

BREXIT: New challenges for the World Trade

Olga Elena Ramírez Poggi, Prof.
International Politics, University of Lima, Peru

Roberto Veraldi, Prof. Dr.
University Gabriele d'Annunzio of Chieti, Pescara, Italy

María Belén Medicina Leuzzi, MSc.
Faculty of Law, University of Lima, Peru

Mayra Alejandra Delgado Mondragón, LL.M.
University of Lima, Peru

Abstract

On June 23, 2016, Britain marked the exit from the European Union.

The result led to a permanent closure to the EU, always marked by not joining the Euro by Great Britain itself, with political, social and economic consequences, although England still an important country in Europe. The intent of this paper is to analyse the socio-economic and political implications of this Exit from the Euro zone.

Keywords: socio-economic problems; international trades; UE situation; Italian situation.

One of the most remembered events in history will be the 51.9% votes that allowed (through a referendum) the Brexit¹ phenomenon to happen. This event opened the doors to nationalist and Eurosceptic movements² that led to a domino effect in the European continent. Currently, the European Union is going through a major integration crisis. While democracy tries to overshadow the right-wing movements, they progress, like the independence situation in Catalonia, Spain.

In order to understand Brexit, as a new conflict in the Eurozone, it is important to describe it in detail. Seventeen years ago in a session of the European Parliament, Nigel Farage³ proposed the motion to withdraw the United Kingdom from the European Union with the nationalist excuse of "re-vitalizing" the country, while the European organization obstructed its development. After having culminated with the presentation of this initiative, the response of the MEPs present at that meeting was negative. Even more, they considered the proposal so absurd that they ended up mocking it.

¹ English acronym that results from joining "Britain" (Great Britain, United Kingdom) and "Exit" (Exit). A rough way is the word that describes the departure of the Kingdom from the eurozone.

² Nationalist thoughts and extreme right ideologies that reject the integration of the European Union, product of globalization.

³ MEP, British politician and president of the Eurosceptic party United Kingdom Independence Party.

However, with time, the “unreasonable” initiative of Farage gained sanity. When Europe least expected it, the idea that was outlandish turned into to a controversial debate.

The discussion about the permanence of the United Kingdom in the European Union originated two sides: one in favor and the other against. The first was led by Farage and his party (United Kingdom Independence Party - UKIP)⁴. The second, driven by the then Prime Minister, David Cameron⁵. The magnitude of the dispute over the Brexit was such that it ended up captivating the eyes of the world. Even some international key players such as the United States (during the government of Barack Obama) demonstrated it, bowing to the position of Cameron.

However, Farage and the UKIP won the European elections in 2014 and the creation of a referendum on Brexit was imminent. It was so, on June 23, 2016, that referendum was voted, whose result - surprisingly - indicated that the Brexit was positive. The percentages⁶ showed that the difference with respect to the permanence and exit from the United Kingdom in the European Union was only 3.8%; equivalent to 1.269.501 votes. (BBC News, 2017)

“It’s not funny, is it? Now do not laugh at me.” Farage spoke in the European Parliament after the Brexit victory. At that moment, the silence of the attending MEPs revealed the memory of what happened seventeen years ago. From then on, Farage’s popularity does not stop. Today, he holds conferences and talks for the other Eurosceptic parties, motivating (indirectly) what would be properly understood as a Europe of “-exits” after his anecdote.

The Brexit has just turned one year old and the immediate effects of it have been the spontaneous fall of the British Pound (£) and the social discontent of the youngest population, who had their dreams set in Europe. It is still premature to see adverse results or negative consequences. Despite this, it is clear that there will be counterproductive effects in the British and European economy, such as inflation, recession, unemployment, among others.

The former British finance minister, George Osborne, warned that Brexit will force major cuts, as the government faces an urgent adjustment plan of £ 30,000 million (€ 38,000 million). In this regard, tax raises, in parallel to, cuts in public spending.

⁴ Acronyms that abbreviate the name of the Eurosceptic party United Kingdom Independence Party. It is characterized as a right-wing and populist British political party. Promoted by the MEP, Nigel Farage, the main promoter of Brexit.

⁵ Former Prime Minister of the United Kingdom. He held the position of leader of the political party Conservative Party (conservative and unionist political party of the United Kingdom).

