BREXIT: It’s Impact in Political Policies and Economy of EU

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Abstract

The exit of the United Kingdom from the European Union is expected to bring major changes for both sides, as we are talking about a 50-year cooperation between them. Considering the importance of the UK in the EU, Brexit will surely bring a breakdown of the European Union. This brief research examines how EU exit is regulated; Article 50 of the Lisbon Treaty; the impact of Brexit on the EU political system, which political groups will be strengthened and which will be weakened and what will bring these changes, what policies will be pushed forward with the strengthening of left-wing political groups and how will these policies affect the lives of EU citizens; are we going to have a weaker Germany or a dominant Germany in the EU, what will be France's role as the second largest power in the EU after the United Kingdom exits and how much will it cooperate with Germany to overcome the current challenges the EU is facing; the impact of the Brexit on the EU economy, will UK continue to fund the initiatives it has already started; and will finally address the issue of UK's contribution to the EU budget, how will the Brexit affect the member states as they will pay the UK’s Contributions after it leaves the EU.
I. Introduction

The Referendum of June 26, 2016, held in the United Kingdom, with the question: should UK exit or remain in the EU set a new precedent in the European Union. The UK’s citizens voted to leave EU. Such an attempt had not been made before by any other state of EU, although exit from the EU is foreseen in the 2009 Lisbon Treaty. Considering the importance of the United Kingdom as an important factor in the EU and, of course, the withdrawal of this country from the EU will have its effects, especially when Europe is facing a number of challenges, such as the refugee crisis, facing with terrorism, economic issues, climate change and many other challenges that are characterizing this period of time.

On January 31, 2020, another important step took place regarding the exit of the United Kingdom from the European Union. After a series of successive attempts to reach an internal UK deal on leaving the EU, the British government led by Boris Johnson succeeded in persuading Representatives in the British Parliament to vote in favor of leaving the EU. In this case, the procedure of leaving the EU went to another stage. From this moment, the UK is in a phase of transition, in which it has to sign a series of agreements on regulating relations between it and the EU. The transition period will last until 31 December 2020 and during this period the UK-EU agreement should be fully concluded, which will regulate the positioning of the UK in relation to the European Union. During this period the UK will continue to follow European Union rules and trade rules also but will have no decision-making role in EU institutions.

Knowing the importance of the European Union as a very complex and influential organization in world politics, this research will attempt to address the present position of this organization in front of Brexit. In this research I will focus more on how Brexit will affect the EU, specifically its policy and its economy, whether Brexit will affect the destabilization of the EU and how will approach the EU.

II. The Values of EU

European Union was addressed as a post-war project for Western Europe, significantly divided and destroyed by the violent and aggressive conflict. It was seen as a providential solution to
temper the nationalistic and protective behavior and to change the mind of people toward a common substantial project.¹

It began its journey in 1951 as an industrial cooperation under the Paris Agreement between West Germany, France, Italy, Luxembourg, Belgium and the Netherlands, which established the European Coal and Steel Community. Besides economic importance, this agreement also aimed at those states that had just emerged from a devastating war, such as World War II, to control each other over investment in the military, based on the use of steel for weapons production.

During this period of 70 years of existence of this organization, the European Union has managed to have a total of 28 countries on its membership. These countries have managed to develop an organization where besides economic cooperation, to create common policies in culture, education, and science, to insure protection of human rights for all European citizens, ensuring the flow of a free market economy, have succeeded in creating a common market with equal policies for all member countries, freedom of movement for goods, services and people, to create common foreign policies and common institutions where the decision-makers are voted directly from the citizens of the member states. Considering all of these, the European Union has become an important factor in world politics, contributing to the rise of liberal values around the world.

But how will the UK decision to exit this organization affect it?

Given the great importance of Great Britain in this organization, as a state with an economy that ranks in the largest world economies, with an influential foreign policy and a state that was one of the biggest contributors to the EU budget, will Brexit affect the breakdown of EU stability, weaken its foreign policy influence, deal with terrorism, refugees, or should EU make a reorganization.

III. Legal Regulation of Exit

The legal procedure for a member state to exit the European Union organization was for the first time regulated by the Lisbon Treaty in Article 50, in 2009.

