

## **CHAPTER I**

### **INTRODUCTION**

#### **A. Background**

Britain or usually known as United Kingdom is located in the northwest of continental Europe which consists of England, Wales, Scotland, and Northern Ireland. As a big country, Britain also has big influence politically, culturally, economic ally and in military power.

Britain has big influence in political power since Britain is one of a permanent members, of several world organizations that has big influence in the world. Britain becomes a permanent member of the United Nations Security Council and other main international organizations such as World Trade Organizations, World Bank, Nato and so on (usnews.com, 2017).

Britain economic sector has big influence since Britain become first industrialized country in the world, also as the largest economy based on service industries (bbc.com, 2016). According to World Bank, in 2015 Britain had 5<sup>th</sup> biggest GDP in the world with US\$ 2,858,003.

Britain is a member of European Union since January 1<sup>st</sup> 1973 when it was European Economic Community (EEC). Then, EEC changed into European Union which gathered other 27 European countries and headed wider scope. EU

regulates the economic and political partnership which organizes single market which gives freedom for each member to get the mobility of goods, services, capital and people freely (Wilkinson, The Telegraph News, 2016).

As an active member of EU, Britain contributes in economic and political arena. Based on EU's website, Britain has been contributing in Parliament by sending 73 members, one representative of the government to the Council of the EU, has been the President from July to December 2005 and will be the President again from July to December 2017 as the representative to the Presidency of the Council, sending 24 representatives to the European Economic and Social Committee, sending 18 representatives to the Committee of the Regions, and also has permanent representation or known as embassy to the EU.

Besides contribute in political arena, Britain also contributed in funding and financial aspect. EU charges every country different depends on how the economic condition of each member is. The higher GNI of a country, the higher that country should pay. In detail of Britain's finance with the EU about Total Britain contribution to the EU budget is around € 18.209 billion, the Britain's Contribution to the EU budget as % of its GNI is around 0.72 %, the total EU spending in the Britain is around € 7.458 billion, the total EU spending as % of the Britain's gross national income (GNI) is around 0.30 % (European Union, 2017).

According to Chris Giles, several aspects of EU membership did not give good impact on British economy. Britain spent bigger budget than EU allocated for the advantage of Britain itself. Besides, EU as international organization that should made each member become more open to the world, did not always give good impact such as when there was a global financial crisis, Britain got more harm since they got bad impact through foreign assets that UK banks hold. (Giles, 2016)

Considering those not-so-good impact of EU on Britain Economy, then, prime minister of Britain, during the election time declared that he would have referendum on Britain membership if he were elected as prime minister of Britain. And this was the reason of David Cameron why wanted Britain to discontinue its membership of EU according to his speech:

*“More of the same will not secure a long-term future for the Eurozone. More of the same will not see the European Union keeping pace with the new powerhouse economies. More of the same will not bring the European Union any closer to its citizens. More of the same will just produce more of the same: less competitiveness, less growth, fewer jobs. And that will make our countries weaker not stronger. That is why we need fundamental, far-reaching change”* (theguardian.com, 2013).

It was not the first time for Britain make referendum about Brexit. Previously, the same referendum about “the United Kingdom should stay in the European Community (the Common Market)” was held in 1975 but the result was 67,2% remain and 32,8% said leave with turnout 64,1%. From this result, it is known that at that time the citizens of Britain still thought that EU or at that

time was European Community gave advantages to Britain. But then, in 2011, around 100.000 citizens signed a petition on referendum about EU's membership but it was held in the house of common (Lords, 2009). The last referendum was resulted the voters Britain Exit from European Union won which such a response from David Cameron to the petition of Britain's citizens.

EU has rules that should be followed by every member state including rules of how a state can become member of EU or how a state can be separated (Wheeler, 2016). As a result, there are several states that wanted to join EU or even exited from EU membership. Britain was the one state that wished to discontinue the membership.

It was triggered by the EU's decision about the possibilities of a state to exit from EU membership by Article 50 of the Treaty on European Union or also known as Lisbon Treaty. The result indicate that several conditions should be fulfilled by a state that wished to exit from EU membership.

Even so, the states that wish to leave from EU membership should follow the rules of the treaty and it will take long time. It is written that the negotiations should be completed within two years unless the European Council with the other member states agrees to extend the period of the negotiation time. But then, the processes are such overwhelming consensus that needs longer time to negotiate than what was arranged. However, Professor Michael Dougan thinks

that it will need 10 years to leave EU since it needs longer time to make framework agreement for future relations with EU after separated (Ollerenshaw, 2016).

