

# Post-Brexit Scenario: The European Union under Threat

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## Abstract

*Around 60 years after signing of the Treaty of Rome, which led to the establishment of the European Economic Community (EEC), the European Union (EU) is struggling with the aftermath of eurozone and migration crisis and the rise of anti-EU and populist movements all across Europe. Britain's decision to move out of the EU, further adds to the challenges faced by the EU and put its regional integration in question. This paper tries to expose the factors that led to Brexit, analyses whether the EU is headed towards disintegration and what reforms are needed to save the EU model of regional integration from disintegration. Brexit was a complex interplay of factors such as a threat to national identity and sovereignty, rising inequality and economic insecurity and Euroscepticism. The results indicate that in post-Brexit, support for the EU has increased in member states. The economic losses and political chaos that Britain had to undergo post-Brexit has united the EU members despite the rise of populist movements across Europe. However, the EU needs to bring in some structural reforms and make the EU institutions more democratic and flexible in order to sustain as a model of regional integration.*

**Keywords:** Brexit, European Union, United Kingdom (UK), European Disintegration, EU Reforms.

## Introduction

On June 23, 2016, in a historic referendum, the United Kingdom (UK) voted to move out of the European Union (EU) with a simple majority of 52 per cent. The UK's decision to leave the EU has triggered the worst political and economic crisis in the history of the EU. The Economic Coal and Steel Community (ECSC) was created in 1951, with six European member states that later on expanded to become the European Economic Community

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(EEC), which is presently known as the EU consisting of 28 members. Currently, the EU is struggling with the aftermath of eurozone crisis and migration crisis and rise of anti-EU and populist movements all across Europe.<sup>1</sup> Britain's decision to move out of the EU, further adds to the challenges faced by the EU and put its regional integration in question. It marks a departure from an era of regional integration in Europe, witnessed after the World War II. The establishment of the single market in 1986, and a decade later, the introduction of Euro as a single currency seemed to give birth to a new era of political integration and economic growth. However, in reality, these developments sowed the seeds of politico-economic crises being faced by Europe today.

Structural flaws in the EU were responsible for the eurozone crisis as the European leaders failed to set up institutions to sustain operational conditions for single currency and market. Implementation of monetary union without financial and fiscal union left the countries like Italy and Greece vulnerable after the 2008 global financial crisis. Today, Greece's economy not only stands mired in debt but was 26 per cent smaller than it was in 2007, with youth unemployment at about 50 per cent.<sup>2</sup> Similarly, youth unemployment in Spain and Italy is around 40 per cent.<sup>3</sup>

The eurozone crisis, followed by an ongoing political crisis over immigration, has led to Europe falling under the stronghold of populism, xenophobic and anti-immigration movements. According to some analysts, all this, along with Britain moving out of the EU, has brought the organisation to the brink of disintegration. International Relations (IR) scholars like New York University's (NYU) Ian Bremmer, called Brexit, "The most significant political risk the world has experienced since the Cuban Missile Crisis," and Harvard's Stephen Walt asserted that Brexit signals "the collapse of the liberal world order." Similarly, the French President, Emmanuel Macron, warned that today's political divisions in Europe are like "a European civil war."<sup>4</sup> In this context, the Europeans have

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<sup>1</sup> Thomas Sampson, "Brexit: The Economics of International Disintegration," *Journal of Economic Perspectives*, (2017): 163–184, <http://personal.lse.ac.uk/sampson/BrexitDisintegration.pdf>

<sup>2</sup> Matthias Matthijs, "Europe After Brexit: A Less Perfect Union," *Foreign Affairs*, 2017, <https://www.foreignaffairs.com/articles/europe/2016-12-12/europe-after-brexit>.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

started to doubt the legitimacy and competence of the EU in handling the financial and migration crises. Hence, the aim of this paper is to analyse the post-Brexit scenario to investigate whether the regional integration of the EU is under threat or not. The paper will try to address the following research questions:

- i. What were the factors that led to Brexit?
- ii. Is the risk of EU's disintegration real after Brexit?
- iii. What are the reforms needed to prevent other countries from leaving EU?

It is often argued by great historian like Alan Milward that the real reason for establishing the EEC, in the 1950s, was to rehabilitate the system of nation states in Europe after the destruction of the World War II rather than building a new supranational power. They realised that in order to achieve economic prosperity and political stability, it is necessary to aim for continental coordination. Milward argued that increased economic co-operation and regionalism required some surrender of sovereignty but not completely replacing the nation-state system with supranational governance.<sup>5</sup> Instead, the EEC was established on the principles of "embedded liberalism," the belief that sovereign countries would gradually liberalise their economies but maintain significant control over their economic policies. While Rodrik argues that the global economy faces a political trilemma, Rodrik believes that the concept of nation-states along with deep international economic integration and democratic politics are mutually incompatible. He stresses that the countries can only choose at most two of the three options.<sup>6</sup> Hence, from Rodrik's perspective, Brexit was in response to the erosion of British sovereignty caused by the EU membership as deep integration, promoted by the EU, does not go with national democracy.

This paper is divided into five sections. The first section is an introduction while the second section of this paper provides an overview of Brexit and its causes. The third section examines the implications of Brexit on the EU. The fourth section of this paper outlines the reforms that the EU should undertake to avoid further 'exits' and the last section is the conclusion.