For better understanding, I am citing Article 50 of the Lisbon Treaty:

Article 50 – Treaty on European Union (TEU)

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. 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.

4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it. A qualified majority shall be defined in accordance with Article 238(3) (b) of the Treaty on the Functioning of the European Union.

5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.²

² The Treaty of Lisbon, TEU, 13 December 2007, Article 50
Article 50 TEU does not set down any substantive conditions for a Member State to be able to exercise its right to withdraw, rather it includes only procedural requirements. It provides for the negotiation of a withdrawal agreement between the EU and the withdrawing state, defining in particular the latter's future relationship with the Union. If no agreement is concluded within two years, that state's membership ends automatically, unless the European Council and the Member State concerned decide jointly to extend this period.³

The legal consequence of a withdrawal from the EU is the end of the application of the EU Treaties (and the Protocols thereto) in the state concerned from that point on. EU law ceases to apply in the withdrawing state, although any national acts adopted in implementation or transposition of EU law would remain valid until the national authorities decide to amend or repeal them. A withdrawal agreement would need to address the phasing-out of EU financial programs and other EU norms.⁴

Experts agree that in order to replace EU law, specifically in any field of exclusive EU competence, the withdrawing state would need to enact substantial new legislation and that, in any case, complete isolation of the withdrawing state from the effects of the EU acquit would be impossible if there is to be a future relationship between former Member State and the EU. Furthermore, a withdrawal agreement could contain provisions on the transitional application of EU rules, in particular with regard to rights deriving from EU citizenship and to other rights deriving from EU law, which would otherwise extinguish with the withdrawal.⁵

It should be noted that this article has never been put into practice before because the EU has not faced any request from member states to leave this organization. Therefore, the BREXIT case will provide an opportunity to see how the EU and its actors will proceed with this article and what agreement will be reached between the EU and the UK, what will be the challenges they will face both sides and how this process will affect the EU.

IV. Brexit

The Brexit began with a referendum on June 23, 2016, where citizens were asked to decide whether the UK should leave or remain in the European Union. In this referendum, 71.8% of the British

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³ European Parliament, Briefing, 2016, Article 50 TEU: Withdrawal of a Member State from the EU
⁴ Ibid
⁵ Ibid
citizens voted, with 52% voting in favor of leaving the European Union while 48% voting against leaving the European Union.⁶

The main arguments in the favor of Brexit, that dominated the voting campaign, could be summarized as follows:

1. **Higher independence to pursue its own interest in the relationship with other countries:** British voters for Brexit consider that the separation from European Union, will enforce United Kingdom to renegotiate its international position. This independence could mean better adapted legislation and public policies to the interests of British tax payers.

2. **Higher control on migration:** migrating people to United Kingdom are coming mainly from European Union. Before migrating in United Kingdom, a lot of non-EU citizens are migrating in EU countries that are members of Schengen Space. Separation from European Union would initiate some barriers against free movement of people from this space. United Kingdom will be able to apply its own policy for migration.

3. **Separation from bureaucratic Brussels:** European Union became a very interventionist with many supra-national institutions that are the opposite of economy, business development, markets and job creation process.

4. **Bigger trade for United Kingdom:** The balance of trade with EU is negative and increasing. The balance of trade with non-EU countries is positive and increasing. Leaving the European Union, in case of United Kingdom, is a good chance to re-evaluate these extra-EU trade opportunities such as BRICS countries. The relationship with Commonwealth would be reinforced and redefined.⁷


On the other hand the main arguments against the exit of United Kingdom from European Union, that dominated the voting campaign, could be summarized as follows:

1. **A reduction of economic growth**: major experts predicted a significant economic meltdown due to this decision. PwC estimated an economic growth gap between “remain” and “leave” decision of 4-5% in the next 4 years. The same, International Monetary Fund predicted a strong fall of British economy after Brexit decision.

2. **The Brexit will limit the access of United Kingdom to a very important market**: the Single Market of European Union is important for United Kingdom from both sides: as an important export market for British products and services and an important import market, especially for technology, capital goods and raw materials.

