8 Brexit and the risk of further disintegration of the European Union. Forecast attempt

Introduction

The economic downturn the world has been experiencing since 2008, as well as the debt and public finance crisis in the Eurozone prompted voices in some European Union (EU) member states questioning the validity of their continued membership in the Union.

Whether such voices were a result of the unfavourable financial situation or of the public perception blaming the EU for weakening the economic and social position of those countries, the issue of whether continued membership in the EU is both desirable and needed was brought to light. In some member states, attitudes supporting the idea to leave the EU are very widespread. Is it possible? What does the process look like? Who should approve or support such a decision? And most of all: what does it mean for the member state leaving the EU and for the entire Union?

This process was somehow materialised by the British referendum regarding the continued membership in the EU, and consequently Brexit.

The aim of this paper is to analyse the risks associated with Brexit and potential disintegration of the EU. This objective was met by discussing: the issue of European disintegration in selected political, legal and economic terms, the notification of leaving the EU submitted by a member state, based on the example of Great Britain and the implications resulting from Brexit for Great Britain and the EU. The paper presents quantitative results of own studies on the risk of disintegration of the EU resulting from Brexit.

1. Disintegration of European states in selected political, legal and economic doctrines

Those contemporary critical economic doctrines which take into consideration EU disintegration drivers, unequivocally point out to structural problems.

J. Sozański[1] deems the research into the EU law an extraordinarily complex discipline, given the amount of legislature (over 90 thousand legal acts), growth rate, intricate structure and the resulting difficulties in application and presentation within the doctrine. The Lisbon Treaty has further tangled up system mechanisms and structure, which however has as yet been reflected in neither the application of law by EU and member states authorities, nor in the literature, which in particular all ignore a new, hierarchically exposed category: the EU values and the related broadly meant human rights and general principles, thus contorting the shape of the system. The EU's powers having been weakened, such situation adversely affects the consistency and efficiency of the legal regime, as well as the implementation and application of law. Another material change is including, in the EU treaties, the Charter of Fundamental Rights of the European Union, harmonised with the European Convention on Human Rights (ECHR) and Strasburg jurisprudence, connected with the EU's (not yet performed) obligation to access ECHR. Opening of the EU legal regime onto international law and the legal system of the UN and other international organisations has further undermined the autonomy of the EU system. Such repeated distortions of *acquis*, caused by EU authorities' pragmatism, is to a material detriment of the EU and its population, consequently leading to disintegration.

R. Cox[2] observed that critical theories focus on analysing how a given political system has come to be and how it should be modified. It is so, because these theories challenge the idea of a sovereign state as a form of political commonwealth, a form defining the identity of the

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[1] J. Sozański, *Prawo Unii Europejskiej. Analiza krytyczna systemu i doktryny*, Wydawnictwo Adam Marszałek, Toruń 2014, p. 10.

[2] J. Czaputowicz, *Świat 2006 – powrót do wielobiegunowości*, "Rocznik Polskiej Polityki Zagranicznej" 2007, pp. 283–288.

commonwealth's participants. Supporters of critical theories strive to develop an alternative theory of international relations and to overcome the problems posed by the existence of sovereign states, with a view to creating post-sovereign global politics, contradicting that implemented within the EU.

Even before the onset of the 2007 economic crisis, there appeared theorists of the European integration questioning the *status quo*. Some researchers deemed integration in certain fields excessive and suggested that the Union should withdraw from some areas or more often use mechanisms of flexible integration.[3] Other suggested a deeper integration in terms of both substance (social policy, defence or external relations), and system model (constitution for the EU, political union or federation). Important factors included the debate over democratic deficit and inefficiency of EU's implemented policies, so frustrating for EU population.[4]

On the back of the economic crisis, stronger have after 2008 been opinions that Europe is 'over-integrated'.[5] While formal powers of EU institutions have been growing, the resources those institutions could use to implement EU policies have remained unchanged. In numerous areas, integration initiatives proved asymmetric and partial only. Critics believe the integration has become too deep, entering new areas, accompanied by excessive optimism, which however lacked any intellectual reflection. Selective negative integration, leaving behind key sectors of the economy, as well as the unavoidable threats of positive integration, all have given rise to the population's disappointment and distrust.[6] Against this background, the following paradox comes out, so

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[3] F.W. Scharpf, *Problem Solving Effectiveness and Democratic Accountability in the EU*, "Political Science Series" 2006, No. 107, pp. 20–25.

[4] V.A. Schmidt, *Democracy in Europe. The EU and National Polities*, Oxford 2014; K. Ławniczak, *Dezintegracja, konsolidacja czy status quo? Kryzys modernizacji w Unii Europejskiej a poszukiwanie nowego paradygmatu integracji*, "Przegląd Europejski" 2014, No. 4 (34), pp. 36–40.

