



المركز العربي للأبحاث ودراسة السياسات
Arab Center for Research & Policy Studies

ASSESSMENT REPORT

Britain's Exit from the European Union: Implications and Possible Future Relations

Policy Analysis Unit - ACRPS | July 2016

Britain's Exit from the European Union: Implications and Possible Future Relations

Series: Assessment Report

Policy Analysis Unit – ACRPS | July 2016

Copyright © 2016 Arab Center for Research and Policy Studies. All Rights Reserved.

The Arab Center for Research and Policy Studies is an independent research institute and think tank for the study of history and social sciences, with particular emphasis on the applied social sciences.

The Center's paramount concern is the advancement of Arab societies and states, their cooperation with one another and issues concerning the Arab nation in general. To that end, it seeks to examine and diagnose the situation in the Arab world - states and communities- to analyze social, economic and cultural policies and to provide political analysis, from an Arab perspective.

The Center publishes in both Arabic and English in order to make its work accessible to both Arab and non-Arab researchers.

Arab Center for Research and Policy Studies

PO Box 10277

Street No. 826, Zone 66

Doha, Qatar

Tel.: +974 44199777 | Fax: +974 44831651

www.dohainstitute.org

Table of Contents

Introduction	1
British– EU Relations: A History of Suspicion and Mistrust	1
Brexit Implication for the UK	2
London and Brussels: Possible Scenarios for Future Relations	4
Conclusion	4

Introduction

On June 23, 2016 the British people voted in a referendum on membership of the European Union (EU) called by their prime minister David Cameron. On a turnout of 46,501,241, 51.9 percent (17,410,742) voted to leave the EU and 48.1 percent (16,141,241) voted to remain. Analysis of voter behavior revealed a generational split between young people (aged 18-24), 73 percent of whom voted to remain, and the older demographic (aged 55-64), 57 percent of whom voted to leave.¹

The referendum result has caused panic across European and global financial and political circles, representing a challenge to the process of European integration in light of the expected major political, economic, and financial repercussions for Britain and for the EU, which has lost a key member state. There are question marks over the nature of the future relationship between Europe's second-largest and the world's fifth-largest economy and the EU, and the effect the UK's exit will have on the future and survival of the European Union, given the clamor in other EU states for referendums like the British one.

British– EU Relations: A History of Suspicion and Mistrust

The British-EU relationship prior to the UK referendum could be characterized as one of “mutual dissatisfaction”, based on a long history of mistrust and a lack of vision and direction shared between the UK and Europe, especially the two major EU states, Germany and France. Historically, the UK was never enthusiastic about the process of European integration and harmonization; it was not one of the six nations (West Germany, France, Italy, the Netherlands, Belgium, and Luxembourg) that signed the Treaty of Rome founding the European Economic Community in 1957, but remained outside, only joining in 1973 after France had twice vetoed its membership application. The British position has, on a number of occasions, proved an obstacle to further European integration, and the UK, especially Conservatives within it, has long viewed itself as more of an Atlantic than European nation, adopting economic and foreign policies closer to the United States. This, however, has not stopped UK ambitions to achieve major political and economic interests by both joining the European club and

¹ “EU referendum: The result in maps and charts,” *BBC*, June 24, 2016, <http://bbc.in/28TRi57>

continuing to play its historical role of preventing joint Franco-German dominance over European decision making.

Ever since the signing of the Maastricht Treaty that founded the EU in 1992, Britain has faced persistent discussions over the future relationship with the EU. Despite the pressure on successive British prime ministers over the past twenty years to hold a referendum on EU membership, none of them succumbed until the Conservatives returned to power, in 2010, after an absence of 13 years. The government of the then new prime minister, David Cameron, raised the issue of the stalled referendum in 2010, when he promised that any EU treaty that gave more powers to Brussels at the expense of the member-states would have to be ratified by a popular referendum. At the beginning of 2013, Cameron went further announcing his government's intention to hold an in-out referendum on Europe.²

Brexit Implication for the UK

With his decision to hold a referendum on membership of the EU, Cameron seemed confident in the government's ability to persuade the British people to vote remain. In recent years, however, a whole set of factors conspired to cause a different outcome. Migration, asylum seekers, an influx of workers from EU states particularly from Eastern Europe, and the rise of the political right all played a major role in motivating a large part of the British people to vote in favor of isolation and turning inwards.

The referendum result was no doubt a shock to many, with the economic repercussions of Brexit becoming apparent as soon as the results were declared. In just one day, the pound lost more than 10 percent of its value, while the European equity and securities markets, the London Stock Exchange in particular, were in turmoil.