3. **A significant depreciation of British pound**: the IMF predicted a strong depreciation of pound on long term due to the reduction of exports to EU countries and the limited capacity to redirect these exports to other non-EU markets.

4. **The investments in the British economy will significantly decrease in the next period of time**: the foreign companies currently located in United Kingdom will relocate their activities in case of Brexit in order to remain in the European Union and to benefit from single Market Facilities.

5. **The unemployment rate will increase due to the estimated economic decline after the BREXIT**: according with IMF calculations, the BREXIT decision will generate an unemployment rate between 5% and 5.3% during 2016 – 2021 in a basic scenario and a rate between 5.2% and 6.5% the same period, in an adverse scenario.\(^8\)

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\(^8\) Cristian PĂUN & Ștefan UNGUREANU, 2017. "To BREXIT or not to BREXIT? This is the (only) question?," Review of Social and Economic Issues, Romanian-American University, vol. 1(4), pages 22-43, march. [https://ideas.repec.org/a/rau/rseijr/v1y2017i4p22-43.html](https://ideas.repec.org/a/rau/rseijr/v1y2017i4p22-43.html)
As well as the significant impact that Brexit will cause within the United Kingdom affecting almost all areas of citizens' lives such as economic impacts, migration problems, state protection, social issues, and many other challenges that await them as they have reached an agreement to exit from the European Union, Brexit will affect the stability of the EU as well.

So, after the UK voted to leave the EU, the Union will face a new kind of challenge: the departure of one of its largest and most important member states.

- The UK is the fifth largest economy in the world and the second largest in the EU,
- The UK is the EU’s third most populous member state, comprising 12.76% of the EU’s overall population. This makes the UK an influential player in the Council of the European Union and in the European Parliament (EP).
- The UK has global clout and spends more on defense than any other EU country.⁹

Recognizing the importance that the United Kingdom has in developing important policies within European Union, contributing to an economy with liberal principles dominated by free trade, free competition and the common market, then promoting EU enlargement and also by having intended to enhance the EU's role in world politics, the UK's exit from the EU will undoubtedly be a challenge for the EU and beyond.

V. The Impact of Brexit in EU’s Political System

The effects of Brexit will be firstly present in the political institutions of the EU. Knowing that the UK constitutes one of the states with the largest population in the EU, the third in a row, there is no doubt that it has a large number of representatives in almost all decision-making institutions of the European Union.

Besides the people representing the interests of the citizens of the United Kingdom in the European Union organization, there is also a large group of officials working in the European Union administration and with the departure of the United Kingdom, the same will not have the right to continue working because they are denied of this right. We are talking about thousands of

employees in EU institutions and agencies, for example there are 1,126 British nationals in the European Commission alone.

From the last elections held on May 23-26, 2019, the European Parliament had in total 751 deputies. These elections have brought a change in the political scene of the European Parliament, weakening center-left and center-right party groups, while pro-EU centrist, liberal, environmental, Eurosceptic and right-wing populist parties have marked substantive gain.

The United Kingdom was represented by a total of 73 MPs in the European Parliament, until 31 of January 2020 when UK voted to leave EU, the majority of them represented by centrist MPs. There has been a reflective change in recent elections over Britain's most-voted parties for the European Parliament. Whereas in the 2014 elections, the United Kingdom was largely represented by conservatives and the Progressive Alliance group, in the May 2019 elections these two groups have seen a drastic decline and we have seen a centrist group representatives increase, the centrist were represented mostly by the brexit party. A rise has been marked by the green party as well. The fact that there was an increase in support for the Brexit party was a persuasion of British citizens to reach a Brexit deal (see Table 1).

Table 1: Breakdown by National parties and political groups: 2019 – 2024, United Kingdom
Considering the importance of the group of British MPs in the European Parliament in their liberal-minded initiatives, policies for free trade expansion and development, a Brexit deal will undoubtedly affect EU stability, making the European Union a more closed organization and a weaker factor in international politics.

The institution most likely to be affected after Brexit is commonly the European Parliament because the citizens of the United Kingdom are represented by 73 deputies, and after the exit of

Source: European Parliament Official Web-Page\textsuperscript{10}

the UK from the European Union this number must be adapted, respectively to be shared among other states.

