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Issue Brief

Brexit: A Hard Pick for Theresa May

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Soon Prime Minister Theresa May insists that Britain will quit European Union and no parliamentary rejection of the agreement will halt the exit. Her declaration of Brexit has finally made it clear to several speculations that Britain is seeking 'half in and half out deal'. She called it her "manifesto for change" which would help Britain have the control of its destiny in its own hands, like it was prior to joining the European Union. It will be more "Global Britain" true to its "internationalist" history.

May, however, has agreed to publish a Government "white paper" policy document listing her objectives for the forthcoming departure negotiations with European leaders as a major concession for anti-Brexits. They wanted a repeat of the referendum if the MPs vote against the Brexit in the parliament as a consequence of the Supreme Court's ruling. The ruling has referred to the parliament on Article 50 of the Lisbon Treaty, which sets out the arrangements for the withdrawal of the member state from the Union.

The Article though has a substantive framework for future relationships, yet gives 25% chances that Britain would not leave EU and the same that it would not by 2019. This is argued by Lord Kerr, who is the author of Article 50.¹

Earlier, May outlined nine major points in her speech at Davos to the Annual Meeting of World Economic Forum on January 19, 2017. Her roadmap of Britain's behaviour in the post-Brexit period is self-explanatory:

- i. It would be the most amicable divorce while maintaining the value of shared interests with the European Union.
- ii. Brexit is not meant to undermine the European Union. It must be taken in the spirit of the parliamentary democracy of Britain itself.
- iii. Britain views itself a "global trading nation", who would like to have independent trade deals around the world as a top player in international trade.
- iv. In a globalised world, the rules have to be realised with unanimity. This keeps the leadership intact.

¹ Katrine Bussey, "Article 50 diplomat predicts 'one in three chance 'of no Brexit deal'", *Independent*, January 19, 2017.

- v. A “fair share” of the taxes in businesses must be respected.
- vi. May lamented at the growing disparity between the rich and the poor, while keeping the concentration of wealth in the hands of those who play by a different set of rules.
- vii. She hinted at the companies with global outreach for playing with different set of rules as compared to ordinary people.
- viii. In the UK, trust in the business runs just at 35%, particularly among the people in the lowest income brackets.
- ix. If the world order has to be defined by rules of globalisation, free trade and free markets for all; we need to appreciate the point of views across the board.²

May’s declaration of 'hard Brexit' has come in difficult times. Many European leaders are skeptical about Britain’s ability to negotiate a good deal with Brussels since financial negotiations could be very nasty. The EU is a single market and no tariffs are imposed on imports and exports between the member states. Britain has 50% of its trade goods go to the EU.³ It could influence the trade rules as well. By leaving the EU, Britain has a chance of losing that negotiating power.

Britain is one of the biggest financial centers of the world. By losing membership of the EU, the passporting rights following Brexit would be the hardest hit. Once the passport of the EU is taken away, it can cost thousands of jobs and billions in revenues. Currently, there are around 5,500 firms registered in the UK which rely on the EU’s passporting rights for the financial services sector. The turnover is of about 9 billion pounds in revenue.⁴

The UK banks are seen as a gateway to the rest of the European Union markets. HSBC CEO Start Gulliver while making a comment on Brexit said that it will push bankers making 20% of UK’s revenue to Europe. Furthermore, it is also not clear whether British based banks would cater for continental clients or not.

² Theresa May, “Theresa May at Davos: Her speech in full”, January 19, 2017, www.weforum.org.

³ “Everything you might want to know about the UK’s trade with the EU”, *The UK’s Independent factchecking charity*, June 20, 2015, fullfact.org

⁴ Will Martin, “Here is how big London losing its financial passport could be”, *Business Insider UK*, September 20, 2016. uk.businessinsider.com

Even the Mayor of London is fearful about Brexit since he believes that relocation of businesses would have more room in the US or Asian markets rather than other European countries. Several questions about immigration, the future rights of many EU's citizens already living in the UK are also unanswered.

Politically, the rise of populist forces in Europe is more feared along with the domino effect with more states breaking apart from the EU. This can subsequently collapse the European Union project.

On the other hand, since the laws of the EU allow anyone from Europe to come and live in the UK, immigrants could not be stopped. Consequently, it resulted in a huge shift of immigrants, resented immensely by the natives. According to the Office of National Statistics, there are 9, 42,000 Eastern Europeans, Romanians and Bulgarians living in UK along with 7, 91000 and 293 million workers from outside the European Union. They are mainly from China and India making the biggest foreign work force.⁵

Leaving the European Union would mean truly independent nation having connections with the rest of the world. Fifty two per cent British feel that they have lost control of their borders and with open borders, security was largely compromised. Besides, how does Brussels work is not known to a common man in the UK. In fact, the EU has replaced the democracy since it works in consonance with the central administration serving the interests of the big businessmen only. Small and medium-sized firms do not trade with the EU. Only 8% of the EU exports are to Britain.⁶

Brexit has a support from the United States who sees EU as a vehicle for the German power. In his protectionist measures to reduce the US trade deficits, newly elected president of the US Donald Trump has announced high tariffs for the European manufacturers in Mexico in his speech on January 13, 2016. He considers NATO obsolete. The UK on the other hand, has decided to remain a part of NATO. Britain believes that the international institutions like IMF, UN, NATO and World Bank have enabled the world to enhance the common goods of peace, prosperity and security.

Brexit is certainly a momentous moment with the bulwark handed back to nation states in a world of globalisation. The power of trans-national capitals remained resistant even after the collapse of Berlin Wall and the making of the European Union. Jobs, living standards and welfare states were perhaps

⁵ Ian Drury, "69,000 more East Europeans working in than UK than in 2014, Record numbers of Romanians and Bulgarians flock to Britain to take advantage of booming economy", *The Daily Mail*, November 12, 2015.

⁶ Jonathan Portes, "After Brexit: how important would UK trade be to the EU", National Institute of Economic and Social research, November 2, 2015. www.niesr.ac.uk

better protected in the glory days of 1950's and 1960's. Opting out of the EU would mean choosing to drift away from regionalism. It has been an essential and influential factor in globalisation.

Similarly, dissent has its own consequences. If the future financial negotiations find a difficult deal between Britain and EU, it might leave a bad taste for the politics of Europe while dividing it into two blocs of Brexit and Germany.

Nonetheless, UK still has a long way to prove itself as a real economic power outside the EU.