



REPORT

Brexit:

Implications for Britain and the EU

Enes Güzel

TRT WORLD
**research
centre**

Brexit: Implications for Britain and the EU

© TRT WORLD RESEARCH CENTRE

ALL RIGHTS RESERVED

WRITTEN BY

Enes Güzel

PUBLISHER

TRT WORLD RESEARCH CENTRE

JANUARY 2019

TRT WORLD İSTANBUL

AHMET ADNAN SAYGUN STREET NO:83 34347

ULUS, BEŞİKTAŞ

İSTANBUL / TURKEY

TRT WORLD LONDON

PORTLAND HOUSE

4 GREAT PORTLAND STREET NO:4

LONDON / UNITED KINGDOM

TRT WORLD WASHINGTON D.C.

1819 L STREET NW SUITE 700 20036

WASHINGTON DC

www.trtworld.com

researchcentre.trtworld.com

Introduction

On June 23rd 2016, the British public decided to vote leave in the European Union membership referendum. Since then Brexit has been occupying the news and scholarly research. Perhaps, it is because no member state of the EU has left the union before, the uncertainty about what the affect will be on both sides still exists even after more than two years have passed. As we are only a few months away from 29 March 2019 on which the UK will leave the union, the UK has not yet agreed on a deal that will determine UK's future relationship with the EU but in order for the deal to take effect, the deal has to pass through the parliament. However, the deal agreed may suffer a heavy defeat through parliament. It looks as though the UK is heading towards no deal Brexit on which experts project a very pessimistic scenario for both sides.

This article covers all phases of Brexit, starting from the historical background, the factors and drives for the causes of the Brexit referendum, to the actual Brexit process where the EU and the UK negotiated for an exit deal from the EU. Finally, the article covers the political and economic implications of Brexit for both the United Kingdom and the EU.

Brexit is not an ordinary event. It has wide implications for the future of the EU and its relationship with the wider world. The extent to how much it will affect the economy and politics is uncertain. While there are apparent scenarios that can provide us with some hints, we can only see its clear impact in the long term. In this article we will try to explore the implications and try to shed a light on the potential outcome of Brexit

The Rise of UKIP

The UK Independence Party (UKIP) initially emerged as a right-wing alternative to the more centrist Conservative Party with the aim of fighting the Maastricht Treaty and pushing for Britain to leave the EU. UKIP's slogan was to 'take back control of our borders'. UKIP claims to be the authentic conservative voice and denounces the Conservative Party for betraying its original values and principles. They challenge the Conservative Party primarily on issues related to the EU, immigration, taxation and gay marriage.

Although, the EU membership was not a great concern for the British public, the sovereignty issue has always been the hot topic for both the public and the media. The issues of sovereignty has historically been the main issue between Britain and the EU, and Britain has long opposed the idea of Brussels being able to override the ideas of Westminster.

However, this was not of significance until the EU's expansion in 2004 and 2007, which enlarged the union by 12 member-states. Although immigration from the newly-joined Eastern European states into the UK remained relatively insignificant, this was sufficient for 'Eurosceptic' UKIP to exploit Britain's membership

in the EU. Using a populist anti-immigrant discourse, UKIP targeted white middle and lower-middle class English voters with some measure of success. UKIP's first successful election was in 2014 European elections, in which UKIP becoming the first party in more than a century, other than Labour or Conservatives, to win a in a UK-wide poll with 24.7 per cent (Merrick, 2017). At the 2015 general election, UKIP won an impressive 13 per cent of the votes, beating the Lib-Dems into fourth place at the election.

Withdrawal from the EU has always been the primary goal of UKIP, with that goal achieved, UKIP now faces the challenge that it is left without a purpose. In fact, polls show that after the Brexit referendum UKIP's electorate support is in decline. UKIP seems on the way to political irrelevance. This is also reflected in the last local election, where UKIP managed to win only 1 per cent share of the vote (Griffin, 2017). Although, the support for UKIP has been waning, Sebastian Payne warns that "if Brexit occurs haphazardly without a deal and the country plunges into a recession, the anger will be targeted at establishment politicians. UKIP, led by Mr Batten with Mr Robinson at his side, will be presented with the perfect opening for its pernicious politics" (Payne, 2018).



(Tayfun Salcı/ Anadolu Agency)

How Did We Get Here?

The on-going financial crisis across the EU has caused controversy amongst the British public as well as within the Conservative party. David Cameron, then Prime Minister and the leader of the Conservative Party decided to propose an in/out EU referendum if he won the 2015 general election. This would be the first time since 1975 that the British public were asked whether they want to stay in the EU or not. Cameron revealed that should the Conservative party win the upcoming election, his government would introduce a new settlement with Europe as well as new terms which would include a referendum after the election. The rise of UKIP was becoming an increasing threat to the Conservative Party. Many Conservative voters that were dissatisfied with the Conservative party policies were defecting to UKIP. Former conservative voters make up a substantial chunk of UKIP support

and the Eurozone crisis and the immigration issue were causing growth in hard Euroscepticism within the Conservative Party. In order to keep its voters from defecting to UKIP and contain the rebellion within the Conservative Party, PM Cameron felt the need to propose an in/out EU referendum.

Therefore, in order to tackle the problems he had to bring up the referendum to consolidate his power in the party. Even though, he was in favour of staying in the EU, he never expected that the British public would vote to leave the EU. However, contrary to his expectation, the British public has voted to leave the EU. The gamble ultimately forced him to resign not only from the Conservative party but also from premiership.

The Brexit Campaign

There were two main camps on the eve of the Brexit referendum- 'Vote Leave' and 'Britain stronger in Europe'. The 'Leave' campaign was led by Dominic Cummings and Matthew Elliott. Britain Stronger in Europe was the officially designated group campaigning to stay in the EU. Britain stronger in Europe was led by Stuart Rose and Will Straw. The party positions on the Brexit referendum varied across the spectrum. The Conservative Party stayed neutral on Brexit, however then Prime Minister David Cameron and Chancellor George Osborne supported the 'Remain' campaign. The Labour Party, Liberal Democrats Party, Scottish National Party and the Green Party supported the 'Remain' campaign.

