BREXIT AND THE FUTURE OF THE EUROPEAN PROJECT – POSSIBLE SCENARIOS

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Abstract. In a time of serious, financial and military turmoil EU is losing one of its three big member states, a country whose international connections and military capabilities may be irreplaceable. Brexit proves once again that arguments appealing to national feelings are stronger than economic arguments. Economically, Brexit will cause to UK economic damage rather than bringing benefits. The unity of the EU and the European project is under unprecedented pressure already exacerbated by the Eurozone troubles and the migration crisis. The most worrying effect of Brexit for the European project is the likely contamination of another EU member states especially those with significant Eurosceptic movements namely Denmark, Sweden, Austria, and the Netherlands. Brexit suggests a fragmentation of the West to the delight of Russia.

Keywords: European Studies, Political Sciences, Brexit, International Relations.

Introduction

The fact that a country like Great Britain representing more than 10% of EU’s population and more than 20% of its GDP had chosen through a referendum to abandon the European project and to leave the EU is the most significant defeat the European construction has had to confront since his initiation in 1952. Even more worrying the decision comes from a country which already had a rather privileged status within the EU as a full member of the common market but allowed several exceptions (not belonging to the Euro, Schengen Area, privileged relationships with several commonwealth countries etc). Negotiating the withdrawal of a large member state is without precedent in EU history and a direct blow to the “European idea” and the “European Project”, designed to go slowly but to always go forward. There are precedents. Two territories, (not states) left the European Community under very specific circumstances: Algeria in 1962 due to its independence from France, and Greenland in 1985.

For many Europeans the EU was (and still is) a stabilizing force against their own malfunctioning democracy and corrupt political class, but this is not the

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case with Britain. Entire nation states in particular in Central and Eastern Europe were created on the basis of asserting their belonging to Europe and European culture. The ideology of transition in Central and Eastern Europe was based on nothing other than a race towards everything European. Again, is it not the case of the British who considered themselves to be different? They are adjacent but not a part of the continent. For Britain and the British people there is no connection between the integration into EU and the development of a stable democracy as would be the case of Central and Eastern Europe, Spain, Portugal or Greece.

According to James Hanning, the British premier must have been surprised by the extent and aggressivity of the Brexit movement and also he seems to have forgotten the golden rule any politician should know before for initiating a referendum, to make sure that he will not lose it. Tim Bale also considers that David Cameron to be an elitist who ignored the “dark forces” and the mentalities found in the poorer less educated strata of society. The poor, the less educated and the marginalized people do not think and act in terms of globalization and macroeconomics. He naively considered that the economic argument would be strong enough to keep the UK in the EU, ignoring the dimension of the immigration issue in the minds and mentality of ordinary people. He just forgot that nationalism and xenophobia may prove stronger than any rational macroeconomic argument. The concomitant unprecedented wave of immigration did not help but exacerbated xenophobia and fear. Indeed the migration crisis in 2015 seems to be the last straw which triggered the Brexit. The entire “anti-European” campaign seems have used the most primitive language and arguments to influence their electorate. Hanibal ante Portas arguments, images and frightening discourses were used. The EU member states, unable to protect their frontiers and unable to control or to manage an unprecedented influx of potentially unwanted people, were to blame. The pull factor triggered by Angela Merkel’s declarations as far as uncontrolled immigration is concerned gave more arguments and an unprecedented impetus to xenophobic parties and amplified “anti-European” feelings. Most “OUT” voters were voting “OUT with East Europeans”. In all probability, the East Europeans already in UK will be allowed to stay, so most Brexit voters will find their choice meaningless.

UK and EU and the Western world are weakening each other in a time of economic turmoil, high unemployment, demographic decline, and direct security threats in both the neighboring areas as well as in the interior. In some interviews Donald Tusk the president of European Council has described Brexit in apocalyptic terms as a threat not only to the European project but also to the Western civilization, emphasizing the potential disastrous economic effect of years dominated by incertitude. After Brexit the EU is expected to be dominated

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by a Franco-German *binome*, with a Germany assuming the leadership. The leading role of Germany would not be the result of a political game but rather a high and costly responsibility this country has to accept given its political and economic size. And this costly responsibility has arrived at a bad time because Germany has also to solve other recent challenges like the global financial turmoil and the financial rescue of Greece, the EU neighborhood conflict (mainly involving Ukraine), and the recent refugee crisis. So far EU has never faced a crisis triggered by Germany but the consequences of Brexit combined with the effects of another financial crisis in the Eurozone and the refugee crisis may lead even the Germans to question their EU membership status.

