IKV BRIEF

BREXIT: A CRITICAL ANALYSIS

Constance DÖRING
IKV Intern

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Key Findings

- 52% of the electorate has voted for Leave against 48% for Remain in the Brexit Referendum conducted on 23 June 2016.
- The referendum was a consequence of both internal and external issues.
- Article 50 of the Treaty of Lisbon will be triggered for the first time in the context of "Brexit".
- Brexit generated economic and political unrest in the United Kingdom, the European Union and also in candidate countries to the EU, such as Turkey.
- A new model of relationship is a possible outcome of UK-EU negotiations.
- Negotiations will start by the end of March 2017.
- The situation is complicated and uncertain because of conflicting interests between the EU and the UK.
- The UK remains an active EU Member State until the negotiations are finalised.

Introduction

"Brexit means Brexit" is the motto used by British Prime Minister Theresa May to describe her policy for the adjustment period of the UK leaving as a member of the EU. Brexit is a "portmanteau" word, whose form and meaning are derived from a blending of two or more distinct forms[1]. Just like "smoke" and "fog" together make up the word for smog, Brexit is the fusion of "Britain" and "exit", from the EU, in this case. However, this term does not only represent these two concepts, it has far broader policy implications. The referendum for withdrawal of the UK did not lead to a major shake-up of domestic politics in the UK but will lead to far-reaching impacts for the EU as well. Furthermore, the referendum might also have impact on candidate countries willing to join the EU. What are the events that brought about the referendum in the first place? What are the consequences of Brexit upon the EU? What will the future of Brexit be? These questions will be addressed in the historic context of British membership in the EU. In order to analyse the past, present and future of Brexit, economic, political and social aspects will be taken into consideration.

Background

On the 23rd of June 2016, the UK held a national referendum asking the citizens of the country to answer one single question: "Should the UK stay or leave the European Union?" The results shocked the EU as well as the world audience: the outcome was 52% of voters for Leave against 48% voters for Remain[2]. What made the balance tip were both internal and external factors. Firstly, the UK's internal records had an "anti-EU" history starting with the 1975 Referendum, only two years after its membership to the European Economic Community (EEC), the general Eurosceptic coverage by mainstream media and former Prime Minister David Cameron's promise for a second referendum. Secondly, the UK was pressured by several external factors before Brexit. The arguments for leaving the EU are shaped by three major events: the Eurozone crisis, the refugee crisis and the adoption of the Treaty of Lisbon in 2009.

In the aftermath of the Brexit referendum, it seems rather obvious that there was no other possibility than for the UK to vote leave. However, that would represent the fallacy of the "hindsight bias". It was not obvious that the UK would choose to leave. Indeed, one should indicate that the positive points were thought to outweigh the negative ones. The advantages provided by the EU such as access to the Single Market, stability and political power listed by the "Remain"-campaigners were not enough. Instead, Brexit made the EU and the UK entering unchartered territory – with its share of unintended consequences.

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[1] Definition of portmanteau, Merriam Webster Dictionary. Retrieved from https://www.merriam-webster.com/dictionary/portmanteau, 10 November 2016

[2] Alex Hunt & Brian Wheeler, "Brexit: All you need to know about the UK leaving the EU", *BBC News*, 12 December 2016. Retrieved from http://www.bbc.com/news/uk-politics-32810887, 16 December 2016

Brexit's Internal Consequences in the UK

First of all, the first public and media reactions following the announcement of the results reflected shock and disbelief contrasting with the jubilation of the Brexit campaigners. Indeed, nobody actually expected that the UK would vote for Leave. Yet it happened, and the Brexit campaigners of the UK feasted a new "Day of Independence" for the UK. The people who voted for leave – also known as "Brexiteers" - were mostly the population above 50, supporters of the Conservative Party and living in the rural areas. In contrast, the profile of the "Remainers" was mostly young, liberal and living in the urban areas. This created a polarisation in the British population as young people were frustrated that their voices were left unheard to the advantage of the more populous older generation. Furthermore, it has to be mentioned that hours following the referendum, the most searched words on Google in the UK was "What is the EU?" or "What does it mean to leave the EU?"[3]. This may be the indication that people who voted were not fully knowledgeable of the subject before voting, expressing thus mainly a frustration with domestic politics and the adverse effects of globalisation.

Secondly, the withdrawal of a Member State of the EU was made possible by the incorporation of Article 50 within the framework of the Treaty of Lisbon. The Treaty established a procedure to follow if a member country decides to leave the Union. It was stipulated in the Article 50 of the Treaty[4]:

> "1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.
> 2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union (TFEU). It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.
> 3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period. […]"

This procedure will be applied for the first time in the context of Brexit. As a consequence, the situation remains uncertain as the actual roadmap for the negotiation process remains vague. Following the resignation of Prime Minister David Cameron on 24 June 2016, one day following the result of the referendum, Theresa May took office.

