

## **CHAPTER IV**

### **THE IMPACT OF BREXIT ON BRITAIN POLITICAL ECONOMY**

The decision to exit taken by Britain citizens in the referendum held by David Cameron at the end of 2016 will cause several impacts to the political economy of Britain. The Britain has not officially exited yet, but the impacts were already felt in several aspects where the economic aspect will be more severe. It was caused by the changing of the integration. Previously, Britain was interdependence with EU member countries and vice versa, but now Britain tries to cut the bond of its interdependence. EU and Britain are calculated as the biggest trade partner since half of Britain export import activity was to the EU member countries and it has no tariff caused by the regulation of single market by the EU. It will lead to the change of trading activities (Swati Dhingra, Gianmarco Ottaviano, Thomas Sampson and John Van Reenen, 2016).

The impacts caused by Brexit on Britain politic condition is not as big as the economic one. Due to the political integration exists between them that is not as intense as economic integration. Politically, Britain did not join Eurozone when it was constructed in the 1990s which conducted monetary union (using the same currency which was Euro) and Schengen Area (a set of rules about passport and border check between countries). It was because the effectiveness of Eurozone is not running that well. Eurozone aims to make permanent economic growth. In fact, the

Eurozone projects making unresponsive political system, the unemployment rate and the growth of the economic even slower (Dunt, 2017).

### **A. Short-term Political Impacts of Brexit**

The Brexit is triggering several impacts on Britain political condition since the Prime Minister of Britain declared the result of Britain Referendum about its membership in the European Union. The impacts of Brexit after the referendum is such a short-term impacts of Brexit.

#### 1. Political Uncertainty in Britain

##### a. The uncertainty of Britain political position in EU membership

The status of Britain in European Union membership is not clear now. Britain declared to leave and the process has just started in the beginning of July. The negotiations of politic and trade agreements between Britain and EU did not result in something yet. This kind of situation is known as political uncertainty since Britain position is in between in and out from the EU (Gibbs, 2016).

This condition also called uncertain since there is no clear plan about what Britain will take for the future after they officially exit from the membership. Since Britain and EU gave advantages for each other, there will be an alternative to keep their relations, later on, the thing is, that alternative is still uncertain until now. Whether there will be new

agreement or even implement the exist one such as Free Trade Area (Broers, 2016).

The uncertain political condition also triggers other disadvantages for Britain. Economic decline is the worst impact that caused by the political uncertainty of Britain. The fall of houses price is one of the economic impacts that caused by political uncertainty and it grows to other economic things that increase the harm for Britain (Pratley, 2017).

b. The Uncertainty of Government in Britain

After the referendum resulted in Brexit voters to win, David Cameron officially resigned from his position as Prime Minister of Britain. He resigned due to his fail in convincing the citizens of Britain to remain as European Union member (Haroon Siddique, Andrew Sparrow and Kevin Rawlinson, 2017).

The position of Prime Minister of Britain was replaced by Theresa May which was just elected as the leader of Conservative Party in the same week as David Cameron resigned. Since her rival in Conservative Party was dropped out, it made Theresa May win the election in Conservative Party and officially became the successor of Britain Prime Minister (Stone J. , 2016).

In order to become Prime Minister of Britain, a candidate should pass the laws or Britain's principles in which candidate should get majority votes in several specific principles. And to make sure it could happen, it needs to have a half plus 1 of parliament seats (326 of total 650 seats). In this case, Theresa May runs out of time and should choose the candidate immediately. Therefore, Theresa chose to make coalition with Democratic Unionist Party or DUP which was such a small party, in order to strengthen her power in Parliament (BBC News, 2017).