Without the UK, the EU political economy is expected to become more French inspired and, for instance, more protectionist and less oriented towards new free trade agreements with the rest of the world. Brexit may also threaten even further the prospect of Turkey’s EU membership. With Brexit, the EU loses one of its largest western countries. The remaining western countries may be even more tempted to avoid the membership of a large Muslim state which will change the cultural balance and feature of the EU as a block. Moreover, if Turkey’s EU membership status were to be accepted in the foreseeable future together with another Western Balkans state, the remaining western countries would have an additional reason to question their EU membership, an EU utterly different compared with what it was in 1993.

In conclusion, in a time of financial and military turmoil the EU is losing one of its three big member states a country whose international connections and military capabilities may be irreplaceable. France remaineds the only major military power within the EU. In response to Brexit, France and Germany had accelerated the debated over a joint initiative on European security involving more solid and visible European military capabilities. In effective military terms most analysts are unsure that this kind of initiative will go much further beyond a symbolically gesture. EU is likely to lose some of its influence and status in the Anglo-Saxon world (US, Canada, Australia, New Zealand) and also in Singapore and Japan and the western world will become more fragmented. And at the moment one thing is certain: Fragmentation of the West will be watched with satisfaction by Russia.

*Is the UK going to activate the Article 50 of the Lisbon Treaty?*

There were several speculations over the decision whether or not to activate Article 50 of the Lisbon Treaty as a result of the Brexit referendum. There were

5 John Springford, Simon Tilford, Philip Whyte, “The economic consequences of leaving the EU, The final report of the CER commission- Final report of the CER commission on the UK and the EU single market”, Centre for European Reform, June 2014, London.


7 Almut Möller and Tim Oliver (eds.), The United Kingdom and the European Union: What would a Brexit mean for the EU and other states around the world? DGAP, September 2014.
speculations about a “second chance” referendum (including opinion polls) to be organized as a second thought for those who voted “Out” without having enough information about the economic, financial and political consequences. The opinion polls and the politicians declarations at the end of 2016 exclude this scenario which may cover the British voter with ridicule. Within the press there were rumors about a possible plot against the people which arising from politicians which, just like in the case of the EU’s Treaty rejection by the Irish electorate, would organize another referendum, and another one until the electorate chose the desired outcome. In this respect media conveyed speculations about the fact that Brexit’s Secretary David Davis has informed the Parliament that there will not be any attempts to undermine the referendum result. The statement was debated in the House of Commons at the request of several MPs.\(^8\)

It is also expected that the terms of departure will be debated in the British Parliament before the Article 50 and negotiations as such will begin. Several studies are already available regarding the economic effect of Brexit in the short and medium term. Most of them show the radical switch from the single market to WTO rules to be highly costly in terms of tax revenue and inflation. Excluding the contributions to EU, the smaller size of the economy (unless new economic deals are made across the globe) will cost Britain around 38bn.\(^9\) For instance, before activating Article 50, a deal must be reached with EU. Most EU leaders are intransigent as far as the freedom of movement is concerned, undermining the very meaning of the Brexit vote.

Much of the business sector in London revolves around the City and its financial services. These financial services have flourished thanks to the US investment banks that employed thousands of financial experts in London as a base for its financial services all over EU. Losing the opportunity to sell services from London to the EU most US based investment banks (and not only them) would have to take drastic measures, most probably moving a significant part of their personal to other financial centers located elsewhere in the EU (most likely Frankfurt).\(^10\)

British expats living in another EU member state are expected to face difficulties as well. Most British expats living in another EU country live as pensioners in Spain and their status after Brexit will become quite unclear and most probably will be one of the subjects of the Brexit negotiations.

How long it may take?

The extent of Brexit and, for instance, the content of the negotiations is still unknown at this time (October 2016). The negotiations are expected to be long and bitter, extending for a period of at least two years, probably five, perhaps

\(^8\) Sky News interview 10 of October 2016.


more. It is unknown if Britain will choose to remain in the single market. So far the EU leaders have been firm about this issue arguing that participation in the single market involves the maintenance of free movement for EU citizens into Britain, and this would undermine one of the main purpose of Brexit itself (the issue of immigration mostly being from the CEE EU member states). Also single market participation and membership involves Britain obeying EU rules; rules which Britain will have no possibility of modifying, as it would have if it were a member state. If this is the case the British may choose to extend the exit negotiations for as long as possible. Once the terms of withdrawal have been negotiated, it will take at least two years for the decision to be ratified by the parliaments of 27 member states (in some cases a referendum may be necessary). The exit negotiations are likely to be a test of solidarity and coherence.

