

Can UK afford the Brexit divorce bill?

A "Prisoner's Dilemma"

DR. ABDULLAH SHIBLI

THE Brexit vote last June and the letter invoking Article 50 on March 29 this year by the government of Theresa May has set in motion the much anticipated (or dreaded if you are an opponent of Brexit) process of separating the affairs of the UK from the EU. UK's exit from the EU, however, will come at a cost. UK's David Davis and EU's Michel Barnier, the respective chief negotiators, were given an almost impossible terms of reference. The two parties have to settle on the arrangements of the breakup as well as the financial package. On arriving at Brussels on April 29 for the Brexit Summit, the outgoing French President Francois Hollande did not mince words when he put it bluntly, "There will inevitably be a price and a cost for Britain, it's the choice they made." It is also rumoured that both France and Germany are pushing for the maximum penalty on UK for leaving the EU.

As it often happens, when British voters cast their ballot June 23 last year to leave, they were oblivious of the magnitude of the "divorce bill", as it is now called. A divorce, regardless of whether it is amicable or "messy", results in division of assets and liabilities, and allocation of post breakup roles and responsibilities. It is not known if there are many pro-Brexit politicians who foresaw the full scenario of a breakup with the EU, but there are reports that some thought that the transition would be as smooth as leaving a gym or club. As is the practice, if a member leaves a club, there are no separation fees or payments after the departure. Since the Brexit vote, some British MPs have been talking to the media about leaving the EU without any financial "damage". On the other side of the English Channel, however, any reference of a "golf club" type exit has only fanned the flames of European anger and has made the EU politicians even more determined to prevent UK from leaving without a hefty pay-off!

In very rough terms, the Brexit Bill is equal to: (UK share of EU liabilities) - (UK share of EU assets). In an ideal or "utopian" scenario, the breakup could have been frictionless, with UK packing up and leaving the EU and then continuing to trade with EU, as well as enjoying the benefits from all the ties it has had with the EU financial market. But, the EU is not going to let the



ILLUSTRATION: JONATHAN MCHUGH

UK off the hook so easily. If Britain is closing its border to EU migrants (the "hard border" option), then it can say goodbye to the duty-free export privileges it has been enjoying as a member of the EU. The sentiment in Europe is strongly against any settlement that would let the UK keep its common market privileges but close its borders to EU workers, particularly from the Eastern European members.

A quick rundown of the settlement costs might not be out of order in this context. According to the *Daily Telegraph*, "European leaders have warned the UK that it will face a divorce bill of up to £50 billion for outstanding commitments and pension liabilities". Theresa May retorted by indicating that her government will meet all its existing commitments to the EU but strongly disputed the £50 billion bill. Other estimates, usually much higher, have been floating around, but it is known that the UK has both assets and liabilities. While the average "leaver" might hope for a "golf club" exit, it would be unrealistic for the UK to expect that it can walk away from 43 years of

marriage without owing up to its financial commitments. Various EU quarters, on the other hand, have demanded €100 billion as the "exit payment" for farm subsidies and administration costs. Not to be outdone, Iain Duncan Smith, a Tory MP and party leader shot back and claimed that UK had sent more than "half a trillion pounds over the last 40 years".

Many of *The Daily Star* readers are familiar with the economic model of "game theory", popularly known as "Prisoner's Dilemma". International negotiations such as Brexit often have some of the ingredients of a Prisoner's Dilemma, since if the UK does not correctly anticipate EU's strategy, it could end up losing financially as well as some of the benefits of external trade. Why does Britain have to play its card very deftly? It needs the EU market for its goods and services, as well as to retain its role as the global financial centre. EU negotiators, on the other hand, can't go too easy on UK since that could risk antagonising the former eastern European members and give Greece, Netherlands, Italy, Spain and others considering leaving the EU a

glimmer of hope. The weaker economies of EU - Slovenia, Croatia, Hungary, Czech Republic and Poland - benefit also from the "cohesion" funds that the UK contributed to. The EU's seven-year budget, which runs until 2020, has various financial commitments and UK could be held liable for its share even after it leaves the EU. European Council President Donald Tusk boldly proclaimed, "A non-member of the Union that does not live up to the same obligations as a member, cannot have the same rights and enjoy the same benefits as a member."

It would not be too pedantic to call this posturing by UK politicians and EU bureaucrats ("eurocrats") an example of competitive behaviour of the classic "game theory" model. While negotiations in the coming months will involve accountants, statisticians, economists, and financial experts, it is obvious that in the final analysis, the outcome will depend on whether the two sides eventually see this as a "zero-sum" game, where any potential advantage ceded to the UK is considered happening at the expense of the EU.

