

People's Democratic Republic of Algeria
Ministry of Higher Education and Scientific Research

University of 8 Mai 1945 / Guelma

جامعة قالمة 08 ماي 1945

Faculty of Letters & Languages

كلية الآداب و اللغات

Department of Letters and English Language

قسم الآداب و اللغة الانجليزية



**Assessing the Costs and the Benefits of Brexit for the United Kingdom
and the European Union**

Option: Civilization

A dissertation submitted to the Department of Letters and English Language in Partial
Fulfillment of the Requirements for the Degree of Master in Language and Culture

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Acknowledgements

We are very indebted to our supervisor Dr. DEKHAKHENA Abdelkrim for his help and response to all the concerns about this research.

We are also very grateful to our teachers of civilization Mrs. BARES Meriem and Mrs. KRIBES Amina. Moreover, special thanks go to Mrs. CHELGHOUM Adila, although she was facing health circumstances yet, she did not hesitate to provide materials and advice whenever needed.

Thank you al

Dedication

Fatma

To my beloved Mother may God bless her soul

My hero father and my brothers.

And

To my beloved husband Khalil.

Theldja

Thanks to Allah who gave us the strength to finish this work.

To my parents for their love and support.

To my sisters and brothers for their sincere emotions

To every member of my family.

To our best friends Roumaissa, Khawla, Wahida, Rahma

Noussaiba and Touta

List of Abbreviations and Acronyms

Abbreviations and acronyms	Identification
AIFMD	Alternative Investment Fund Manager Directive
CAP	Common Agriculture Policy
CETA	Comprehensive Economic And Trade Agreement
CFSP	Common Foreign and Security Policy
ECSC	European Coal and Steel Community
EDC	European Defense Community
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EPC	European Co-operation Policy
EURATOM	European Atomic Energy Community
EU	European Union
FTA	Free Trade Agreement
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
MFN	Most Favored Nation
NAFTA	North American Free Trade Agreement
OBR	Office for Budget Responsibility

PJCC	Police and Judicial Cooperation in Criminal matters
SEA	Single European Act
TEU	Treaty of the European Union
UCC	Union Customs Code
UCITS	Undertakings Collective Investment in Transferable Securities
UK	United Kingdom
USA	United States of America
WTO	World Trade Organization
WWII	World War Two

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Abstract

The aim of this study is to assess the costs and the benefits of Brexit for both the EU and the UK. This study presents an overview on the process of creating the EU in addition to the evaluation of the underlying concerns behind Brexit vote. It also states the reasons behind accepting the demand of the UK in addition to the China factor. Moreover, it analyses the benefits and the costs of Brexit for the UK on four main domains trade, immigration, foreign direct investment and the uncertain future of the UK. Furthermore, it assesses the costs and the benefits of Brexit for the EU on substantial sectors international influence, budget, industrial policy, financial services and insurance sector in addition to its political implications on the political scene of the EU and post-Brexit alternative arrangements.

ملخص

الهدف من هذه الدراسة هو تقييم تكاليف وفوائد خروج بريطانيا من الاتحاد الأوروبي لكل من الاتحاد الأوروبي والمملكة المتحدة. تقدم هذه الدراسة نظرة عامة حول مراحل تأسيس الاتحاد الأوروبي بالإضافة إلى تقييم المخاوف الكامنة وراء التصويت على خروج بريطانيا من الاتحاد الأوروبي و الأسباب وراء قبول طلب المملكة المتحدة و عامل الصين. زيادة على ذلك فانه يحلل فوائد و تكاليف خروج بريطانيا من الاتحاد الأوروبي في المملكة المتحدة في أربعة مجالات رئيسية المتمثلة في التجارة والهجرة والاستثمار الأجنبي المباشر والمستقبل الغامض للمملكة المتحدة. علاوة على ذلك تقييم تكاليف و فوائد خروج بريطانيا من الاتحاد الأوروبي على النفوذ الدولي للقطاعات الكبيرة و الخدمات المالية للسياسة الصناعية في الميزانية وقطاع التأمين بالإضافة الى اثاره السياسية على المشهد السياسي للاتحاد الأوروبي و الترتيبات البديلة المتخذة بعد خروج بريطانيا من الاتحاد الأوروبي.

General Introduction

The European continent was a stage of conflicts and lots of destructions. After the Second World War European people arrived at the conclusion of a need for an economic and political integration to construct new Europe. In 1952 the six European countries Belgium, Germany, France, The Netherlands, Italy and Luxembourg created the United European Coal and Steel Community (ECSC). The UK was not interested in the creation of the ECSC.

In 1955 the six founding countries organized a meeting to create the European Economic Community (EEC) and the European Atomic Energy (EURATOM). After this meeting, European countries joined free movement of goods, services and people. The EEC aim of increasing the member states' economy and achieving political reconciliation was reached. Furthermore, UK was inspired to join the EEC after witnessing the success of the EEC. Britain's application was rejected from the French president Charles de Gaulle who vetoed it twice.

With the coming of the new President of France George Pompidou Britain was accepted as a member in the EEC. In 1986 the member states of EEC organized a meeting for the sake of the enlargement and the integration of other European countries. The aftermath of this meeting was replacing the name of the EEC by the European Union (EU). Margaret Thatcher was the first prime minister who rejected the idea of European integration because Britain's economy decreased after its integration to the EEC.

Moreover, EU member states signed the Lisbon Treaty in 2007 to enlarge Britain's sovereignty, it gave countries the right to leave the EU. The UK was the first member state which pounce this right and attempted to create a new constitution for the Union which was rejected because they were afraid of losing their power of voting.

Recently in 2016 the UK decided to leave the EU, its proposal was accepted to be discussed on 29 March 2019 when Theresa May was a prime minister yet, the deal was delayed twice to 13 October 2019. Mainly because the MPs did not accept the idea of the Irish backstop in her plan which is about opening borders between Northern Ireland and the Republic of Ireland after Brexit. The rejection of her plan three times by the MPs was the main reason behind Theresa's decision of resigning.

Mr Boris Johnson took her place and continued with May's plan with few changes. He replaced the Irish backstop with the freedom of UK to sign its trade deals with other countries alone. He continues with Mrs May's withdrawal bill to leave the EU which contains the preservation of UK citizen's rights in the EU and the EU citizen's rights in the UK, moreover the UK must pay £39bn for the EU. The majority of MPs accepted the bill, but Brexit was delayed till 31 December 2020 if they reach a deal if not it will be on 31 January 2020.

Brexit may be costly or beneficial for the UK concerning four main domains trade, immigration, foreign direct investment (FDI) and the uncertain future of Britain. First, the EU is the largest trade partner of the UK it means the UK must pay attention because it will lose its MFN. It will take the risk of closing borders between all member states of EU and it will end up using World Trade Organization's (WTO) rules to regulate its trade relationships with the EU.

Second, most of skilled works are immigrants by closing borders UK will lose its experts and Britain may or may not substitute these workers. This will affect many sectors like medicine, economy and trade. Third, investors in Britain are members of the EU by losing its relationship with the EU, Britain is taking the risk of losing important investors like Japan's SONY factor. As a result, the income of foreign direct investment (FDI) will decrease.

Fourth, the uncertain future of the UK is creating for British since the government does not prepare any plan for post-Brexit. It is not clear whether the UK will follow the Norwegian model, the Swiss model or the WTO model. Brexit this crucial decision that was taken by Britain may harm its future on the four domains in contrast, it may benefit them.

Brexit will not affect the UK only however, it will also affect the EU as well and probably it will be more intense on the EU than in any other country. The decision came in a non-appropriate time for the EU because the UK is considered as a very important partner for the EU and it will have substantial challenges in the European Union. The UK has a powerful position on the international institutions which makes it beneficial for the EU, so the UK is a source of influence for the EU and with Brexit the EU will lose this influence on both military terms and foreign policy.

The leave decision will also have various consequences regarding the integrity and political unity. The UK did not only harm its politics, but the EU political scene as well. Moreover, Brexit has economic impact on the EU budget, industrial policy and financial services. Finally, the UK will not remain a member of different arrangements after Brexit and this is the reason behind its demand for joining the European Economic Area (EEA), Customs Union and FTA.

The book that was written by Alistair Jones entitled *Britain and the European Union* describes the aftermath of the Second World War that led to the creation of the EEC. Furthermore, he states the interest of the UK to join the EEC that was named later on the EU. In addition Kenton Will in his article “Brexit” Defined Brexit and tackles the Lisbon Treaty which gave member states of the EU the right to leave it.

A report was written by Rahel Aichele and Gabriel Felbermayr which is entitled *Costs and benefits of a United Kingdom exit from the European Union* state the costs and the Benefits of Brexit for the UK on four main domains; trade, immigration, foreign direct investment, the uncertain future of the UK. Furthermore, an article that was written by Michael Emerson et al entitled *An Assessment of the Economic Impact of Brexit on the EU*, tackle the benefits and the costs of Brexit for the UK on the same previous four domains.

George Irwin in his report entitled *Brexit: the impact on the UK and the EU*. State the impact of Brexit on both the UK and the EU on different sectors. He focuses on the main sectors for both sides which are: Trade, Foreign direct investment, industrial policy, immigration, financial services, international influence, budget and uncertainty. Moreover, a Journal that was written by Simon Bulmer and Quaglia Lucia entitled *The Politics and Economics of Brexit* states that there would be three basic future scenarios for the EU and the basis issues that has been discussed when Brexit was in its first stages.