This undergraduate thesis examines several impacts caused by Brexit on Britain political economy. Since EU regulates its membership to have same ideology which is democracy and EU organizes single market which gives freedom for each member to get the mobility of goods, services, capital and people freely, after voted to leave EU, Brexit led to the changing of political and economic relations between British with all EU member countries. Britain and other EU members have good relations in political and economic aspect. But then, if British voted to leave EU, it meant there would be several impacts caused by this decision in term of political and economic partnership.

## **B. Research Question**

From the topic explained above, this research study tries to answer the following question:

“What are the impacts of Brexit on British political economy?”

## **C. Theoretical Framework**

Theory is needed in the purpose of making possible to order the data. The data's order is providing a framework for systematic and imaginative hypothesizing. Explicit assumptions are requirements of theory in the making of

problems selection for intensive analysis. Theory also could be used as the instrument of understanding uninformatives, regularities, contingencies and also irrationalities (McClelland, 1960).

In order too explain and answer the research question in this research paper which is the impacts of Brexit on Britain political economy, the Theory of Interdependence is used.

### **The Theory of Interdependence**

*“Dependence means a state of being determined or significantly affected by external forces. Interdependence most simply defined, means mutual dependence. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries.”* (Keohane, 1977)

The meaning of economic interdependence is separated into two. The first one is, one country’s economic condition influences other countries economic condition when those countries are in a group or in one continent, then, that group is considered as interdependence or generally known as sensitivity interdependence. The second meaning of interdependence or generally known as vulnerability interdependence is, if some countries are hard to be separated since every country depends on each other so much (Baldwin, 1980).

According to Edward D. Mansfield and Brian M. Pollins, there are three themes of the conceptualizations of interdependence. First, trade’s comparison to total economic output are measured by the indicators of openness. If the fraction

of total economic output is being exported or imported in a high number, then, it will worth as the possibility of barriers appear on the flows. Second, Consensus level based on measurement is not using on the same level by vulnerability theme. Due to the fact that they more likely to use indicators of trade asymmetry. These kinds of indicators are developed by using trade's portion such as exports and/or imports between billateral states. Third, the gain theme is a bit different from another. This theme does not depend on the trade flows, unless the gains from trade itself, not the flow. The only way to mesure gains is only using indirect way of measurement due to the control of a counterfactual conndition. According to economists, the gains from trade are having correlations to exports or imports abity to assimilate the price. Openness becomes one of the most used in the literature on interdependence and conflict rather than other main conceptualizations. (Pollins, Edward D. Mansfield and Brian M., 2001)

Two countries can be classified as interdependence if those countries are depend to each other, it could be said each country depend one into another. According to Etel Solingen, in regional level; national cross-ties could be printed by creating coalition between domestic with internationalist preferences. The stability of the coalitions and domestic politics might be improved by the efforts of domestic internationalist coalitions (Pollins, Edward D. Mansfield and Brian M., 2001).

The theory of interdependence is chosen since Britain previously was the member of EU which interdependent each member to another in political economic aspect, then, it will cause several impacts because there will several changes if they discontinue EU membership and it will influence the interdependence of Britain and other EU members.

#### **D. Hypothesis**

The elaborations above indicate the impacts by Britain decision to exit from EU on:

1. Due to the transition period from being member of the EU to be non-member, the political conditions in Britain will be impacted right after the referendum as the short-term impact and the changing possibility of the policies in several fields such as the policy of immigration after Britain retire from EU as the long term impacts.
2. Economic changes in Britain where the country will not be a single market as previously, thus it causes the fell down of macroeconomic condition of the country right after the referendum and in the future of Britain.

The government of Britain had chosen to exit from EU membership for Britain future.



## **E. Research Methodology**

### **1. Data collecting Method**

Literature studies will be used as the research technique of this undergraduate thesis. Data and other resources from books, journals, articles, e-books and website information are used in this thesis to limit the scope of the research in order to be more specific and clear.

### **2. Data Analysis Method**

Qualitative method is used by the writer as the method of analysis where the second data will be used as the source of research.

## **F. Scope of Research**

In order to avoid the wide range of research and to make this research more specific, the scope of research will cover the issue of British Exit from European Union in term of political economy since the referendum which is in 2016 until the newest update which is in 2017 about Brexit in details and elaborate the impacts of British exit from EU.

## **G. The Organization of Writing**

This thesis is divided into several chapters, and each chapter is connected and related each other, so chapters are united.

Chapter I contains: background, research question, theoretical framework, hypothesis, scope of the research and the organization of writing

Chapter II describes the relations between Britain and European Union before Brexit

Chapter III explains Brexit; the reasons of Britain leaving European Union

Chapter IV explains the impact of Brexit on Britain Political Economy

Chapter V consists of the conclusion from the entire paper as a whole.

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