[5] F.W. Scharpf, *No Exit from the Euro-rescuing Trap*?, "MPIfG Discussion Paper" 2014, No. 4, p. 18.

[6] M. Giandomenico, *The European Commission: the Limits of Centralization and the Perils of Parliamentarization*, "Governance" 2002, Vol. 15, No. 3, p. 383; K. Ławniczak, *op. cit.*

characteristic of the current inter-paradigm period: discarding the "ever closer union" paradigm and controlled disintegration (including, for instance, more widespread application of opt-out clauses, as well as instruments enabling a closer cooperation among fewer states) are here seen as the only way to save the guiding principle of the united Europe. Fritz W. Scharpf has particularly clearly stated the idea; he maintains that, following the implementation of Euro-rescuing steps, the EU has become an authoritarian regime run by technocrats (believers in false religion of monetarism) or institutionalised manifestation of creditor states' control over debtor states.[7] The crisis has brought forward a discord between declared solidarity and practically implemented maximising of sovereignty by leading states.[8] The discord has revealed that the integration based exclusively on "managing interrelations" may prove difficult to sustain.[9] In such circumstances, Scharpf sees the only hope in a revolt of debtor states (acting with strong support of their populations), leading to disintegration of the Economic and Monetary Union (EMU) or to such remodelling of EMU which would more evenly distribute the cost of overcoming the crisis.[10] The EU, created in line with the still existing integration paradigm, has proven weak, which makes the Union unable to counteract the ongoing limitation of public authorities' ability to solve material social and economic problems, while this limitation is among the consequences of globalisation.[11] Despite the opinions voiced in the course of a debate over democratic deficit, the problem is not so citizens' control of decisions of public or quasi-public bodies (e.g., with accountability mechanisms), as such bodies' ability to control decision-making

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[7] F.W. Scharpf, *No exit…*, pp. 3–4.

[8] *Idem*, *Legitimacy Intermediation in the Multilevel European Polity and Its Collapse in the Euro Crisis*, "MPIfG Discussion Paper" 2012, No. 6; K. Ławniczak, *op. cit*.

[9] J. Hayward, *Union without Consensus*, in: J. Hayward, R. Wurzel, *European Disunion. Between Sovereignty and Solidarity*, Basingstoke 2012, pp. 10–12.

[10] F.W. Scharpf, *No exit…*, pp. 13–18; K. Ławniczak, *op. cit*.

[11] M. Conrad, F. Steingrímsdóttir, *F-Word or Blueprint for Institutional Reform? European Integration and the Continued Relevance of Federalism*, "Stjórnmál & Stjórnsýsla" 2012, Vol. 8, No. 2, p. 245.

processes in social, economic and international relations.[12] Among proposed answers to the problem of the EU's structural insufficiency is that given by federalism, on which a new consolidation-oriented integration paradigm might be based in the post-crisis Europe.[13] In some respects, the EU already operates as a federation; it might also be called a 're-invented confederation'.[14] This notwithstanding, federalism for long remained put on the back burner by European integration theorists.[15] It was treated as a normative theory of even ideology or, at best, as a descriptive and hardly inspiring approach, which has failed to provide material knowledge-enhancing explanations or analogies useful in studying the contemporary EU. However, supporters of federalism argue that it may be an up-to-date and valuable theory, which not only pertains to the issues fundamental to integration process (such as the division of powers between supra-national and national tiers or the principle of subsidiarity), but also explains the operation of the current and shaping of the future institutions of the European Union.[16] The fundamental problem preventing the potential of federalist thought from being used is sticking to the rigid conceptual frame of its conventional current. Indeed, if federalism is to realise the 'United in diversity' motto, then one must bear in mind that Europe today lacks any politically material form of 'unity', be it the sense of European identity or European belonginess.[17] This statement urges those discussing the federalisation of the EU to revise accepted

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[12] Ch. Lord, *Polecats, Foxes and Lions. Social Choice, Moral Philosophy and the Justification of the European Union as a Restrained yet Capable form of Political Power*, ARENA Working Paper 2009, No. 15, p. 1; K. Ławniczak, *op. cit.*

[13] M. Conrad, F. Steingrímsdóttir, *op. cit.*, p. 245.

[14] R.D. Kelemen, N. Kalypso, *The EU and Comparative Federalism*, in: K.E. Jorgensen, M. Pollack, B. Rosamond, *Handbook of European Union Politics*, London, 2007, p. 305; K. Ławniczak, *op. cit.*

[15] M. Witkowska, *Zastosowanie paradygmatów federalizmu i rządzenia wielopoziomowego do badania mechanizmów podejmowania decyzji w Unii Europejskiej*, in: J. Ruszkowski, L. Wojnicz, *Multi-level Governance w Unii Europejskiej*, Szczecin–Warszawa 2013, p. 178.

