

## CFR Backgrounders

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### The Debate Over Brexit

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#### Introduction

For decades, the United Kingdom has had an ambivalent and sometimes contentious relationship with the European Union. London has kept its distance from Brussels's authority by negotiating opt-outs from some of the EU's central policies, including the common euro currency and the border-free Schengen area. Even still, the EU's faltering response to recent crises has fueled a renewed euroscepticism. Advocates for a British exit, or Brexit, from the union argued that by reclaiming its national sovereignty, the UK would be better able to manage immigration, free itself from onerous regulations, and spark more dynamic growth.

The victory of the Leave campaign in a June 2016 referendum on the UK's future in the bloc led to tumult in financial markets and the resignation of Prime Minister David Cameron. Now led by Prime Minister Theresa May, the UK must negotiate a new relationship with the EU. With May [committing](#) in January 2017 to leaving the EU Single Market, the UK may face the loss of preferential access to its largest trading partner, the disruption of its large financial sector, a protracted period of political uncertainty, and the breakup of the UK itself. Meanwhile, Brexit could accelerate nationalist movements across the continent, from Scotland to Hungary, with unpredictable consequences for the EU.

#### What is the history of the UK's membership in the EU?

The UK remained aloof from the continent's first postwar efforts toward integration, the European Coal and Steel Community (ECSC) and the the European Economic Community (EEC), formed in the hopes of avoiding another devastating war. "We did not enter the EU with the same political imperatives [as France and Germany]," Robin Niblett, head of the London-based think tank Chatham House, [has argued](#). "We had not been invaded, we did not lose the war, and we have historical connections to all sorts of other parts of the world from our empire and commonwealth."

The UK didn't [join the EEC](#) until 1973. The British people approved membership in a 1975 referendum, but suspicion of political union with the rest of Europe remained strong. Critics argued that the European project was [already moving beyond](#) mere economic integration and toward a European "superstate."

As integration deepened throughout the 1980s and 1990s, the UK's leaders pushed for opt-outs. The UK didn't join the single currency or the border-free [Schengen area](#), and it negotiated a reduced budget contribution. Prime Minister Margaret Thatcher declared in 1988, "We have not successfully rolled back the frontiers of the state in Britain only to see them reimposed at a European level."

#### Why did Prime Minister David Cameron try to change the terms of membership?

Many conservatives never reconciled with membership in the EU, and discontent rose in particular over immigration. The issue of migration from within the EU is fraught, as the UK is currently required to accept the free movement of EU citizens.

Economic migration from eastern Europe spiked after the EU expansions of 2004 and 2007, pushing net migration to the UK to more than three hundred thousand people a year by 2015. Conservative Prime Minister Cameron [called the situation](#) unsustainable. "It was never envisaged that free movement would trigger quite such vast numbers of people moving across our continent," he said in 2015. Drawing on this anger, in 2014, the anti-EU UK Independence Party (UKIP) surged, winning the most votes in the UK's elections to the European Union parliament with an anti-immigration platform.

A wave of [asylum seekers](#) arriving from beyond the bloc's borders has also driven tensions. The UK is exempt from the EU's 2015 plans to resettle hundreds of thousands of migrants and refugees from the Middle East and Africa, thanks

to opt-outs from EU immigration policy. But for eurosceptics, Brussels's faltering response has highlighted the EU's dysfunction, and UK policymakers have bristled at suggestions that EU asylum policy might be altered to make it harder to deport migrants to other EU countries. (Under the current system, non-EU asylum seekers are supposed to remain in the first EU country they enter.)

*"What I am proposing cannot mean membership of the Single Market."—British Prime Minister Theresa May*

The **eurozone crisis** also created strains after the EU proposed an unprecedented “fiscal compact” to coordinate budget policy. Cameron rejected the idea in 2012 as harmful to the UK's financial sector and chafed at the possibility of an additional treaty change.

In a **2013 speech**, Cameron attacked flaws in the eurozone and what he called the EU's excessive bureaucracy and lack of democratic accountability. He also promised to hold a referendum on the UK's EU membership if his Conservative Party won the 2015 elections, which it subsequently did.

