

CHAPTER III

THE BEGINNING OF PROBLEMS BETWEEN UNITED KINGDOM AND EUROPEAN UNION

After the history of relations between European Union and United Kingdom, also the history of European Union United Kingdom, this chapter will mention and explain about the beginning of problems between United Kingdom and European Union that caused United Kingdom to leave European Union.

United Kingdom suffered a trade deficit with the member countries of the European Union which is an average of 30 million pounds per day. It's not all the reason why Britain chose to leave European Union. United Kingdom had joined European Union for 40 years. It's not that easy to leave the organization in this current era without a big deal from UK citizen and EU's members.

The majority of the areas of the United Kingdom expressed the wish to leave the EU, but three regions want to remain joined: Scotland, Northern Ireland and London. Scottish national party leader Nicola Sturgeon even stated "very likely" the second independence referendum (for a split with the United Kingdom) was issued. In addition, Deputy Minister of Northern Ireland Martin McGuinness Large also pushed to do a similar referendum there.

Journalist James O'Malley stated that supporters of the campaign remain (joining the EU) and reached more than 30,000 signatures. The petition was entitled,

“Declare independence from the United Kingdom in London and become a member of the European Union.” O’Malley said:

“London is an international city, and we want to remain at the heart of Europe. Let’s accept the fact-the whole country did not agree. So instead of voting the passive aggressive towards each other at each election, let’s make divorce official and United with our friends on the Mainland.”

O’Malley told the BBC that he had created a trending petition in protest that no serious “while over sad the results of the referendum”.

“If Scotland gets a chance to part ways with the rest of the country, could London, Manchester, Liverpool and anyone aged under 25 years go well?” asked one commentator. “Should we leave London United Kingdom?” asked another. (BBC,2016)

As a Prime Minister of United Kingdom, David Cameron expresses his disappointment “I think it is not appropriate for me to try to be the captain of the leader of our country to the next destination,” said Cameron outside his official residence in Downing Street, London, Friday June 9th. The people of United Kingdom has made a clear decision to other roads and therefore, “I think the country needs new leadership for leading in this direction.”

Cameron, who led the campaign in order that the United Kingdom will remain across the EU, said the choice of United Kingdom should be rewarded. He said, the voters make the decision clear and need new leaders. (BBC,2016)

According to Lee (2015) the EU smoothens the path to corporate interests and hinder the radical reforms. There is the term, “EU is anti democracy and a ‘can not be touched’ reform”. While the United Kingdom journalist Paul Mason mentions, the EU “ provides the most friendly ecosystem in the developed countries for corporate monopoly, elite who avoid taxes, and organized crime”.

The EU currency, the Euro, is claimed to be a disaster. The Euro is considered as the main cause of unemployment in Spain and Greece with rates above 20 per cent post-war global recession in 2008. United Kingdom itself maintains the currency of pounds sterling for being members of the EU. EU opens the opportunity for massive immigrants. In EU rules, a member of the EU citizen has the right to travel, live, and take a job in other EU country. For instance, it was mentioned that in 2015 United Kingdom received 333,000 new people. United Kingdom is believed to be able to create a more rational system related to this immigration when they came out of the European Union. (Firdaus, 2016)

Prime Minister of the United Kingdom David Cameron met European Union leaders for the first time since the United Kingdom decided to get out of EU block. He was scheduled to attend a dinner with them after meeting with the President of the

Council of Europe, Donald Tusk, and President of the European Commission, Jean-Claude Juncker.

David Cameron planned to call on the leaders of the 27 member states and related institutions in the European Union to take the approach of ‘constructive’ in the negotiations on a new relationship with the United Kingdom. However, the leaders of Germany, France and Italy have said that there will be no negotiations ‘unofficial’ about the future of the United Kingdom’s relations with the European Union to the Government of the United Kingdom which started the formal mechanism to get out of it.

Juncker has already called on to United Kingdom to clarify his position related to the exit from the EU as soon as possible. The results of the referendum on Thursday 23 June stated that UK’s decision to quit European Union gives a big impact. (Yulia, 2016)

Since the referendum, there was intense speculation about when and how the United Kingdom launched formal negotiations to get out of the EU. A spokesman for the Council of Europe, which determined the direction and the political priorities of the European Union, asserted on Saturday that implementing article 50 was a formal step that had to be “carried out by the government of the United Kingdom towards the Council of Europe”.

