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## 2. INTRODUCTION



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The interest of the study of secession processes and its consequences in the international relations arena motivated this research launched by CIDOB in collaboration with CEPS, ISIS and ICCS, amidst the recent events that surfaced in Scotland, Catalonia and others towards independence. To date, none of the European Union countries have experienced a break-up of a part of its territory once they have joined the EU. 2014 marked a referendum in Scotland and massive citizen mobilisations in Catalonia on the independence question. In Scotland, the referendum, despite tight results, was in favour of rejecting secession. In Catalonia, as the independence alternative is gaining ground while political and legal quarrel between the national and regional governments continue, a full-fledged and informed economic assessment of the different scenarios is needed to devise the best policy options for future developments.

The study aims at identifying the scenarios of future development of Catalonia with the rest of Spain and cooperation with the European Union in particular:

- Discussing potential alternative scenarios for Catalonia in the event of becoming an independent state, as a consequence of new political developments and economic conditions at play in Spain in the next years, until 2030.
- Delivering a macro- economic assessment of the scenarios using a state of the art economic model.

The exercise provides to the policy makers an essential background that helps understanding the costs and benefits of different policy strategies in the years to come, and helps to detect the best circumstances that would help to shape a successful transition process in different independence scenarios from the point of view of:

- The Catalan economy and society, with evident benefits for the Catalan government, the citizens and business in the region in relation with the rest of Spain; and
- The cooperation with the European Union and the Member States – including obviously Spain after the secession.

Indeed, “a successful independence process” will require a peaceful transition to a new status quo where Catalonia would ideally hold the condition of “new” Member State in the European Union.

The situation (as of today) seems open to different scenarios and subject to the opposition of the Spanish government to the Catalonia’s independence intentions. However, it is possible to imagine different futures until 2030, depending on possible game changers that might contribute to change the attitude of the different policy actors – and particular Spain and the European Union institutions – in a way that would prove to be eventually more favorable for Catalonia’s independence, creating the circumstances for a smooth and quick transition process with no conflicts prospects.

The strategy of the study is therefore to consider and assess possible futures where both the status-quo of the Spain-Catalonia relationship (prevailing till the publication date of this study) and that of the whole European Institutions might change in the next decades, as schematized in the figure below:

Catalonia 2030 - Scenario options		
Catalonia in EU in Spain	European Union Status Quo	European Union Reformed
I. Spain-Catalonia Status Quo	“Business As Usual” without better fiscal balance (reference Scenario)	Catalonia contributes to the EU reform as autonomous region of Spain with a better fiscal balance
II. Negotiated Independence	Smooth Transition to a “new old” Catalan State membership of the EU	Catalonia contributes to the EU reform as a “new-old” Member State
III. Non Negotiated Independence (Secession)	Discontinuity of EU membership	

Source: Authors natural resources

The reference “business as usual” scenario develops on a path where policies and trends observed in the recent past in Catalonia, Spain and the EU continue to prevail to 2030. Catalonia remains an autonomous community within Spain. Fiscal imbalances continue to be recorded up to 2030, thus Catalonia continues to record fiscal deficits similar to those recorded over the last years (8% of GDP).

Alternative options entail **changing the statu-quo of the relationships between Catalonia and Spain and/or of the whole European Union.**

As for the former, there are in principle two possibilities: a negotiated independence process leading to a smooth transition of Catalonia from being an autonomous community of Spain – on the same legal basis of the other communities in Spain – to become a new EU member state, or a unilateral process – not negotiated and not agreed with the government of Spain – leading to the secession of Catalonia from Spain. The unilateral secession will lead in practice to a discontinuity of EU membership for Catalonia, as the government of Spain will likely use its powers to veto any formal recognition of the new Catalonia state from the European Union.

As for the latter, a whole reform of the European Union is possible, pushed by factors that are obviously beyond the control of both the government of Spain and the Catalan government. A possible new settlement of the European Union institutions is envisioned in chapter 4.2 of this study. There are again two possibilities, i.e. that Catalonia contributes to the whole European Union reform as a new member state from within the Union itself – in case of a negotiated independence agreed with the government of Spain – or as a region of Spain with greater fiscal autonomy than today. Let guess in the latter case a form of autonomy for Catalonia analogue to that experienced currently by the Basque region – and therefore a greater influence on some specific regional matters (e.g. the EU cohesion policy where the contribution of Catalonia as wealthier region of Europe could be augmented). Finally, a last eventuality is for Catalonia to leave the EU after unilateral secession – discontinuity – and then influence from outside the process of EU reform, reducing among other things the veto powers of Spain or other member states to Catalonia’s re-admission in the new EU.

These future options are assessed with a scenario building methodology drawing on the combination of **desk research, foresight qualitative and quantitative analyses** and **policy implications and recommendations**.

In practice, desk research has been conducted first to:

within the Union itself Compile an extensive database of economic and social indicators to feed the quantitative aspect of the research, working for this respect in conjunction with the official statistics department of Catalonia ([www.idescat.cat](http://www.idescat.cat)), to ensure that all data used is reviewed and completed.

within the Union itself review the relevant historical, legal, and political aspects of Catalonia’s self-determination, and the literature on the possible so-called “internal enlargement” of the European Union. The latter in particular to assess the legitimacy of withdrawal for any part of the territory of a Member State, with the new independent state continuing – possibly after a transition period to deal with necessary institutional adaptations – to be a member of the European Union.