In November 2015, Cameron announced that before holding a referendum, he would seek EU reform in **four major areas**: national sovereignty, immigration policy, financial and economic regulation, and competitiveness. In February 2016, EU leaders agreed to a **number of changes**, including protections for non-euro currencies within the EU, new limits on migrants' benefits, a commitment to reducing EU regulation, and official recognition that the push for “ever closer union” does not apply to the UK.

With these reforms, Cameron hoped to quell the country's euroscepticism, but the specter of mass migration, combined with several major terrorist attacks in Europe, gave the Leave camp new ammunition. “What he didn't bargain for was that the migration crisis would get very bad,” says CFR Senior Fellow Sebastian Mallaby. EU leaders have made clear that the subsequent Leave win invalidated the reforms.

### **What was on the ballot?**

In the referendum that took place on June 23, 2016, voters in the UK made a choice on the following question: “Should the United Kingdom remain a member of the European Union or leave the European Union?”

While the Left largely supported remaining in the EU, the Leave camp included a **wide swath of antiestablishment ideologies**, from disaffected Labourites to the far right UKIP. Meanwhile, the referendum deeply split the UK's mainstream conservatives. Cameron had staked his political future on the Remain position and announced his resignation in the wake of its defeat, but about half of the Conservative Party, including several of his cabinet ministers, supported Leave. High-profile Conservative defectors included former Mayor of London Boris Johnson, former party leader Iain Duncan Smith, Justice Minister Michael Gove, and Employment Minister Priti Patel.

Despite late polls showing Remain gaining a lead, the British people voted Leave by a margin of 52 to 48 percent, with a robust 72 percent turnout, shocking the UK's political establishment.

### **What happens now that the British people have voted Leave?**

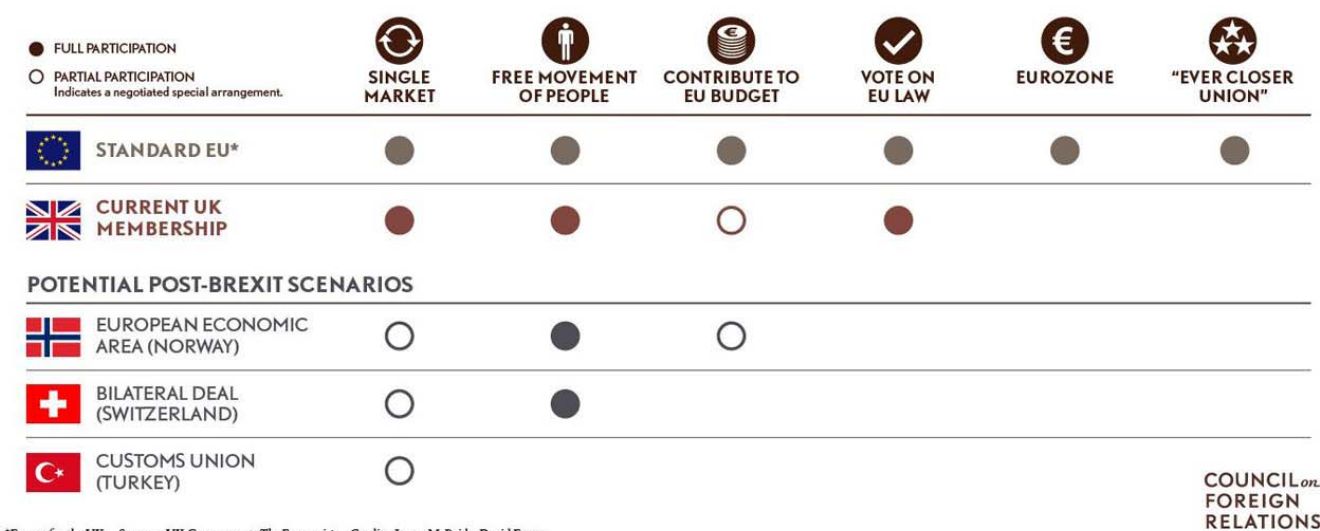
The UK's situation is unprecedented; no full member of the EU has ever left. (Greenland, a territory of Denmark, **left in 1982**.)