When the Brexit referendum was put forward, many Britons did not have a clear idea of what they were voting for or the potential consequences of their choice. Therefore, their relative ignorance of the impending consequences made them rather careless in their voting. The ignorance was mainly caused by the apathy and lack of interest towards the EU and

European affairs. The apathy is also evident in European elections where the low turnout in European elections can show how much the British public is disinterested in European affairs.¹

Given the general public's lack of knowledge of the EU, the 'Leave' campaign's claims of the EU initiated a campaign buoyed by scaremongering. During the Brexit campaign, the 'Leave' campaign claimed that the EU law grants all EU citizens the right to travel, live and work in all EU member states. They argued that EU citizens living in the UK steal jobs of native Britons by working for lower wages, thereby reducing wages for British workers. The 'Leave' campaign also claimed that the flood of immigrants from Eastern and Southern Europe use the scarce public services and take benefits from the state which actually should be only serving resident Brits. Lastly, the 'Leave' campaign argued that the money currently spent on EU membership fees (claimed to be in the range of 350 million GBP/week) could be re-invested in public services such as the National Health Service (NHS).²

¹ Voter turnout in the 2009 European election was 34.7 per cent and 35.60 per cent in the 2014 European Election (UK Political Info). Voter turnout in the UK is also lower than the average of European Parliament election in all EU member countries which is 42.97 per cent in 2009 and 42.61 per cent in 2014 respectively.

² According to Stone (2017), the claim by the Leave campaign that the UK would take back control of "roughly £350m a week" was derided by the UK Statistics Authority as "a clear misuse of official statistics". The problem with the notorious £350m figure is that it is a "gross" figure – it doesn't take into account the money the UK gets back from the EU. It also doesn't take into account Britain's rebate on top of that (Stone, 2017).

Despite Cameron's advocacy for the 'Remain' campaign, a number of prominent Conservative MPs, such as Michael Gove and Boris Johnson, lead the 'Leave' campaign. On the other hand, the Labour party's position was more ambiguous. Despite majority of Labour MPs supporting the 'Remain' campaign, party leader Jeremy Corbyn is known to be a fierce opponent of the EU who has spent much of his political life vilifying the EU project as a capitalist club. Thus, implicit pressure coming from the party leadership meant that the Labour party was unable to fully commit itself to the 'Remain' campaign, relegating MP support to for remaining in the EU to the individual level. As a result, the 'Remain' campaign failed to better inform people of the benefits of being a member of the EU – such as immigration is good for the economy EU migrants make a net contribution to the UK budget, overall they pay more taxes than they take out and being the EU member makes the UK economy stronger. The EU supports British businesses, creates jobs and delivers lowers prices for consumers. - and why the UK should remain in the EU. Because the leave campaigners had nothing to lose, they tended to make unfounded claims regarding the

nature and details of the UK's relationship with the EU. The leave campaigners have taken advantage of public's lack of knowledge of the EU and misused facts of the EU in the run up to the vote (Khan, 2018).

For instance, the prospect of Turkish EU membership was employed by the leave campaign as a means of demonstrating their arguments surrounding immigration. Although, the UK has been traditionally supportive of the Turkish EU bid, the leave campaign argued that in the event of Turkish accession into the EU, there would be a surge of immigration from Turkey in the first ten years of its membership (Gove, 2016).

In response to leave campaigners' claim and attempt to subdue the anxieties of the British public, Cameron stated how "there is no prospect of Turkey joining the EU for decades" (Bennett, 2016). Remarkably, both Cameron as well as Boris Johnson reiterated their support of Turkey's EU membership bid. Johnson maintained his support for Turkey's EU bid after becoming foreign secretary in current PM Theresa May's cabinet.

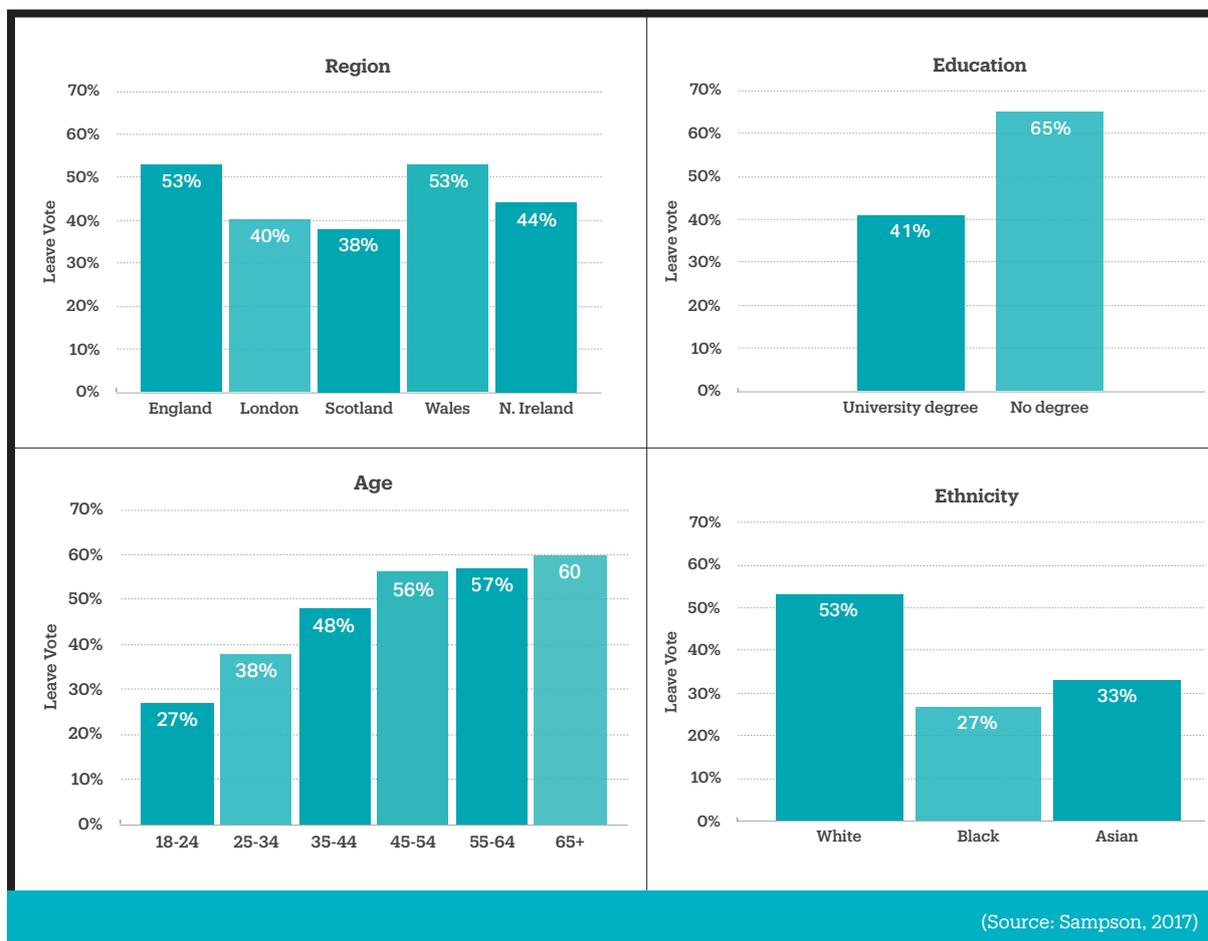
Why Did the 'Leave' Campaign Succeed?