In a second step, once the BAU/Reference scenario has been constructed, alternative scenarios have been elaborated<sup>2</sup> and their macro-economic impacts assessed using a CGE (general equilibrium) modeling framework. More in detail, the alternative scenarios simulated with the GEM-E3-CAT model are:

- **S01 - Catalonia’s secession following mutual agreement with Spain** (i.e. the negotiated independence and smooth transition to membership of Catalonia in the EU directly as “new” member state mentioned in the table above).
- **S02 - Secession following unilateral decision of Catalonia** (i.e. the non-negotiated independence and discontinuity of membership of the new Catalan state that is no more associated to the EU, causing a challenging transition towards a new stabilized relationship with the EU – most probably a new form of agreement from outside as the Spanish veto is most probably deemed to block any attempt of re-accession<sup>3</sup>)

2. Several stakeholders meetings have been organised during 2013 and 2014 to discuss the conceptual framework of this research.

3. This assumption holds on the basis of the Spanish resistance to independence talks of Catalonia in 2013 and 2014.

These two scenarios have been elaborated and the results are presented in Part I of this study, describing in detail:

- The basic theoretical approaches underpinning the analysis of secession and explaining its expected macro-economic impacts.
- The implications for Catalonia's secession and the most recent developments, in particular the evolution of the fiscal unbalance and other drivers of the Catalan economy (GDP growth, unemployment) as of 2014.
- The methodological approach and the modifications implemented in the GEM-E3-CAT modelling framework to represent the Catalan economy. In the new version model, Catalonia is represented as a separate national entity (which is a theoretical assumption based on the scenarios under investigation). Interdependences are shown with the rest of Spain, with key trade partners in the EU (Germany, France, Italy, Portugal and the rest of 28 EU member countries), with key trade partners in the world (China, Russian Federation and the other emergent countries) and finally with the rest of the world, including the US.
- The reference scenario, showing the expected evolution of GDP, employment and sectorial productions until 2030 in case of a prevailed status-quo.
- The two alternative scenarios, showing first the key assumptions which differentiate the two scenarios – about debt sharing, length of the transition period and its effects on the interest rates, currency and debt risk factors, public budget and fiscal consolidation, investment in infrastructure. The main results are then described analyzing the macroeconomic implications in terms of GDP growth, consumption, investment and trade; labor market and sectorial productions; alternative use of public funds (all variables are presented in terms of change from the reference scenario).

The reader should consult Part I of the study for the detailed analyses about the impacts of the alternative scenarios of secession. However, we can anticipate that the conclusions are clearly coherent with the assumptions made for the macroeconomic analysis, but, although both scenarios (and especially S01 secession under mutual agreement) are eventually beneficial for Catalonia – reflecting to a large extent the positive impact from terminating Catalonia's net fiscal transfer to the rest of Spain – they suggest prudence in interpretation. Gains are indeed evident in the long term, but they are also partially offset by problems in the short term that cannot be overlooked.

In addition, in both scenarios the Catalan economy growth is driven mostly by public consumption and investment, and the development of non-tradable services, while trade and industrial competitiveness is drastically reduced. If this would be the case the Catalan economy might become more, not less vulnerable. Moreover, both alternative scenarios are optimistic on trade because they do not include any possible boycott from Spain among the assumptions. All in all, what emerges is the inherent fragility of a secession strategy, especially if – due to a continuing Spain government rigidity – this will be forcefully unilateral with uncertain impacts that are difficult to assess. However, this fragility is not beneficial to either party and could become a driver for negotiation and hence moving towards a mutual agreement solution.

At this point, it is worth noting that both macroeconomic scenarios were necessarily limited to consider how the Catalan economy would develop

in the future - after secession from Spain – while maintaining the status of the European Union institutions unchanged. Indeed, the scenarios analyzed in Part I assume both that the current European Union statu-quo will continue until 2030, without relevant institutional changes which are still possible if the Union would be reformed, as it is nowadays claimed from many sides, in particular to respond to the crisis of the Eurozone. In other terms, scenarios S01 and S02 presented in Part I cover the first column of the table above, not the second.

The latter is covered instead in Part II of this report, where we present:

- The scenarios for cooperation of the new Catalan state with the European Union in its present institutional setting (status-quo), including forms of permanence or re-accession to the EU as well as possibilities for opting out and establishing new agreements with the EU from outside. Here we describe in more detail the options and possible legal procedures underpinning the two different S01 and S02 scenarios and the assumptions of smooth (S01) and challenging (S02) transition to a new equilibrium.
- A qualitative prospective scenario of European Union reform that would change the game for both Spain and Catalonia. The scenario is normative, in the sense that it delineates schematically the evolution towards a desirable future, with the transformation of the Eurozone into a truly political and fiscal union, the “European Political Union (EPU)”. This is assumed to unfold under the pressure of disruptive economic and geopolitical dynamics, of which we see already today several signals. In such new context, Catalonia could more easily achieve the status of an independent Member State of the EPU.

After having analyzed in Part II how a European Union reform could contribute to change the game for Catalonia’s independence, Part III concludes with a summary of policy implications and recommendations.