Under **Article 50 of the 2009 Lisbon Treaty**, the UK will have a two-year period to negotiate its withdrawal. However, the UK government can choose when to invoke Article 50, an act which will make Brexit irrevocable. This has led to debate over when, or even if, the article should be invoked, and whether the UK Parliament could block it. However, Prime Minister May, who won the Conservative Party leadership race to succeed Cameron in July 2016, said, “Brexit means Brexit.” She has committed to invoking Article 50 by March 2017. In a **January 2017 speech**, May confirmed that leaving the union “cannot mean membership of the Single Market,” nor the EU customs union. Instead, the government will pursue a new trade agreement with the EU.

Once negotiations begin, they will be extremely complex. The UK will need to determine **numerous transitional procedures (PDF)** for disentangling itself from EU regulations, settling the status of the millions of UK citizens residing in the EU and non-UK EU citizens in the UK, and deciding the future of UK-EU security cooperation. The final withdrawal deal must be approved by a supermajority of EU countries, as well as by a majority in the European Parliament.

## How Could the UK's Relationship With the EU Change?

The UK already opts out from parts of the EU. If it leaves, its future could look like Norway, Switzerland, or Turkey, nonmembers with partial participation in the EU.



Separately but simultaneously, the UK will need to negotiate the terms of its future association with the EU. It's unclear what such a relationship would look like, but several non-EU countries [offer potential models \(PDF\)](#). Norway, for instance, is a part of the European Economic Area (EEA), which gives it partial access to the [Single Market](#) in goods and services. However, it has no say in making EU law even though it has to contribute to the EU budget and abide by EU regulations. Switzerland is not part of the EEA, but it has partial access to the Single Market through a web of bilateral agreements that cover goods but not services, which comprise almost 80 percent of the UK economy. Turkey has only a customs union, meaning a free market of goods but not services as well.

However, both Norway and Switzerland must also accept the free movement of people from anywhere in the EU, one of the Leave campaign's primary complaints. The UK government's decision not to remain in the Single Market, combined with France's assurance that the UK will pay a "price" for leaving, has raised fears of a "hard Brexit," in which negotiations will fail to produce some sort of special arrangement within the two-year window.

### What were the arguments for leaving the EU?

Reclaiming sovereignty was at the forefront of the Leave campaign. For Leave supporters, European institutions have [changed beyond recognition](#) since 1973, and they accuse the EU of becoming a suffocating bureaucracy with ever-expanding regulations. "Laws which govern citizens in this country are decided by politicians from other nations who we never elected and can't throw out," [argued](#) Justice Minister Michael Gove.

Immigration was the leading complaint. The number of EU migrants in the UK [nearly tripled \(PDF\)](#) between 2004 and 2015, from about one million to over three million, almost totally due to an influx of citizens from newer members including Poland, Bulgaria, and Romania.

At the same time, terror attacks in Paris and Brussels involving EU citizens raised fears that the free movement of people leaves the UK vulnerable. With over three thousand EU nationals having traveled to Syria to fight with the self-proclaimed Islamic State, the former head of UK intelligence, Richard Dearlove, argued that controlling immigration would be the [primary security benefit](#) of a Brexit. (On the contrary, critics said Brexit would [hurt intelligence cooperation](#).)

*Terror attacks in Paris and Brussels involving EU citizens raised fears that the free movement of people leaves the UK vulnerable.*

The immigration issue powerfully combines anxieties over identity, economic security, and terrorism, says Matthew Goodwin, an expert on UK politics at the University of Kent. "The referendum is as much about immigration as it is about Britain's relationship with Europe," he says.

For some analysts, European institutions are ill-equipped to address the economic challenges of the modern world. Economist Roger Bootle, author of [The Trouble With Europe](#), argues that the EU's focus on "harmonization"—the continent-wide standardization of everything from labor regulations to the size of olive oil containers—threatens Europe

with persistent low growth and high unemployment.