The referendum results have been announced on 23 June 2016.³ Contrary to the wide-spread belief that the economy was the primary driver of the success of the 'Leave' campaign, studies show that the main issues were in fact immigration and the protection of national sovereignty.

Voting patterns show that those who voted for Brexit tended to be white, elderly, people with lower

incomes, and less education. Only 6 percent of the leave voters stated that the main reason they voted for Brexit was that the UK economy would do better outside the EU, whereas various studies found that the most important reasons for the leave voters was national sovereignty and immigration (McCombie & Spreafico, 2017).

³ The referendum results: Remain: 16,141,241 (48.1 percent) Leave: 17,410,742 (51.9 percent)



According to Lord Ashcroft Polls, “Nearly half (49 percent) of leave voters said the biggest single reason for wanting to leave the EU was “the principle that decisions about the UK should be taken in the UK”. One third (33 percent) said the main reason was that leaving “offered the best chance for the UK to regain control over immigration and its own borders.” Just over one in eight (13 percent) said remaining would mean having no choice “about how the EU expanded its membership or its powers in the years ahead.” Only just over one in twenty (6 percent) said their main reason was that “when it comes to trade and the economy, the UK would benefit more from being outside the EU than from being part of it” (Ashcroft, 2016).

National sovereignty and immigration being the primary reasons for the leave vote has important

implications for the future of European integration.

Freedom of movement and residence for persons in the EU is the cornerstone of Union citizenship, established by the Treaty of Maastricht in 1992. This allows all EU citizens to move and reside freely within the EU. Therefore, the rejection of this principle goes against one of the core principles of the EU. The spread of anti-immigration sentiment around the EU member states would undermine the EU’s political integrity and could lead to further fragmentation.

If the motivation for the leave vote was the economy, then the EU could do something about it and find a solution by improving the economy. However, the motivational drive appears centred around the notion of reclaiming national sovereignty. If this perception widens throughout the EU then, preserving the integration of the Europe will ultimately be at stake.

The Brexit Process

The debate around the Brexit process has revolved primarily around the opposing concepts of 'Hard' and 'Soft' Brexit. A 'Hard' Brexit means that the UK will leave both the single market and the customs union. Proponents of a 'Hard' Brexit recognize that although the initial phases of Brexit could be burdensome, in the long term, Britain will redeem the losses by concluding its own free-trade deals, which will put Britain in a better situation in the long term.

A 'Soft' Brexit means that Britain would remain both within the single market and in the customs union, meaning that the UK would remain bound by the EU's customs and trade regulations. The goal of a 'Soft' Brexit is to minimize the cost to the UK and to lessen the disruption to trade and businesses that would be affected by departing from the EU's regulations and rules.

Prime Minister Theresa May's position on the Brexit seems to be on the hard Brexit side, as she wants to take back the control of Britain's laws, borders and fiscal policies.

PM May set out the plan for Britain, including the 12 priorities that the UK government used to negotiate Brexit on January 17th 2017, at Lancaster House. May's list of negotiating objectives emphasized that in respect to future relationship between the UK and the EU, the relationship will be based on ambitious free trade agreement rather than membership of the single market. (GOV.UK, 2017) Her policy objectives also stated the need to end the jurisdiction of the European Court of Justice (ECJ), the desire to establish the full control of immigration, and the need to strengthen the union between the four nations of the UK.

The formal negotiations for Brexit began in June 2017. The process of Brexit had a bitter start for Britain. Following May's introducing of the Brexit draft to Parliament, two senior government ministers resigned in addition to already the two that resigned in the summer.

In order for the UK to leave the EU, the UK had to invoke article 50 of the Lisbon Treaty. Article 50 allows member states to leave the EU unilaterally and allows the member country to negotiate an exit deal with

the EU within two years unless the European Council and the leaving member state unanimously decides to extend this period. Prime Minister Theresa May triggered article 50 on March 29, 2017.

The objective of the Brexit negotiations is to agree the terms of the UK's exit from the EU.

Negotiations have been taking place on an orderly basis, and the first phase of negotiations address three core pillars of withdrawal issues:

- 1-** Guaranteeing citizen's rights (EU citizens currently living in the UK and UK citizens currently living in the EU)
- 2-** Settling the UK's financial commitments
- 3-** Republic of Ireland and Northern Ireland backstop issues

On 14 November 2018, the UK and the European commission reached an agreement on the withdrawal agreement and on an outline of the political declaration on the future of the EU-UK relationship.

1. What is in the Withdrawal Agreement?

The withdrawal agreement establishes the terms of the UK's departure from the EU. It ensures that the withdrawal will happen in an orderly manner and offers legal certainty once the treaties and EU law cease to apply to the UK. The withdrawal agreement covers all elements of the UK's withdrawal from the EU including citizen's rights, the financial statement, a transition period, protocols and Gibraltar and Cyprus, as well as a range of other separation issues.

In order for the withdrawal agreement to come into force, it must be ratified by both the UK and the EU. On 25 November 2018, the European Council endorsed the withdrawal agreement and approved the political declaration setting out the framework for the future relationship.

As for the UK, parliament was due to vote on the UK government's controversial Brexit deal on December 11th. However, May delayed voting on Brexit deal due to a lack of support. The next day May went to Brussels

to seek concessions from the EU so she can get a better deal to put forward to Parliament in order to get the deal ratified. Following the EU's rejection on amending the deal, May now has to put forward the current deal to Parliament. Many MPs have already declared that they will reject the deal.

The predicament is that the current Brexit plan will most likely be rejected when it is proposed to Parliament and the EU leaders are not willing to amend or make changes to the agreed Brexit plan, which means the UK could crash out of the EU without a deal.

Many hard-core Brexiters within the Conservative Party continually maintain that a no-deal Brexit would be better than a soft Brexit.

2. What is a 'No-Deal' Brexit?

A 'no deal' Brexit would occur if the UK and the EU cannot reach an accord on the withdrawal agreement. In the case of no agreement, there will be no 21-month transition period, meaning that businesses, consumers and public bodies would have to adapt to the changes immediately after March 29th, 2019, when EU treaties will no longer be applicable to the UK. That means the UK will trade with the EU on the standard terms used by other members of the World Trade Organization (WTO) (Whiteside). Consequently, all the goods crossing the EU borders will be subjected to tariffs of up to 38 percent. As one-third of the UK's food comes from the EU, higher import prices will create inflation and would therefore reduce the standards of the living in the UK.