It should be done in a way that is explicitly with a view to implement Article 50.0. To pass the letter to the President of the European Council, official statement at the meeting of the European Council was officially recorded in the minutes of the meeting. (BBC,2016)

Foreign hacking could have occurred during last year's Brexit referendum but didn't make any difference to the outcome, according to a report published by a UK parliamentary committee. Prior to the UK's referendum on leaving the European Union last June, the website for voter registration crashed. The UK government extended the June 7 deadline for voters to register to vote by a day as a result.

In a report on the lessons to be learned from the EU referendum, the Public Administration and Constitutional Affairs Committee said it "does not rule out the possibility that the crash may have been caused by a DDOS (distributed denial of service attack) using botnets."

Its authors add that they "do not believe that any such interference had any material effect on the outcome of the EU referendum" but say they are "deeply concerned about these allegations about foreign interference."

The Cabinet Office on Wednesday firmly denied that any foreign hacking caused the website to crash. (Smith-Spark, 2017)

One alternative possibility, however is that mortgage payments could come down. If a Brexit does rock the UK economy as widely predicted, the central bank may be

forced to cut interest rates further. This could ease payments for those on some types of mortgages, and for new home buyers. However, with historically low interest rates already, the bank has little room to make significant cuts so its impact may be limited.

Winkworth CEO Dominic Agace does not think a Brexit would necessarily be catastrophic for the real estate market. Britain and London in particular “always had a draw for foreign investment, not only from Europe but much further afield,” he said before the referendum. (Wolfers, 2016)

Nine months after the voting that produced a decision to secede, May finally invited the EU Council President Donald Tusk. The letter contains a statement that the United Kingdom meant it would be out of the Group of countries which he entered in 1973. The Prime Minister May, opponent of the Brexit who won the post tops in middle politics that accompanied the referendum, has two years to draft the rules before the United Kingdom out of the country at the end of March 2019.

According to May, when herself sit at the negotiating table then she will represent the citizens of the United Kingdom, ranging from those who are poor, rich, urban as well as rural community residents. Towards the separation of the United Kingdom or Brexit, May has the most difficult job than her predecessors. She must face a new spirit to separate herself from the people of Scotland.

She also had to do a lot of talks with the EU's partner with 27 countries and other related partners. They also talk about the issue of trade, security and a number of other complicated issues. The result of the talks will determine the future of the United Kingdom as one of the world's financial center, with assets of US \$2.6 trillion.

The EU, which is hit by debt crisis and the return of refugees, lost the decisive blow since the United Kingdom's 60 years effort to build and unify Europe after World War II. (Lei, 2017)

A. The Global Implications of Brexit

Bad economic influence is not only in the link between the United Kingdom and the European Union's 27 member states, but also between the United Kingdom with countries outside Europe.

There is an impact of Brexit toward United States about one out of ten visitors of United Kingdom who come from the Americas. Brexit imposes a better exchange rate for the U.S. Dollar. Now £ 1 worth u.s. \$1.48, down about 8 percent from last year, the lowest since 1985. Michael Stitt, President of North America for Travelzoo, suggests American travelers who go to the United Kingdom examine the exact exchange rate before traveling. He also asked for travellers considering taking pounds (GBP), which is low and the dollar is being strengthened. (Belkin, 2009)

Although the exchange rate of GBP made a trip to the United Kingdom cheaper, Brexit makes the ticket price of transitions of United Kingdom more

expensive in the long run. According to the head of transport for Economic Consultancy Oxera, Andrew Meaney, Brexit causes the United Kingdom lost the rights of free flying in the area of the European Union. Moreover, American Airlines will consider replacing London with Dublin as a gateway to Europe.

Brexit gives a signal of uncertainty about the status of London as the largest foreign exchange in the world. American banks have to move thousands of jobs to the major cities of Europe, including Dublin, Frankfurt or Paris.

The CEO of JPMorgan Chase, Jamie Dimon, said the companies that survive in the United Kingdom will face significant hurdles and need to make changes to the structure of the European body of law and the location of some roles.

United Kingdom economies are fragile. This makes the American property in the state very safe. “Every time there is a significant market in the recession like London, it became a good sign for America,” said Attorney and real estate consultant, Edward Mermelstein. Brexit leading to film and television industry is hard hit. The decision to come out of the European Union is a big blow for the film and television industry in United Kingdom. Michael said that film and television production is an expensive and risky business.