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[3] Jeff John Roberts, "Brits Scramble to Google 'What is the EU?' Hours After Voting to Leave It", *Fortune*, 24 June 2016. Retrieved from http://fortune.com/2016/06/24/brexit-google-trends/, 16 November 2016.
[4] "Article 50", Official Website of the Lisbon Treaty. Retrieved from http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-European-union-and-comments/title-6-final-provisions/137-article-50.html, 1 December 2016.

Even though initially Prime Minister May was in the pro-Remain camp, because of the economic advantages the EU brought to the UK, she declared that she would do anything to fulfil the will of the people. As she claimed "Brexit means Brexit", she emphasised that there will be no attempt to remain inside the EU and ignore the referendum[5]. Moreover, she underscored how she wants to make Brexit a success in solidifying the national borders and immigration policies and at the same time remain within the Single Market. Yet, Prime Minister May failed to announce until this day, a clear strategy and plan for leaving the EU. She designated three politicians from her cabinet to handle the task: Foreign Secretary Boris Johnson, Trade Secretary Liam Fox and Brexit Secretary David Davis, informally called the "Three Brexiteers"[6]. Until now, Prime Minister May promised to trigger the start of Britain's exit and thus notify the European Council by the end of March 2017. Article 50 specifies a time period of two years in order to negotiate the withdrawal of membership. Therefore, technically speaking, the official exit will be in 2019. She also promised to give the British Parliament the chance to scrutinise her plan in first hand; following a High Court Ruling and her schedule was backed by British lawmakers[7]. As it is the first time such procedures are followed, it is still uncertain about how the outcomes will be. Every day is adding a new dimension to the picture. For example, UK Ambassador to the EU Sir Ivan Rogers resigned from office on 3 January 2017[8]. He claimed that it could take ten years or more before a final Brexit settlement can be reached with the EU, pointing to the difficulties which lie ahead for both British and EU negotiators.

Thirdly, the British economy got under pressure right after Brexit: the British Pound has fallen by 18 percent against the dollar and hit a new low against the Euro. The GDP growth of the country slowed to 0.5% following the referendum[9]. If the UK is forced to step out of the Single Market, it may lose its access to its most important export market and also lose investors from the EU. Foreign investors will also think twice before investing in the UK knowing that it is no longer part of the Single Market. The UK will thus be deprived of a huge economic advantage.

[5] Ashley Cowburn, "Theresa May says 'Brexit means Brexit' and there will be no attempt to remain inside EU", *The Independent*, 11 July 2016. Retrieved from http://www.independent.co.uk/news/uk/politics/theresa-may-brexit-means-brexit-conservative-leadership-no-attempt-remain-inside-eu-leave-europe-a7130596.html, 22 November 2016.

[6] John Henley and Peter Walker, "Brexit weekly briefing: Theresa May 3, Three Brexiteers 0", *The Guardian*, 27 September 2016. Retrieved from https://www.theguardian.com/politics/2016/sep/27/brexit-weekly-briefing-theresa-may-3-three-brexiteers-0, 14 December 2016.

[7] Tim Ross and Alex Morales, "U.K. Lawmakers Back Theresa May's March 2017 Brexit Schedule", *Bloomberg*, 8 December 2016. Retrieved from https://www.bloomberg.com/news/articles/2016-12-07/u-k-weighs-swiss-norwegian-style-eu-customs-deals-davis-says, 14 December 2016.

[8] Elizabeth Roberts, "UK ambassador to EU resigns months before Brexit negotiations", *CNN News*, 3 January 2017. Retrieved from http://edition.cnn.com/2017/01/03/europe/uk-ambassador-eu-resigns/, 9 January 2017.

[9] Zlata Rodionova, "UK GDP growth slows to 0.5% following Brexit", *The Independent*, 27 October 2016. Retrieved from http://www.independent.co.uk/news/business/news/uk-gdp-brexit-growth-drop-fall-economy-eu-referendum-a7382556.html, 29 November 2016.

Brexit and the EU

The consequences of Brexit on the EU could be summarised as follows: a tainted reputation for the political parties, adverse political and economic repercussions and the possibility of copy-cats.