It was originally thought that the EU and UK negotiators would see the process as a win-win for both. Much would, however, depend on whether the two parties perceive these negotiations as a cooperative or a competitive game. Britain will not walk away from the table without a deal since it has a stake in free trade with the EU; intellectual property rights; investment in buildings in Brussels and Strasbourg; shares in European Investment Bank (EIB), the European Development Fund (EDF) and the European Central Bank (ECB). Likewise, the EU needs a deal because without one, its credit rating will suffer. Standard and Poor's, one of the world's biggest rating agencies, warned that EU's credit rating will be damaged if Britain refuses to pay a Brexit divorce bill. A British walkout will result in the EU being held accountable for the contingent liabilities i.e., cost of loans defaults as well as pension and health benefits to the 3 million EU citizens living in the UK and the 2 million British citizens living in EU countries. Some EU member states have demanded that the UK, if it wants the privilege of duty-free trade with the common market, must help pay for farm subsidies and EU administration fees even after it officially leaves the union, just as a divorced parent pays for alimony and child benefit.

It is unclear how the two parties might behave after the British elections. PM Theresa May is trying to look strong to the British electorate as the UK heads for the parliamentary elections on June 8. If the Tories win the election, as expected, it is quite possible that British negotiators will be less strident, and may even be willing to offer a few more concessions, particularly on payments and immigration. If that happens, the two sides might gradually move closer to a position that might be called a Nash Equilibrium in game theory literature. Such a scenario would involve access to EU markets for British goods, a modicum of freedom of labour movements, and some British payments. For a stable post-Brexit Europe, the bottom line is that the UK needs access to the EU market, and the EU must conclude a successful deal with UK.

The writer is an economist and writes on international economics for this newspaper. His two new books *Economics and Policy in the Public Arena* and *Nightfall: Stories of Hope, Love, and Pain* are coming out in July 2017.

It Is The Time...

HUMOROUSLY YOURS

NAVEED MAHBUB

IT is the time when the head of the roadside restaurant is covered up during lunchtime as we only see the legs, knees downwards. Just pull open the cover and you'll see frantic men like the deer in the headlights. Yes, it's men - the only time when they are covered.

It is the time to date, I mean, eat the delicious fruit from the desert lands. It is for the university going lad to try out his pick-up line, "Can I get your cell phone number? I'll make sure I give you a wake-up call so that you don't miss *sehri*."

It is the time when we fuss in the bus while we crave for anything, even the hummus, given the hunger, but we don't cuss. It is the time when Donald Trump, inspired by Bangladesh and also after his visit to Saudi Arabia, seriously contemplates the removal of Lady Liberty from the country annexed from the 'Native' Americans and sending her back to the country of origin once annexed by the Germans.

It is the time when road rage takes a back stage through the act of assuage. True story - I see two cars collide, thankfully at low speed, after which



PHOTO: AFP

both the drivers get out of their cars. Not only is there no expected yelling, but in fact, both smile and are genuinely embarrassed and apologetic. I can

almost expect the Dhallywood style, rib cage crushing bear hug with blaring philharmonic music in the background and the teary eyed, voice choking, "As

of today, you and I are brothers". The reason is that both the cars were going backwards. As is the case when we drive in this country, we are stiff necked and

rely only on the rear and side view mirrors. Thus, it is the first time that I witness not a head-on collision, but an embarrassing (to the drivers) butt-on collision.

It is also the time when there are specs of good news. No, I don't mean that we have eliminated child marriage, but at least Gurudaspur Village of Natore district sees its volunteer village police being rewarded with Taka 50 mobile top-ups (flexiloads) every time they report a child marriage to the Upazila authorities. India can follow suit, given its having the highest occurrences of child marriage in the world - every time an impending child marriage is reported, there is a 50 Rupee top-up in its sanitation sector.

It is the time when we are truly secular, hoping that the babysitter is not a Muslim so that she can take care of the 3 month old baby as we take the time to hog up during iftar.

And finally, and more so now since load sharing is the new load shedding, it is the time to shed the hatred and share the love. Ramadan Mubarak!

The writer is an engineer at Ford & Qualcomm USA and CEO of IBM & Nokia Siemens Networks Bangladesh turned comedian (by choice), the host of ATN Bangla's *The Naveed Mahbub Show* and ABC Radio's *Good Morning Bangladesh*, and the founder of *Naveed's Comedy Club*. E-mail: naveed@naveedmahbub.com



QUOTABLE Quote



LEONARDO DICAPRIO
ACTOR

I play fictitious characters often solving fictitious problems. I believe mankind has looked at climate change in the same way, as if it were a fiction.