One thing to note is that the EU is forced to give a harsh answer and harsh negotiation conditions to the UK in order to discourage other member countries from exiting. Also the EU leaders are in the uncomfortable position of hoping a painful exit for Britain and for economic failure outside the EU. If Brexit were to be a visible success the entire European project would be in danger of being considered obsolete. The pro-European elites would lose many of their palpable arguments about further integration, and without further integration some EU pillars like the monetary union may not survive.

The possibility of membership of the EEA (European Economic Area), or the so called “Norwegian model” involves perhaps too many ties and the obligation to obey without the possibility to influence. In such a case Brexit as such would not be justified. A set of bilateral agreements or even a complex free trade agreement may be the most likely choice. One thing is certain. At this moment UK’s situation, “In” or “Out” the EU, is rather foggy and uncertain. And this is not good for business and investment both of which are reacting accordingly.

The domino effect

After Brexit the unity of the EU and the European project as such is under unprecedented pressure, which has already been exacerbated by the Eurozone troubles and the migration crisis. The most worrying effect of Brexit for the European project is the likely contamination of another EU member states especially those with significant Eurosceptic movements, namely Denmark, Sweden, Austria and the Netherlands. The Eurosceptics in those countries are already celebrating and if Brexit proves to be beneficial for Britain, if the migration crisis continues or even gets worse, if the EU financial turmoil continues, the departure of another EU member (this time a continental one) could trigger the domino effect.

Apart from the migration issue, and directly related to this, there is the question of the state of the UK’s economy as compared with other EU members.
In many respects a country like the UK seems to be rather strong as a political and economic unit as compared to an EU struggling to cope with the economic problems in Greece, Italy, Spain and more recently, Finland. The UK’s economy is doing better than most other EU member states with lower levels of unemployment, higher wages and a more flexible national currency. Most of these are seen as being the result of UK particular and privileged status within the UK, namely its own currency and its own border controls. For instance, if as a direct result of Brexit the British economy flourishes the temptation may prove higher than the European ideal in other key member states. Populist, nationalist and Eurosceptic parties are on the rise in most EU member states. Both François Hollande and in particular Angela Merkel face difficult and unpredictable elections in 2017 as they may be lose a part of their supporters. Adherence to the Schengen area and the Eurozone represents for French, Dutch, Austrian or German Eurosceptics a set of additional reasons to leave apart for the reasons expressed by brexiter in the UK. Denmark and Sweden, as well as non-membership of the Eurozone, have a tradition of looking at the UK as an example in politics, trade and culture.

The possible effects on EU

There are voices arguing that now with the “troublemaking” and constantly oppositional Britain voting “Out”, the EU has a green light to strengthen the Union towards a federal model, with a unique monetary policy, a real and functioning defense policy and army and so one. Will the “cynic”, “selfish” socio-economic Brexit arguments put an end to an ideal materialized by Jean Monet 60 years ago? The European Union does not have an underlying nation capable of overriding economic arguments in the superior interests of the nation. But to what extent does the UK comprise a nation capable of absorbing the Brexit shock? The Scottish representatives have already raised the question of Scotland’s secession from UK in order to remain in EU. It is not an easy issue as far as after secession, the new independent state of Scotland would have to apply and complete the entire access negotiation process just as any other EU candidate for membership. European Union is not a nation but a new sort of political entity which transcends the old Westphalian nation state arrangements, moving towards a post-national stage of political organization. The effects of globalization seem to favor this post national evolution. However several countries within the actual EU are far away from the post-industrial post-national stage (mostly the East European members), and a “fall” into the nationalism and history can never be excluded even in the founding member states. For instance, the very future of the EU as a political construction is in the shade. The magnitude of this construction and the bravery of this idea is, however, worth the risk and the many problems it has to face are

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12 Nick Gutteridge, “European superstrate to be unveiled: EU nations to be morphed into one post Brexit” in Express, June 24, 2016, available online at: www.express.co.uk, accessed: October 19, 2016.
not surprising. Although the various EU programs and cheap available travel has created among EU young people a kind of “imagined community”, it remains to be seen if this “imagined community”, which enjoys the actual benefits of EU integration, would be strong enough to suppress the centrifugal movements coming from the national or nationalist level of identity most Europeans young or old still have. These spin offs maybe stronger from the net contributor states of the EU, mostly from those which are not initial founders (Austria, Sweden, Finland). Also, in time of crises (financial, political, security crises) citizens expect their national governments and their national parliaments, rather than the EU Parliament or the EU institutions, to do something. EU institutions still lack enough visibility, credibility and legitimacy in the eyes of ordinary citizens and there are no miracle solutions to this problem.

