LSE British Politics and Policy March 30th, 2021

While Scottish independence would have immediate economic costs, history suggests there are long-term benefits

Estimated reading time: 10 minutes


*By contrasting Scotland and England to the Slovak Republic and Czech Republic's 'Velvet Divorce', **Richard Mackenzie-Gray Scott** and **Geoffrey Chapman** suggest that an independent Scotland will continue growing real GDP per capita despite higher trade costs.*

In light of the ongoing challenges facing the UK, the idea of Scottish independence seems unpalatable to many, but the news implies strong support. The Scottish government has recently published draft legislation for the holding of another referendum. Numerous polls suggest that a majority vote for independence would occur should this referendum go ahead. Although polls do not necessarily reflect what people will actually vote for at a particular moment in time, the political momentum for another referendum is growing. This pressure will be amplified should the SNP win a majority in the upcoming Scottish Parliamentary elections.

While this remains unclear, the Scottish Parliament may have the constitutional authority to legislate for another referendum without the involvement of the UK government and Parliament. This question can only be definitively settled with a ruling from the UK Supreme

Court, one that might not come. Litigating this matter is not necessarily desirable. The courts afford deference to the Scottish Parliament, and there are reasons for being hesitant towards becoming entangled with, and potentially hindering, the legislative process of a democratically elected parliament.

If the current UK government opposes such a course of action, the ways in which the law may prevent the Scottish Parliament alone from legislating for a (non-binding) referendum will need to be clearly articulated. This would be a challenging case to make, because arguing that holding another referendum affects the UK assumes the potential result, which cannot be known in advance. The result of a referendum cannot retroactively determine the legality of holding it. And even if favouring independence, the force of such a result would be more political than legal. This is because the UK Parliament would need to become involved in order to give legal effect to that result, similar to how it was necessary in order to give legal effect to the EU referendum result.

Scotland could also attempt unilateral secession from the UK, which would arguably flout constitutional law and make the applicable international law more relevant. At present, Scotland satisfies all the international legal criteria for statehood, with one exception: it lacks the formal authority to enter into foreign relations, even though it has the literal ability to do so. Consequently, if Scotland demonstrated independence from UK authority in the course of conducting international relations, Scotland would be more likely recognised as a state by other states and international organisations. Furthermore, if voting at the UN General Assembly is anything to go by, we see no immediate reasons why other states would side with a UK position (assuming it opposed secession).

While becoming independent would have immediate economic costs, the long-term view suggests there are benefits. By contrasting Scotland and England to the Slovak Republic and Czech Republic's 'Velvet Divorce', our research suggests that an independent Scotland will continue growing real GDP per capita despite higher trade costs. Following the 'Velvet Divorce' in 1993, the Czech and Slovak Republics faced additional border costs in their bilateral trade, not least because the Czech Republic kept the Czech Koruna, whereas the Slovak Republic adopted the Euro. By analysing the bilateral comprehensive trade costs from the ESCAP-World Bank Trade Cost Database, we note that for the Czech Republic, the Slovak Republic's trade costs have always been lower than Germany's (which becomes the largest trading partner for both states post-independence). In 1995, trade costs between the Czech Republic and Slovak Republic were equivalent to 35%, whereas between the Czech Republic and Germany, trade costs were equivalent to 56%. The Slovak Republic presents with similar patterns in that trade costs between the Slovak Republic and Czech Republic have always been lower than trade costs between the Slovak Republic and Germany.

In the years post-independence, it is apparent that the Czech Republic substituted their exports and imports away from the Slovak Republic; the Slovak Republic did the same, substituting their exports and imports away from the Czech Republic, both in favour of Germany. Despite international trade rebalancing in favour of Germany, a trade partner with higher trade costs, real GDP per capita continued growing. It is contextually important to note

that for the economically smaller state, the Slovak Republic quite quickly (over six or so years) substituted away from what was its much larger, more significant, export partner to what was a much smaller partner. That is to say, the Slovak Republic's exports to Germany were nearly three times less than to the Czech Republic in 1993, but as of 2019, the Slovak Republic's exports to Germany were nearly two times greater than to the Czech Republic. While the change was less significant regarding the Slovak Republic's imports, the same shift occurred.

Extrapolating the above to England and Scotland, we look at key indicators of macroeconomic policy for Scotland (see Table 1) compared to the Czech and Slovak Republics. Where Scottish estimates could not be found or calculated, we include UK data as a proxy, included in square brackets. According to official statistics, Scotland's current GDP increased steadily between 1998 and 2019, climbing from £85,204 million to £177,106 million (equivalent to 107.9% growth for the period, or 5% annually).