It looks unlikely that another deal between the UK and the EU can be negotiated before the March 29th 2019 deadline. In that case, the UK would leave the EU without a deal. The EU is taking advantage of May's predicament at home. The disagreements and problems at home and the unpopularity of PM's Brexit deal in Parliament gave the EU leverage in negotiations against May. Therefore, the EU is not willing for any renegotiations that will make it easy for May to deliver a better deal for Brexit. The EU wants to punish the UK so it is a message for other member states who might want to exit the EU in the future.

3. Is a Second Referendum on the Table?

The idea of a second referendum has recently been gaining more traction with the public as it appears

that a no-deal Brexit is a real possibility. As May's deal looks likely that it will be rejected by Parliament as Labour, Liberal Democrats and the Scottish National Party set to vote no against the motion, the chances for no deal Brexit remain high. Many polls indicate that Britons would choose to remain in the EU if a second referendum were to take place. According to Sky Data poll, more than half of Brits (53 percent) would support a new Brexit referendum. According to the data, in a new referendum, 53 percent of the British public would vote for no Brexit, while 32 percent would vote for Brexit without a deal and 16 percent for May's Brexit deal though the majority's acknowledgment that the new referendum would break faith with the people (Carr, 2018).

Even though there is a strong backing for a second referendum from the public, the Labour Party's position on the issue is to force a general election and renegotiate a Brexit deal with Brussels rather than hold a second referendum. Though many Labour MPs are supportive of proposing a second referendum, Corbyn's ambivalence can be taken as a de facto affirmation of Brexit in principle.

The so-called 'People's vote' campaign has been the staunchest advocate of the second Brexit referendum. There are many MPs involved in the campaign, including former PM Tony Blair. 'People's vote' campaign argue that a second referendum is the only way to break the deadlock. In order to achieve their aim, the People's Vote campaign mobilized thousands of people to march to demand for a second referendum in London in October (The New York Times, 2018).

Though the PM May dismisses the idea of a second referendum arguing that "it would do irreparable damage to our democracy and break people's faith", (Stewart, 2018) there are some cabinet members such as Philip Hammond, Amber Rudd, Greg Clark that are open to the idea. Should May fail to receive parliamentary approval for her Brexit deal, these and other members of the current government may prove to be influential in whether or not a second referendum will take place (d'Ancona, 2018). It is also important to remember that a second referendum would require a delay to the exit date of March 29th, 2019, thereby necessitating the acquiescence of all 27 EU member-states.

Economic Implications For Britain

Numerous organizations have already published their forecasts and analysis on how Brexit might affect the economy in the short and long terms. The majority of the projections show diverse results due to the uncertainty of how Brexit will proceed, and also because of the methods and economic models they apply in their research.

The vast majority of Brexit impact studies show that the British economy will shrink after Brexit (Tetlow & Stojanovic, 2018). This is because most studies expect that Brexit will increase trade barriers between the UK and other countries. Brexit's overall impact depends on the UK's final trading arrangement with Europe. There are multiple scenarios on the table whether the current Brexit deal will be approved or there will be some amendments to it or a no deal Brexit. Therefore, one cannot fully have conclusive judgement on how much the UK's economy will be affected by Brexit.

As the UK heads towards Brexit, the political uncertainty and lack of clarity on issues such as the Irish border and the customs union have already had deteriorating impact on the UK economy.

In fact, the UK has fallen from the top to the bottom of the league table in terms of economic growth among the G7 countries (Morrison, 2018).

Since the British government declared its intentions to leave the EU, the Pound has devalued to a 31-year low, dropping 10 per cent against the US Dollar (Tetlow & Stojanovic, 2018). Business investment growth has slowed down and many major business investors have held back from making large investments before the UK's future relationships with the EU and other countries are settled (Creating a prosperous post-Brexit UK, 2018). Foreign investors have less confidence in the UK's economic prospects as it stands.

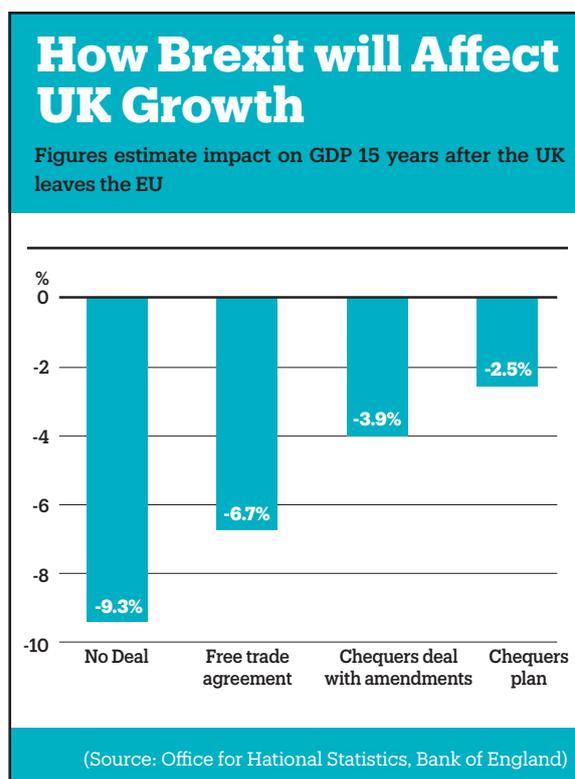
Government's official figures forecasts that the UK economy could be up to 3.9 percent smaller after 15 years under the governments' current Brexit plan (EU Exit: Long-term economic analysis, 2018).

The Chancellor Philip Hammond has explained the most striking feature of the report that there will be only small amount of potential gains from striking free trade deals with major economies such as the US and China. The government estimates that it would only add less

than 0.1percent GDP (House of Commons Treasury Committee, 2017-19).

The report came as a blow for the hard-core Brexiteers that argued the UK economy will be better off without the EU and striking off new trade deals with emerging economies around the world will lead to a more prosperous Britain. The report has largely undermined the pro-Brexit position on Brexit where their central justification for the withdrawal proved to be wrong with the latest report.

The government explained that the worst scenario of leaving the EU would be the 'no deal' with the EU. This would shrink the economy by 9.7 percent (House of Commons Treasury Committee, 2017-19). The Bank of England also published a report that found that in the case of Britain leaving the EU without a deal, the economy would shrink by 8 percent in a year and house prices would drop 30 per cent and the pound would decrease to \$1.10 USD from the current \$1.27 (House of Commons Treasury Committee, 2017-19).