This study will examine the assessment of the costs and the benefits of the Brexit for the UK and the EU. So in order to give a deeper explanation and descriptions for the topic, the qualitative and historical methods will be very helpful for that. Data is gathered from a variety of studies which are related to the topic as a consequence the results of the study are descriptive. In addition to that the analytical approach is important for the current study in order to give a clear understanding of the collected data. Both primary and secondary sources are used in this study to achieve the intentional objectives. Sources like articles, e-book, news, dissertations and other references will be used to proceeds this study.

The current dissertation is composed of a general introduction, three chapters, and a general conclusion. Chapter one is entitled the Nature of the UK-EU relationship: from 1945 to

Brexit. It explores the European membership after the creation of the EEC. Also, it sheds light on the common market between 1957 and 1979 and Margaret Thatcher opinion towards the EEC. In addition to the most important treaties in the history of EU-UK relationship mainly: the Maastricht treaty, Amsterdam treaty and Lisbon treaty. It discusses the underlying concerns behind Brexit and the European causes of Brexit vote in addition to China factor relation with Brexit.

The second chapter covers the costs and the benefits of Brexit for the UK, it will focus on the impact of Brexit on four main sectors in the UK: trade, immigration, foreign direct investment and the uncertain future of the UK in addition to some Brexit models. Assessing the costs and the benefits of Brexit for the EU is the title of the third chapter. It will discuss both the political and the economic implications of Brexit on the EU with focusing on the international influence, the European political scene, EU budget, industrial policy, financial services and insurance sector. It will conclude with post-Brexit alternative arrangements which are the European Economic Area, Customs Union and Free Trade Agreement.

The current study answered the following questions How did Britain withdraw from the EU? What are the main reasons behind Brexit? Is Brexit harmful or beneficial for the UK and the EU? How will brexit affect the relations between the UK and EU?

Chapter One

The Nature of the UK - EU Relationship: From 1945 to Brexit

Introduction

A single arrow is easily broken, but not ten in a bundle. The origin of the European Union is an idea of a united Europe mentioned immediately after the Second World War (WWII). The aim behind creating such a union was to avoid future wars and to improve the European countries' economy which was highly damaged after the war. In this case, Robert Schuman by his turn added the notion of achieving a political reconciliation between France and Germany. The proposal to which created the union was named the Schuman plan constructed from his name.

The plan was later extended to include more other countries in Europe which were; Belgium, Germany, France, The Netherlands, Italy and Luxembourg. The six countries decided to create the ECSC. As a result, the Treaty of Paris was created in 1951 by the former six European countries, and which came into effect in 1952. The six European countries who signed the treaty became known later on as the six founding countries.

These six founding countries did not stop at creating the ECSC only, yet they had the ambition to create a military power and to enlarge their union too. The six founding countries tried to create a common defense. They proposed European Defense Community (EDC), yet this latter was never ratified mainly because of the Franco-German sensitivities ("Ever Closer Union" 5).

The six founding countries did not stop at this level, but they looked forward to a deeper Union.

A meeting was organized at Messina, in June 1955, to discuss a larger union whereby they signed both the Treaty of Rome to initialize the EEC also called the common market. Moreover,

it created the EURATOM in 1957 ("Ever Closer Union" 5). Member states of the EEC agreed upon having freedom of movement of people, goods and services. Britain was not interested in the beginning to join this union mainly because it was considered the most developed economical country.

In 1973 Britain joined the EEC, yet after 47 years of membership it started to think about leaving. After being a member state of the European Union for many years on 2014 the British Prime Minister David Cameron in order to ally the anti-immigration voters he promised them that if he won the 2015 elections he will call for a referendum on Brexit. 23 June, 2016 Britain decided to leave the EU which is very risky and harmful decision for both sides the UK and the EU, it also has international impact on substantial sectors. Finally, There are various reasons and concerns behind the Brexit vote for both sides in addition to the China factor since it is an important trading partner for the UK.

1.1. European Membership

After the creation of the EEC in 1957, Britain did not intentionally join it. The British were not attracted to European affairs they found that neither the six European countries' economies nor their common community are strong enough to join them. Simply because the British economy after the WWII was the strongest in Europe and all the others' were destroyed. Therefore, Britain decided to do not join the EEC. However, things do not always go as they are planned, because the EEC continued to succeed progressively, and the British proved to be wrong this time.

1.1.1. The Common Market 1957-1979

Members of the EEC enjoyed some rights like non tariffs on trade of goods and services and agreed upon passing common tariffs on imports coming from countries that are not members

in the EEC. Members of the EEC established common market to sell agricultural products besides they agreed upon a common price in 1976. They passed the Common Agriculture Policy (CAP) to set up a low price on agricultural products it was later on named the threshold. (Moore 68). The threshold was only concerning member states while non-members were not considered.

After the primary success of the EEC, Britain was not yet attracted to join it, but was inspired to create a similar economic organization to include the non-member states. Britain created the European Free Trade Association (EFTA) in 1960. Seven countries participated in the creation of the EFTA which were; Austria, Denmark, Finland, Norway, Portugal and Sweden. The aim behind its creation was to pass free trade between the non-members of the EEC (Jones 14). Nevertheless, the EFTA did not achieve the same success as the EEC and soon ended.

The failure of the EFTA from the one side and the continuing success of the EEC from the other pushed Britain into entirely changing her opinion about joining the EEC's group. However, this was not that easy as Britain faced some problems before joining essentially from the leader of the EEC who was the French president at that time; President Charles De Gaulle (Bellof 26). The president of France Charles de Gaulle was against British membership and vetoed its application twice, in 1963 and 1968.

Moreover, De Gaulle claimed that Britain had a special relationship with the USA and will certainly open a door to this latter to influence their community once it is permitted to join. Furthermore, he argued that Britain's economy became very weak and will not benefit the six founding countries' economy (Bellof 26). Britain was able to join the EEC only when President De Gaulle left his office as president of France and the EEC, and replaced by George Pompidou who was open minded for the British.

The British people felt that they were superior than any other European country. This is why they took a long time to decide whether to join the EEC or not, they think that such membership would limit their freedom. However, the continuing decrease in the British economy pushed British leaders to think about joining the EEC (Schweiger 15). The UK was never just a simple European country mainly because of its power during WWI and WWII.

The British were not sure whether to stay in the EEC or to get out of it especially that there were a lot critics who demanded exit. Just after two years of joining the EEC a referendum was held in 1975 on whether to remain or withdraw from the EEC, the result was in favor of remaining (Jones 16). The British were not in favor of EEC membership because they think that it would limit their freedom and threaten their sovereignty.

The EEC did not stop at its level however, it started to grow up and join more countries like members of the EFTA which applied to join the EEC and they were accepted. EEC members organized a meeting and signed the Single European Act (SEA) that created the Single Market in 1993. It guaranteed the freedom of movement of people, capital, goods and services between EEC members (Jones 17-18). The single market created amazing opportunities for all the member states of the EEC.

1.1.2. The EEC and Margaret Thatcher: 1979-1990

Debates in the conservative party were numerous whether before the membership of the UK in the EEC, or after it. The British believe that they may play a huge role in the world wide better than just being part of Europe. The main figure holding this idea was Winston Churchill and the majority of the conservative party was supporting his idea. Britain has its own special relationship with the USA and with Commonwealth countries far from Europe (Fontana and Parsons 90). The British were not in favor of European membership from the beginning.

Britain is an independent country that has always preserved its national unity and formed its own rules and does not encourage the external interference. It is a powerful country that does not accept any commands from a higher authority. Furthermore, the British are realistic liberal society they are conscious towards knowing their rights and duties. This is mainly the traditional image of the British society (Fontana and Parsons 91). Yet after Britain became officially a member in the EEC this image was threatened.

The Prime Minister Margaret Thatcher was in favor of the establishment of the single market and the integration of Britain in free trade with EEC members. After the economy of the UK decreased the leader of the conservative party Margaret Thatcher positioned against Britain's membership in the EEC. She started a revolution against European neo-liberalism, and this became known later on as Euroscepticism (Sowels). Margaret Thatcher argued that free trade with EEC members threatened the sovereignty of Britain.

Margaret Thatcher was against the participation of Britain in exchange rate mechanism with the rest of EEC members. Moreover, the CAP does not encourage the food trade of Britain with commonwealth that is why Britain highly contributed to the EEC budget. As a result, Thatcher wanted to minimize Britain's contribution to the EEC budget and she succeeded (Sowels). Margaret Thatcher was not against the idea of European integration itself however, she was against the engagement of Britain in free trade with member states because this threatened the sovereignty of Britain.

1.1.3. The Maastricht Treaty

The EEC and the EURATOM and their numerous institutions the Commission, the Council of Ministers, the Parliamentary Assembly and the Court of Justice enlarged. The EURATOM initiated nuclear projects and the EEC initiated trade projects like the single market and the CAP

they gain a huge success. Besides, political problems decreased especially after the successful unification of the UK in the EEC after being vetoed by France twice ("Ever Closer Union" 7). The EEC aim was finally reached.

Furthermore, the economy of the EEC members finally increased after the aftermath of the WWII. EEC members met to announce the Single European Act in 1986 to enlarge the community it paved the way for the creation of the European Union (EU). They signed the Treaty of Maastricht on 1 November 1993 to put the EU into operation ("Ever Closer Union" 7). The EEC started to enlarge, it became known as the EU.

The Maastricht Treaty contains mainly three pillars. EU members proposed common currency, they also introduced the three pillars. The first pillar was the EEC with its Single Market that was created mainly for the development of trade and economy. The second pillar was the Common Foreign and Security Policy (CFSP) to attract foreign investment. Finally, the last pillar was justice which is about guarantee security for all EU members (Jones 18).