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<sup>5</sup> Ibid.

<sup>6</sup> Sampson, "Brexit."

## Origins of Brexit

The UK was not an original member of the EEC. It joined it late in 1973, and never became part of the Schengen Agreement or the eurozone. In 2014, the UK's right-wing populist political party, the UK Independence Party (UKIP) was able to capture 24 out of 73 seats of Britain's in its election to the European Parliament. The UKIP and Eurosceptic members within the Conservative Party, pressurised the UK's then Prime Minister, David Cameron, to hold a referendum on the EU membership, which he pledged only if Conservatives won the 2015 general elections. After gaining a majority in general elections, Cameron's gamble was put to the test. He himself supported remaining in the EU hoping that the British public would vote in favour of the EU. However, on June 23, 2016, 17.4 million voted to leave the EU while 16.1 million voted to remain part of it. The following day, David Cameron resigned as Prime Minister and Theresa May was chosen, as his replacement, by the Conservative Party to lead the Brexit talks with the EU. The UK joined the EU in 1973 and now, after more than four decades, it is set to leave the EU in March 2019.

The Brexit campaign of 2016 lacked deep political thinking and was mostly based on ending immigration and bringing back Britain's contribution to the EU budget and investing it in National Health Service (NHS), while the "Remain" camp focused only on ruinous short-term economic costs of Brexit.<sup>7</sup>

### *Threat to National Identity and Sovereignty*

National identity and the right to sovereignty played a major role in the pro-Brexit campaign. The British people identify themselves more as citizens of the UK than they do as citizens of the EU.<sup>8</sup> Hence, they believe that the UK should have tight control over its border and be governed as a sovereign nation-state. Being a member of the EU, for Britain, meant handing over a part of British sovereignty to the EU as it prevented the UK from enforcing immigration controls and forced the UK to implement the EU laws. Political parties like the UKIP and Referendum Party campaigned in favour of Brexit on grounds that sharing political power with the EU was a constraint on

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<sup>7</sup> Benjamin Martill and Uta Staiger, *Brexit and Beyond – Rethinking the Futures of Europe* (London: UCL Press, 2017).

<sup>8</sup> Sampson, "Brexit."

Britain's sovereignty.<sup>9</sup> The major argument made by the Leave Campaign was thus that "others" should not make decisions for "us."<sup>10</sup>

Since the late 1990s, immigration from the EU states to the UK increased rapidly and between 1995 and 2015, the EU nationals living in the UK rose from 1.5 to 5.3 per cent.<sup>11</sup> Many people who voted in favour of Brexit considered national identity as their most important value under threat due to large-scale immigration. Goodwin and Heath report that 88 per cent of the people who were against immigration supported Brexit.<sup>12</sup> For them, their national identity had to be preserved even if that came at some expense to societal wealth. Puglierin also agrees that the threat of losing national identity and control over borders due to rising immigration played an important role in the pro-Brexit outcome.<sup>13</sup>

However, Britain's conflicted relationship with Europe is not a recent phenomenon. Winston Churchill, nearly a century ago, clearly stated that Britain is "with Europe, but not of it. We are linked but not combined."<sup>14</sup> Similarly, according to the Eurobarometer poll of national identity, the UK is an outlier within Europe when it comes to Euroscepticism. When the UK citizens were asked whether they see themselves as exclusively their own nationality, as the European or as both, nearly two-thirds (64 per cent) expressed a solely national identity that is, fully rejecting any European identity. When the same question was asked in other EU member countries, the figures remained below 50 per cent.<sup>15</sup>

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<sup>9</sup> Ibid.

<sup>10</sup> Heikki Patomaki, "Will the EU Disintegrate? What Does the Likely Possibility of Disintegration Tell About the Future of the World?," *Globalisation* (2017): 168-177, <https://doi.org/10.1080/14747731.2016.1228786>

<sup>11</sup> Jonathan Wadsworth, Swati Dhingra, Gianmarco Ottaviano and John Van Reenen, "Brexit and the Impact of Immigration on the UK," *CEP BREXIT ANALYSIS NO. 5* (London: Centre for Economic Performance, 2016).

<sup>12</sup> Sampson, "Brexit."

<sup>13</sup> Jana Puglierin, "The Future of the EU after Brexit," *Institute of European Studies*, <https://ies.berkeley.edu/blog/future-eu-after-brexit>.

<sup>14</sup> Stephen D Collins, "Europe's United Future after Brexit: Brexit has not Killed the European Union, rather it has Eliminated the Largest Obstacle to EU Consolidation," *Global Change, Peace & Security* (2017): 311-316.

<sup>15</sup> Ibid.