One of the hard hit is a Game of Thrones, who also played in Northern Ireland, Spain, Croatia, Iceland, and Malta. Return of money from the sale of the film

depends on the negotiations with the European Union and United Kingdom. (W, 2016)

Brexit also gives geopolitical impact. Brexit is a crisis of globalization and yet shows another indication of resurgent nationalism in global affairs. The UK's rejection of the EU marries traditional British euroscepticism with general Western disillusionment with globalization, simmering since the 2008-09 financial crisis. It is the furthest step yet in the pattern of right- and left-wing populist insurgency against 'elite' political and economic establishments, and probably a harbinger of further political shifts in Western countries against globalisation. The vote will strengthen nationalist political movements across Europe, and sharpen lines of international confrontation and competition. (Stone, 2016)

Anti-immigrant sentiment apparently played a major role in mobilising the Brexit vote. The UK government did not keep pledges to dramatically reduce immigration, much of it from recent EU accession countries from eastern Europe, and there was substantial overlap between Brexit voters and regions heavily impacted by immigration. In addition, the Brexit debate incorporated concerns about the EU's ability to handle illegal migration from the Middle East and North Africa. Ironically, even as the EU's deal with Turkey successfully slowed illegal migration in the second quarter of 2016, it fuelled concerns about Turkish accession to the EU. Brexit ensures that there will be a significant shift in UK immigration policy within the next

few years, which is likely to impair hiring by multinational companies (Unknown,2016).

In 2014, David Rothkopf complained that “Foreign policy is not a talk show. We have turned our senior policy officials into play-by-play commentators on international affairs and not people deliberating about the next move.” The Brexit referendum has been two years in the making. All of the trends that resulted in the outcome we saw were known and charted. Yet there was still a faith that rhetoric and the “right words” especially if delivered with the traditional eloquence of Barack Obama would substitute for a sustained strategy. We are seeing further negative results from how the pivot to Asia was handled, as well as the increasingly reactive nature of U.S. policy to respond to the crises of the day rather than a more proactive approach where the U.S. seeks to shape the environment. Washington’s neglect of geoeconomic tools, in particular, hampered its response to Ukraine and gave it few cards to play to try and keep the UK in the EU which was seen as a critical U.S. interest. Whether justified or not, Brexit will be viewed not only as a political failure for David Cameron who resigned this morning but also for Barack Obama. (Gvosdev, 2016)

Brexit will undermine several pending trade deals. The UK is one of the staunchest supporters of both free trade and multilateralism, alongside the US, even in the face of mounting popular opposition to both. Cameron’s government, in particular, was a major supporter of the stalled US-EU Transatlantic Trade and

Investment Partnership (TTIP). Brexit, however, will eject the UK from the TTIP negotiations, taking it – in US President Barack Obama’s – ‘to the back of queue’ in US trade negotiations. Cameron also supported the EU-Canada Comprehensive Economic and Trade Agreement (CETA), which was concluded in 2014 but still requires ratification. Brexit, presumably, will force the UK outside CETA as well. Finally, Brexit will undermine negotiations between the EU and the Gulf Cooperation Council (GCC) on a free trade agreement. As for trade with the EU itself, future UK limits on free movement of people would preclude membership in the EU Single Market.

Brexit is of particular strategic concern to the US. The Obama administration came out forcefully against Brexit, as did democratic presidential candidate Hillary Clinton. It is primarily concerned that Brexit damages Western solidarity and undermines the liberal democratic order promoted by the US since the end of the Second World War. The US is also concerned that Brexit will increase the drift in US-UK military and strategic relations since the end of the Iraq War (2003-09). However, populist sentiment is probably more sympathetic to Brexit, given similar concerns about globalization and immigration. Indeed, presumed Republican presidential candidate Donald Trump – currently visiting Scotland – congratulated the UK on the vote. That said, contrary to the social media consensus, Brexit does not substantially improve Trump’s prospects of becoming the next US president.

Snap Chinese reaction to Brexit is largely muted. The UK government has assiduously courted Chinese investment and sought to strengthen bilateral relations over the past year. Brexit is likely to further strengthen China's leverage in its relationship with the UK.

Geopolitical impacts in the Middle East and North Africa are also likely to be muted. The UK is likely to retain strong bilateral relations with Saudi Arabia and the Gulf states, but these nations will be concerned about the UK becoming a weaker and more distracted partner. However, the country stands to become even less relevant to North Africa and the Sahel region, where the EU and France are the main players. Brexit could provide a platform for more independent UK engagement with Iran, but that depends heavily on the shape of the next British government.