In this period John Major was a Prime Minister of Britain, so he discussed the pillars of the EU with members of the parliament; they ratified the Treaty of the European Union (TEU) known as the Maastricht Treaty. In 2002, the proposal of the common currency which is the Euro gained a considerable success. Each EU member should adopt the euro as a national currency (Jones 18-20). However, Britain did not adopt the Euro as a currency.

Any country wanted to join the EU must have certain characteristics that must match the Copenhagen Criteria. The first criterion is having a developed economy that is compatible with EU members' economy; it should serve the needs of the EU. The second criterion is strong rule of law that is to say citizens and minorities rights must be reserved. The last criterion is

commitment to the politics, economy, and law of the EU (Marktler 344). Countries which do not cope with the Copenhagen criteria are not welcomed like Bulgaria and Romania.

The EU started to enlarge and integrate more countries like Denmark, Ireland who joined the same year with Britain in 1973. Greece in 1981, Portugal and Spain in 1986, Austria, Finland, in 1995 and Sweden in 1996. Later on in 2004 East European countries applied to join the EU like Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia (Laermans and Roosens 401). The EU became the largest union in the World which include approximately all the European countries.

Britain and Germany has a strong role in insisting on reforms of both EU institutions and policies. The UK suggested reforming the CAP in order to enlarge integration. The Prime Minister Tony Blair announced in the British Council that the EU needed a strong national reforms, but not EU centralization in order to strengthen EU members' relationship. In addition, he called for reforms to the CFSP in order to insure the safety of citizens as they are in their home countries (Schweiger 83).

With the development of the EU newly institutions about different concerns were created. Commission, Council of Ministers, COREPER, European Council, Parliament and the Court of Justice were created by the TEU and enjoyed certain powers. However, the Committee of Regions, the European Ombudsman and the Economic and Social Committee were created later on (Jones 28). Newly institutions shared some power with the older institutions and this created multiple issues in the EU level. EU members were then not satisfied.

1.1.4. Amsterdam Treaty

The Maastricht Treaty was subjected to some reforms. It became known as the Treaty of Amsterdam in 1997. Then, the Treaty of Nice in 2001 followed by the establishment of the

Constitution of Europe. Yet, the establishment of this latter did not complete because the treaty to finish this process was not ratified by France and the Netherlands. As a result, the Treaty of Lisbon was proposed in 2007 and ratified in 2009 in order to foster the sovereignty of the European Parliament ("Ever Closer Union" 10). In addition to pass more security measurements like to over control external borders and to promote international relations.

A new treaty was proposed in 1995, the proposal was subjected to discussions at the European Council. A meeting was held in Amsterdam and the treaty was ratified in 1997. Yet, it faced some problems from member states, so it was put into operation by force in 1999, it became known as the Treaty of Amsterdam (Gabel). It reformed the third pillar of the Maastricht Treaty which is justice to police and judicial cooperation in criminal matters (PJCC).

The Treaty of Amsterdam brought some changes to the Maastricht Treaty. The Intergovernmental Conference ("IGC") which was held in order to sign the Amsterdam Treaty had a mandate from the Heads of State and Government meeting in Turin in March, 1996 to focus on four main changes. The IGC arrived at the conclusion of four main changes: insisted on the strong rule of law, democracy, freedom of movement of people and mutual respect (Piris and Maganza 36).

1.1.5. Lisbon Treaty and UK

On 18th and 19th October 2007 the European Council met in Lisbon and approved the new reform treaty under the name, 'Lisbon Treaty'. It amended new innovations for both the Maastricht and Rome Treaty which form the constitutional basis of the EU. The Treaty of Lisbon had been ratified by the member states of the European Union, which would make it easier to be quickly implemented in the opinion of the communications and marketing professional (Kenton).

The Treaty had updated the regulations of the European Union, establishing more centralized leadership and foreign policy.

The Treaty created a first step for the countries which wanted to exit the EU and legalizing new policies. It was built on previous treaties but interdependent new modifications to optimize coherence between the member states of the EU. The treaty also attempted to establish a Union constitution depending on previously rejected constitutional treaty, but some member states did not agree on the voting procedures mentioned in the constitution because if they do so they would lose their power of voting (Kenton). In order to solve this problem the Lisbon treaty suggested overbalanced votes and rollover the reach of qualified majority voting.

Lisbon Treaty's article 50 is considered as the only legal document to legalize the exit of the UK from the European Union. There is passage that spoke about the agreement of all member states about the process for a country which wants to break down with the obligations of the treaty and that any member state may take a decision to exit the EU according to its constitutional requirements in the opinion of a senior researcher on the institute for government's Brexit team (Thimont Jack and White). It means that the withdrawal of a member state is a legal right.

The UK government is the only one that has the right to trigger this article and this decision can be made by the prime minister with the consultation of the cabinet. The vote was not enough for UK to leave but it has to make a formal decision this can be made by the prime minister whether orally or written form, on March 2017 the article has been triggered by Theresa May. (Thimont Jack and White). Some experts argue that the vote for leaving was sufficient while others said that there is a need for a primary legislation.

1.2. Brexit: Contextual Framework

From 1973 Britain has been a member of the EU or its forebear EEC, but some conjunctures have destroyed its confidence with the EU such as the Syrian refugee crisis which tested the open-borders policy of Europe. The European Economic Community relationship's with Britain was complex with a great opposing to Europe in both parties the British Conservative and Labor one emerged since 1945.

In 2014 David Cameron who was the conservative prime minister troubled about the winnings by the far-right UK Independence Party. In order to allay people who voted against immigration, he called for a referendum on Brexit if he won the elections of 2015. While he himself believed that it is not good for Britain to withdraw from the EU and asked people to vote to stay. Other members from his party did not accept (Kenton). So the appropriate definition of Brexit is the UK decision to leave the European Union after the referendum held on 23th June, 2016. The consequences of the vote challenged forecasts and muddied transnational markets, which lead to the fall of the British pound to a proximal level.

1.2.1. The Underlying Concerns behind Brexit

The UK choice on EU enrollment on 23 June 2016 observed as a turning point in English history and European integration. This segment inquires as to why few regions vote to leave the EU and others casted a ballot to remain. Despite the fact that the outcome had been anticipated to be tight, within the days running up to the choice bookmakers and surveyors expected the "stay" side to win. Numerous spectators were left perplexed and sharp to comprehend who decided in favor of "leave" (Becker et al.). In this context different papers and online journals immediately detailed plots that relate the choice vote to key attributes and different causes behind the decision.

EU exposure and immigration was the first fundamental cause of Brexit which explains the UK's decision to leave, depending on measures of the local authority area's exposure to the EU including the trade exposure and its receipts of EU structural funds and immigration. The accretion proportion of the migrants from the 12 EU joining countries that team up EU between 2004 and 2007 considered as a cause behind the leave vote, this evidence shows that immigration from dominant eastern European countries affected the voters (Becker et al.). However, it is difficult to state the exact mechanism whether it is an economic or social effect.

Carl claims that People's main reasons for voting to leave or remain in the EU referendum, mainly there are two main reasons behind the British decision to leave which were sovereignty and immigration, while the reason of those who wanted to stay was economy. Depending on the analysis of the polls he found that there are various reasons for voting to leave one of them is teaching a lesson for the British politicians which is categorized remaining by an immersion majority of set aside voters. While the reasons behind voting to remain is the strong attachment to Europe that is classified by a large number of voters, justified by the Britons' weak sense of European identity.

There are many common causes for the UK decision to leave the EU. Firstly, what makes British people more skeptical of the EU is the euro disaster. British politics has constantly incorporated a section that's doubtful of deeper integration with the let-up of Europe. This group has grown-up stronger in latest existence as the EU has struggled with the consequences of the financial crisis in 2008 (Lee). It is right that Britain joined the EU, but it did not accept the legitimacy of European control over its institutions.

In 2008 the European economies recoiled from the Euroskepticism in the UK through poor performance. After 2008 decline was rude in the United States, but it was actually austerity in the

euro area. The Eurozone faced a bigger shock than US did initially and at that time cursorily collapsed recede into depression slightly than experiencing a repeated recovery. The central banks aimed to respond to these recessions by intensifying the change contribute in sequence to promote cost-effective activity (Lee). So the main cause was the euro itself.

In 2008 the US and the EU fundamental banks faced a fiscal catastrophe, but America's central bank at the end of the day responded convincingly to the cost-effective downturn, helping to follow the financial prudence budding over again in 2010. Another reason is that some advocates believe that Britain would be better outside the EU mentioning that the main focus is on the liberal rules of the EU for the domestic immigration and the EU burdensome economic regulations (Lee). Depending on the previous sayings sovereignty is considered as the main reason and the most common problem because British people wanted to return the rule for the elected representatives in their parliament.

Some issues in the future of the UK in the EU are considered as Britain's arguments to exit the union. Starting with following the money since UK is a net contributor to the EU, so as the UK economy improves the bill is rising. Another economic reason is that the UK external trade relations impeded by the EU and that the members who have their own currencies they may not influence the decision making since the euro area financial relations are related together following the credit crisis (Boyle). These are the main concerns behind Brexit vote.

1.2.2. The European Causes of Brexit Vote

The European Union has various reasons for its vote in favor of Brexit. Firstly, the EU undemocratic nature which is best exemplified in the replacement of the Italian prime minister after being forced by the EU technocrats. Another cause is that after Brexit immigration from the EU will go down. While immigration from other countries will stay the same without forgetting

that UK controls the non EU immigration by itself (Edwards). Immigration and sovereignty are considered as the two main European causes behind the Brexit vote.