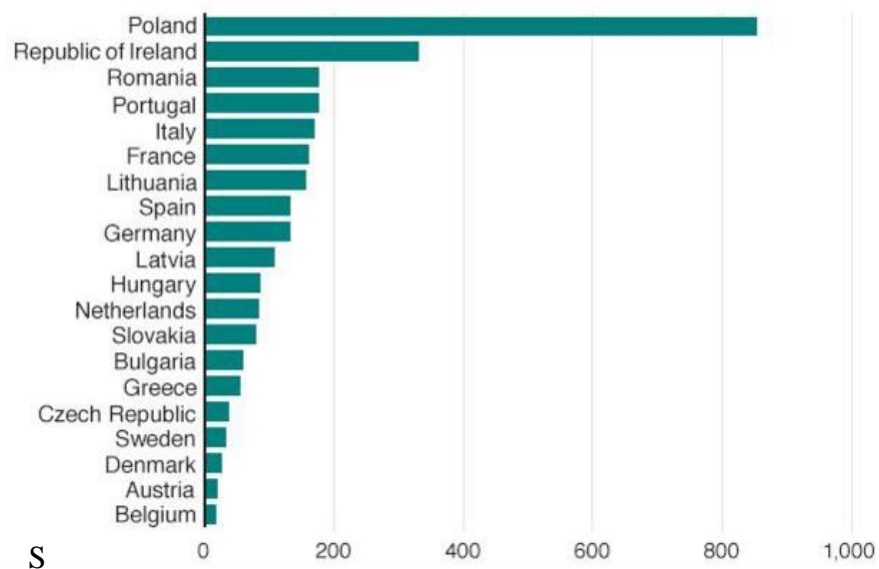
The political transition condition of Britain boosts another bad condition for Britain. The aspects boosted by its condition are the decrease value of pound sterling; the value of stock markets of London that fell, boosted fears for the recession and so on. Economic aspect is the one that get impacted in a short time after the transition declared (Heather Stewart, Rowena Mason and Rajeev Syal, 2014).

## 2. The decrease of Immigrant

As it has already been explained in the previous chapter, immigration becomes one of the reasons of Brexit. Since the single market allowed people to move freely around EU territory, the immigration of people both from EU area to the Britain and also vice versa becomes the usual thing that happened in EU. Moreover, the movement of people from EU area to Britain was dominantly for the job seeking since the economy in Southern Europe

was not in good condition and people tended to look for job across their regions (Syal, 2017).

According to BBC News, workers in Britain who came from EU countries were about 2.15 million people which was almost a half of total 3.3 million EU citizens who live in Britain.



Source: BBC News

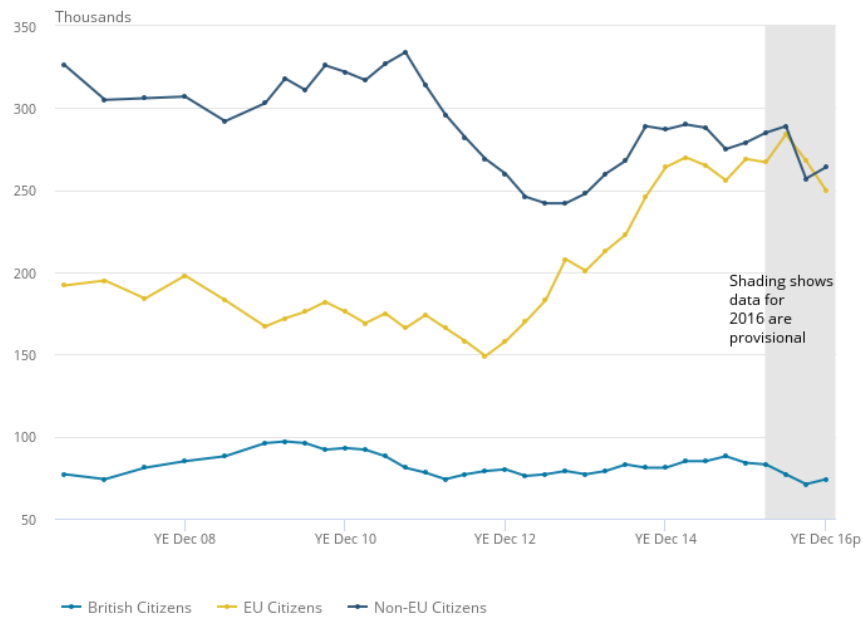
**Figure 4.1**

EU Nationals Living in Britain Jan-December 2014

Population (1000s)