*Rising Inequality and Economic Insecurity*

The result of the UK referendum, in favour of Brexit, seems to confirm that the discontent among lower classes, peripheries and those negatively affected by globalisation has played a vital role in the voter decision making. Those who voted in favour of Brexit were mostly older, less educated, economically backward, more socially conservative, against immigration and feel that they have been left out by the wave of globalisation (as shown in Figure1).<sup>16</sup> However, the studies have not found any significant negative impact of immigration on the wages or average employment for the UK natives but there is some evidence that immigration has reduced wages for unskilled and lower-paid workers.<sup>17</sup> Moreover, since the global financial crisis, the UK's median wage has further reduced.<sup>18</sup> According to the statistics, 69 per cent of the people, who thought globalisation has made them worse off, voted to leave. Goodwin and Heath's study indicates that the support for leave was higher by 10 per cent among households with income less than £20,000 than among households with income above £60,000.<sup>19</sup> Hence, an anti-EU sentiment was observed to be more evident amongst working class who believed that globalisation and regionalism has left them worse off economically.

According to Patomaki, the evidence indicates that the European citizens' trust in the EU institutions has a strong correlation with economic performance. Since the global financial crisis of 2008-09 followed by the euro crisis, the appeal of the EU has considerably declined.<sup>20</sup> However, there is another argument put forward by Hainmueller and Hopkins, which is contradictory to Patomaki's reasoning. Hainmueller and Hopkins believe that economic considerations have remained insignificant in explaining attitudes toward immigration than cultural attachments and the way immigration affects the nation as a whole.<sup>21</sup> Hence, it can be argued that the negative correlation between the level of educational attainment and voting in favour of the Brexit is not driven by economic interests only but instead

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<sup>16</sup> Sampson, "Brexit."

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

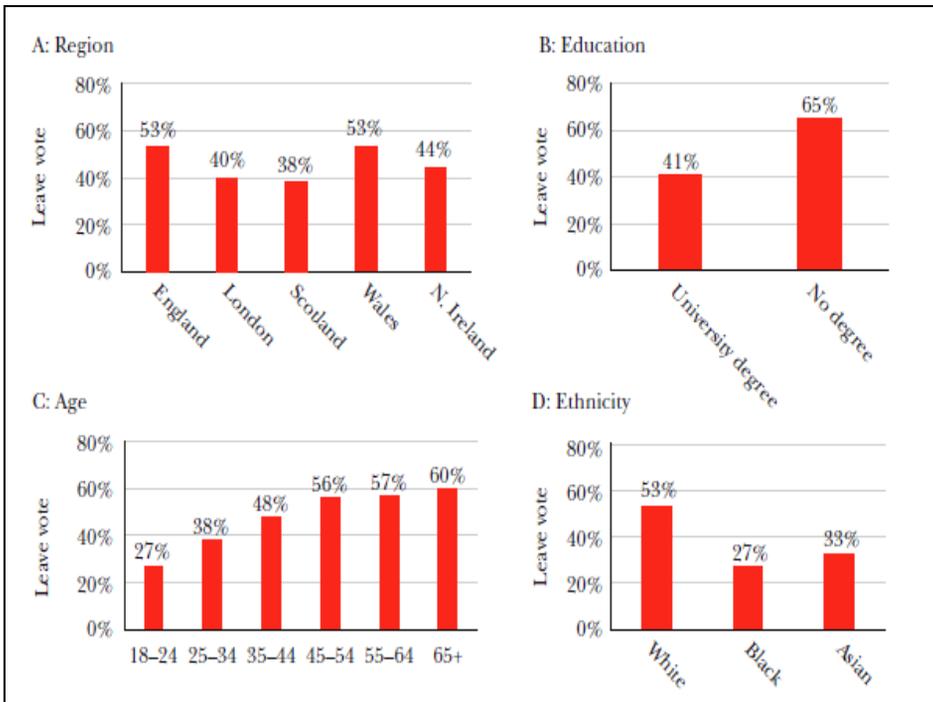
<sup>19</sup> Ibid.

<sup>20</sup> Patomaki, "Will the EU Disintegrate?"

<sup>21</sup> Ibid.

also by how education has an impact on voters' identities, values and information sets.<sup>22</sup> This argument is also consistent with the evidence as about 65 per cent of the voters who voted to leave did not have a university degree. This clearly indicates the anti-EU sentiments were quite high among less educated citizens as shown in the figure below.

**Figure No. 1**  
**“Leave” Vote Shares in Brexit Referendum**



*Source:* Regional data from the Electoral Commission. Demographic data from Lord Ashcroft Polls. <http://lordashcroftpolls.com/2016/06/how-the-united-kingdom-voted-and-why/>

*Notes:* The geographic breakdown uses actual votes cast in the referendum. All other data on voting patterns is from polling conducted by Lord Ashcroft Polls (2016) on the day of the referendum.

The results of Brexit referendum portray a deeply divided country on the basis of class, age, ethnicity, education and geography. Figure no. 1 clearly shows that the regions which are more integrated multi-culturally