For many years both the German and the Greek economies were at opposite ends of the spectrum because Germany was saving its funds and grew its economy. While the Greece was borrowing money and its economy collapsed, which means that Germans must bring back their credit from Greeks in order to keep on functioning and if the Greeks decided to leave they have to pay their debt because they are not independent. Even though their economies are different but they are enraged and linked by each other (Edwards). Brexit is not only harmful for the UK, but it may cause problems for the rest of the EU member states.

1.2.3. The China Factor

China is very important trade partner of the UK so as the exit of Britain from the European Union its agreement of free trade with China would become a great problem. For long period the old British government tried to strengthen its relationship with Beijing, but the new government's conservative attitude towards Chinese investment in some important projects affected what is known the golden decade (Liddle). Brexit will affect the relationship between China and the UK.

China was interested in the city of London since it was very important for the EU market, but when the UK detached from the European Union, London position will fade. After the worsening of the UK economy, the EU will impose new rules to stop the imports of China from entering the UK and this will not damage China since it has other substantial trading associates and the competition in its market is very draconian. China is considered as the third largest source of imports for the UK and that the growth of the China market was not related to the UK volume of exports (Liddle). The most affected side in this case is the UK.

The United Kingdom decision to exit the EU has political and economic shock not only for Europe but also outside it. The decision is having greater consequences throughout the international system especially on the relationship of China either with the UK or with remaining members. In 2015 the foreign direct investment from China to the EU reached 23 billion dollar even though with the decline of the EU outward gushes with 28 percent of new investments in comparison to the past years (Crookes). Brexit will costly harm the UK-China relationship.

Conclusion

By the Second World War the first European Union in the world was created starting from the ECSC for economic and political purposes. European countries had another aim to create a common defense EDC yet they failed. Regardless to this failure they did not stop scrambling they look forward to create the EEC and the EURATOM. They succeeded to gather European countries in one market which is the Single Market.

Britain was not a member in this union in the beginning it created a similar organization called the EFTA. The UK did not wanted to join this union in the beginning yet in 1973 it joined the EEC because of its success though it faced some problems from France to be accepted. The EEC was named later on the EU after it enlarged and included other European countries. The EU was a successful union it awarded the Nobel Peace Prize in 2012.

Britain has been always a reluctant and unmanageable pattern, and its relationship with the EEC has never been warm. However, Britain remains Eurosceptic. As the UK decided to withdraw from the European Union after being its member state since 1973, the decision came as a big shock not only for the EU member states, but also to outside countries because of its negative effects. Britain's reasons for its decision were various as they mentioned above taking into consideration the nature of its relationship with the EU. The chapter also spoke about the European causes to vote for Brexit which are mainly economic and political ones in addition to the impact of Brexit on the UK- China relationship and the benefits of China from the withdrawal. Finally, Brexit will also affect UK positively and negatively in substantial sectors.

Chapter Two

Assessing the Costs and the Benefits of Brexit for the UK

Introduction

Brexit is a decision that was agreed upon by the majority of the UK citizens in June 2016. Brexit is a crucial decision for the future of Britain it is not only about the benefit of current British but also for the benefit of the coming generations. Presumably if it is beneficial it will benefit all British and if it is harmful it will harm all of them and the coming generations as well. The UK has no clear plan for the next step after its leaving, hence the future is uncertain.

This chapter will discuss the benefits and the costs of Brexit for the UK on four main domains trade, immigration, foreign direct investment and the uncertain future of the UK. First, since the UK's trade relations are based upon its membership so it should focus on new agreements with the EU members otherwise it will lose its trade partners. Second, although immigrants play a huge role in the advancement of Britain's economy, the British are no longer appreciating the idea of living with immigrants.

Third, foreign direct investment is an important source of income for the UK, but what is going to happen after the Brexit is uncertain, it may lose its investors and even the firms that are already opened in Britain may close. Fourth, the future of Britain is uncertain, since the government does not prepare any plan for post-Brexit, so what will happen after Brexit is uncertain. Britain must take into consideration all of these cost for the advancement of the country.

The benefits and the costs of the UK exit are dependent upon the new relationship between the UK and the EU. Britain may negotiate new trade agreement with the EU like to abolish

tariffs on goods it would be beneficial for both. In addition the UK may keep its borders opened for immigrants to guarantee skilled workers. Moreover, Britain may negotiate other agreement concerning the existing EU factors in the UK. Brexit may be a massive costly decision especially for the UK.

2.1. Trade

When the UK joined the EU they negotiated numerous agreements one of them is the trade agreement. It entails the freedom of movement of goods and services. The UK became the favored trade partner for the EU; similarly Britain's largest trade partner is the EU (Baschuk). After the referendum of June 2016, the British asked for a separation from the EU, a decision may to a big extent affect its trade income. Brexit may be very costly decision, but far from reality the real consequences are uncertain.

2.1.1. The Largest Trade Partner of Britain

47 years of membership in the EU, Britain became the largest trade partner of the EU.

In 1962, the percentage of UK exports going to EU15 countries was only 35%; in 1973, it had risen to 42%. The positive trend is even stronger on the import side. The percentage of the United Kingdom's import rate from the EU15 nations rose by 13 percentage points between 1962 and 1973 from around 30% to almost 43%. This positive trend continued after the UK joined the EU. Between 1973 and 1990, trade relations between the UK and other EU states deepened even further. Both the UK export and import rates rose to about 60% during this period of time (Aichele and Felbermayr 17).

In 2013, the emergence of the financial crisis exports and imports of the UK to and from the EU came back. In 2012, the UK's "top ten trade partners" that the UK exported to were USA, Germany, Netherlands, France, Belgium, Ireland, China and others. Moreover, the countries that

UK imported from are: Germany, China, the Netherlands, the USA and France, respectively. The UK exports goods such as "crude oil and petroleum, chemical and pharmaceutical products, motor vehicles and parts, aircraft and electro technical equipment" it imports goods such as motor vehicles and parts, chemical and pharmaceutical products, electro technical equipment and minerals (Aichele and Felbermayr 18-21).

Trade with the EU is much more important for the UK than it is for the EU without neglecting the fact that UK was all the time an important member in the EU. The EU membership gives Britain the advantage of free trade in goods and services with member states of the EU. Statistics have shown that on the one hand the UK exports 50% of its goods to the EU, and on the other hand the UK imports more than 50% of its goods from the EU (Irwin 11). Hence the EU is the most important trade partner for Britain.

Losing the largest trade partner would be the biggest cost of Brexit. In 2015, the EU exports to the UK were estimated by €306 billion, whereas the UK has €184 billion exports to the EU. On the other hand, the UK has €306 billion imports from the EU; however, the EU has only €184 billion imports from the UK. Germany is classified as the second trade partner to which the UK export its products like transport equipment. In addition, it is classified as the first country that receives imports from the UK like road vehicles, other manufactures and chemicals (Emerson et al 10-13).

Analysing these statistics one can assume that the UK will be damaged from both sides; imports and exports. The importance of trade in services in 2013 in which the EU has €122 billion of imports from the UK; however, the UK has €94 billion of imports from the EU. In exchange, the EU exports €94 billion for the UK; whereas, the UK exports €122 billion to the EU noticeably UK is an important partner concerning trade in services (Emerson et al 13).

The cost of trade can be influenced by three factors as explained above; i.e., the UK will not be able to sell its goods to those countries that are far away from the country, in addition, transportation will be costly. Countries that the UK will start new trade with will pay tariffs on the goods coming from the UK which they may be very expensive. Britain is no longer opened borders without paying tariffs like it is used to be with the EU and its member (Tetlow and Stojanovic 13).

Scenarios

The consequences of Brexit are not clear yet; based on imagination of the UK's future in the post- Brexit is governed by two scenarios: the optimistic scenario, where the costs are low, and the pessimistic scenario where the costs are so high. First, the optimistic scenario; Britain will deal with the EEA. It will enjoy free trade with its members; like Norway and with the EU, in addition to low or zero non-tariff barriers (Van Reenen et al 14).

Moreover, the UK will preserve its membership in the Single Market, yet it must follow the EU's regulations and keep on giving contributions to the EU budget. It is estimated that the income of the UK is going to fall by 1.28% that represents £850 of the household income per year. Second, the pessimistic scenario; Britain will not be able to negotiate new trade agreements with the EU. This means no more free trade with the EU, or high non-tariff barriers (Van Reenen et al 15). The EU will have the power to determine the tariffs on goods and services they may be so high especially for the UK .

In addition to the loss of its membership in the European single market the UK will end up using WTO regulations. The WTO will be the responsible for regulating new trade agreements with the EU and with other countries in the world wide. Non-tariff barriers will reduce the trade

income by 2.6% per year (Dhingra 1). New trade relationships without mutual recognition will highly cost the UK.

2.1.3. Post-Brexit Trade Agreement

Not only the EU is important for the UK but also the markets of the UK are important for the EU and its members. Therefore, necessarily a deal after the Brexit should be reached between the two parts to avoid trade damage from both sides. The UK must follow article 50 of the EU that regulates agreements between the European Union and any country which want to withdraw (The economic impact of 'Brexit' 12). Both the EU and the UK will be harmed after Brexit.

In 2018 exports of the UK to its trade partners were estimated \$450 billion. In the case of no deal after Brexit the trade income of the UK will be lower by over \$16 billion. The UK may follow the WTO regulations which may minimize the tariffs between it and the other countries. Otherwise, The UK will face high tariffs it means that it will be obliged to pay taxes to the EU in order to be able to sell its goods in the European single market. In addition to severe control over borders (Hamilton). Following the WTO regulations would be better than no deal.

The UK has another option far from the EU which is to establish new trade agreements with other countries; since it is an important export country, it could attract many countries in all over the world, also because the EU is becoming less important export market from 2014 till nowadays. In addition, Britain will not contribute to the EU budget any more (The economic impact of 'Brexit' 15). The British may think that after Brexit they will enjoy more freedom yet their believe may not be correct.