The biggest number of immigrants came from Poland which is about 853,000, and the second biggest number of immigrant came from Irish which was around 331,000, Romanian and Portuguese were in the next place which was around 175,000 citizens from the rest of EU countries living in Britain

(BBC News, 2016). The impact of Brexit referendum has already been felt by Britain. Even when Britain did not officially leave yet from the EU, but the immigration number has fell out by the end of 2016.



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Source: Office for National Statistics, Long-Term Immigration

**Figure 4.2**

Immigration to the UK by Citizenship, 2007 to 2016  
(in the end of December 2016)

In the end of 2016, the number of immigrants who came to Britain has fell down and it was triggered by big number of EU citizens who chose to leave from Britain. In 2016, around 117.000 citizens of the EU left Britain, the number was increased 31.000 from 2015. They are mostly from Poland, Czech Republic, the Baltics, and Hungary. (Stone J. , 2017).

The increasing number of immigrants who chose to leave from Britain is such a bad impact from Brexit since the immigrants are contributing to the Britain Public Finances. Besides, the companies where the immigrants work also impacted by the loss of several positions staff which can not be replaced in a short time to get the substitute for the left position. This immigration impact tends to wider along with the official exit status of Britain itself.

## **B. Long-term Political Impacts of Brexit**

Political impact in a long-term period of time might create several changes in the fields of agreement or policy that have been held by Britain and EU. The policies that have been set by the EU and Britain when Britain is still as a member of EU are necessary to change when Brexit has officially happened. This trend is already predicted by the experts, which most are possible to happen.

### **1. The Changing of Immigration Policy**

In appropriate with the decision of leaving the European Union, the policy of free movement for people within Britain territory might be replaced or even deleted. The government of Britain has already planned for new regulations on how the immigrants can move to Britain (Watts, 2017).

As it was announced by the spokesman of Theresa May on Monday, July 31st:

*"Free movement will end in March 2019. We have published proposals on citizens' rights. Last week, the Home Secretary said there will be a registration system for migrants arriving post-March 2019. Other elements of the post-Brexit immigration system will be brought forward in due course. It would be wrong to speculate on what these might look like or to suggest that free movement will continue as it is now."* (BBC News, 2017)

The regulations of immigration are not fully set up yet, the following specific regulations are about to arrange by the cabinet of Theresa May. Later on, there will be regulations that should be followed by the workers of Britain from EU and the registration is necessary after Brexit (Collier, 2017).

## 2. The Changing of Trade Policy

Being a member of EU gives advantages for economic conditions of Britain since EU regulate trade policy which is to maintain trading relations both with all EU member countries and international trade with the rest of the countries which are not EU members but have a trade agreement with EU itself (European Commission, 2017).

EU member states are part of the customs union which applies no tariffs for member states trading of goods and such common tariffs for non-member states trading of goods. On the other hand, all EU member states are not allowed to manage their own trade policy or so call as independent trade policies. Everything should be managed by the EU and the members should follow the rules of trade which have been set by the Common Commercial Policy (CCP) managed by EU, each member just needs to negotiate with the



government of the EU (Clements, IEA Brexit Prize: Britain outside the European Union, 2014).

If Britain has officially discontinued their membership of EU, it will be impossible for Britain to have access to the EU even for negotiating a settlement with them. It is because that will create disruption to the trade between EU and Britain which Britain oftenly making trade deficit to the EU. The other countries will not satisfy with its uncertainty and disruption due to their own interest to the EU. Since Britain decided to discontinue their membership of the EU, Britain should make up new trade policy with EU and also with the rest of the world. There are several alternatives offered by experts about the new agreement of trade that are possible to be applied which are; first, joining European Economic Community (EEC) follow the Norway, Iceland and Liechtenstein decision where EEC is arranging the trade in goods which should be based on the customs procedures. Second, European Free Trade Association (EFTA) which evolves with the EU in order to make rules and trade access, meanwhile the member has no right to join the single market but can negotiate trade agreement individually which only give access to the market of goods and limited access to the market of services (Zangana, 2016).