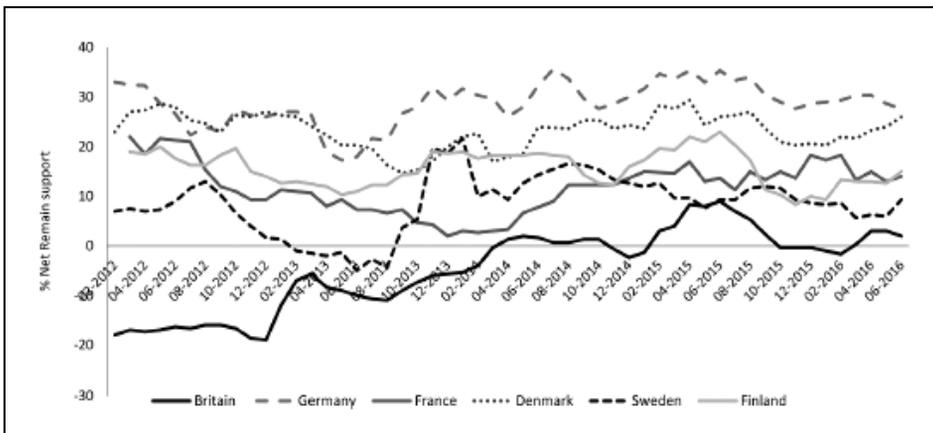
<sup>22</sup> Ibid.

such as London and Scotland voted to remain in the EU. While in Wales, the majority of the voters (53 per cent) voted in favour of leaving the EU.<sup>23</sup>

### *Rising Euroscepticism*

Those who argue that Brexit is the result of rising Euroscepticism due to eurozone and migration crisis are only partially correct. It needs to be highlighted that Euroscepticism initially started off, in the 1990s, as a specifically British phenomenon. Barometer opinion polls have consistently shown that British citizens have less attachment to Europe and are proud of their own distinct identity as British. The Eurobarometer polls show that the UK has consistently, with occasional interruptions, been the most Eurosceptic member state over the years. A survey conducted repeatedly in the EU member states shows that the UK is the only member state where considerable support for leaving the EU exists since 2012, as shown in figure no. 2. While the net gap between those wanting to leave and those who wanted to stay in the EU was well above 20 per cent in favour of staying in both Denmark and Germany and also above 10 per cent in Finland and France, with greater fluctuation in support in Sweden.<sup>24</sup>

**Figure No. 2**  
**Support for EU Membership Across Europe**



Source: YouGov Euro Track, 3-months rolling average

<sup>23</sup> Sampson, “Brexit.”

<sup>24</sup> Sara B Hobolt, “The Brexit Vote: A Divided Nation, a Divided Continent,” *Journal of European Public Policy*, (2016): 1259-1277.

Later on, the migration and eurozone crisis further increased the Euroscepticism among the UK citizens who started questioning the legitimacy of the EU. The UK citizens started looking at the EU as undemocratic and distant, which was unable to cope with or solve various crises afflicting the union.<sup>25</sup> The UK citizens felt that their voice was not being heard despite having a strong democratic tradition; their elected leaders had to accept the laws made by the unelected technocrats sitting at the European Commission and leaders of other EU member states.<sup>26</sup> Furthermore, the EU has formed a negative image amongst European citizens who feel that it imposes too many regulations without considering the costs of enforcing them and their unforeseen impacts on the system as a whole. Moreover, people started to believe that the bureaucracy sitting in Brussels was completely out of touch with their problems and were oblivious of the consequences that might flow from the proposed measure.

The Eurosceptic politicians and British newspapers then capitalised on these anti-EU sentiments and made the masses believe that immigration and EU was to be blamed for many of their woes. They made false claims that leaving the EU would enable the UK to invest £350 million/week on National Health Service rather than contributing that amount to the EU budget.

Hence, it can be concluded from the above discussion that Britain's decision to move out of the EU was not solely based on economic reasons but was a combination of a perceived threat to national identity and sovereignty, rising Euroscepticism after the eurozone and migration crisis and economic insecurities due to globalisation.

### **Implications of Brexit for the EU**

After the shocking results of Brexit referendum, political theorists and IR scholars are predicting that it might have a domino effect across Europe, whereby Eurosceptic forces in the countries, such as Denmark, Austria and Sweden, may demand to hold their own referenda following the UK's footsteps and eventually leading to the EU's disintegration. Hence, this

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<sup>25</sup> Sampson, "Brexit."

<sup>26</sup> Roger Bootle, *The Trouble with Europe: Why the EU isn't Working, How it can be Reformed, What Could Take its Place* (London: John Murray Press, 2016).

section analyses implications of Brexit on the EU and whether the threat to the EU's regional integration is real or not.

### *Growing Populism across Europe*

The recent wave of populism that has gripped most of Europe and even the US has its roots in rising economic inequality, xenophobia and migration crisis. Of all the crises that have hit Europe in the recent past, migration has shaken the very foundations on which the EU was laid. In recent times, the populist anti-EU right-wing parties, such as the Danish People's Party, Greet Wilder's far-right Freedom Party, the Finns Party, Germany's AFD and the Sweden Democrats have gained considerable electoral support in the national elections.<sup>27</sup> These populist parties use populist rhetoric to pitch the masses against the political establishment. Their rise has disturbed previously established hegemonies, causing realignments and, hence, changed the rules of the political game of the continent. The countries hit by austerity in the south are even more critical of the EU, which led to the success of political parties such as Podemos in Spain and Syriza in Greece. Recent studies indicate that the rise of populist parties across Europe depict a trend similar to Brexit, in which those who are less educated, economically backward, anti-multiculturalism and anti-immigration, as well as those who are negatively affected by the eurozone crisis, support Eurosceptic parties.<sup>28</sup>