Brexit will have a short-term negative impact on sub-Saharan Africa, mainly through general global volatility and increased political risk aversion to emerging and developing markets. Countries with dense UK relations, such as South Africa, Nigeria and Kenya, could see a more significant impact. As a result of the looming change in the UK government, Brexit could have an impact on the UK's development assistance commitments in sub-Saharan Africa. Perhaps more importantly, the Brexit vote pushes sub-Saharan Africa down the UK and European policy agendas (BBC,2017).

Brexit benefits Russia's confrontation with Europe and the US. Russia's position is strengthened by anything that undermines EU political cohesion and NATO security cohesion. The EU on 21 June extended sanctions against Russia, while NATO on 14 June agreed to deploy additional forces to Poland and the Baltic states – including a contingent from the UK – in response to unprecedented Russian military exercises in the region. European disarray in the post-referendum period could provide Russia with an opportune moment to strengthen its positions in the Baltic Region and Mediterranean Sea.

Then about the global economic implications we can see that Brexit shock increases the likelihood of a global economic downturn. The global economy is fragile due to the sharp slowdown in emerging market growth and persistent weak growth in the US and Europe since the 2008-09 crisis. With high public debt high and interest rates at historic lows (and already negative in much of Europe), policymakers have few fiscal or monetary policy options remaining to stimulate growth. Brexit could push this situation into an overdue global slowdown, or even recession. However, the Group of 7 (G7), which includes the UK, stated that it is prepared to respond to market volatility in the wake of the vote.

The Brexit shock increases the likelihood of an emerging market crisis. Emerging market debt – especially private sector debt – was already at historic highs, raising the risk of a crisis. Brexit will force a reappraisal of political risk across Europe and in many emerging markets, and potentially cause financial and currency

volatility as positions are unwound. These factors could increase financing costs for emerging market sovereigns and companies.

Brexit is likely to take a US Federal Reserve interest rate rise off the table in 2016. The US Federal Reserve on 15 June already pared expectations of a further rate rise due to uncertainties about the durability of US growth and the threat of Brexit. The reality of Brexit will force the Fed to keep rates on hold until economic impacts begin to materialise – and especially if these impacts turn out to be as negative as most projections.

Brexit will put a ceiling on the recent rise in commodity prices. Even if underlying supply-demand fundamentals are improving for energy and mineral commodities, Brexit will hit demand forecasts and suppress future prices as the economic situation unfolds. A prolonged period of lower prices will increase the threat of a price shock down the line, due to continued underinvestment in higher-cost supply. (King, 2016)

The Tokyo financial markets panicked over the results of the referendum and the United Kingdom will surely decide to appeal to the European Union. The Yen surged past 100 per U.S. dollar level for the first time since November 1995 and Tokyo stocks ended with Nikkei 225 preference index lost nearly eight percent, lower than the last 16 years. According to Teikoku Databank, about 40 percent of 1,380 moving companies in United Kingdom are in the field of manufacturing. Car

manufacturers such as Toyota, Nissan and Honda more than three quarters of their vehicles are assembled in the factory of the United Kingdom to the EU market. Japan's business community viewed the United Kingdom as a gateway to enter the single European market (CNN,2016).

If the United Kingdom cleared EU, could have an impact on customs against the United Kingdom manufacturer's cars sold in the European Union. Industry peers also have to face new challenges, namely certain, economic instability and the impact which no doubt in terms of cost, ease of influence and business. Japan manufacturers will retype your keywords because they want 140 thousand workers could lose their jobs. Discharge of United Kingdom also will complicate negotiations between Japan with the European Union to conduct an economic partnership agreement. Financial leaders of the G-7 agreed to take steps to stabilize the financial market after the voting Brexit and the government and the Central Bank of Japan said that Tokyo was ready to intervene in financial markets to stop the Yen's rise rate. Its impact from Japan itself, wich will be faced with a market landscape in the long-term remains unclear. How the appearance of the United Kingdom from the European Union's single market can fight Japan investment companies in the United Kingdom depending on the results of the negotiations that will begin after the United Kingdom chose a new Prime Minister in September. The results of the referendum on the United Kingdom which decided to get out of the European Union are also not direct. United Kingdom should make a request to the European Union to come out. There is

a process of negotiation, tariff rates, migration, and non tariff rate. It may take 2 years and its implications in the long term (Unknown,2016).