### 3. The Changing of Environmental and Energy Policy

Britain adopted the policies on climate change and energy which are the Emissions Trading System and The Renewables Directive. The policies about environment and energy conducted by EU are somehow such an indicative bureaucracy of the EU. The EU's Renewables Directive cost Britain an expensive power (Clements, IEA Brexit Prize: Britain outside the European Union, 2014).

The decision of leave from EU membership can make Britain able to discontinue the ETS and be more focused on Renewable forms of energy only. If Britain can only maximize the green-power and erase the less demanding green-power production, it will give Britain more advantages because Britain can more concentrate on the domestic energy production in Britain and focus only on things they need to develop (Clements, IEA Brexit Prize: Britain outside the European Union, 2014).

### 4. The Changing of Britain Domestic and Foreign Policy

#### a. Britain Domestic Policy

Domestic policy is very important in order to determine worker's living standards in such an open world. The changes of domestic policy are not aiming at changing the taxes and benefits, these aim at making policy for equal income and appropriate housing. An analysis found that

the stagnation of Britain's economy and also the decreasing of salary in Britain until 2008 was caused by the high cost for house, the policy of welfare and unstable economy, the global force only influence a little part of this phenomenon (Monaghan, 2016).

After Brexit, the new domestic policy is needed in order to preserve public services or make them better, make the society become stronger and make the economic condition more dynamic. The domestic policy that would be changed is categorized into three changes; first, keep British power that has already existed such as keep maintaining several relations that has been built in several years (keep the relations with NATO, UN and so on), second, review or renew the relations with several actors such as Eastern European countries in order to make changes in balance of power, third, Britain should keep the position and be not easy to be distracted by several confrontations such as mercantilist foreign policy or even military confrontations (Professor John Bew and Gabriel Elefteriu, 2016).

The biggest issue faced by Britain since 1980 was inequality within the countries. The most important thing that government of Britain has been committed to deleting the inequalities between the south east and the rest of the region in European Union. The inequality mostly is the gap of salary between each region. The things that should

be changed later by the government is about making clearer policy in rural areas when decentralised of responsibility in rural area is needed to be compatible with the need of governance network, and coordinating across levels of government where the reorganisation of the government is needed to make a local authority which give a local government responsibility to manage local region (Iliff, 2010).

b. Britain Foreign Policy

Britain is a part of EU defense and foreign policy arrangements and operations. When the negotiation time has come to an end two years later, NATO will undertake the armed forces operation of Britain and also Britain should re-arrange their foreign policy since if Britain discontinues its membership of EU, Britain is no longer part of EU and it means Britain should end up every EU foreign policy participation (Clements, IEA Brexit Prize: Britain outside the European Union, 2014).

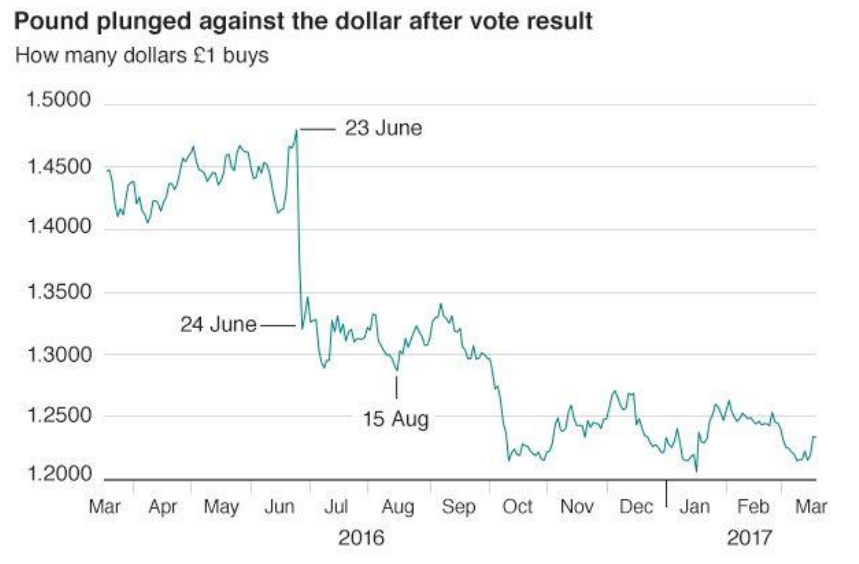
Furthermore, Britain should create their own foreign policy and EU or specifically EU's federalist treaties have no rights to interrupt on the making of Britain foreign policy. Britain should maintain its own system of criminal justice, the policy of borders and so on.