[16] R.D. Kelemen, *Built to Last? The Durability of EU Federalism*, in: S. Meunier, K.R. McNamara, *Making History. European Integration and Institutional Change at Fifty*, Oxford 2007; K. Ławniczak, *op. cit.*

[17] M. Conrad, F. Steingrímsdóttir, *op. cit.*, p. 248.

views on state and democracy. Joseph H.H. Weiler points out the specific structure of the EU political system. The federal (top-down) hierarchy of legal rules is accompanied by the confederal (bottom-up) hierarchy of actual power and authority, which allows to see the EU system as an innovative form of non-domination institutionalisation.[18] It could serve a basis for a global cosmopolitan political culture and constitutionalisation (or just legal formalisation) of transnational interrelations. This system does, however, reveal serious drawbacks, referred to above. The consensus-led decision-making process prevents flexible response to signals from the dynamically changing world. Moreover, the yesterday consensus may become the dictate of individual states if the others have changed their preferences. Abandoning these rules would require member state citizens to develop a sense of identification with EU co-citizens. However, shifting the democratic practice from the national level onto the EU level appears impossible without prior rewording of the federation idea and its separation from the statehood in the form of a nation state.[19] Accordingly, new federalists see it necessary to go beyond the familiar model of the nation-state democracy. The democracy of a supra-national federation would be so far from the national democracy, as the latter is far from the democracy of ancient Athens. The new federal reconfiguration of democracy calls for a new approach to the theory of democracy, going off the well-trodden paths of thinking and imagining democracy organised differently from what it looks like in the nation states. It is thus a current of thought opposite to the EU constitutionalisation in the first ten years of this century. It should be stressed that this paradigm is still in the initial development phase and may thus develop in various directions. However, it inspires discussion on a possible solution to the crucial problem faced by the existing federalist ideas: a lack of a deep sense of identity among Europeans. Replacing the search for identity with a focus

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[18] J.H.H. Weiler, *In Defence of the Status Quo: Europe's Constitutional Sonderweg*, in: J.H.H. Weiler, M. Wind, *European Constitutionalism Beyond the State*, Cambridge 2003; K. Ławniczak, *op. cit*.

[19] R. Schmalz-Bruns, *Democratic Legitimacy, Political Normativity and Statehood*, in: E.O. Eriksen, J.E. Fossum, *What Democracy for Europe*?, ARENA Report 2010, No. 3, p. 109.

on trust as the constitutive value of federation might enable the development of institutional structure founded on non-centralised understanding of democracy. Democracy would thus be based not on the sovereignty of a uniform people, but on non-hierarchical coexistence of multiple national and sub-national political communities, accompanied by the European *demos*, so that they would not affect one-another's status of a carrier of rights. It is such federation only that could be a both legitimate form of organising society, and effective tool to cope with the changing world, including manifestations of arbitrary behaviour within and without.[20]

2. Notification of a member state on leaving the European Union – British case study

Before 1.12.2009, i.e. before the Treaty of Lisbon came into force, amending the Treaty on European Union and the Treaty establishing the European Community (hereinafter: the Treaty of Lisbon or ToL), treaties did not provide for the possibility of a member state to leave the EU and the European Community. According to art. 1 § 3 in fine of the Treaty on European Union (hereinafter: ToEU), the EU has replaced the European Community and constitutes its legal successor.[21]

As mentioned before, treaties did not *explicitly* provide for the possibility to exit the EU. However, this does not mean that member states had to be part of the EU forever. The possibility to leave the Union existed on the basis of general provisions of the international law of treaties. Three available options of leaving the UE are presented below.

The first option was the most likely and concerned a member state leaving the Union on the basis of arrangements with other member states. Such arrangements would have to be made through the procedure specified in the former art. 48 of the ToEU. Namely, the government of a member state intending to leave the EU would need to submit a proposal to the Council on amending the treaties concerning leaving the EU.

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[20] K. Ławniczak, *op. cit.*

[21] A. Kaczor, *Wystąpienie państwa członkowskiego z Unii Europejskiej*, "Edukacja Prawnicza" 2011, No. 4 (124).

Most likely, the President of the Council would convene a conference for representatives of the member states in order to approve the changes to the treaties. According to the former art. 48 of the ToEU, the amendments regarding a member state leaving the EU would become effective upon their ratification by all member states. Therefore, if one member state failed to ratify the amendment, the interested member state would be unable to leave the EU.