Table 1: Key indicators of macroeconomic policy for Scotland [UK]

Variable	1993	2000	2010	2020
GDP growth (annual %)		11.36	3.55	
General government final consumption expenditure (% of GDP)	[19.26]	[16.78]	[21.66]	
Current account balance (% of GDP)	[-1.32]	[-2.26]	[-3.17]	[-3.64]
Exchange rate, GBP per USD	0.67	0.66	0.65	0.81
Inflation, GDP deflator (annual %)*	[2.56]	1.26	-0.74	
Trade (% of GDP)†	[49.48]	[52.13]	48.73	
Total unemployment‡	10.13	6.85	8.25	4.03
Population	5,092,460	5,062,940	5,262,200	

* GDP deflator calculated from implied deflator data, based off GDP at market prices.
† Scotland's export data are only available for 2002-2018 and the average percentage for this period is 47.65, thus the UK appears to be an appropriate proxy.
‡ Scotland's total unemployment is an average of quarterly data taken from nomis. These averages are comparable with the annual data obtained from OECD.Stat for the whole UK, except for the 2020 forecast, supplemented by the World Bank's World Development Indicators and different pages from the Scottish Government. Scotland's 2020 average combines the first two quarters of the year such that Scotland's estimate is 4.03%, much lower than the UK's forecasted 10.40%.

Regarding the available trade data between 2002 and 2018, Scotland's export shares are relatively stable. In 2002, Scotland exported 23% to the EU, 18% to non-EU, and 58% to the rest of the UK. The rest of the UK's share peaked in 2007 at 67%, when the EU received 16% and non-EU 17%. However, the rest of the UK's share has tapered off since and as of 2018, was standing at 60% (with the EU receiving 19% and non-EU 21%). Since 2007, counterbalancing the downward trajectory of the rest of the UK's share has been an increasing trend in Scotland's non-EU trade, rising from 17% to 21% in 2018. Scotland's top five international export destinations accounted for £15.1 billion of all exports in 2018, with the top five markets being the US, France, Netherlands, Germany and Belgium. The US remains Scotland's top international export destination, accounting for an estimated £5.5 billion in 2018.

Moreover, Scotland's exports to the EU grew by an average of 4% per year over the last five years, and since 2010, growth to the EU outpaced growth to the rest of the world and the rest of the UK by a significant margin. Scotland is not only becoming more economically integrated with the EU (see here), but seemingly also with non-EU partners. Scotland's historic economic

performance has been strong, which bodes well for a small, open and independent Scotland. With modest population growth alongside good GDP growth, supported by stable participation in international trade, it seems Scotland is in a far better initial condition than either the Czech or Slovak Republics, and can therefore expect similar (if not better) post-independence outcomes.

In light of long-run economic growth and stability, it might be worthwhile for Scotland to attempt entering into foreign relations with other states and international organisations if there was no cooperation from the UK to take forward another referendum result favouring independence. A key factor is that if the UK did not respect any future referendum result favouring independence, unilateral Scottish secession would become more legitimate, meaning international recognition of Scotland as an independent state would arguably be more likely. Although the UK currently respects the right of Scots to self-determination, this would no longer be the case if the UK did not take the appropriate steps to implement a referendum result favouring independence.

With regional stability in the interests of all parties, any referendum favouring Scottish independence should be enacted through a staged approach to secession in compliance with constitutional law to minimise the economic cost on the UK and Scotland. The rule of law should be at the heart of any Scottish secession to allow for the best possible economic outcomes for people in Scotland and the UK. Such a process also depends on the politics between the UK and Scottish governments being cooperative, open-minded, and transparent. Nevertheless, although political amicability between the UK and Scotland is preferable, it is not indispensable for Scotland to become independent and continue prospering thereafter, particularly if Scotland negotiates access to the EU single market.

Considering Scotland has all the necessary machinery in place to become an independent state, we see no obvious reasons why Scotland would not succeed economically if it were to do so, especially if achieved within the bounds of the law. Although our findings might be controversial to some, we hope to show that Scottish independence, while not inevitable, is far more nuanced a matter than many have claimed. There exist several options worth pursuing for the parties to this debate.

Note: The views expressed here are those of the authors and do not necessarily reflect those of the Bingham Centre for the Rule of Law, the British Institute of International and Comparative Law, the Department for International Trade, or the UK Government.

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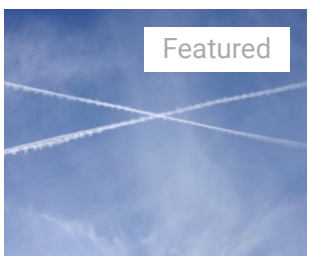

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