### C. Short-term Economic Impact of Brexit

Politics in Britain was impacted after the referendum of Brexit even when it did not officially leave yet, so did the economy of Britain. Several economic aspects were changed and influenced the condition of Britain itself since the economy was the major aspect of a country where the development of the economy was important.

#### 1. Poundsterling Exchange Rate Fell Down

After the referendum resulted in Brexit voters winning, the pound sterling exchange rate fell down. The comparison was about 15% lower than the US Dollar and 12% lower than the Euro before the referendum (Bowler, 2017).



Source: BBC News

**Figure 4.3**

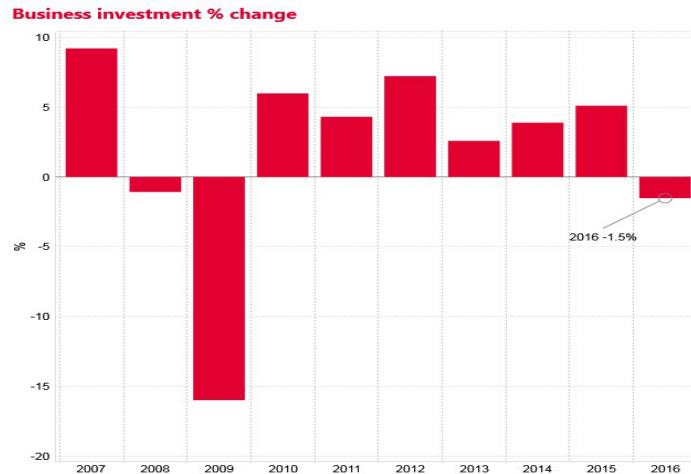
The Diagram of Poundsterling Exchange Rate Against dollar

The exchange rate of pound sterling before the referendum was above \$1.25, and the currency fell down into \$1.246 or around 0.6% one day after the referendum. The currency increase little bit to \$1.25 when the closed of market time (Zlata Rodionova, Josie Cox, 2017).

The fall of Pound sterling exchange rate was one of the most dramatic economic impacts because it changed right after the referendum held. It was the biggest fall of the Pounds exchange rate after the crisis. Brexit has enforced such a long term impact and dispose to be a permanent cost of Britain economy. Even somehow the fall down of Poundsterling exchange rates gave such a benefit for the exporters which the cost of export became cheaper, but this situation tends to boost other sectors' loss such as the cost of imports increased, the possibility of domestic inflation which triggering the increase of living standard in Britain (Josie Cox, Ben Chu, Zlata Rodionova, 2017)

## 2. Foreign Investment Fell Down

The referendum affected several firms because of the uncertainty on Britain. Future trade is not arranged yet between Britain and other EU countries about how the tariffs and customs barriers will be after Brexit. That caused the fell down of investment by 0.9% in last year's final quarter.



Source: Independent News

**Figure 4.4**

The Change of Business Investment in Britain

In figure 4.4 consumption component fell around 1.4% in the beginning of 2017 which is the first quarter. It such the biggest fall after the crisis in 2009. (Josie Cox, Ben Chu, Zlata Rodionova, 2017).