Moreover, the UK may opt for the initiation of new trade agreements with other countries than the EU however, this option may not be a good solution for the UK because it may face some problems like high transportation, unfamiliar regulation and different languages. These

difficulties may hinder negotiations of new trade deals (Cote et al). In this case trade agreements with the EU would be the best solution.

2.2. Immigration

The UK and the EU made an agreement about the freedom of movement of people. As a result, The UK was the destination of immigrants mainly from the new EU members from 1973 till now, and the only reason behind this attraction was work. The UK population was 52 million in 1960, when the UK joined the EU in 1973 the population increased and became 56 million, then in 2013 the population became larger 62 million (Aichele and Felbermayr 28). Freedom of movement of people resulted high population growth in the UK which became a serious problem.

On the other hand, the British also migrated to the EU countries like France, Spain and Ireland. The UK population raised because of the influx of immigrants from the EU this problem gain a lot of attraction to the extent that the UK decided to withdraw from the EU in order to take back control over its borders (Aichele and Felbermayr 29-30). The main reason behind Brexit is the influx of immigrants as a result, what is going to happen to immigrants after the Brexit? Is one of the main important questions that were posed by Brexit.

2.2.1. The Impact of Immigration on Britain

Immigration took the welfare of the British away, it affected their lives negatively. They became hatred of immigrants day after day; this hatred transformed into a phobia from foreigners. Though Brexit will cost the UK in many sectors; like medicine, agriculture, and economy, but this issue became super serious. It crated too much anxiety in the British society; this issue gained a huge importance to the extent that Britain insisted on Brexit neglectting all the

other costs (Tilford 1). The UK thought that Brexit is the best solution to minimize Xenophobia towards immigrants.

There are some factors that contributed in the development of Xenophobia towards immigrants. Since the coming of immigrants, employers immediately adopted them in work, to the extent that they took the British opportunities to gain jobs. In addition, they were paid even more than the British. Another factor is housing, since immigrants are living in the UK, means that they have the right to take houses and this is lead to delaying of the housing projects for the British (Tilford 2). Xenophobia spread around the country and made living with immigrants very difficult.

Moreover, immigrants led to high population growth, as a result Britain now has the lowest living space per inhabitant in the EU member states. In addition immigrant's amount of consuming in public serviesis is so high in comparison to their paiment of taxes. They affected many sectors like education, their children took higher averages than the whites's children. In the health sector most doctors are immigrants even more than whites (Slack). Therefore, the British put all the blame on immigrants for every problem they faced, and forgot about the government.

The UK benefited from immigrants as skilled workers working in industries. Thus, by closing borders labors will go back to their homes and the UK will be in need of such experts. Immigrants play an important role in the British society they pay high taxes, £17billion is the annual cost of immigration. Since, they pay high taxes, so they have the right to ask for homes to offer services (Irwin 18-19). Immigrants were not just living in the UK they were playing their role as skilled workers as a result, after Brexit the UK will lose most skilled workers.

"The UK's Office for Budget Responsibility (OBR) in its annual Economic and Fiscal Outlook report found that net migration has a positive impact on the British economy"

According to OBR the UK's decision to keep free immigration would increase its economy by 0.8% in 2019-2020. However its decision to stop immigration will decrease its economy by the same percentage. Immigration contributes to the economy of the UK positively, because immigration unemployment rates so low (European Movement International 7). Immigrants had a positive role in the country.

Moreover, immigrants pay high taxes especially those who are coming from the EU, it is confirmed that they add "20 billion pounds to UK public finances between 2001 and 2011." The UK's borders were opened for EU citizens especially those who are looking for work. It is clearly stated that the UK is in need of labors, so the focus of the new relationship between the UK and the EU will be on workers (European Movement International 7). The UK will lose skilled workers that are hard to be replaced by natives since the British are not all experts.

The UK is the better destination for workers, it offers them many options. Immigrants were integrated in many sectors such as medicine, agriculture, trade etc. Closing borders would cost the UK in two main sectors medicine and agriculture. Approximately 13% of hospitality will be decreased because immigrants doctors will be prohibited from working in the hospitals of the UK. Also 20% of agriculture will be decreased since farmers come from EU to work in Britain (Lyons). Immigrants will not think about Britain as a good destination to find job any more.

2.2.2 Post-Brexit Immigration Agreement

In post-Brexit many things would change, Immigrants will not have the same advantages as they have had before. The British and EU citizens may have the validity to travel just in the case of employment, yet concerning tourism they may need the visa. Furthermore concerning retirees the UK's system pays their pensions even when they are living in EU countries

(Goodhart 7). The UK may give skilled workers the validity to remain in the country because it will cost its economy if it prohibited them from work.

Immigrants are about 225,000 retirees approximately the same number of retirees living in the UK also, about 125,000 students from EU in addition to 55,000 who graduated from UK universities in 2015. It is predicted that after Brexit they be treated as international students that is to say they must ask for visa. Graduates may stay in the UK only in the case of finding jobs like in hospitals or manufacturing or transportations etc. (Goodhart 8). The UK may tolerate only those immigrants who serve the country.

The UK and the EU must negotiate new agreement concerning immigrants, mainly, because both sides will be affected, because the immigrants of the UK are living in EU countries as well as the immigrants of the EU are living in the UK. Since immigrants stabilize in the UK it would be hard for them to go back to their home country, the same for EU immigrants. They will not appreciate the decision of closing borders (“The Economic Impact of ‘Brexit’” 9). Whether to close borders or to keep them open will depend on the agreement that will be reached after Brexit.

Nevertheless, the decision, which the UK is going to take to close its borders, will cost the economy of the UK. It is also beneficial for natives to take their opportunity to work and offer services for their home country. Problems of the British may be solved like to get a house, to find a job etc. In addition this decision will make the British feel comfortable in their home country since they were not happy living with immigrants (Tetlow and Stojanovic 44). This decision will stop Xenophobia towards immigrants and encourage Britons to substitute immigrants.

2.3. Foreign Direct Investment

Britain is the largest investor in the EU among all the members. The EU has €7,033 billion of external investment and €5,692 billion of internal investment, investors of the UK invest €683 billion in the EU in comparison to the €5,692 billion it is a valuable amount foreign direct investment (FDI) is an important factor in the growth of gross domestic product (GDP) in Britain (Emerson et al 16). FDI is an important source of income for the UK.

FDI in Britain plays a huge role in the development of the economy, the use of technology, competitiveness, productivity and life style; it helps countries to exchange ideas and projects to ameliorate the life styles. FDI ranks as an important source for providing jobs, in invested factories like Nissan and Toyota of Japan provide a high rate of jobs for both immigrants and the British. Yet in 2016 after Brexit was suggested the number of jobs provided by FDI has been decreased by 19% (Romai).

2.3.1 The Importance of the Single Market

There is an ancient investment relationship between the UK and the EU and its members like France, Germany and the Netherlands. This relationship differs from before, during and after the financial crisis which stretches between 2007 and 2008. Before it the relationship was very strong, during it the relationship weakened but after it became stronger especially in 2009 (Aichele and Felbermayr 24). The European single market keeps Britain close to its customers and facilitates the initiation of relationships with foreigners since it is a huge market.

From 2012 and on FDI inwards from foreign countries doubled and became even more than those coming from EU members. The investments in foreign countries became so successful in 2012 about US\$1.75 trillion was invested in foreign countries and US\$800 in EU members (Aichele and Felbermayr 25-26). Foreign investors became more interested in Britain mainly

because of the validity that the UK has to enter the single market freely. Also because of the freedom of movement if they enter the UK they can pass freely to other EU members.

The membership of the UK in the single market gives it the opportunity to be an attractive FDI country as the Prime Minister David Cameron said "Since 2004, Britain has been the destination for 1 in 5 of all inward investments into Europe. And being part of the Single Market has been key to that success" That's why Brexit would hinder the success of investment in Britain (Irwin 12-13). Brexit will reduce the opportunity of the UK to pass to EU members as a result there would be no investments either internal or external with EU members.

Britain has been an important country that attracts investors mainly because of its membership in the EU so getting out may reduce the number of investors. In order to minimize the FDI cost the UK should reach an agreement with the EU to have access to the European market so it could maintain its investments relationships with members of the EU (Irwin 14). The Single Market was the responsible for the attraction of investors, if the UK lost its membership this would mean that it will lose investors as well.

2.3.2 The Impact of Brexit on FDI

The FDI income of the UK decreased after Brexit was suggested in 2016. The FDI inwards from non-EU members were £192.0 billion in 2016 and after Brexit was suggested they decreased in 2017 to £80.6, and £24.0 billion from the EU. Then in 2018 the inward flows decreased again to £49.3 billion and -£12.0 billion concerning the EU in particular (Ward). The impact of Brexit on the FDI income of the UK began to emerge even before the withdrawal is done.

The EU was sending 35% of its outwards FDI flows to Britain in 2016 it decreased in 2018 to 23%. Britain was the second country that receives inwards from the EU for ten years. The fall

was noticeable from £192.0 billion to £49.3 billion in a period of three years. The overall of inwards FDI flows in Britain has fallen from \$2.0 trillion in 2015, to \$1.5 trillion in 2017, reaching \$1.3 trillion in 2018. (Ward). According to the previous mentioned statistics Brexit will hard the FDI income of the UK and this is clear even before the withdrawal is done.