The migration crisis further added fuel to fire and exposed Europe to an ideological divide between those rooting for a liberal democratic and an open multi-cultural society against those championing for an illiberal and intolerant one. From 2014 onwards, over 1 million migrants attempted to gain access to the EU in order to flee war-torn countries like Syria, Iraq, Afghanistan and Sudan and in the desire to reach prosperous and affluent northern countries like Germany. This gave birth to the migration crisis being witnessed by Europe today. The Schengen system, which allows passport-free movement of the EU citizens between most of the EU states, has been heavily criticised lately and is being held responsible for aggravating the migration crisis. The major drawback of Schengen scheme is that while it encourages the unchecked internal movement of people

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<sup>27</sup> S B Hobolt and J Tilley, "Fleeing the Centre: the Rise of Challenger Parties in the Aftermath of the Euro Crisis," *West European Politics* (2016): 971-91.

<sup>28</sup> Ibid.

between signatory states, it does not provide a mechanism for dealing with hundreds of thousands of migrants that arrive at Schengen's external borders. This generated the debate among Schengen member states about getting back control of national borders and encouraged the rise of populist movements across Europe.

The political landscape of Europe is in flux. The German elections have left Angela Merkel less powerful and leaving no other option than forming a coalition with Social Democratic Party (SPD) in order to form a government. The German Chancellor is under pressure now by her coalition partners to restrict migration and bring changes to its asylum policies. In Poland and Hungary, the Conservative inclinations are prevailing while a populist government with an anti-immigration stance recently gained a majority and formed a government in Italy. This follows Viktor Orban's landslide re-election, in 2018, after a campaign in which immigration featured heavily.<sup>29</sup> Moreover, the Austrian Chancellor, Sebastian Kurz, has called for the creation of "axis of willing" in Europe, comprising populist parties from Hungary and Italy.<sup>30</sup> Hence, these developments are threatening the very foundations on which the EU was laid and are making the European leaders question the future of the EU.

After Brexit, there was a worry among the EU quarters that this could cause a domino effect across Europe with support for the populist anti-EU parties on the rise.<sup>31</sup> However, there's evidence that Brexit has increased support for the EU in other member states and galvanised the continent behind the European unity. According to Pew Research Centre, support for the EU significantly rose after Brexit reporting double-digit gains in Germany, France, Spain and Sweden. It further revealed that in not a single EU member state does a majority of the public support exiting Europe. More than a year after the Brexit, support for the EU continued to rise, with an average 70 per cent popular backing across the EU's 28 member states.<sup>32</sup>

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<sup>29</sup> Andrew Hammond, "Two Years after Brexit Vote, Another EU Crisis Looms," *Globe and Mail*, June 25, 2018, <https://www.theglobeandmail.com/opinion/article-two-years-after-brexit-vote-another-eu-crisis-looms/>.

<sup>30</sup> Natalie Nougayrède, "Europe's Democrats Must unite to Prevent a Far-right Takeover," *Guardian*, June 19, 2018, <https://www.theguardian.com/commentisfree/2018/jun/19/europe-progressive-far-right-eu-liberal>.

<sup>31</sup> Hobolt, "The Brexit Vote."

<sup>32</sup> Collins, "Europe's United Future."

According to Collins, the Brexit has in fact impeded the budding Eurosceptic movements in Europe. The anti-EU parties underwent defeat in France, Holland and Germany. Similarly, the populist politicians had to face defeat in countries like Austria, Bulgaria, Serbia and Spain as people voted for pro-EU figures.<sup>33</sup> In the 10 largest EU countries, the EU's favourability soared from 49 per cent in pre-Brexit 2016, to 63 per cent one year later.<sup>34</sup> This clearly shows that Brexit has united the continent even more instead of dividing it and has increased the support for the EU among other member states.

The economic and political instability that the UK is facing after the Brexit vote is closely being observed by other member states who would now think twice before campaigning to leave the EU. The recent loss of Tory majority in the British Parliament and the chaos that has emerged within the party will likely give mainstream Eurosceptic political figures pause and discourage them to talk about secession from the EU.<sup>35</sup> It should be noted that, unlike in Britain, most Western European mainstream political parties are staunch supporters of the EU. Even the most Eurosceptic parties like the Danish People's Party and the Austrian and Dutch Freedom Parties cannot form a government on their own and will have to form a coalition with the pro-EU parties in order to gain office. Even after gaining office, it seems highly unlikely that they would be able to attain parliamentary majority to call a referendum on the EU membership.<sup>36</sup> Therefore, the referendums leaving the EU are less likely in other countries even under pressure from the far right-wing and populist parties.

### *Power Shifts and New Alliances in the Making*

The Brexit will significantly affect the relations between the states within the EU. The Brexit has already started to influence the balance of power in the EU and has brought France and Germany together once again by reviving the Franco-German relationship. Macron, has again put France and himself in the spotlight and is actively promoting his ambitious plans for the EU reforms for more political, economic and security integration for which he has been able to get a nod from Merkel.

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<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid.

<sup>36</sup> Hobolt, "The Brexit Vote."