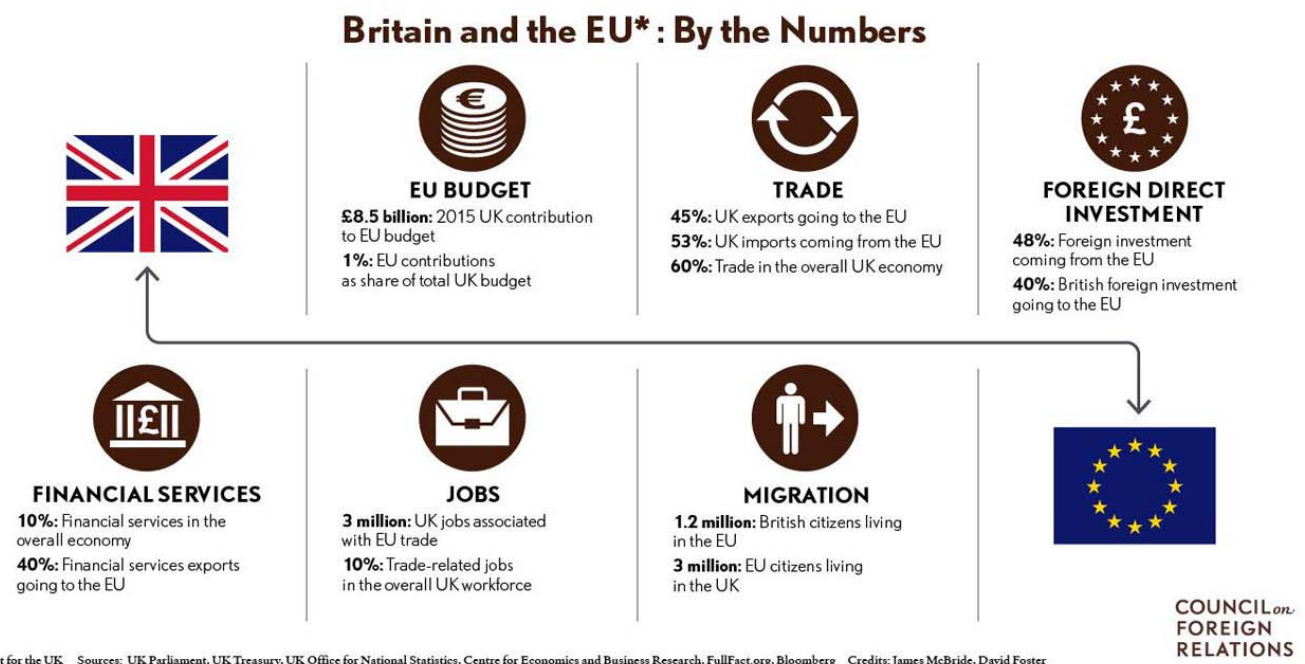
Leaving will **spark economic dynamism**, according to Dominic Cummings, director of the Vote Leave campaign. The EU is “extraordinarily opaque, extraordinarily slow, extraordinarily bureaucratic,” he says. Leave supporters believe that without that burden, the UK can reduce regulation, improve competitiveness, and forge trade deals with fast-growing emerging economies. To Cummings, the reforms Cameron negotiated were trivial, leaving the UK no choice but to eject from a dysfunctional union.

### How has the UK benefited from membership, and what are the risks of leaving?

The UK is highly integrated with the rest of the EU in terms of trade, investment, migration, and financial services (see graphic). The Remain side cautioned against risking that relationship: Cameron warned about a “leap into the dark,” while Finance Minister George Osborne foresaw a “convulsive shock.”

In the days after the Brexit vote, global markets shook. The British pound fell sharply, reaching a low not seen in more than a century. In response, the UK central bank unveiled a **large package** of stimulus measures, including its first cut in interest rates in more than seven years. At the same time, driven by **stronger-than-expected growth** in manufacturing, partly due to a weaker currency, the UK became the world’s fastest-growing developed economy, though International Monetary Fund economists warn that the boost is only temporary.

The long-term outlook is still uncertain. For Adam Posen, president of the Peterson Institute for International Economics and former voting member of the Bank of England, the pro-Brexit camp’s **economic arguments** were a “fantasy.” He argues that immigration from the EU has driven growth and that belonging to the EU has allowed the UK to “punch above its weight” in trade, since the larger bloc can negotiate more favorable market-access deals with outside countries.