⁶ According to the British Broadcasting Corporation (BBC), the results of the referendum of June 23, 2016 indicated that the United Kingdom voted to leave the European Union. The percentage was 51.9% in favor of leaving the United Kingdom and 48.1% against.

After the news of the result of the Brexit, during the morning of June 24, 2016, the dome of deputies of the European Union met to coordinate strategies that guarantee the liquidity of the market and maintain the confidence of the European Central Bank.

On the other hand, the World Trade Organization - WTO, identifies Brexit as one of the main challenges it will face. Although according to Keith Rockwell, spokesman of the WTO, the exit of the United Kingdom from the European Union is viewed by great uncertainty by the multilateral organism. From 2017, the international organization in question began to analyze the commercial policies of the European Union, its implementations and its effects. To this end, a report was prepared that specifies that during the last two years (2015 and 2016) there were problems and risks that affected the European economy, which may continue in the future.

In this regard, the report develops four sections, which are summarized below:

First, it is indicated that for WTO economists the consequences of the referendum in the United Kingdom are not yet clear for the European Union or for the country. They also point out that "the impact of trade negotiations on investment will depend to a large extent on the outcome of the negotiations on the exit".

Regarding the second, the reception of a large number of refugees is identified as a challenge, which has led to "an increase in tax expenditures in many countries and an increase in border controls".

The third, states that factors such as changes in oil prices, the growth of terrorism, electoral and political uncertainty "have had an impact" on the exchanges of goods and services of the European Union.

Finally, on the fourth, it is shown that the growth rate of the European Union is low, due to the important differences between the member states of the organization; reason that directly affects international trade. (EFE, 2017)

Despite the analysis in the WTO report, the deputy general director of the General Directorate of Commerce of the European Commission, Joost Korte (Netherlands), made a reflection on the WTO, considering that he thinks it takes a "serious effort" and agreed to reinforce it. "Especially when the WTO stresses that the trade and investment policies of the European Union are important for other countries and for the multilateral trading system, and that the organization as a whole is interested in the way in which the European Union faces current difficulties".

The senior official of the European Commission referred to the system of deliberation of the WTO, since differences on the discussion of certain issues have come to block the work of the General Council, and the fact that "infinite" questions about the procedure have left important issues stranded.

According to Korte, “Neither is the regular work of the WTO as effective as it should be (...) especially in the absence of compliance with the notifications of the Member States, for example in the subsidies section, and the consequent lack of transparency”.

“(...) Even the function of the WTO dispute resolution, the jewel in the crown of the organization is under pressure”

Faced with this scenario, he stressed that the individual effort “is not enough to boost this organization and safeguard the multilateral system”, (EFE, 2017) especially in the face of protectionist tendencies and the discontent expressed by the world population before a global trade that does not benefit everyone equally.

At the same time, WTO Director General Roberto Azêvedo (Brazil) believes that both the Brexit vote and the Donald Trump presidency are a form of rejection of the establishment.⁷ While these two “phenomena” share a form of rejection of the established order and that in some way show a certain and peculiar distrust of globalization and trade in a general sense, they are not of a comparable nature. Recall that the “Brexit responds to a desire for sovereignty and regulatory autonomy towards”, (Economía, 2017) in particular, an immigration perceived as harmful. This decision does not derive, for example, from a desire to limit imports.

In addition, the WTO Director-General asserts that the times will be “difficult for commercial multilateralism” and invited the US to collaborate with the integration system, even if the Trump administration has published a document stating that “Americans are not directly subject to the decisions of the WTO, despite being members of the organization”. (Economía, 2017)

On the other hand, the forecasts of the WTO suggest that this year (2017) world trade will grow 2.4%, but with a “deep uncertainty” about it. Therefore, this estimate is within a range that goes from 1.8% to 3.6%, as it appears in its annual report on perspectives and statistics.

From the entity, they believe that the recovery will be characterized by the “meager results” of the year 2016, when the exchange of goods and services only grew by 1.3% (lower figure than that already pointed by the same institution, which augured in September an advance of 1.7%).