After the Brexit, power shifts and new alliances are quite visible. Smaller EU countries that have relied on the UK for years are suddenly looking to identify other member states with shared concerns and interests. The UK's northern allies, such as the Dutch and the Nordics, will lose 12 per cent of their voting power in Brussels when the UK moves out of the EU, while the southern EU states will gain influence.<sup>37</sup> Under the current rules, the middle sized member states do not have enough power to oppose France and Germany. This gives significant power to Germany and France over smaller member states once the UK leaves the organisation. Hence, it is pertinent that France and Germany should not end up abusing their power rather they should work together to keep the spirit of co-operation and consensus within the EU alive.

Leaving the EU will affect UK's position to shape policies within the organisation and towards Europe's eastern and southern neighbouring countries. It will also increase its dependence on the US but it seems unlikely that Trump, who emphasises on "America First" and is pursuing protectionist policies, will offer any favourable deals to the UK. Britain will lose its power in deciding Europe's future and its role as a mediator has also been questioned lately in G7 Summit. France, on the other hand, will now emerge as a second largest member state which will significantly enhance its power in the region.

The anti-EU leaders in Moscow and Washington are closely watching the power shifts occurring in Europe and they want to reap their own benefits from the mayhem. Trump has already advised Macron to leave the EU and stated that he foresees more Brexits across Europe and has been supporting hardliner Brexiters in May's government.<sup>38</sup> There are reports that John Bolton, the US National Security Advisor, held private talks with hardliner pro-Brexit MPs behind May's back.<sup>39</sup> While, on the other hand,

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<sup>37</sup> Caroline De Gruyter, "There is Life for the EU after Brexit," *Carnegie Europe*, March 23, 2018, <https://carnegieeurope.eu/2018/03/23/there-is-life-for-eu-after-brexit-pub-75876>.

<sup>38</sup> Kim Willsher, "Quit the EU for Better Trade Deal, Trump Reportedly told Macron," *Guardian*, June 29, 2018, <https://www.theguardian.com/business/2018/jun/29/quit-eu-bilateral-trade-deal-trump-told-macron-us-france-terms>

<sup>39</sup> Rafael Behr, "May's Problem: Brexit and Trumpism have Become Monstrous Twins," *Guardian*, 2018,

Russia continues to enhance its influence on the eastern periphery of the European continent. To check the Russian influence, the EU members are looking forward to extending membership to Western Balkan States (WBS) and bringing the Eastern European countries into the eurozone. Hence, the exit of Britain from the EU might give an opportunity to the rest of the EU states to unite against the external forces and fight against escalating conflict with Russia, rising US trade protectionism, refugee crisis, growing terrorism and economic competition with China and India.<sup>40</sup>

### *Defence and Collective Security*

Britain's exit from the EU is taking place at a time when the European continent is already facing numerous security challenges; ranging from the increasing Russian influence on the eastern end to the conflicts across the Middle East, which are responsible for terrorist attacks and refugee crisis. The moment the UK leaves, the EU will lose its largest military power, its second largest economy, one of its two-veto wielding members of the United Nations Security Council (UNSC) and one of its two nuclear weapons states.<sup>41</sup> The UK, being the leading member of the North Atlantic Treaty Organisation (NATO), has held a considerable influence in shaping the US-European relations. Brexit decision will now significantly reshape the European geopolitics and affect NATO and the US-EU relations.

On the other hand, the US has adopted a very strict stance on NATO contributions and asked the member states to increase their share to two per cent of their Gross Domestic Product (GDP). Russia is trying to exploit the growing rift between the EU and US. It took advantage of the EU-US trade-war and the Iran nuclear deal crisis to re-engage with France and Germany. Germany is already heavily dependent upon Russia for energy imports for which it has been criticised by Trump. Amongst this changing geopolitical climate with an assertive Russia and an unpredictable Trump, Britain's forthcoming exit from the EU and an ongoing migration crisis, the European states are now more focused on strengthening their internal defence mechanism, which is not solely controlled by the US and UK.

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<https://www.theguardian.com/commentisfree/2018/jul/03/may-brexit-trump-twins-eu-white-house>.

<sup>40</sup> Patomaki, "Will the EU Disintegrate?"

<sup>41</sup> Matthijs, "Europe After Brexit."

On a brighter note, the Brexit has unified the EU on major issues such as defence, where the UK was a spoiler. Following the Brexit vote, the remaining member states have committed themselves to collaborate and co-operate on defence issues and improve the performance of the EU defence and security policies.<sup>42</sup> Brussels is already pushing for greater military and defence cooperation between the EU and its member states defence through a European Defence Action Plan<sup>43</sup> and France and Germany are also considering establishing a joint defence fund.<sup>44</sup> The EU members have come forward to form Permanent Structured Cooperation on Security and Defence (PESCO) and are now more close to establishing a European military without the UK's resistance. If the EU is successful in doing that then it will be a force to reckon with as its military spending surpasses all other nations in the world except the US.<sup>45</sup> The Brexit can, thus, be considered as a blessing in disguise for the EU.