The economic impact also diverges across different types of business sectors, regions and income levels. The analysis indicates that while certain sectors might benefit from Brexit, such as agriculture, food processing and fishing because the EU imposes high tariffs on imports of food products, others such as clothing manufacturing and high tech-industries affected severely because these industries heavily rely on the import-exports with the EU (Tetlow & Stojanovic, 2018).

According to an Institute for Government report, studies that predict the largest negative impacts of Brexit are the ones that view reductions in trade, investment and migration to have a permanent effect on innovative activity, which means permanent reduction in productivity growth. Most studies do not take this into account because it is difficult to identify the scope of the relationship between economic openness and productivity growth. Therefore many of those studies miss out explaining the long-term costs of leaving the EU. For example, trading with the EU on WTO terms as a non-EU member would decrease UK GDP by 2.7 percent by 2030 if there is no knock-on impact on productivity growth. But it has much larger affect - a 7.8 per cent loss of output- if we consider the effect on productivity (Tetlow & Stojanovic, 2018).

On the other hand, analyses show that Brexit will affect the financial sector the most. The City of London is known as the financial hub of Europe. According to a report by TheCityUK (a representative body of the industry) "London and the wider UK is the leading global international financial and related professional services centre. Britain's trade surplus in financial services of £63bn in 2015, was more than the combined surpluses of the next three leading countries (US, Switzerland and Luxembourg). The UK has the leading share of trading in many international financial markets such as cross border bank lending (16 percent), international insurance premium income (29 percent) and foreign exchange trading (37 percent). It is also a global leader in providing professional services" (THECITYUK, 2016). The uncertainty and political instability starting with Scottish referendum in 2014 and Brexit in 2016 were detrimental to Britain's image as safe haven for banks, market and investors. Many of British and International banking firms such as HSBC, Citigroup, JP Morgan and Goldman Sachs are already planning for office relocation and new staff hires from London to EU offices, including Dublin, Frankfurt, Luxembourg and Paris (Makortoff, 2018). Many banks, insurance

companies and asset management firms have already transferred millions of pounds to new and expanded hubs in the bloc, fearing that they might lose their customers in the EU following Brexit. According to City Minister John Glen, referring to the Bank of England estimates, Britain is set to lose about 5000 city jobs by the time UK leaves the EU in 2019 (Makortoff, 2018). According to Frankfurt Main Finance, almost 40 banks from London have applied for licenses to the European Central Bank and they are preparing to transfer 750-800 billion euros in assets early in 2019 (MacAskill, Cruise, & Jones, 2018). Britain is the heart of Europe's financial system with London being the indispensable financial capital. London's already main competitors are New York, Hong Kong, Singapore and Tokyo, yet Asian capital cities are posing significant challenges to London as a result of the shift in the global trading patterns. Moreover, the cities of Istanbul and Dubai are the new-joiners to the competition as they also seek to enter and position themselves firmly in global financial markets.

As the government is preparing for no-deal Brexit, government has undertaken certain unilateral actions on this regard. Specifically in respect to financial services, these actions include:

- Temporary Permissions Regime (TPR) that will allow EEA firms currently 'passporting' into the UK to continue operating in the UK for up to three years after exit.
- A temporary recognition Regime (TRR) that will allow non-UK central counterparties to enable them to continue providing clearing services to UK firms for a period of up to three years after exit.
- Legislation: the government will also bring forward transitional legislation for central securities depositaries, credit rating agencies, trade repositories, data reporting service providers, systems currently under the settlement finality directive and depositaries for authorized funds (HM Treasury, 2018).

As it is shown, the government has undertaken necessary precautions to protect financial service sector in the event of a no-deal Brexit. Therefore, the UK may secure a transition deal for the financial sector where the EU rules and full single market access applies until the end of 2020. Therefore, the extent of damage of Brexit will be fully apparent only when transition period ends.

Political Implications for Britain

The UK can use the EU as a leverage to assert its influence in the world stage. The EU is the second largest economy and the largest trading bloc and has the ability to transform its economic power into political power. There are three sources of influence for the EU. The use of market, the direct aid and imposition of sanctions. When the EU wants to influence a country, the EU leverages its market power through a “neighbourhood policy” in which it creates bilateral agreements with neighbouring countries. The use of foreign aid is also important instrument for pursuing foreign policy objectives. Strategic and commercial interests are the leading causes of the foreign aid programs. The granting and the termination of foreign aid is an important tool to shape a recipient state’s behaviour (Apodaca, 2017). The EU’s country and region interests are usually determined and driven by the member states. With Brexit, the UK will be deprived of using the market power of the EU. The UK will no longer be able to access the peripheries of the EU and areas of influence and shape the foreign policy of the EU and redirect EU resources to countries and the regions where the UK has interest and a will to influence. As a result, the UK’s standing in the world will be affected and ability to influence the international events will diminish.

Due to the UK-US strategic partnership, the US prefers to deal with the EU through the UK. Thus, if the US wants to, for example influence or shape EU policy towards Russian threat, it does so through the UK. Therefore, the UK becomes more important partner in the eyes of the US. However, in the aftermath of Brexit, the UK may lose its importance for the US, as the UK will no longer be able to have a say in EU affairs.

Brexit also poses question marks for the UK’s relationship with Scotland and Northern Ireland. Scotland and Northern Ireland have voted overwhelmingly to remain in the EU with a vote of 62 per cent remain and 38 per cent leave and 55.8 per cent remain and 44.2 per cent leave respectively. However, since the Brexit referendum the opinion polls show that nearly 70 per cent of Scots now

would vote to remain in the EU, compared with 56 per cent across the UK as a whole (Brooks, 2018).

Brexit as it stands now raising the prospects of second Scottish independence referendum. The Scottish First Minister Nicola Sturgeon might want to take an advantage of government’s Brexit impasse. Sturgeon claimed that the Scottish Parliament has been side-lined during Brexit negotiations and that “the case for independence has grown stronger every day” (Duffy, 2018).

The no deal scenario can play a dramatic role in changing public opinion towards an independence referendum. Three separate polls made on the week of Brexit referendum in Scotland showed that majority of Scots would vote in favour of independence from the UK. 48-41 percent in favour of independence with 9 per cent undecided (Daily Record / Daily Mirror, 2016).