Predictions have varied from large-scale capital flight and a halt to investment in the flourishing property and service sectors in London to the possible transfer of the EU financial capital from London to Paris or Frankfurt, where the European Central Bank is based. The global ratings agencies were also quick to downgrade UK sovereign debt.³ The predicted negative impact on the UK economy as a result of the decision to leave

² David Cameron, "EU speech at Bloomberg," *Bloomberg*, January 23, 2013, <http://bit.ly/LBzZU4>

³ "The British Exit from the EU: economic pluses or minuses?" *France 24*, June 24, 2016 <http://f24.my/293ZgTU>.

the EU is likely to be significant given that the EU is the UK's number-one trading partner. In 2015, the UK's exports to the EU stood at 44 percent of its total exports, with the balance of trade between the two parties favoring the EU, which currently does not appear to have an interest in making concessions post-Brexit.⁴

Major implications for the freedom of movement of British citizens within the EU are also anticipated. Around 1.26 million Britons live in EU states, including Spain (381,000), Ireland (253,000), France (172,000), Germany (96,900), and Italy (72,200).⁵ EU membership allowed British citizens to live and work freely in other EU states without visas. With Britain leaving the EU, British people might now need visas to visit, as well as having to bear additional travelling costs. There is also uncertainty over the fate of a large number of British officials who work in European institutions, particularly in Brussels.

Brexit may also complicate relations with the UK's neighbors; Spain may close its border with Gibraltar, a six square kilometer area adjacent to the region of Andalucía, and home to 33,000 British citizens. There is also a possibility of the return of a border between Northern Ireland and the Irish Republic, leading to restrictions on people's movement. Doubts have begun to grow over the future of the United Kingdom as a unified state following calls for a second referendum on Scottish independence, with advocates for independence aspiring to keep Scotland a member of the EU. This was the view expressed by Scottish first minister, Nicola Sturgeon, who considers that a new referendum on Scottish independence has become highly likely because, in her words, she does not want the Scots to be outside the EU against their wishes, when a majority in Scotland voted to remain.⁶

These repercussions will drive the UK to seek alternatives to enable it to wield influence on the global stage, particularly within NATO and the G7, the latter in particular following Russia's exit from the G8.

⁴ "In figures: an infographic view of the British economy," *Al Borsa News*, June 25, 2016, <http://bit.ly/297pkyu>

⁵ Shane Croucher, "EU referendum: How many UK citizens live in the European Union and where?" *International Business Times*, October 28, 2015, <http://bit.ly/29exbxW>

⁶ "A majority of the Scots support secession from Britain when it withdraws from the EU," *France 24*, June 26, 2016, <http://f24.my/29cutaT>

London and Brussels: Possible Scenarios for Future Relations

Three possible scenarios face Britain following its decision to leave the EU; outcomes which will be decided by the negotiations on the process of exit expected to begin in the coming weeks. The first scenario is the “Norway option” whereby the UK leaves the European club while remaining in the European Economic Area, thus gaining the right to be part of the European single market, while being free from EU rules concerning agricultural policy, justice, internal affairs, and other matters.⁷

The second scenario is the “Swiss option.” Switzerland is not an EU member-state, but negotiates trade agreements with it on a piece by piece basis, meaning it enjoys direct access to the single European market through various bilateral agreements. Such a scenario however would mean the UK’s having to renegotiate numerous bilateral agreements with the EU, as has Switzerland, which negotiated for nine years to conclude 120 agreements guaranteeing it access to and full participation in the European single market in exchange for applying EU rules domestically.

The third scenario is the least likely and follows the Turkish model, whereby the UK strikes free-trade agreements with the EU, but its citizens are not given freedom of movement within the EU.

Conclusion

The UK’s decision to leave the EU puts the model for international integration into question, since until recently the EU was the most successful example. European decision makers and institutions now face a new reality that demands a re-examination of the reasons for declining enthusiasm for the notion of European integration and a return to the refuge of the nation state. Europe’s ability to go beyond the nation state and shift towards a supra-national European identity as an avenue to overcome many of the challenges and conflicts it has faced over centuries might have been overstated. The UK, meanwhile, will face the problem of redefining its identity. A return to the British identity in existence before EU membership is not possible, particularly given the questions posed by Scotland and Northern Ireland. If the UK fails to reformulate its identity, it may find itself facing real challenges to its existence as a United Kingdom. In

⁷ John Springford and Simon Tilford, “The Great British trade off: The impact of UK’s leaving the EU on UK’s trade and investment,” January 2014, <http://bit.ly/1mtOA2B>

addition, the divide between Labour and the Conservatives may not remain the only political divide, given that the referendum revealed divisions along new lines, generational polarization being not insignificant among them.