The EU offers counter-terrorism and intelligence sharing mechanism to its members which greatly enhances their internal security. Once the UK moves out of the EU, it would lose access to the 2004 European Arrest Warrant, the 2005 EU Counter-Terrorism Strategy, fingerprints and DNA databases and other information sharing mechanisms unless it signs a special agreement with the EU.<sup>46</sup> The EU also provided a platform to Britain to exercise its influence and power on other regional states. However, it cannot be denied that the UK is EU's foremost military power that brings its significant intelligence capabilities, diplomatic networks and soft power to the EU.<sup>47</sup> Therefore, a collaborative effort is needed to ensure collective security. It would be in the interest of both the parties if the UK and EU keep on collaborating on major security issues even after Britain's final exit from the EU.

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<sup>42</sup> Hammond, "Two Years after Brexit."

<sup>43</sup> Ibid.

<sup>44</sup> Collins, "Europe's United Future."

<sup>45</sup> Ibid.

<sup>46</sup> "The Consequences of a British Exit from the European Union," European Movement International, 2017, [https://europeanmovement.eu/wpcontent/uploads/2016/05/EMI\\_16\\_PolicyPosition\\_Brexit\\_17\\_VIEW\\_FINAL.pdf](https://europeanmovement.eu/wpcontent/uploads/2016/05/EMI_16_PolicyPosition_Brexit_17_VIEW_FINAL.pdf)

<sup>47</sup> Oliver Patel and Christine Reh, "Brexit: The Consequences for the EU's Political System," *UCL Constitution Unit Briefing Paper* (London: UCL, 2016).

### *EU-UK Trade Relations*

The EU gives access to other countries to a market of more than 500 million people and hence, can easily influence trade deals in its favour. After moving out of the EU, the UK will lose a considerable amount of influence resulting in less favourable trade deals with countries outside the EU. For example, Switzerland, which is not part of the EU, has a separate free trade agreement with China which gives the latter an upper hand by immediately opening up the entire Swiss market to China while maintaining tariffs on exports of Swiss watches to China.<sup>48</sup>

In terms of trade, the UK is more dependent upon the EU than vice versa. In 2015, the EU accounted for 44 per cent of UK exports and 53 per cent of its imports. Total EU-UK trade is 3.2 times larger than the UK-US trade making the EU the largest trading partner of the UK. The UK's exports to the EU account for about 12.6 per cent of its GDP, whereas imports from the EU only form 3 per cent of the EU's GDP.<sup>49</sup> Therefore, the UK-EU trade is more important to the UK than it is to the EU.

Following the Brexit referendum in June 2016, sterling depreciated sharply and, by the end of June 2017, was 12 per cent lower against the US Dollar than it was before the vote.<sup>50</sup> As a result of the Brexit, the UK's inflation rate has increased from 0.5 per cent in June 2016 to 2.6 per cent in 2017. Its real wage growth has witnessed a decline from 1.5 per cent to -0.5 per cent over the same period.<sup>51</sup> GDP growth rate has also slowed by 0.7 per cent.<sup>52</sup> Even though Britain has yet to leave the EU but the Brexit decision has already started to negatively impact British economy.

Once the UK leaves the EU, it will lose access to the customs union and single market, making it less attractive for firms and industries that assemble products in the UK to be exported to the other EU members. Companies like BMW, Air Bus and the Japanese auto industry have already threatened that they would shut down their businesses in the UK in case it moves out of

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<sup>48</sup> "European Union," European Movement International."

<sup>49</sup> Ibid.

<sup>50</sup> Sampson, "Brexit."

<sup>51</sup> Office for National Statistics, 2017, <https://www.ons.gov.uk/>

<sup>52</sup> Ibid.

the customs union.<sup>53</sup> Using a quantitative model of trade and Foreign Direct Investment (FDI), Head and Mayer (2015) estimated an increase in intra-firm coordination and trade costs post-Brexit will decrease cars production by 12 per cent in the UK.<sup>54</sup> The UK's economy will have to pay the cost of reductions in FDI and immigrations after leaving the EU. Its hospitality, construction, fruit and health sector heavily depend on the EU workers. Bruno, Campos, Estrin and Tian's estimated that leaving the Single Market will reduce FDI into the UK by around 22 per cent, which will negatively impact domestic output, economic growth and living standards.<sup>55</sup>

It is projected that in case the UK maintains a high level of access to the "Single Market" it will lose about 2.2 per cent of its GDP and a permanent decline of 1.3 per cent in the UK consumption per capita.<sup>56</sup> In case the UK opts for a simple WTO-managed relationship with the EU, shows that UK could lose between 3.5 per cent and 9.5 per cent of GDP.<sup>57</sup> While in a very optimistic scenario, it is predicted that the UK's GDP will increase by 1.6 per cent in 2030 by leaving the EU.<sup>58</sup>

Absent a trade deal, Britain would have to trade with the EU under the WTO rules. Although multilateral trade liberalisation has been successful in achieving lower taxes for goods under the WTO but it has not played a significant role in reducing the non-tariff barriers in the services sector.<sup>59</sup> The UK has a comparative advantage in services which make up to 40 per cent of the its exports to the EU. Financial, management and consulting services form half the total.<sup>60</sup> Despite the fact that the UK has a net trade deficit with the EU, its financial services had a trade surplus of 10.3 billion in 2013.<sup>61</sup> Thus, any deal that does not protect passporting rights of the UK-based finance companies and provide the UK's financial sector with

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<sup>53</sup> Lisa O'Carroll, "BMW will Shut UK Sites if Customs Delays Clog Supply Post-Brexit," *Guardian*, June 25, 2018, <https://www.theguardian.com/business/2018/jun/25/bmw-will-shut-uk-sites-if-customs-delays-clog-supply-post-brexit>

<sup>54</sup> Sampson, "Brexit."