Britain was the largest country that receives projects from foreign countries however, it lost its rank because investors are afraid of the aftermath of Brexit. In 2017 Germany took 1,000 projects of FDI that were supposed to be invested in Britain. The UK was the first destination of FDI projects for EU27, approximately 25% of EU projects were destined to the UK in 2015, it was reduced by 18% in 2017 (Taylor). Uncertainty about post-Brexit is the main reason behind the fall in FDI.

The UK will receive a loss in FDI for 10 years, but later on it will recover. The FDI income will fall by 1.8% and 4.3% even more than the loss of the annual income of trade, as well as "a loss of GDP of around £2,200 per household". Industries of cars that are invested in the UK are of the EU, so cutting relations means the EU will restore its industries, taking into considerations that the exports of the UK are 50% of cars to the EU (Van Reenen et al 27). So basically if the trade costs are lowered the FDI costs will be low too.

If the UK did not negotiate new trade agreement with the EU, the imports of technological tools may decrease. Since these tools are necessary for the UK firms to continue their work this would hinder the operation. Both the UK and the EU may put hard barriers on FDI they may end up with each side invest by its own, Britain is the biggest loser in this case because EU members would keep track of FDI investment normally (McGrattan and Waddle). In this scenario FDI would decrease as a result welfare of the British is threatened.

The biggest cost that Britain will suffer from is the firms that were invested in the UK can close after Brexit or transmit to their home countries. Japan is planning to change the office of Sony factor to the Netherlands because of the uncertain result of Brexit. Since Britain focuses on some important firms owned by EU investors to produce necessary goods and products this changing would harm its economy and even the living way (The economic impact of 'Brexit' 26).

As a result, the fall in the attraction of investors would lead to a fall in FDI.

However, Britain is an attractive place for investors and it would remain so even if it leaves the EU. The UK communicate with the international English language which will help the UK to create new relationships with foreign countries. The ability of Britain to attract investors from other countries after it leaves the EU makes EU members worried about their flows inward and outward (Irwin 12-13). The UK will remain a good destination of investors even after Brexit.

2.4. The Uncertain Future of Britain

What is known is that there is no clear plan for Britain after Brexit, so basically everything is uncertain, yet as the Prime Minister David Cameron said in his speech that 'If we leave the EU, we cannot of course leave Europe. It will remain for many years our biggest market, and forever our geographical neighborhood'. Brexit pose some questions concerning the period after Brexit like is who is going to be Britain's trade partner? And what is the destiny of immigrants in both the UK and the EU? (Van Reenen et al 1). Answers to such questions are uncertain.

2.4.1. Brexit Models

There are numerous models that were suggested by some experts of some countries, like the Norwegian model, the Swiss model, the World Trade Organization model and other models like FTA-based approach, MFN-based approach, Turkish-style customs union etc. The Prime

Minister David Cameron appreciates argued that Switzerland and Norway are not the same case of Britain "There are some who suggest we could turn ourselves into Norway or Switzerland - with access to the single market but outside the EU but would that really be in our best interests"? (Irwin 6).

2.4.1.1. The Norwegian Model

There are numerous models that probably Britain would follow. The Norwegian model suggests that Britain could stay a member in the EEA. Like Norway though it is not member of the EU yet the EEA gives it the opportunity to participate in the Single Market. This model puts some conditions for the UK: On one hand the UK must contribute to the EU budget the same way when it was a member. On the other hand it must follow EU regulations without having the right to participate in passing rules (Graver).

Furthermore, the UK will not have any members in the EU parliament to represent it any more. This will put it in a difficult situation to follow this model, because it cannot give its opinion or reject any law in the Single Market that could harm its benefit. EEA members have nothing to do but to follow the rules that were passed by the EU. However, it will have the right to negotiate its own trade agreements with other non-EU members and put its own tariffs on goods and services (Graver).

2.4.1.2. The Swiss Model

Switzerland is a member in the EFTA, but not a member in the EEA. Switzerland has established bilateral treaties with the EU about particular issues. After negotiations they reach a treaty about the freedom of immigration. Besides, another treaty was signed about the opportunity of free trade with EU members in all goods except the agricultural ones. Yet

concerning services no treaty was signed. Although Switzerland is not a member in the EU, its membership in the EFTA obliged it to contribute to the EU budget (Isaby).

The Swiss model is possibly not to be followed mainly because of two reasons. First, Britain depend on the financial services factor, after Brexit the EU may hinder it from offering services because Switzerland already asked for permission before and it was rejected. In addition Switzerland export 55% of its goods to the EU however, the EU export only 6% of its goods to Switzerland. It does not have a full access to the Single Market (Stephens) Following this model puts the Britain's future in the uncertainty aspect, unlike the Norwegian model which sets clear options.

2.4.1.3. World Trade Organization (WTO) Model

The World Trade Organization (WTO) is an association which organizes relations between countries in all over the world. Regardless to the membership of the UK in the EU it is also member in the WTO. So even if it did not regulate its trade relationship with the EU they will be regulated through the WTO. Among the conditions of this organization is all the members should chose the same most favored nation (MFN) (Emerson et al 20).

The UK may continue with the EU as its MFN since they already negotiated the tariffs of goods; moreover, because all members of the WTO have chosen the EU as their MFN. Instead Britain could change the tariffs on goods freely, but concerning services the WTO has its own system. Therefore being a member in the Single Market or not is uncertain yet the UK is a special case for the EU than all the other WTO members (Emerson et al 20).

The British government did not put a clear plan for post-Brexit so uncertainty took place. However despite this uncertainty Britain will have the opportunity to determine its own regulations, trade policy, and economic deals with the EU27 and the rest of the world. Moreover

it will not be represented by the EU any more, unlike the rest of the members. After Brexit, Britain will be more independent to choose its trade partners without giving much importance to the EU members' needs or regulations (Van Reenen et al 7-8).

Conclusion

Through reading a variety of reports and analysis Brexit is going to affect the UK negatively maybe this was not known by proponents of the decision. According to Paul Welfens after the 2016's referendum voters for yes leaving the EU were not aware of the costs especially the economic ones and this made it evident that they vote for leaving but they did not know what is going to happen after Brexit (1). Maybe if the British have the chance to vote again they will not take the same decision. Since Britain is the first case of withdrawal from the EU the costs were not known before.

Concerning trade the UK will be in a hard position if it does not establish new trade agreements with the EU, whether to join the EEA or the EFTA. Otherwise it will have no other option but to join the WTO which will determine its future relationship with the EU. Since the EU is the largest trade partner it is hard to substitute it in a very short time. Losing the major exporter in the European single market may be hard for the EU too.

Concerning initiating trade relationships with the other non-EU countries this possible but the outcome is not certain. Furthermore concerning immigration the effect is not clear. Yet, Britons main reason behind voting for yeas leaving the EU is the growth of xenophobia towards immigrants. Though immigrants contribute positively in the country, yet Britons feel unrelieved living with immigrants in the same land. Moreover the effect of FDI on the country is clear, since Britain will lose its membership in the single market.

Its membership in the Single Market was the reason behind the attraction of investors. In the post-Brexit EU's firms may close their offices and ask for transitions, Britain will have the chance to attract other non-EU countries, but this is not possible without its membership in the Single Market.

What is going to happen in post-Brexit is uncertain, it is uncertain whether Britain will join the EEA or the EFTA or the WTO or other organizations. It is also uncertain whether these organizations will accept it or not. It is better for Britain to reach new agreement with the EU about remaining a member in the single market this will reduce the costs of Brexit. Finally the result of analyzing both costs and benefits of Brexit for the UK is: Brexit is a costly decision and the UK will hardly pay for that. Leaving the EU is a massive costly decision for Britain Nevertheless it insists on it.

Chapter three

Assessing the Costs and the Benefits of Brexit for the EU.

Introduction

The UK withdrawal from the EU more precisely Brexit will not only affect the United Kingdom, but it would have substantial effects on the European Union as well. Its negotiations came at a challenging time for the EU taking into consideration that UK is a very important market in businesses for many of the European Union states and it will have several challenges to EU on different sectors.

Since a Brexit would likewise negatively affect the rest of the EU member states without opportune and liberal negotiations on new terms of collaboration, this part of the study sheds light on the UK referendum consequences on different EU sectors in and shedding lights on the alternative arrangement after Brexit.

3.1. International influence:

Brexit will cause the EU loss of a very important European power, and it would lose the influence in both the foreign policy and the military terms. Since the UK is considered as a soft power which means that through the attraction and the persuasion methods it could make change on others' perspectives far from payment and browbeating. In international surveys of soft power UK was graded highly and this is what makes it a source of influence for the European Union (Irwin 9).

As a result, if the UK exits the EU it will minimize the soft power origins and harm perceptions and not only that but the EU soft power as well. In addition to the UK soft power it has also hard power origins where financial, military and foreign policies were considered as another source of influence in contrast to those of the soft power (Irwin 25). The UK powerful

position on the international institutions makes it beneficial for the rest of the EU and this is what will make the EU able to act coherently in international institutions.

Brexit will have heavily effects on the EU more than any other country because of the UK important role on international institutions "The channels through which the Brexit is expected to act on the rest of the world will probably be more intense and faster in the EU than on other developed countries outside that" (Kyriazis and Economou 8). In this case the EU is the most damaged side by Brexit.

3.2. The Political Implications

The UK withdrawal from the EU could have substantial consequences regarding the integrity and political unity of both the EU and the UK. The Conservative Prime Minister David Cameron's resignation is considered as the first political outcome of the referendum. The Scottish National Party (SNP) did not support the UK exit from the EU so it could call for a second referendum regarding the independence which will give the Scots the chance to decide about detachment from the UK while maintaining relations with the EU (Sumpter).