Brexit is a catastrophe for the image of the EU in general. Until recently, the EU was a centre of attraction and had an extensive appeal for many countries across Europe, even though its sometimes never ending negotiations and slow bureaucracy were well known. It is a "one of a kind" Union which succeeded to have 28 Member States living in peace and solidarity for the past decades. The Union has been an example of integration for many other regional trade agreements in the world. Indeed, it has been emulated by the likes of Mercosur and ASEAN. Brexit is thus leaving a dark spot in the picture. It is damaging the EU's reputation and bringing to light the less appealing side of the EU: a polarised Union between Eurosceptic and Euro enthusiasts, a rising faction at the far-right and far-left who share and promote an anti-EU standpoint and an even more centralised Brussels.

The second consequence is economic as the EU is set to lose one of its biggest members both in terms of market and population. The UK is one of the first export markets for big Member States such as Germany and France. If these states lose easy access to the British market because of tax boundaries and high tariffs, it will impact their economies and thus the EU economy as a whole. The UK is the third most populous country in the EU following Germany and France. This means that the UK holds its share of seats in the European Parliament; it is the third highest amount of seats. Thus, in case Brexit is effectively realised, these seats will be redistributed to the other Member States, benefitting mostly Germany, which actually will also require an adaptation of the Treaty of Lisbon itself, as the number of MEPs seats per Member State is laid down in the Treaty. The removal of the UK from the list of Member States and the adaptation of the financial framework may also require new adjustments to the Treaty. This may constitute a rather disheartening scenario for most Member States who fear of a greater German dominance in EU politics[10].

Another consequence is the fear of having Member States copying Brexit and thus also calling for a referendum on their own EU membership. In fact, the Brexit talks made Eurosceptic sentiment become more mainstream all over the EU. French far-right politician and MEP Marine Le Pen, is setting Brexit as an example for her 2017 presidential election campaign and calls for "Frexit"[11]. Other far-right and nationalist movements are triggered by the referendum and threaten the very existence of the EU. As a result, Brussels is getting more and more centralised in order to protect the EU and avoid such threats. This in turn makes the citizens inside the EU worry about the growing democratic deficit, wondering if their voices are really heard in Brussels and, in

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[10] Charles Grant, "The Impact of Brexit on the EU", *Centre For European Reform*, 24 June 2016. Retrieved from https://www.cer.org.uk/insights/impact-brexit-eu, 16 December 2016.
[11] Robert Zaretsky, "Frexit Is Coming", *Foreign Policy*, 29 June 2016. Retrieved from http://foreignpolicy.com/2016/06/29/frexit-is-coming-brexit-france-le-pen, 7 December 2016.

turn, consider becoming Eurosceptic as well. In all aspects, it looks as if the EU has entered a vicious circle.

Future Possibilities for Brexit

Getting a "win-win" deal out of Brexit seems difficult because the EU and the UK have opposite interests. The UK wants to have control over its own borders and regulate its own immigration policies while having access to the Single Market in order to maintain a prosperous economy. For the EU, this is an anathema as such actions would be in contradiction with the very principles of the Single Market. One cannot have a Single Market without the freedom of movement of EU citizens as they go hand in hand with the other freedoms (freedom of movement of goods, services and capital). The moment the borders are closed, the Single Market is as well. This constitutes a conflict with basic, indivisible EU rights, as pointed out by the EU to Switzerland, after their referendum on restricting the free movement of EU citizens. Additionally, the EU will try avoiding a bias towards the British position. If it does, it might give an incentive for other Member States to exit the Union as well.

As of right now, Brexit is presented with several options for third party relations of the EU: the "no-deal" option, the Norwegian option (EEA), the Canadian approach (free trade agreement), the Swiss approach (bilateral agreements) or the Turkish approach (Customs Union).

The no-deal option is what is called "hard" Brexit: it means that the UK-EU economic relationship will be based on the trade rules enshrined within the framework of the World Trade Organisation (WTO). However, this option might hurt both the British and EU economies because mutual tariffs on goods will be enforced restricting trade between the two parties. On the other hand, the other option referred to as "soft" Brexit implies the fact that the UK would retain some form of membership of the Single Market in return for maintaining degree of free movement of EU citizens[12].

The Norwegian relationship is a good example of "soft" Brexit. Norway is part of the EEA but not part of the EU. This model will keep freedom of movement and the Single Market open and would thus benefit both the British and the EU economies. Nonetheless, it will not satisfy the demand of the UK for its migration policy and its aim to stop the flow of immigrants, including EU citizens inside the country. This would pose a dilemma for the UK: either blocking the entry to the country and have a declining economy, or abide the principles of the Single Market and allow free movement of EU citizens.

Another option would be the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU. This free trade agreement is aiming to facilitate trade between the two entities. However, the problem is that this agreement does not cover all

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[12] Kamal Ahmed, "What does 'hard' or 'soft' Brexit mean?", *BBC News*, 29 September 2016. Retrieved from http://www.bbc.com/news/business-37500140, 27 December 2016.

trade and does not eliminate non-tariffs barriers either, which would again hurt the British economy.