<sup>55</sup> *Ibid.*

<sup>56</sup> *Ibid.*

<sup>57</sup> "European Union," European Movement International.

<sup>58</sup> *Ibid.*

<sup>59</sup> Sampson, "Brexit: The Economics," 163-184.

<sup>60</sup> *Ibid.*

<sup>61</sup> "European Union," European Movement International.

favourable terms of trade with the EU will leave the UK's economy worse off.

The EU membership does not bar any EU member state from engaging in global trade. In fact, extra EU trade expanded more rapidly over the last decade than intra-EU trade.<sup>62</sup> The UK's failure in capturing key global markets like China has nothing to do with its EU membership. Thus, it seems very unlikely that post-Brexit, the UK would be able to negotiate favourable trade deals on its own to fully compensate for lower UK-EU trade. Hence, the UK will not only lose access to existing free trade agreements between EU and the rest of the world but will also have to bear the consequences of having less bargaining power now than before it was a part of the EU. The economic losses being incurred by Britain are expected to rise in the future due to Brexit and this is sending a message to the other EU members to think twice before campaigning for leaving the EU.

### **Reforming EU to Prevent another Exit**

If the EU is to survive, it needs to bring some significant institutional reforms. It must restore a balance of power between Brussels and Europe's capitals by giving national governments the authority to make decisions about key areas of economic policy. The nation-state concept should not be taken lightly as it is here to stay and the European Commission needs to understand that the policies implemented by elected representatives have far more democratic legitimacy than those imposed by technocrats in Frankfurt or Brussels.<sup>63</sup> Hence, there's a need to give more freedom to the EU member states.

In its effort to make the organisation more homogenous and integrated, the EU leaders forgot that the citizens of various members have their own separate cultural and national identities, which they want to retain despite being part of a larger European community. Therefore, the future of the EU needs to be built on an acknowledgment of the cultural differentiation that exists across its member states — without sacrificing the broader common European project. This delicate balancing act requires building the capacity for healthy and overt debate over the specific European policies and the shifts in national sovereignty that they demand.

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<sup>62</sup> Ibid.

<sup>63</sup> Matthijs, "Europe After Brexit."

The bureaucracy sitting in Brussels needs to show more flexibility and change its image as distant and ignorant about the European citizen's real concerns. The 2015 Greek referendum is one such example in which Greek people voted no to more austerity and no to the violation of their democratic rights by the creditors. This sent a strong message to the bureaucracy sitting in Brussels that the policies imposed by them are not acceptable to the masses sitting back home.

Moreover, the EU needs to address the daunting challenge of economic and social exclusion existing in most of its member countries as it further increases support for the populist and the anti-EU movements. It needs to introduce policies that broaden access to higher education and support economically disadvantaged regions. Similarly, the EU needs to respond to Brexit by allowing governments to protect its citizens from economic shocks through the implementation of shock absorbing policies.<sup>64</sup> In order to tackle the migrant crisis, the EU needs to continue collectively building deeper cooperation in border controls, policing and counter-terrorism efforts through a European border and coast guard.<sup>65</sup>

It needs to address for the democratic deficit that exists at Brussels which has further alienated the masses from the EU. To address this problem, the EU needs to revise its policies regarding interference into the member states' laws and economic policies. It needs to build a flexible union which respects diversity rather than mimics a unitary nation-state. Furthermore, it should take the democratic leaders into confidence who would then inform the citizens regarding the importance of being part of the EU and the necessary political bargains and compromises required to sustain this project of regional integration for the greater welfare, peace and security of the continent.

## Conclusion

At the time of writing, the situation in London remains very hard to read as the Brexit negotiations are in an intense phase. Nevertheless, there is one thing the Brexit referendum demonstrated was that exit from the EU will

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<sup>64</sup> Sampson, "Brexit: The Economics."

<sup>65</sup> Catherine De Vries and Kathleen R McNamara, "How Choice Can Save Europe," *Foreign Affairs*, May 14, 2018, <https://www.foreignaffairs.com/articles/europe/2018-05-14/how-choice-can-save-europe>.

only lead to chaos. The Brexit, instead of encouraging other countries to leave the EU, has united them and increased the support for the EU among member states thus, curtailing the influence of the populist parties in Europe.

This is the first time that an EU member state will be leaving the union and it will have far-reaching economic and political consequences for Britain. The EU member states reap far more economic benefits than they would outside the organisation. It also provides its members with collective security and with one strong voice on conflicts with the outside world. The EU is facing numerous challenges at the moment but saying that it will disintegrate in the near future would be an overstatement.

The EU needs to bring in some structural reforms and make the EU institutions more democratic and flexible. It needs to ensure that the prevailing inequality in its member states is addressed and prove that it can handle the migration crisis by drafting sustainable border management policy for its members. Therefore, only by making such reforms will ensure that the EU's model of regional integration is sustained in the future.