CROSSWORD BY THOMAS JOSEPH

ACROSS

1 "Drat!"
7 Rigging support
11 New York lake
12 Mama's mate
13 Baseball's Dwight
14 Gossip bit
15 Hire
17 Boston orchestra
20 Skeleton makeup
23 "That's it!"
24 Atlantis, e.g.
26 Road sealer
27 Badminton need
28 Poorly
29 Subjects of King Minos
31 Goose egg
32 Vietnam's capital
33 A long time

DOWN

1 Gear part
2 One, for Juan
3 Early auto
4 Factions
5 Perfect place
6 Joined the choir
7 Tap
8 Protecting, in a way
9 Galoot
10 Zodiac animal

34 Animal suet
37 Wading bird
39 Uses
43 Minimal change
44 Chatty bird
45 Meringue base
46 Nodding, perhaps
16 Touches on
17 Quilt piece
18 Tara family name
19 Skill for moms and dads
21 Carl's wife in "Up"
22 Hawks
24 Symbol of slowness
25 Chick's mother
30 Drinks to
33 Mindful
35 Trips around the track
36 Egg outline
37 Driving hazard
38 Plead
40 Fuming feeling
41 Chop off
42 Hog holder



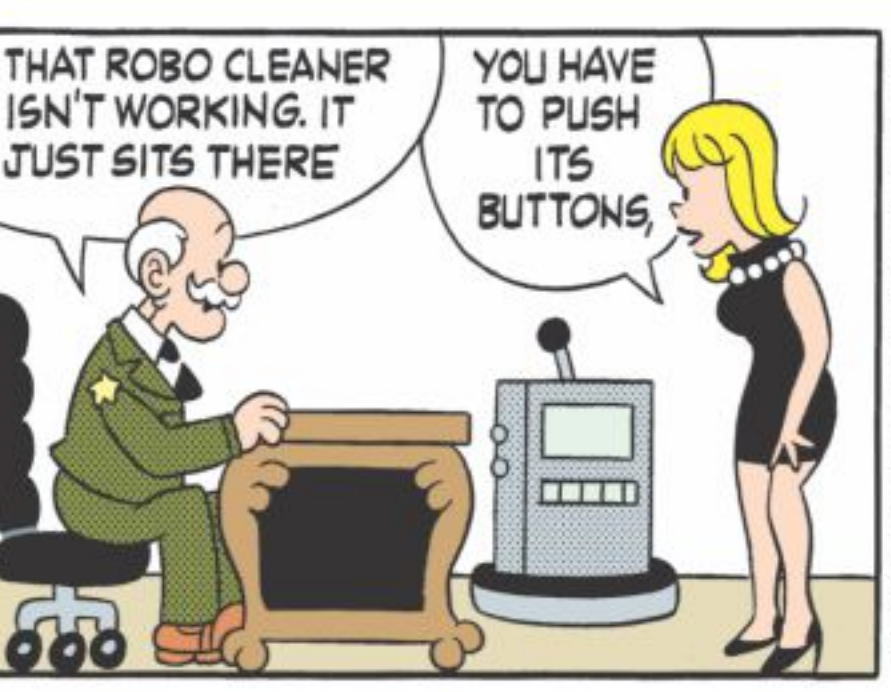
5-17

YESTERDAY'S ANSWER

L	O	F	T	S	F	L	A	S	H
E	G	R	E	T	R	A	D	I	O
G	R	A	N	O	L	A	B	A	R
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B	E	G	A	N	S	O	B	E	R
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T	I	M	E	S		T	A	P	E
		S	P	O	O	L			
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A	L	I	G	N		R	A	N	G
Y	I	K	E	S		O	H	G	O

BEETLE BAILEY

BY MORT WALKER



THAT ROBO CLEANER ISN'T WORKING. IT JUST SITS THERE


YOU HAVE TO PUSH ITS BUTTONS.

GREG+MORT WALKER

OH, YOU MEAN I HAVE TO DO ALL THE WORK?!

BABY BLUES

BY KIRKMAN & SCOTT



STOMP! STOMP! STOMP! STOMP! STOMP!

WHAT WAS THAT THING YOU JUST DID TO MAKE ME MAD?

SORRY, REPEATS ARE EXTRA.