So far, despite its many problems, integration seems to be proceeding. The most pressing issue at the moment seems to be the urge to build a sound functional common monetary policy with the necessary common procedures, with regulatory statuses and fiscal monitoring for banks. However, the Euro will still have problems until a truly fiscal EU policy with a European Treasury is in place. And there seems to be a rather long way to go to achieve that. Probably the most encouraging fact is the attitude of young people towards the European project and further integration. In UK most remain voters were young.

The impact of Brexit on British research and education

UK research and educational infrastructure used to be the main winner in the various EU competitions for research funds. The European Research Council gave most funds to UK entities, and the British Universities are financing their research programs with a share of around 10% from dedicated EU research funds. More than half of the first 20 universities financed through EU FP7 programs are UK based universities. In the last decade British academic entities received more than 10 billion euros in research funding from the EU Research Council. Access to generous funds is replicated in good academic results, good connection to the world top businesses and an unparalleled prestige translated into high fees for international students. It is expected that Brexit may affect UK’s universities access to the EU research programs and funds. However, some non EU members states such as Switzerland, Norway or Turkey are participating (and are contributing financially to) to EU academic programs like FP7, Horizon 2020 or Erasmus.

After Brexit several researchers in UK are talking about the discrimination they have to face and the pressure to abandon collaborations with various academic partners located in other EU member states. In some research consortiums that won Horizon 2020 projects, British Universities are asked to leave or to

14 According to HESA (Higher Education Statistics Agency), www.hesa.ac.uk
withdraw from leadership due to the uncertainties regarding their eligibility. Some research institutions just do not want to engage in any more applications for various European research consortiums in order to to avoid being the weak link. Also the invitation to join research consortiums has dropped drastically.\textsuperscript{15}

What would be the fate of the increased number of British students studying in other EU countries? Will they be considered international students? Many students may choose to study at home rather than in the UK, and the difference in terms of tuition fees is as much as 9 to 1 in favor of EU universities (not forgetting that the cost of living is usually much lower in other EU member states). The most significant effect is expected to be at the level of EU students choosing to study in UK, whose numbers may significantly decrease. Under the new circumstances they would be considered international students and would have to pay tuition fees greater than three times as high as now. Bilateral treaties and negotiated arrangements are possible, and quite likely, but for the moment in this field uncertainty is the rule.

\textit{Brexit and the Romanian migrant workers in UK}

Migration is today probably the most pressing issue in the relationship between Romania and the UK, although not to the same extent as in the case of Poland and Lithuania. With 223,000 registered as residents for 2015, Romanian citizens make one of the largest recent EU member state emigrant groups.\textsuperscript{16} Most of them are economically active and skilled, although the criminality level is also high among the same group. The mass movement of migrants from Central and East European member states into the UK is one of the main factors which triggered Brexit. Recently, in several official declarations British politicians have offered assurances that those migrants from another EU member state already in Britain will be allowed to stay. However, access to social benefits in terms of eligibility and basic rules is about to change. The possibility of a new massive wave of migrants from CEE in future months, just to take the last train to UK before the new arrangements are introduced, cannot be excluded. The Romanian population in UK has almost doubled since 2014 (the year post EU accession restrictions were lifted). Romanians although present in large numbers have not been subject to the reported xenophobic abuses that have been recorded in the case of Poles. Some may say that this is the case because the Romanians don’t usually report xenophobic abuses. According to a survey in \textit{The Guardian}, most Romanian men tend to be employed in construction (in low and medium skilled jobs). Virtually all surveyed building sites have Romanians employed. In the case of immigration restrictions being imposed on Latvia and Lithuania, Brexit will be more painful as 10% of their total work force now work in UK. In the case of Poland some 4% of their total work force are located now in UK\textsuperscript{17}. UK statistical data showed that in August 2016, Poles for the first time exceeded

\textsuperscript{15} Jan Sample, “UK scientists dropped from EU projects because of post-Brexit funding fears” in \textit{The Guardian}, July 12, 2016 available online at: \url{www.theguardian.com}, accessed October 19, 2016.