#### **D. Long-term Economic Impacts of Brexit**

##### 1. The possibilities of Decreasing Number for Foreign Investment

Most the foreign direct investments in Britain come from the European Union. Around 46% of the Britain's stock came from the European Union in 2013 including FDI and stock of FDI's share and its number doesn't change in almost a decade.

On the other hand, non-European Union companies and investors also invest in Britain due to benefit they get since Britain is such a portal for them to be connected to other EU countries. Due to single market is allowed

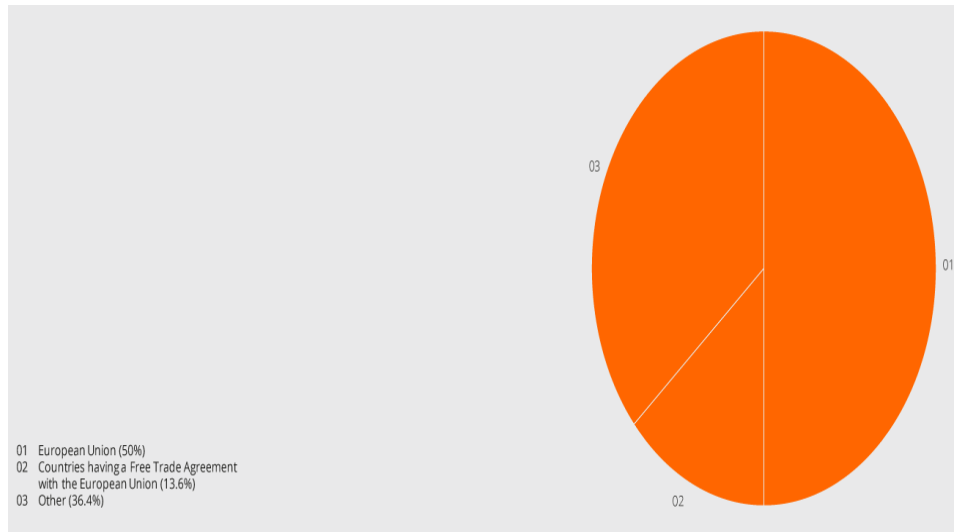
business to move freely in EU territory, including Britain, it becomes consideration of investors to invest their money or technology in Britain because they shouldn't pay the tariff. After the referendum, it boosted fear for the investors, firms and also business men to invest in Britain, it would make the companies close their companies or even move the production from Britain. It is because of the possibility on the disappearance of non-tariffs and this could cause long-term potential damage of Britain (Capital Economics, 2016).

Economists expected that this condition is possibly getting worse in the progress time of negotiations. In 2019, the Bank of England predicts that the business investment's level will be 25% lower as the implication of Brexit referendum (Josie Cox, Ben Chu, Zlata Rodionova, 2017).

## 2. Export Import Activities Will Decrease

Since the major aim of EU is economic partnership and allows free trade within territory, the decision of Brexit is impacting in international trade of Britain both in export or import of goods and services.





Source: International Monetary Fund Direction of Trade Statistics

**Figure 4.5**

British Goods Export Values by Destination (% of total, 2014)

50% of the trade destination of Britain is the European Union, 13,6% is to countries which have Free Trade Agreement with EU and 36,4% is to other countries. It is proves that 63% of Britain international trade is from the membership of Britain in the European Union (Capital Economics, 2016).

Since the economic integration between Britain and EU is so high, the impact of leaving EU is probably higher to the trade of Britain itself. If Britain decreases 1% of their export to the EU, it will lead to decrease Britain's GDP about 0,5% which is the same amount of the EU's charge for Britain to pay as the contribution. And if they still implement non-tariffs in their trade, the model created by the researchers in London School of Economics, Britain will

lose 1.3% of their GDP. And if Britain did trade with EU where they implementing WTO rules, Britain will lose 2.7% of their GDP (John Springford, Simon Tilford, Philip McCann, Philip Whyte, Christian Odendahl, 2016).