A lack of representatives of the group of British MPs in the European parliament will cause a strengthening of the left side and thus for the first time in EU history the left wing group will have the opportunity to constitute a majority as one, for unlike that the left wing group until now was only able to reach the majority by collaborating with the European People's Party group. This way, as a result of the strengthening of the left wing group of deputies, we will have a different Europe in terms of social policies than it used to be before Brexit.

A recent VoteWatch Europe report, analyzing countries MEP’s voting behavior in the Council and Parliament suggests that Brexit could have the following policy implications:

1. An increased copyright regulatory burden on EU businesses,
2. Weaker copyright protection in the EU,
3. A smaller EU budget as a whole, with increased member-state contributions,
4. A stronger push for tax harmonization and higher taxation of financial transactions,
5. Less support for nuclear and unconventional energy sources (e.g. shale gas)\(^\text{11}\)

The change in representation in the European Union institutions will also affect the disruption of power balances. With the exit of the United Kingdom from the EU we will have a stronger and more influential Germany in EU and we will have a weakening of the small states that fear the dominance of Germany.

After a Brexit deal between UK and EU, the EU will lose one of its largest and most important members. This will have a significant impact on the EU’s political system in the short and long-term. Germany and France will probably push for deeper Eurozone integration, as a display of unity. On the other hand as Germany and France will be two main powers of EU, it will be shown the balance of power principle, and this way each of these two countries will try to push forward their agendas on the way of winning the role of the leader of EU. Current EU initiatives with strong British support, will be at risk. In the long-term, Germany can become more powerful – but so too

\(^{11}\) Oliver Patel & Christine Reh, 2016, “The Consequences for the EU’s Political System”, UCL Constitution Unit Briefing Paper, UCL European Institute, https://www.ucl.ac.uk/european-institute/news/2016/may/brexit-consequences-eus-political-system
the protectionist bloc. BREXIT can lead to a more left-leaning European Parliament and associated interventionist policies. It will also challenge the EU’s efforts to be a serious global actor. The big question – whether Brexit would pose an existential risk to the EU, depends on the answers the Union finds its current crises – stabilizing the euro, finding a common line in refugee policy, stemming the surge in Euroscepticism – and on its economic recovery\textsuperscript{12}.

**VI. The Impact of Brexit in the Economy of EU**

With the debate about Britain’s withdrawal dominated mainly by British arguments about the utility of the EU to the UK, it is easy for both the UK and the EU to overlook what the UK means for the EU: what it directly contributes, what it has helped build, what part it has played in the history and idea of European integration.\textsuperscript{13}

After reaching a Brexit deal will surely have a major impact on the EU’s economy, considering the fact that the United Kingdom is one of the largest economies in the world, the fifth largest and also the second largest economy in the European Union. This implies that the EU will lose about 12.5\% of its population, which represents about 14.8\% of the overall economy of the European Union.\textsuperscript{14} It represents 19.4\% of EU exports (excluding intra EU trade).\textsuperscript{15} Within the EU it runs an overall deficit in goods and service with other member states, in 2011 estimated at 28 billion pounds.\textsuperscript{16} The city of London, the world’s pre-eminent financial services centre is a significant asset to both Britain and the EU. The UK has been a favorite destination for inward investment in

\textsuperscript{12} Oliver Patel & Christine Reh, 2016, “The Consequences for the EU’s Political System”, UCL Constitution Unit Briefing Paper, UCL European Institute, \url{https://www.ucl.ac.uk/european-institute/news/2016/may/brexit-consequences-eus-political-system}


\textsuperscript{14} Eurostat (\url{https://ec.europa.eu/eurostat/en/web/products-statistical-books/-/CH_02_2011})

\textsuperscript{15} Right Speech, Right Time? (London: Open Europe, January 22, 2012), 10, \url{http://www.openeurope.org.uk/Content/Documents/Pdf,EuropeSpeech.pdf}

\textsuperscript{16} See answer from Baroness Warsi, Hansard, HL Deb, November 14, 2012, c1507, \url{http://www.publications.parliament.uk/pa/ld201213/ldhansrd/text/121114-0001.htm#1211143800002}. 
the EU.\textsuperscript{17} It has also been one of the most attractive destinations for other EU citizens, being home to around 2 million EU citizens.\textsuperscript{18,19}

Besides its contribution as one of the world's largest economies, the UK has also played an important role in its economic development policies, most notably its contribution to the creation of a common European market, which often is called as its invention. With the single market the EU has managed to become one of the most powerful economic organizations in the world and one of the regions with the best conditions for doing business as well, promoting economic cooperation, regional economic planning and eliminating economic barriers.