As for Northern Ireland, the Irish are concerned with the backstop controversy between the UK and the EU. The backstop is to keep an open border with Ireland in the event that the UK leaves the EU without a deal. Both the UK and Republic of Ireland are part of the EU single market and the customs union, so products and goods do not need to be inspected for customs and standards. The EU has proposed a backstop that would keep Northern Ireland in customs union and single market. However, the UK government has rejected the EU’s proposal on the basis that this would undermine the constitutional integrity of the UK. After months of impasse, May finally agreed on the backstop draft proposed by the EU, however, she faced a backlash from ministers from her government and MPs in Westminster and by prominent Brexiteers such as Dominic Raab and Boris Johnson and most importantly by the government partner, Democratic Unionist Party (DUP) whose 10 MPs she needs the votes of to stay in office. The DUP is a unionist political party in Northern Ireland. The DUP defends the idea of Britishness and Ulster Protestant culture against Irish nationalism. The DUP is known to be Eurosceptic and backs UK’s exit from the EU. This controversy created unease

both in the Northern Ireland as well as in Republic of Ireland. The general perception is that the return to customs control and border inspections would cause anger, even potentially violence for the people travelling freely across the open border on a daily

basis (Carswell, 2018). Many fear that going back to a hard border would undermine Irish peace and could trigger a return to 30 years-long violence and conflict between the Northern Ireland and the UK that was ended in 1998 by 'the good Friday agreement'.

Implications for the EU

The UK is one of the major members of the EU. The UK's exit from the EU will certainly have a negative impact on the EU and naturally, the 45 years old relationship makes the divorce rather complex and difficult for both sides. The UK is one of the EU's largest trading partners, accounting for about 13 per cent of its trade in goods and services (Chen, Ebeke, Lin, & Siminitz, 2018). The value of imports and exports between the UK and the EU was over 423 billion GBP in 2017.

The EU has already been facing many political and economic challenges both domestically and internationally. As the EU is still trying to recover from the Eurozone crisis, the high level of unemployment in member states, the refugee and migrant crisis, increasing populist and nationalist voices within EU member states by Eurosceptic parties, Russian aggression on the border of the EU and growing terrorist threats are the other significant challenges that the EU is currently facing. In addition to these challenges, the EU is losing one of its most important partner, the UK. Brexit will certainly diminish the resources available to deal with these crisis.

As it stands the most important challenge comes from the Eurosceptic parties in EU member states because they pose the greatest threat to the EU. "Brexit was the first significant victory in foreign policy for the radical right ... and it clearly has inspired Marine Le Pen, Geert Wilders and others," explains Cas Mudde, the author of the *Ideology of the Extreme Right*." (AL JAZEERA NEWS, 2017). If UKIP could push for Brexit, so can the other Eurosceptic parties in fellow member states.

The well-being of the UK's economy after Brexit appears to be a threat to EU's political integrity. Brexit might have a knock-on effect on other countries. The nationalist and populist parties in EU member-states are already seeking their own exit from the union.

EU leaders are now concerned that Brexit might lead to other members to demand their withdrawal from the EU. Charles Grant warns that "Brexit is a momentous event in the history of Europe and from now on the narrative will be one of disintegration not integration" (Grant, 2016). National opinion polls show that Eurosceptic parties could increase their strength in the European Parliament by over 60 per cent in elections next May (Dollar & Macdonald, 2018). The increase in Eurosceptic parties' seats in European Parliament might jeopardize the attempts for deeper integration for the EU.

Brexit negotiations have not gone as easy as the Brits thought and has put the UK in a rather difficult position. This has caused other EU countries to think well before leaving the EU if they choose to. Public opinion in the EU member states have significantly changed in favour of the EU in the aftermath of Brexit referendum. The latest Eurobarometer survey conducted in September 2018 measuring attitudes of the EU across member states show that more people than ever consider their country's membership of the European Union to be a good thing (62 percent.) This is the highest figure recorded in the last 25 years (European Parliament, 2018). Brexit negotiations have played an important role in this regard. The difficult negotiations between the UK and the EU has showed the European public that the break-up is not an easy task and burdensome for the leaving member. As Ian Bremmer, president of Eurasia Group, points out, "the hot mess in British politics has certainly dampened enthusiasm that some in other EU countries might have for an exit of their own." (Bremmer, 2018). On the other hand, the Brexit process has increased the European public's awareness about the EU and increased knowledge of the benefits of being a member of the EU. This is also reflected in the surveys that there is growing awareness of next year's European elections,

with 41percent correctly identifying the date in May 2019 – a nine point increase over a similar survey six months ago, and 66 percent of European respondents would vote for their country to remain a member of the EU (a majority in all member states) and only 17 percent would contemplate leaving, with 17 percent undecided (European Parliament, 2018).

As for security and defence, the EU will be heavily affected without the UK's involvement. The UK is a U.N. Security Council member, a nuclear power and the strongest European military power in NATO.

Moreover, the relationship between Trump administration and the EU is already unstable. The recent clash between Trump and the EU leaders in the NATO summit-where Trump threatened the EU to go its own way if the EU members did not immediately pay more for their own defence- indicate clearly that the EU-US relations will no longer be as good as before. The security reliance on NATO where the US is so influential is not reliable for the EU. Thus, French President Emmanuel Macron has reiterated that "Europe can no longer rely solely on the United States for its security. We must guarantee our own security and sovereignty" (Fouquet, 2018). There is an initiative on the EU's side to increase the budget for the European Defence Agency (EDA). Furthermore, the EU has established a European Defence Fund to enhance its defence capabilities. However, the budget allocated for defence and security is still too modest to protect the EU from external threats. Therefore, the EU still needs NATO as a protector. Until now, the UK has played a mediatory role between the EU and the US with regards to defence and security issues. As the relationship with the United States has wavered, the EU might need the UK more than ever in the face of security challenges. Hoffman argues that "the EU has lost a broker between itself and NATO at a time when it is worried about the policy actions of an unpredictable US President." (Hofmann, 2018).

The extent to which Brexit will have severe implications for European security will depend on whether the UK and the EU will move beyond Brexit and create a new bilateral security partnership. While it is strongly needed as Europe is under constant threat by terrorism and Russian hostility, however, the parties on both sides seem to object to the concessions and compromises being given. Therefore, time will show

whether the UK and the EU will overcome the internal opposition and come to an agreement on the main issues of security and defence.

There are diverging opinions on Brexit's impact on European integration. While some argue that Brexit will undermine the European integration project as more break-ups will follow Brexit, others argue that it will actually consolidate and lead to deeper integration.

Since Joining the EU in 1974, the UK has always protected its sovereignty and voted down any initiatives that might undermine the member state's sovereignty. The UK has always been an obstacle for a supranational progress within the EU. Unlike France and Germany, the UK has always seen the EU as an economic union rather than a political union.