Other U.S. observers **have warned** that a Brexit would damage the UK's special relationship with the United States. On an April 2016 state visit, President Barack Obama argued that membership in the EU enhances the UK's global influence and aids U.S. interests. But the Trump administration is likely to take a different tack, with Trump praising the Brexit vote and promising a rapid start to new trade talks between the UK and the United States.

Much will depend on the UK's post-Brexit relationship with the EU. Losing barrier-free access to the Single Market, with its more than five hundred million consumers and over \$18 trillion worth of GDP, places more pressure on UK policymakers to strike a trade deal with the EU. Without it, UK exports would be subject to the union's external tariff starting in 2019. Trade would suffer and some foreign investors would likely pull out of major industries, such as the thriving automotive sector. The UK would also be shut out of any EU-U.S. free-trade deal (**known as TTIP**) and would need to renegotiate trade access with the fifty-three countries with which the EU currently has trade agreements.

Particularly hard hit, argues founder of the pro-Remain website InFacts, Hugo Dixon, will be **financial services**. They currently enjoy “passporting,” meaning UK-based financial institutions can operate freely anywhere in the EU. If that is



lost, many firms are likely to move their offices—and jobs—out of the UK to elsewhere in Europe.

### How could the Leave vote affect the rest of Europe?

The most immediate consequence could be the breakup of the UK itself. Scotland, which [held an unsuccessful independence referendum](#) in 2014, voted to remain in the EU. Observers worry that Brexit will give Scotland's governing nationalist party the impetus to try again to break away. "[A leave vote] would certainly underscore the fragile constitutional makeup of the United Kingdom," says the University of Kent's Goodwin.

Ireland, too, will [face a dilemma](#); it is strongly committed to the EU but nonetheless economically intertwined with the UK. Ireland's government has also warned that a Brexit could upend Northern Ireland's peace settlement and complicate border between Ireland and Northern Ireland.

*"The younger generation of Italians, Portuguese, and Greeks associate membership of the eurozone, and by extension the European Union, with a terrible depression." –CFR Senior Fellow Sebastian Mallaby*

Elsewhere, Brexit may embolden eurosceptics by providing a "template" for leaving, says CFR's Mallaby. "The younger generation of Italians, Portuguese, and Greeks associate membership of the eurozone, and, by extension, the European Union, with a terrible depression," he says. That has translated into electoral gains for anti-EU parties, such as France's National Front, Germany's Alternative für Deutschland, and Hungary's Jobbik. Polling has found that a majority of French citizens [want their own EU referendum](#).

The ultimate fear around the continent is that Brexit could unravel the rest of the EU, especially if the UK economy performs well in its aftermath. Even barring that, Brexit will be a heavy blow to a union that has [struggled to maintain a united front](#) maintaining sanctions on Russia and managing the unprecedented wave of migrants. And, in the wake of 2015 terrorist attacks in Paris, when France invoked the EU's mutual defense clause for the first time, Brexit threatens to end Europe's hopes for a truly [common security and defense policy](#) once and for all.

### Additional Resources

This [selection from the \*Financial Times\*' archives](#) traces the history of the UK's often contentious relationship with the European Union.

Cameron's reforms were [little more than symbolic tweaks](#) to the status quo, but leaving will not make the UK better off, argue R. Daniel Kelemen and Matthias Matthijs in *Foreign Affairs*.

All of the alternatives to UK membership in the EU come with considerable costs as well as benefits, explains this [UK government analysis \(PDF\)](#).

CFR President Richard N. Haass argues that a Brexit would strain ties between the UK and the United States and weaken Europe in [Project Syndicate](#).

Multinational law firm DLA Piper analyzes the [implications of a Brexit](#) on the UK legal and regulatory system, as well as the financial services sector.

*Wall Street Journal* commentator Greg Ip explores how the weakening pound is [reshaping the British economy](#).

Prime Minister Theresa May lays out her vision for a post-Brexit United Kingdom in a [January 2017 address](#).

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