3.2.1. The political implications in the European Political scene

The UK political scene was not the only one that has been affected by Brexit since it played an important role in holding the balance between the European military powers, but it has directly affected the EU politics as well. The European political co-operation (EPC) was established in 1969 and came into force in 1970. It was modeled under the Single Market Act which was its' development into Common Foreign and Security Policy (CFSP). Both The EPC and CFSP aimed at developing unanimity and common position between the member states on foreign policy (Jones 70-71). While in the EEC, military and security matters were omitted.

It would be naïve to think that Brexit will not leave any implications and scars. The UK has been playing an important role in holding the balance between the European military powers overtime through using its military power and overseas colonies for better management for that function. The UK continued to hold that balance before the referendum even when it was a member state of the EU which was considered as locution of the conventional English approach (Bruton). It was hard for the UK to make an influence on all the EU policies and it just approved some of them because of their complexity.

After Brexit the UK will no longer use the EU military powers because it did not want to do so under the NATO care. So the problem with the UK remaining a member of the NATO is that the police cooperation will not stand the same. Where there is a clause in the Article 42 of the EU treaty allows for a common security and defense policy and if an EU country is the victim of external attack, the other EU countries are obliged to help it by their military powers (Bruton). In this case the article will come into use.

Brexit would set new antecedent. It would make an influence on the other member states' reactions and it could also encourage them to decide exit movements in addition to its impact on other sectors mainly the defense area, the foreign policy... etc. There could be an altitude in regional dissociation in addition to the increasing of cross-border bail-out fatigue in the Eurozone if there was disapproval of one of the supra-nationalism form (Buiten et al).

After Brexit the UK terms of access to the EU would be more difficult than those of the rest of the member states. This is not because the good treatment for the non-EU member rather than those has disaffiliated the EU (Buiten et al). As a result, Brexit would damage the access of the UK terms into the rest of the EU members and that any other member state has the intention to leave the Union would not be invented from enjoying the costs

The process of disintegration that is triggered by Brexit will assess the implications and the effects of the future trajectory for the EU. The Brexit vote has strengthened anti-immigration parties throughout Europe. So if these parties will succeed in gaining ground in both France and Germany, they would make an anti-EU vote and this will be very dangerous for the EU hence one of those countries left in the opinion of the president of World Money Watch and economist (Amadeo). This is because the EU then would lose its solid economies.

3.3. The Economic Implications

Since the UK is a very important net contributor for the EU, Brexit decision will strongly affect the EU economy. This section is about stating both negative and positive economic effects of Brexit on different sectors. There were few immediate implications for the EU referendum. On 23rd June the pound was worth €1.30 but by 19th July 2016 it decreases to €1.19 for The Guardian's senior social reporter in London (Belam). Since the 1980s the pound reached the lowest level to the dollar.

The pound was worth \$1.50 on 23rd June but it achieved \$1.30 with a loss of about 13%. Many global financial institutions spoke about the Brexit economic consequences on the economy of the world as the International Monetary Fund (IMF) predicts that in 2017 the UK economy will increase to 1.7% with a loss of 0.9% than of what was in April (Belam). As a result the pound's loss of its value to the Euro was due to the unexpected UK vote for withdrawing.

There will be three basic future scenarios for the EU: German hegemony; the disintegration of the European project; or a rejuvenated Franco-German relationship as the EU engine which means that this decision will have a heavily effects on the EU as the two professors of European

politics declare (Bulmer and Quaglia 1069). Probably these are the main scenarios for the EU as one of the consequences of Brexit.

3.3.1. Budget:

The UK decision to leave the EU could strongly impact the EU budget and it means that the EU's budget is going to lose one of its main contributors. No-deal Brexit would mean the UK's contributions to the EU budget fall to zero as of March 30th 2019 for the economist (Darvas). It means that the EU and other member states' budget will fall down and how this will have to be covered? How this burden would fall on other member states?

As previously mentioned that the EU would be negatively affected by Brexit. The United Kingdom's network input to the EU account would need to be compensated for should it exit the Union. Moreover, businesses in EU countries would be diagnosed with cut-rate to the UK market. With 15% of the EU Gross Domestic Product (GDP) and 13% of its population (as of 2013), the United Kingdom is an important market for businesses in Germany and other EU states Economists (Aichele and Felbermayr 45). The UK important position in businesses outside the EU is considered as its point of strength.

The EU budget will shrink after Brexit in other words it will downturn and in this case the bloc will try different ways to raise the funds, either by increasing the contributions by other member state or cut spending as mentioned by the Staff writer for FPJ and Eurofruit (Searle 1). In this case the agreement on the new budget will be a great challenge for the EU.

During the live round of financial plan negotiations the UK stalwartly disparate privileged expenses. So if it will exit the EU many other countries would have to tread up their difficulty to look after financial statement discipline, or agree to top expenses and the better assistance that stab with it. The outcome of the question is apt loosen towards French, Southern and eastern

priorities with Germany and Netherlands, in precise bringing up the rear an ally in account decisions for the associate professor (Irwin 24). As a result, with the leave of the UK the EU will lose an important net contributor with a wide gap which has to be filled either by less spending or higher contributions.

The exit of the UK from the European Union is probable to stand in front of €9 billion in its annual budget mind the estimated sum of the UK netting aid at the portray time, which might be compensated by a continuing contribution by the UK. If the EU strain contributions as a term for its GDP one location quantity would be the same as Norway makes, scaled up for the extent of the UK economy and this gives about €3.5 billion (Nunez Ferrer and Rinaldi 4). This might be considered as the other income in the EU budget and external limit for Britain, since it will not be an affiliate of the single market and this participation should be taken into account.

In other hand is there no Comprehensive Economic and Trade Agreement (CETA), and the UK has just a WTO-based liaison with the EU, so therefore the EU make financial arrangements would greet extra rate revenues, estimated as just about €4.5 billion. Interestingly this sum is not subsequently distinct from the Norway-based estimate above (Nunez Ferrer and Rinaldi 4). As a result, in cooperation personal belongings the EU would retrieve around a third into partially of its passing away of UK contributions.

The UK net contribution to the EU budget, the rights of the European nationals living in the EU and those of the UK nationals living in the EU also the arrangements about Northern Ireland and Gibraltar were the basis issues that has been discussed when Brexit was in its first stage (Bulmer and Quaglia 1089-1098). All these issues had been taken into consideration before the UK decided to withdraw the EU.

Financial savings from halting net conversions to the EU budget are likely to be 0.3-0.4% of GDP annually, which is considered as a small amount that will lead to a lower GDP which would affect the financial position. In order to maintain the financial policy it has to limit the scope of using the net EU budget savings policy (Kierzenkowski et al 7). So limiting the net EU budget is the best solution for better financial policy.

3.3.2. Industrial Policy

The EU industry channel is the one responsible for different functions which is affected by Brexit too. "In the European economy industry is considered as a crucial sector since it is responsible for a high number of jobs, sharing exports, contributions to entrepreneurship and innovation. After the crisis of 2008 the industry channel of the EU did not recovered one hundred percent. While many challenges and changes to the industrial sector procreated by different factors, which need new guidelines" (Modzelewska).

The bearing on built-up procedure in the EU depends on the model of Brexit, but it may ensure a flagging of opposition policy, looser collaboration in learning and research...etc. Its administration may intervene other in high-profile and politically hypersensitive procurements. So business would carry the rate of mergers independently reviewed by both authorities "UK and EU". The hard work of EU opposition guiding principle may swap with the UK no longer on stage an influential role in the European antagonism Network (Irwin 9). Even as the UK has advocated the rule of undistorted rivalry inside the EU, then the UK may seek out to exploit its liberty from the constraints of position give support to guiding principle under more or less Brexit models.

In addition to what has been said above, after Brexit the UK may embrace a special attitude to procurement with appreciation of the government that has being supplementary freely in

particular under a following pressure. The possible is evident from the controversy surrounding the Thames link clash between Bombardier and Siemens. The UK was considered as an influential chief on the 2030 objectives for radiations devaluation, although productively fighting off calls for other strap goals for renewables and energy aptitude (Irwin 9-10).

This would carry out new to the expenses to question of encounter the emissions aims. Also the UK power over ethnicity, culture and variety of instructions in basic sectors, would be prone to reduce after Brexit. Other UK bodies provided an exemplar for comparable bodies in more than a few EU states. Incoming into the universities of the UK may perhaps turn into hard process for both publicly-funded and privately-funded learners, without forgetting the hazard of accenting controls over migration (Irwin 17). As a result there might be a fading of competition policy, looser collaboration in learning, tutorial and brunt on in the public domain procurement.

3.3.3. Financial Services and Insurance Sectors

Brexit's effect on funds relies on the nature of the products that are given to the investors in addition to whether they are UK, EU or non- EU focused. Concerning the corporations they could be invented from enjoying the benefits of the management passport and commercializing. According to UCITS regime the effect of Brexit could also exceed to the domiciled Undertakings Collective Investment in Transferable Securities (UCITS). Which are managed either by their self and domiciled by the EU or under the management of EU firm in opposition to the Alternative Investment Fund Manager (AIFMD) regime (Sumpter). Both regimes came in opposition to each-others.

It is a little bit complicated for the uncertainty about the negotiations by the transnational time, after Brexit these companies would rethink if they need to re-domicile funds and enjoy the right of access as they do under both regimes or not. If the passporting regime applied on the

insurance sector, many UK companies would be treated as a third country that need for the authorization instead of relying on the passporting regime that they are relying at the present time of Solvency (Sumpter). So the main focus here is whether the UK insurance sector is granted equally only under Solvency or they will lose this equivalence after Brexit.