Supporting the Turkish accession into the EU, thinking that Turkish membership would distract the EU to become a more supranational institution with Turkey as its member, aligns with UK's enlargement policy strategy. Historically, when France and Germany wanted to give more power to the EU and strengthen the EU's political power, the UK has always opposed the idea of supranationalism and always favoured the widening, rather than deepening, of European integration.

As a result, to what extent will Brexit have an impact on the EU will both depend on how well the EU manages the aftermath and also how well the UK will do both politically and economically. As it currently stands, it appears as though Brexit will turn out to be a losing situation for both the EU and the UK. This article suggests that the Brexit is a turning-point in the history of European integration. While it is an opportunity for deeper integration and stronger solidarity, at the same time it proves a challenge for the integrity of the EU to be able to stand together and not allow further break-ups.

Conclusion

Brexit has significant economic and political implications for the UK and the EU. In this report we have tried to analyse the political and economic impact for both the EU and the UK and shown that the drive for exiting was not primarily the economy but rather the feeling of loss of national sovereignty and the anxiety surrounding potential immigrants coming to the UK from the EU.

It is too early to make a conclusive judgment about the impact of Brexit. While many studies indicate that Brexit will have detrimental effect for both the UK and the EU, to what extent that affect will be is unclear. What is certain is that as the UK government is heading towards the no deal scenario with the EU, most studies, including government reports, have indicated that the economy will be worse off in both the short and long term. The weaker economy will certainly bring political instability and could lead to political and economic crises.

The UK is one of the most important political and economic powers of the EU. Therefore, the Union will undoubtedly suffer from this divorce. Brexit will cause reduced trade, impoverished security and defence and undermine EU's political image and reputation on the world stage. Prospects of new break up calls arising from Brexit will add new problems to the EU's already troubled agenda.

However, as a turning point in the history of the EU, Brexit also presents opportunities. While the EU faces economic, security and political challenges, the UK's departure can provide opportunities for increased unity and integration among EU members. Historically, the UK is known to have been one of the major obstacles for deeper political integration. Now that this obstacle is out of the way, the EU has the potential to overcome these challenges if the EU can stand firm and push for deeper integration in the face of populist and Eurosceptic threats.

Public opinion polls show that support for EU membership is increasing, and EU public think that EU membership is a good thing. Therefore, the EU should push for deeper integration and stronger EU institutions, otherwise the current challenges will grow, the far-right will become stronger, Euroscepticism will thrive and support for EU membership will decline, making further fragmentation inevitable. The task for European leaders now is to overcome the idea of national sovereignty and put the EU's interests before member state interest.

Bibliography

AL JAZEERA NEWS. (2017, March 19). How will Brexit affect the European Union? Retrieved from AL JAZEERA: <https://www.aljazeera.com/indepth/features/2017/03/brexit-affect-european-union-170310121554584.html>

Apodaca, C. (2017). Foreign Aid as Foreign Policy Tool. Oxford Research Encyclopedia of Politics.

Ashcroft, L. (2016, June 24). How the United Kingdom voted on Thursday... and why. Retrieved from Lord Ashcroft Polls: <https://lordashcrofthpolls.com/2016/06/how-the-united-kingdom-voted-and-why/>

BBC. (2018, November 28). Brexit will make UK worse off, government forecasts warn. Retrieved from BBC: <https://www.bbc.com/news/uk-politics-46366162>

Bennett, O. (2016, May 04). Turkey Will Not Join The EU 'For Decades,' Says David Cameron. Retrieved from HuffPost UK: https://www.huffingtonpost.co.uk/entry/david-cameron-turkey-eu-referendum_uk_572a393ae4b0ade291a14a65?guccounter=1&guce_referrer_us=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8

Bremmer, I. (2018, OCTOBER 15). Brexit will weaken Europe, isolate Britain and fuel global tensions. Retrieved from CNN: <https://edition.cnn.com/2018/10/12/perspectives/brexit-analysis-ian-bremmer/index.html>

Brooks, L. (2018, November 28). Brexit breeds boredom, bafflement and frustration in Scotland. Retrieved from The Guardian: <https://www.theguardian.com/politics/2018/nov/28/brexit-breeds-boredom-bafflement-and-frustration-in-scotland>

Busby, E. (2018, July 15). Ukip leader Gerard Batten calls Muhammad a paedophile at Tommy Robinson rally. Retrieved from INDEPENDENT: <https://www.independent.co.uk/news/uk/politics/gerard-batten-ukip-mohamed-paedophile-tommy-robinson-protests-muslims-a8447741.html>

Carswell, S. (2018, October 12). Brexit explained: What does the Border matter and what is the backstop? Retrieved from The Irish Times: <https://www.irishtimes.com/news/politics/brexit-explained-why-does-the-border-matter-and-what-is-the-backstop-1.3661518>

Chen, J., Ebeke, C., Lin, L., & Siminitz, J. (2018, August 10). The Long-Term Impact of Brexit on the European Union. Retrieved from IMF Blog: <https://blogs.imf.org/2018/08/10/the-long-term-impact-of-brexit-on-the-european-union/>

Commission, E. (2018, 12 17). Recipients and results of EU aid. Retrieved from European Commission: https://ec.europa.eu/info/aid-development-cooperation-fundamental-rights/recipients-and-results-eu-aid_en#overview

Cooper, C. (2016, April 22). Barack Obama says Britain would go to 'back of the queue' for US trade deals if it leaves Europe. Retrieved from Independent: <https://www.independent.co.uk/news/uk/politics/barack-obama-says-britain-would-go-to-back-of-the-queue-for-us-trade-deals-if-it-leaves-europe-a6997201.html>

(2018). Creating a prosperous post-Brexit UK. London: Institute of Economic Affairs.

Daily Record / Daily Mirror. (2016, June 25). Post-Brexit Scottish Attitudes Poll. Retrieved from Survation: <https://survation.com/wp-content/uploads/2016/06/Post-Brexit-Scottish-Attitudes-Poll.pdf>

Dearden, L. (2018, December 3). Ukip being turned into 'anti-Islamic party' that could soon have Tommy Robinson as leader, defectors say. Retrieved from Independent: <https://www.independent.co.uk/news/uk/politics/ukip-tommy-robinson-suzanne-evans-resignation-edl-islamophobia-muslims-party-leader-a8665401.html>

Dollar, M., & Macdonald, A. (2018, July 26). Exclusive - Polls point to anti-EU surge in European Parliament. Retrieved from Reuters: <https://uk.reuters.com/article/uk-eu-parliament-bannon-polls-exclusive/exclusive-polls-point-to-anti-eu-surge-in-european-parliament-idUKKBN1KG1XP>

Duffy, R. (2018, November 17). Indyref 2? The Brexit deal has put Scottish independence on the agenda again. Retrieved from thejournal.ie: <https://www.thejournal.ie/scotland-brexit-vote-4343770-Nov2018/>

(2018). EU Exit: Long-term economic analysis . London: HM Government.