\textsuperscript{16} Numbers according with The Migration observatory at University of Oxford, \url{http://www.migrationobservatory.ox.ac.uk/}

\textsuperscript{17} Ibidem.
Indians as the most numerous expat community, with 831,000 compared with 790,000 born in India. 18

Another category of people who are about to suffer is Romanian students who are already enrolled at British universities (some 6,750 as 2016). 19 The main concern is the change of status from domestic/EU student to international student, whose fees are at least twice as much. Another major concern is the access to study loans from the British government in order to cover the average tuition fee amounting to around 9,000 GBP per annum.

**Possible economic effects for Romania**

The Romanian Ministry of Public Finance has already announced that the effects of Brexit for Romania are likely to be manageable in financial terms. Higher financing costs in international markets due to the high level of uncertainty in the Eurozone are expected. Also an ING bank report considers the impact of Brexit for Romania to be relative low, mirroring the relative low level of direct economic connections between Romania and UK. Other opinions are less optimistic. Some sectors of the Romanian economy export more than half of their products to UK which is also the 5th export destination for Romanian companies (Mihai Ionescu Romania’s Export Council Co-Chair). According to a World Bank survey quoted by Unicredit the remittances send home from the UK by Romanian expats amounted a tiny 3% of the total remittances entering the country. A possible exit by foreign investors from emerging markets may cause a devaluation of the Romanian currency (however counter measures taken by the Romanian National Bank are expected). 20 According to the Erste study up to 46% of Romanian exports to the UK may be affected by Brexit in particular the export of machinery and transport equipment. 21 For Romania UK represent the fifth export destination amounting around 2.3 billion euros. Romanian exports to the UK represent around 4% of the Romanian exports. 22 The imports from UK are valued at some 1.6 billion euros (especially electrical equipment and pharmaceutical products). 23 However, exports may become uncompetitive because of the devaluation of the British pound. Correspondingly net imports from UK may increase.

In Romania in April 2016 5,200 firms with British capital were active, UK being number 10 at this respect. 24 British investments in Romania are rather low. According to an RNB report in 2014-2015 British investments in Romania amount to 2.6% of total direct investments in the country.

As an EU member state, after Brexit Romania will not be in a position to negotiate, at a bilateral level, benefits which are specific to Romania with the UK.

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19 Higher Education Statistics Agency (available online at: http://institutions.ukcisa.org.uk/)
20 Unicredit Bank Report, “Brexit will have low impacts on Romania on short-term” released on June 22, 2016.
22 Dan Mihalache, Romanian Ambassador to UK, interview to the media agency AGERPRESS, June 26, 2016.
24 According with the Romanian Register of Trade Chamber 2016.
**Conclusions**

Brexit appears as the “cherry on the cake” for an EU already in trouble with other serious political, economic and security crises. It appears as a revival of the “dark forces” of nationalism and xenophobia, appealing to the poorer less educated strata of British society. The main political slogan within the Brexit campaign was the opposition to „free movement of people“ and the allocation of new refugee quotas by Brussels. Brexit was unpopular with both the vast majority of the media and the elites. Brexit appears as a revenge, and a warning to the ordinary British working class against their elites which arrogantly seem to have lost contact with them. the Brexit “Leave” campaign was based not only on a xenophobic discourse but also on lies regarding various statistics and economic figures in order to impress ill informed voters. The most notorious case of misinformation relates to the amount of money UK spends on and receives from EU.

Brexit proves once again that sentimental arguments and arguments appealing the national feelings may prove stronger than economic arguments. Economically, the most likely outcome of Brexit, as predicted before the referendum, will be to cause economic damage rather than bringing benefits for UK. So far, after six months, the economic summary of the Brexit is simple. The British currency has dropped from $1.50 to $1.30 which means that for an export oriented country like UK its exports have lost around 15% of their value. So far until the Article 50 is officially activated and exit negotiations start; it is still unknown what the relations between the EU and UK will look like. From various possibilities, four basic scenarios can be traced. The country may negotiate and receive a status more or less similar to Norway or Switzerland with the considerable concessions on the free movement of people clause, which would make Brexit as such meaningless. At the other extreme UK will lose all trade benefits; being treated under the WTO rules. The other two scenarios involve multilateral or bilateral agreements with the EU and the member states. For the UK, Brexit may trigger more serious issues than those related to trade and economy. Brexit leaves the country more politically divided than ever. Scotland and Northern Ireland voted firmly in favor of the status quo. Already Scotland’s Scottish National Party leaders have threatened London with another referendum on independence. The ethnic conflict in Northern Ireland may be revived over the issue of independence and unification with the Irish Republic. The status of Gibraltar may also be uncertain in so far as some 95% of the voters chose “remain”.25

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