Another option is the Swiss model. Switzerland is a member of EFTA (European Free Trade Association) and EU-Switzerland economic relations are framed by a bilateral agreement which allows Switzerland to participate in the Single Market. It is complying with the principle of free movement of people and thus does not correspond with British criteria.

The final option is the Turkey-EU relationship style of a Customs Union that is lifting tariffs on goods but not implementing free movement of citizens. This model may seem to suit best the British interests. However, it is of utmost importance to indicate that the Customs Union is not as advantageous as being part of the Single Market, which would again not meet British expectations.

To conclude, Britain "wants to have the cake and eat it too". If the UK wants to make Brexit a success, it will have to eventually lessen its expectations in order to meet some of the basic demands of the EU linked to maintaining access to the Single Market. However, this would not be easily accepted by "Brexiteers" since the whole point of exiting the EU was "to not being told what to do from Brussels". The EU will also have to be keener and more flexible in order for the negotiations to go smoothly, but the position it holds right now does not leave to think that it will be forgiving any time soon.

Impact on Candidate Countries to the EU

Brexit has an indirect impact on the process of accession of candidate countries to the EU. In fact, with the withdrawal of the UK from the EU, the Union will face internal changes in integration policies. These changes will have an impact on the procedure to follow to admit a new Member inside the Union. Furthermore, the model of the UK-EU relationship might be an example for the relationship the EU has with candidate countries and non-EU members. As means of an example, Turkey is concerned about its relationship with the UK and its prospects of joining the EU[13]. In fact, Brexit's uncertain impact on the future of the EU may also affect Turkey's possibility of obtaining EU membership. Britain was indeed a fervent supporter of the accession of Turkey to the EU, even though some "Leavers" used the possible accession of Turkey to the EU as an argument to leave the EU. Furthermore, the Brexit referendum inspired the Turkish government to conduct their own referendum as well by asking Turkish citizens if they wanted the accession negotiations to go on or not. Turkey will be influenced by the outcome of the negotiations between the UK and the EU, as an EU without the UK is not the EU Turkey applied for in 2005. That is, the prospects of the EU without the UK are not favourable for Turkey. Indeed, a balance in the centralisation of power was made possible by the UK's geographical position: being on the periphery of the EU, it made the

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[13] Emre Ataç, "Brexit and the Turkish Perspective", *IKV Monthly*, 20 June 2016. Retrieved from http://www.ikv.org.tr/images/files/IKV%20Monthly%2020%20-%20June%202016(2).pdf, 6 January 2017.

integration of other members on the outskirts of the Union possible[14]. If the UK leaves the EU, the power will be shifted towards the centre of the Union and make Germany the central point. This would mean that the integration of countries in the periphery of Europe will be less likely than before. Therefore, the decision-making linked with the Brexit will also have critical implications for the status of candidate countries such as Turkey.

It may be predicted that a completely new model will have to be tailored just for the UK, given its economic and political importance. It will require both sides to loosen grip on their respective criteria in order to find a common ground. The UK will have to think carefully about the pros and cons and make a decision on how best to reconcile control of borders and participation in the Single Market. The EU will have to consider the benefit that UK can bring by remaining in the Single Market. If the UK decides to control its borders, the EU might do trade in a Customs Union approach. But if the UK decides to maintain freedom of movement of goods, the EU might trade with the UK in the similar setting as with Norway. All in all, the situation will remain complicated and tense, both parties having to face internal problems as well as differing interests. The only way to find out how to solve it is to wait and see how the negotiations unfold after March 2017, in case the UK government tenders its formal EU membership resignation. Until the negotiations are finalised however, the UK remains an active Member State of the EU.

Conclusion

The "Brexit" perspective has a past, a present and a future. Both internal factors – the 1975 referendum, Euroscepticism and former Prime Minister David Cameron's promise – and external factors – the Eurozone crisis, the refugee crisis and the ratification of the Treaty of Lisbon gave way for the second referendum to occur and to see the balance of public opinion shift towards the "leave" option. Brexit has generated immediate economic, politic and ideological consequences in both the UK and the EU. Additionally, the referendum caused an impact on candidate countries to the EU such as Turkey. However a unique, complex treaty arrangement reflecting the size and importance of mutual economic relations may be the most likely direction to follow with only one political certainty: "Brexit means Brexit" – for now.

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[14] Economic Development Foundation, Britanya Referandumu ve Sonrası: AB Entegrasyon Sürecinin Geleceği ve Türkiye (Brexit Referandum and its Aftermath: Future of EU Integration Process and Turkey", "July 2016, p.37.