The weakness of last year’s trade growth was marked by the slowdown in emerging economies. Now, for the next two years, trade will only rebound if the economy meets the expected objectives; an acceleration of the Gross Domestic Product (GDP) of 2.7% in the current year (2017) and of 2.8% for the next.

⁷ Anglo-Saxon term used to describe the set of actors (people and entities) that influence the world community to maintain the determined, established order.

At the same time, they establish that none of this will be possible if governments do not apply an appropriate mix of policies. It is clear, then, that the course of world trade will have to face a series of challenges; short-term factors such as (1) the isolation and erratic behavior of the USA, (2) the emergence of extreme right-wingers from France and Germany and (3) the Brexit.

For these reasons, the WTO does not dare to determine exactly what the future of trade will be, even when the United Kingdom's exit from the European Community framework leads to an increase in trade policies that affect demand as well as investment.

Still, strengthened global growth through the circulation of goods and services is without a doubt, what remains as a suitable course of action.

In any case, the political viability of the reversibility of the decision to withdraw from the EU poses enormous practical difficulties. It is true that the referendum was of an advisory nature, so there is no legal obligation to apply its results inexorably. (López Basaguren, 2017, pág. 137)

The will manifested in the referendum cannot be a blank check to the authorities so that they negotiate the agreement that they believe is most convenient or possible, in the light of the interests of the other party; nor can it be a manifestation of unchangeable will, whatever the actual conditions in which the withdrawal will take place, as a result of the negotiations. For the simple reason that voters cannot be bound by something they were not asked about and what they did not vote for. Nor can rectification be prevented if it is considered that the decision has been proven wrong. (López Basaguren, 2017, pág. 138)

The UK faces a challenge of enormous magnitude, of which its own government does not seem to be fully aware. Not only does it significantly jeopardize their level of economic development and well-being, but also the internal stability and the country's own integrity.

History demonstrates us that countries and political systems do not always know how to avoid the risks that they present themselves or that they themselves try to provoke. (López Basaguren, 2017, pág. 139)

The United Kingdom has been a very relevant member of the European Union since its accession in 1973, but the relationship between both parties has been complicated, controversial, and sometimes hostile. These vicissitudes explain on the one hand the delay in the incorporation of the United Kingdom, and on the other hand the peculiar situation that the United Kingdom has maintained as a Member State, without ever fully participating in the integration project. (*Ibid.*).

The decision of the United Kingdom to leave the European Union was preceded by one of the most extraordinary and divisive events that British society has experienced in recent times. This has come to light in the campaign and the referendum, as well as in the constitutional debate on the limits of governmental action and parliamentary sovereignty which followed the unexpected result.

In the negotiation that must lead to an exit agreement with the United Kingdom, there are two major interest groups: those of the European Union as a whole –above all, the situation of British citizens residing in the rest of the European Union, and that of the citizens of the other twenty seven Member States residing in the United Kingdom–; and, on the other hand, the particular interests of some Member States, among which we should highlight the delicate situation of Northern Ireland, as well as the possibilities that now arise to put an end to the dispute over Gibraltar.

(Ndlovu Solano, 2018, pág. 74)

Bibliography

1. Economía. (4 de Marzo de 2017). Director de OMC: el Brexit y Trump, un rechazo al ‘establishment’. *La Nación*.
2. EFE. (5 de Julio de 2017). La OMC identifica al “Brexit” como uno de los desafíos principales del bloque. *EFE: Agencia EFE*.
3. EFE. (5 de Julio de 2017). La OMC identifica al “Brexit” como uno de los desafíos principales del bloque. *Diario Libre*.
4. López Basaguren, A. (2017). Brexit: la Secesión de la Unión Europea entre Teoría y Realidad . *Teoría y Realidad Constitucional* , 111-140.
5. Maksuti, B., & Sela, Y. (2015). Challenge of the European Union’s Energy Security Approach. *Academicus International Scientific Journal*, (11), 106-115.
6. Ndlovu Solano, M. (2018). *Brexit: la salida del Reino Unido de la Unión Europea*. Pamplona: Facultad de Ciencias Jurídicas. Universidad Pública de Navarra -UPNA-
7. Olldashi, E. (2013). The phenomenon of translatability in the Europeanization of the Law. *Academicus International Scientific Journal*, (7), 19-26.