of Greece should be conducive to a soft Brexit.

Of course, Greece should also balance the main counterargument against a soft Brexit during the actual negotiations. This is none other than the potential domino effect on other countries, who may be tempted to follow the British path. As a result, the concessions made to Britain in order to secure a soft Brexit should be at the minimum.

In any case, this is bound to be a hard and drawn-out negotiation into uncharted territory. All EU countries should stand ready to react to new developments, but they should also stand ready to ‘call Britain’s bluff’, as Britain stands to lose much more than the EU in the case of a hard Brexit.

About the author

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He is also a Research Associate of the Hellenic Observatory of the London School of Economics and Political Science. From September 1996 until October 2009 he was a member of the Hellenic Parliament and from March 2004 until January 2009 he served as Greece's Minister of Economy and Finance. He was an elected member of the Council of the European Economic Association (1994-1998) and is currently a Fellow of the European Economic Association. From 1984 to 1992 he served as Lecturer (Assistant Professor) and Reader (Associate Professor) at the University of London (Birkbeck College).

Alogoskoufis holds an MSc (1978) and a PhD (1981) in Economics from the London School of Economics. He has published five books and over 40 papers in academic journals. His research focuses on international macroeconomics, and more particularly on inflation and unemployment, economic growth, exchange rate regimes and monetary and fiscal policy.

In addition to his political and academic posts, he has served as a consultant to a number of international institutions, including the European Commission and the World Bank. He has also been a Research Fellow at the Centre for Labour Economics of the London School of Economics (1981-82) and CEPR (1985-1999). During 1992-1993 he served as Chairman of the Council of Economic Advisors of Greece.