European Parliament. (2018, October 17). Brexit effect: Public opinion survey shows that EU is more appreciated than ever. Retrieved from European Parliament: <http://www.europarl.europa.eu/news/en/press-room/20181016IPR16213/brexit-effect-public-opinion-survey-shows-that-eu-is-more-appreciated-than-ever>

European Parliament. (n.d.). Results of the 2014 European elections. Retrieved from European Parliament : <http://www.europarl.europa.eu/elections2014-results/en/turn-out.html>

Fouquet, H. (2018, August 27). Macron Urges EU to Boost Defense, Finance Autonomy From U.S. Retrieved from Bloomberg: <https://www.bloomberg.com/news/articles/2018-08-27/macron-urges-eu-to-boost-military-financial-autonomy-from-u-s>

GOV.UK. (2017, January 17). The government's negotiating objectives for exiting the EU: PM speech. Retrieved from GOV.UK: <https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech>

Gove, M. (2016, April 26). Think the EU's bad now? Wait until Albania joins: With piercing logic and passionate eloquence, MICHAEL GOVE warns that EU expansion will open our borders to 88million from Europe's poorest countries. Retrieved from Mail Online: <https://www.dailymail.co.uk/debate/article-3566620/Michael-Gove-warns-EU-expansion-open-borders-88-million-Europe-s-poorest-countries.html>

Grant, C. (2016, June 24). THE IMPACT OF BREXIT ON THE EU. Retrieved from CENTRE FOR EUROPEAN REFORM: <https://www.cer.eu/insights/impact-brexit-eu>

Griffin, A. (2017, MAY 05). Local election results: Ukip loses almost every seat it had in night that could spell disaster for the party. Retrieved from INDEPENDENT: <https://www.independent.co.uk/news/uk/politics/local-election-results-2017-ukip-seats-brexit-latest-live-updates-tories-the-resa-may-a7718826.html>

HM Treasury. (2018). Banking, insurance and other financial services if there's no Brexit deal. London: HM Treasury.

Hofmann, S. (2018, October 18). Brexit will weigh heavily on European security. Here's why. Retrieved from Washington Post: https://www.washingtonpost.com/news/monkey-cage/wp/2018/10/18/brexit-will-weigh-heavily-on-european-security-heres-why/?noredirect=on&utm_term=.3c6390ba244b

House of Commons Treasury Committee. (2017-19). The UK's economic relationship with the European Union: The Government's and Bank of England's Withdrawal Agreement analyses. London: House of Commons Treasury Committee.

Khan, S. (2018, July 28). Final Say: The misinformation that was told about Brexit during and after the referendum. Retrieved from Independent: <https://www.independent.co.uk/news/uk/politics/final-say-brexit-referendum-lies-boris-johnson-leave-campaign-remain-a8466751.html>

MacAskill, A., Cruise, S., & Jones, H. (2018, December 11). Brexit Britain's financial sector faces 'slow puncture'. Retrieved from Reuters: <https://www.reuters.com/article/uk-britain-eu-city-insight/brexit-britains-financial-sector-faces-slow-puncture-idUSKBN1OA1SN>

Makortoff, K. (2018, November 15). Banking sector cautiously backs May's Brexit deal. Retrieved from The Guardian: <https://www.theguardian.com/business/2018/nov/15/banking-sector-backs-brexit-progress-with-caution>

McCombie, J. S., & Spreafico, M. R. (2017). Brexit and its possible implications for the UK. wileyonlinelibrary.com/journal/pirs, 139.

Merrick, R. (2017, September 29). Ukip: A timeline of the party's turbulent history. Retrieved from INDEPENDENT: <https://www.independent.co.uk/news/uk/politics/ukip-timeline-party-westminster-alan-sked-nigel-farage-conference-key-events-brexit-leadership-a7974606.html>

Moravcsik, A. (2017, April 13). Europe Is Still a Superpower and it's going to remain one for decades to come. Retrieved from Foreign Policy: <https://foreignpolicy.com/2017/04/13/europe-is-still-a-superpower/>

Morrison, C. (2018, June 23). The Brexit effect: How the last two years have impacted the economy. Retrieved from

Independent: <https://www.independent.co.uk/news/business/analysis-and-features/brexit-vote-two-years-eu-referendum-uk-economy-pound-sterling-gbp-usd-ftse-skills-shortage-a8410596.html>

Payne, S. (2018, November 23). Ukip's transformation into a far-right party is complete. Retrieved from Financial Times: <https://www.ft.com/content/c43857ca-ef16-11e8-89c8-d36339d835c0>

Reuters. (2018, September 2). Brexit could sway Scottish voters toward independence from UK, poll finds. Retrieved from CNBC: <https://www.cnbc.com/2018/09/03/brexit-could-sway-scottish-voters-toward-independence-from-uk-poll.html>

Sampson, T. (2017, November 7). Understanding the motivations of Leave voters will play an important role in determining the future of globalisation. Retrieved from #LSEThinks: <http://blogs.lse.ac.uk/brexit/2017/11/07/understanding-the-motivations-of-leave-voters-will-play-an-important-role-in-determining-the-future-of-globalisation/>

Tetlow, G., & Stojanovic, A. (2018, October). Understanding the economic impact of Brexit. London: the Institute for Government. Retrieved from the Institute for Government: <https://www.instituteforgovernment.org.uk/sites/default/files/publications/2018%20IfG%20%20Brexit%20impact%20%5Bfinal%20for%20web%5D.pdf>

THECITYUK. (2016). KEY FACTS ABOUT THE UK AS AN INTERNATIONAL FINANCIAL CENTRE. London: THECITYUK.

UK Political Info. (n.d.). European Parliament election turnout 1979 – 2014. Retrieved from UK Political Info: <http://www.ukpolitical.info/european-parliament-election-turnout.htm>

Wagemann, C. (2012). The Other 'No Globals': Right-wing Discourses on Globalization. oxford: oxford publisher.

Whiteside, P. (n.d.). What would life in a 'no-deal' Brexit UK look like? Retrieved from Sky News: <https://news.sky.com/feature/what-would-life-in-a-no-deal-brexit-uk-look-like-11584899#what-no-deal-supporters-say>

TRT WORLD
research
centre