\textbf{VII. The impact of Brexit on the Budget of EU}

As one of the most important factors of the European Union, the UK is also one of the biggest contributors to this organization's budget. Together with Germany and France, the United Kingdom is one of the biggest contributors to the EU budget and considering this, after a Brexit deal between UK and EU, it is necessary to adapt the budgetary contribution as we are talking about a percentage of about 12\% of the EU total budget.

After a Brexit deal, on budgetary issues, it will have an impact on all member states separately, as the UK contribution will be distributed in each member state. The decrease in British contributions leads to an increase of the other States ones. The financing of the European budget is interconnected. Since revenues adjust to overall spending, any reduction in revenue is financed by the others. A reduction on the part of one State is compensated by an increased contribution by other states. So increasing contributions to EU funding for some poor member states will be a new burden for their economy, and Europe may face new crises in the economic sector. The Greek precedents is a perfect illustration of this phenomenon.\textsuperscript{20} The difference between the timing

\textsuperscript{17} “UK Tops European Inwards and Outwards FDI tables,” FDI Intelligence, 2013, \url{http://www.fdiintelligence.com/index.php/Info/What-s-New/Press-releases/UK-top-s-European-inward-and-outward-FDI-tables}


\textsuperscript{20} With the collapse of its economy, Greek’s share in the financing of the budget dropped from 2.8\% to 1.3\% between 2000 and 2015. Over the same period Germany’s share raised from 19\% to 21.7\%. 

12
recovery of activity in the zero zone and the slowing of British growth, partly due to the Brexit will reflect in an increase of the contributions by the 27 states.\textsuperscript{21}

The biggest responsibility of contributions after the UK left the EU will belong to Germany as the biggest contributor to the EU budget, followed by France. These two countries will actually have two adverse effects, each of them will raise their budget contribution to replace the UK’s sums, and will also increase their impact in EU as the two greatest powers on the other side.

Ultimately, the impact on the EU budget may be less sizable, as the UK will have to negotiate, in the framework of its future relationship with the EU, some contribution to the EU budget and access to the single market. The UK may want to contribute to some selected EU policies, such as Horizon 2020 for instance, for which the UK is \textit{de facto} a leading net beneficiary. To model this, in a second scenario, we imagine the UK receiving a similar status as Norway does in the EEA, at least for what pertains to its contributions to the EU.\textsuperscript{22}

\textbf{8. Conclusions}

With a Brexit deal reached, the European Union will lose one of its most important members. Considering the UK as a developing country in all its areas, such as in economy, science, democracy, politics, defense. Its final deal with the EU certainly will have a major impact on EU’s stability. We will have an EU, with less impact on world politics, a more closed one considering that the UK was one of the main leader of EU enlargement, a more uncertain EU knowing the UK is currently one of the countries with the largest defense investment in the EU, an EU with a rise in left-wing representation and thus a decrease in social policies, and also a rise in the protectionist bloc within institutions of the European Union. Then we will have an EU with a weaker economy, knowing that the UK is the 5th largest economy in the world and the third largest economy in


Europe. The UK's exit from the EU will also result in Member States' obligations to the EU to offset the UK's obligations related to the budgetary contributions.

We will have a dominant Germany in the EU as the main power after the exit of the UK. Which is currently pushing ahead with EU enlargement policies. On the other hand we have France as the second power in the EU, which under Macron's leadership is opposed to EU enlargement. In this way we will have a breakdown of the EU states in two main enlargement blocs lining the French bloc against enlargement or that of pro-enlargement Germany, part of which was the UK as well.
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