3.4. Post-Brexit's Alternative Arrangements

After Brexit the UK will not remain a member of different arrangements and this is the main reason behind reconstructing relationships and strengthening ties with other countries and working on its membership with different arrangements. After the heavily consequences of the vote in the House of Commons Theresa May is expected to return back to Brussels in order to negotiate a Brexit agreement (Sandford). While many EU leaders agreed on the withdrawal agreement signed by the Prime Minister May.

3.4.1. European Economic Area (EEA) Membership

After Brexit the UK will not remain a member of EFTA and could not be a member of the EEA with losing the right to become one of its members. In order to join EEA the UK has first to become an EFTA member through negotiating with its four main members in addition to the three EEA members because it cannot accept a non-EU member states. Hence the UK became an EFTA member it has to negotiate an EEA accession treaty which cannot be signed before Brexit with the agreement of the parties on both negotiations (Piris). The best option for the UK after leaving the EU is to become a member of the EEA.

3.4.2. Customs Union

The Customs Union is a unique area where a number of countries remove tariff barriers on each other's goods and applying a uniform system for customs duties on external imports when they access the EU for the first time, which is not the same case for the EU countries. They

implement a common set of rules called the Union Customs Code (UCC) (European Commission). The EU Customs Union has an important role on the single market function, since all 28 EU members work hand in hand for better management.

("Customs Union") is a trade agreement by which the EU member states enjoy free trade with each other among the EU borders while imposing tariffs on the non-European countries. It is also a form of economic integration which gives intermediate step between common markets and free-trade zones. The customs Union would be considered as an alternative to the EEA as Turkey adopted with the EU.

The Customs Union purpose which is facilitating the free trading process of member states with each other and it reduces the administrative barriers and fosters the nations' economic cooperation. Also it generates trade diversion that plays a great role in the economic integration. The EU considered as the largest Customs Union in the world in the context of the economic output of its members ("Customs Union"). This is the preferred option of the UK main opposition Labor party. However, Theresa May has been reluctant to pursue cross-party support for a "soft Brexit" that could split her own party.

3.4.3. A Free Trade Agreement (FTA)

Britain has been free to strike its own deals for global buying and selling its goods after the Brexit day. The aim of the free trade agreement is to encourage trade in goods and services through eliminating tariffs across borders and omitting quotas and limiting the goods amount for avoiding the impact of cheap goods in threatening the manufactories (Edgington). The UK will enjoy more freedom of trade with non-EU member states after Brexit.

Nawied declares that after the transition period of Brexit, the UK has to start new trade deals with non-EU countries. The need for creating a FTA was considered as an important reason

behind the UK decision to leave the EU in the opinion of its supporters. Within the three coming years 80 percent of the UK trade will be covered through securing FTAs. As a result the agreement on the FTA is a good option for the UK trade.

Conclusion

Through investigating the history of the relationship between the EU and the UK, it can be understood that UK attitudes towards the Union from the beginning of its access were the main reason behind its vote for leaving. It had never trusted the European project and it had always many reservations and criticism about the policies of the European Union.

Their relationship passed through many crises till the UK decision to exit the EU. The decision of Brexit heavily affected substantial sectors in the EU with damage results on their economic and political relationship. The UK has been playing an important role in holding the balance between the European military powers overtime, thus the Brexit would impact the European political scene. Thinking through all the economic implications of Brexit is complicated, but leaving the EU would make the UK much worse off than the EU.

General Conclusion

The aftermath of world war two was the stimulus for European membership. European countries meet to gather Europe in one organization in order to increase its economy and achieve political reconciliation. They create in the ECSC 1952 later on they tried to foster their relationship and create common defense, they proposed the EDC yet it was not ratified from France and German because of political sensitivities.

Member states of the ECSC meet to announce the EEC in 1955 and the Euratom. They tried to foster the relationship between European countries through enjoying free movement of people, services and goods. The EEC gain huge success so Great Britain was attracted to join it. It applied to join yet its application was vetoed twice by the President of France Charles de Gaulle. By the coming of the new President problem solved, the UK succeeded to join the EEC in 1973.

Britain joined the EEC in order to increase its economy however, years later its economy decreased. Lisbon treaty was signed in 2007; it gave countries the right to quit the EU. Britain's ambition towards leaving the EU it submitted a proposal in 2016 in order to leave the EU it was known later on as Brexit. The process of Brexit goes through transitional period until the EU accepted its proposal in 2020.

Brexit is a harmful decision for the UK as a result of this research. If Great Britain does not establish new agreement with member states of the EU it will lose its trade relationship with its largest trade partner. Immigrants contribute positively in Britain, after Brexit the UK will control the number of immigrants as a result, it will lose great skilled workers hard to be substituted.

UK FDI income decreased when it submitted its proposal to withdraw from the EU. This is mainly because Britain will lose its membership in the single market it will not be a good

destination for foreign investors any more. The future of the UK is not certain, after Brexit it will lose its membership in the single market as a result, the loss of investors and trade partners.

The UK attitudes towards the EU from the very beginning of their relationship were the reason behind its decision of withdrawing the EU. Brexit affected various sectors in the EU with great harm of its politics and economy. UK played an important role in holding the balance between the military forces of the EU over its membership.

Brexit causes the EU loss of a very important European power and the loss of influence in both the foreign policy and military powers. The EU is the most affected side by Brexit because it loses a very important member in international institutions. The decision also has different consequences regarding the integrity and political unity of both sides. The UK has a vital role in EU institutions. The Brexit permits the European countries to look for further cooperation at the direct of the European defense. It also affected the future trajectory for the EU and strengthened anti-immigration parties throughout Europe.

The EU pound lost its value to the euro as one of the hardest consequences of Brexit on the EU economy. Also the EU budget lost one of its main contributors and it fall to zero and the businesses in the EU countries diagnosed with cut-rate to the UK market. Moreover, the EU budget shrink and downturn which lead the EU to try many ways to raise the funds. So the agreement of the new EU budget was the biggest challenge for the EU. The industrial policy as a crucial sector affected too through loosing collaboration in different domains. The application of the passporting regime on the insurance sector invented UK companies from enjoying the benefits and treating them as third country.

After Brexit the best option for the UK is to join the EEA in addition to the Customs Union which facilitates free trading with the rest of the EU members. After Brexit Britain has been free

to strike its own deals for global buying and selling its goods and it started new trade deals with non-EU countries through creating FTA which was considered as an important reason behind the UK decision to leave the EU. Finally, Brexit is a massive costly decision more than beneficial for both the UK and the EU.

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Appendices

1. Article 42 of Lisbon Treaty

Article 42

1. The common security and defense policy shall be an integral part of the common foreign and security policy. It shall provide the Union with an operational capacity drawing on civilian and military assets. The Union may use them on missions outside the Union for peace-keeping, conflict prevention and strengthening international security in accordance with the principles of the United Nations Charter. The performance of these tasks shall be undertaken using capabilities provided by the Member States.

2. The common security and defense policy shall include the progressive framing of a common Union defense policy. This will lead to a common defense, when the European Council, acting unanimously, so decides. It shall in that case recommend to the Member States the adoption of such a decision in accordance with their respective constitutional requirements.

The policy of the Union in accordance with this Section shall not prejudice the specific character of the security and defense policy of certain Member States and shall respect the obligations of certain Member States, which see their common defense realized in the North Atlantic Treaty Organization (NATO), under the North Atlantic Treaty and be compatible with the common security and defense policy established within that framework.

3. Member States shall make civilian and military capabilities available to the Union for the implementation of the common security and defense policy, to contribute to the objectives defined by the Council. Those Member States which together establish multinational forces may also make them available to the common security and defense policy.

Member States shall undertake progressively to improve their military capabilities. The Agency in the field of defense capabilities development, research, acquisition and armaments (hereinafter referred to as "the European Defense Agency") shall identify operational requirements, shall promote measures to satisfy those requirements, shall contribute to identifying and, where appropriate, implementing any measure needed to strengthen the industrial and technological base of the defense sector, shall participate in defining a European capabilities and armaments policy, and shall assist the Council in evaluating the improvement of military capabilities.

4. Decisions relating to the common security and defense policy, including those initiating a mission as referred to in this Article, shall be adopted by the Council acting unanimously on a proposal from the High Representative of the Union for Foreign Affairs and Security Policy or an initiative from a Member State. The High Representative may propose the use of both national resources and Union instruments, together with the Commission where appropriate.

5. The Council may entrust the execution of a task, within the Union framework, to a group of Member States in order to protect the Union's values and serve its interests. The execution of such a task shall be governed by Article 44.

6. Those Member States whose military capabilities fulfill higher criteria and which have made more binding commitments to one another in this area with a view to the most demanding missions shall establish permanent structured cooperation within the Union framework. Such cooperation shall be governed by Article 46. It shall not affect the provisions of Article 43.

7. If a Member State is the victim of armed aggression on its territory, the other Member States shall have towards it an obligation of aid and assistance by all the means in their power, in accordance with Article 51 of the United Nations Charter. This shall not prejudice the specific character of the security and defense policy of certain Member States.

Source: https://eur-lex.europa.eu/eli/treaty/teu_2008/art_42/oj . Accessed 30Aug, 2020.

2. Article 50 of Lisbon Treaty

On October 19, 2007 in the capital city of Lisbon, the leaders of the European Union signed the Lisbon Treaty which provided a legal mechanism governing the withdrawal of the EU members that was included in the withdrawal clause from Article 50 of the treaty.

Article 50 outlines the withdrawing process of a member nation which wanted to leave the EU. It gave the members the right to leave without justification as the case of Britain which decided to exit the Union.

Content of Article 50

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 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.

Source: <https://www.investopedia.com/terms/a/article-50.asp>. Accessed 24Aug, 2020.