The second option was disputable and involved single-sided exit of the member state by invoking the fundamental change of circumstances clause (*clausula rebus sic stantibus*). In general, if an agreement does not provide for its unilateral termination and it may not be presumed as the parties' intent, termination of the agreement is basically impermissible as contrary to the *pacta sunt servanda* principle. However, the Vienna Convention on the Law of Treaties stipulates that exceptional circumstances may arise which justify unilateral withdrawal from an agreement, such as a fundamental change of circumstances. According to art. 62 of the Vienna Convention, a fundamental change of circumstances may be, as an exception, the reason for withdrawing from an international agreement, if the following conditions are met simultaneously: the change of the circumstances is "fundamental" and was unforeseen by the parties, the existence of the circumstances subject to change constituted an important basis for the parties' consent to be bound by the agreement and the result of the change is a radical transformation of the scope of obligations which, on the basis of the agreement, still remain to be fulfilled. If using the second option, the leaving member state would need to reach an agreement with other member states on political and economic consequences of the EU exit.

The last and most controversial option was leaving the EU in line with general terms of agreement termination. Alternatively, a member state could leave the EU without authorisation. The unauthorised exit would constitute an international tort and result in far-reaching consequences, in both political and economic terms.[22]

[22] *Ibidem*.

We can distinguish three causes for not entertaining the subject of member states leaving the EU in the treaties to date. First of all, the intention was to prevent questioning the involvement of member states in the achievement of EU goals. Secondly, it was feared that a clear Union exit procedure would increase the likelihood of this scenario coming to life. Thirdly, determination of the procedure and consequences of leaving the EU was not an easy task, so it was decided to refrain from it.

The consequences of a member state leaving the Union are far-reaching and concern the rights and obligations of natural and legal persons located both in the territory of the leaving state and outside it. The lack of provisions of exiting the Union before the Treaty of Lisbon came into force, in combination with the legal consequences of such an exit, created a situation in which the member states were practically unable to unilaterally leave the European Union.[23]

The Treaty of Lisbon introduced provisions into the European law allowing a EU member state to revoke its membership in the EU in a formal and legal manner for the first time. According to art. 50,[24] it is the individual member state that initiates the entire EU exit procedure – by notifying the European Council about its intent to leave the EU. From the time of the notification – according to article 50 – the negotiations may

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[23] *Ibidem*.

[24] 1. Each member state, according to its constitutional requirements, may decide to leave the Union. 2. A member state which has decided to leave the Union notifies the European Council about its intentions. In the light of the guidelines of the European Council, the Union conducts negotiations and enters into an agreement with the state determining the principles of its exit, taking account of the framework of its future relations with the Union. The agreement is negotiated pursuant to art. 218 item 3 of the Treaty on the functioning of the European Union. The agreement is concluded on behalf of the Union by the Council acting by a qualified majority, after obtaining consent of the European Parliament. 3. Treaties cease to apply to the state on the day of the agreement on leaving the Union coming into force or, in case of a lack of such an agreement, two years after the notifications referred to in item 2, unless the European Council in consultation with the given member state makes an unanimous decision to extend that period. 4. For the purposes of items 2 and 3, the member of the European Council representing the exiting member state does not participate in the deliberations or in the decision of the European Council regarding that state. The qualified majority is determined pursuant to art. 238 item 3 letter b) of the Treaty on the functioning of the European Union.

last no more than two years. If they are not concluded by that time, the membership expires automatically after 24 months, unless the European Council unanimously agrees for the talks to be extended.

During the negotiations, the Council presents guidelines according to which the negotiations are to be conducted, as well as the framework of the future relations between the parties. The principles of the exit and further relations are determined on the basis of the recommendations of the European Commission (EC), which must be adopted by the qualified majority after their approval by the European Parliament (72% states representing 65% of the EU population) – Figure 1.

Figure 1. Stages of separation of a member state from the EU

Source: own elaboration.

Article 50 stipulates that the agreement on a member state leaving the Union must also determine the framework of its future relations with the Union. The above provision indicates that future relations with any former member state will remain undefined, and their nature will be determined during the bilateral negotiations regarding the separation, upon mutual agreement.

Therefore, the new commercial agreement with the EU will be the first stage of the process of separating the member state which has submitted its notification to the EC. Apart from the commercial aspect, the four basic freedoms must also be determined in the agreement: the freedom of movement (employment), free movement of capital, free movement of goods and free movement of services. What will be the status of citizens and employees from other EU member states? What will be the effects of withdrawing from the market regulation and monitoring system? What consequences will arise from the lack of full partnership in matters concerning policing and judicial activities inside the EU? The next key point to be included in the new agreement is consumer protection. The leaving EU member state will be unable to rely on EU decisions or guidelines. An individual member state, unlike the EU, holds a significantly weaker position during negotiations or in the process of imposing penalties on various business sectors and global enterprises, such as airlines and mobile network operators.

After the victory of the supporters of leaving the EU in the referendum held in Great Britain on 23.06.2016[25] – (51.9% voters were in favour of leaving the EU, and 48.1% were against), the provisions of article 50 will be implemented by the United Kingdom. The British Prime Minister David Cameron announced that it would not happen sooner than in October 2016 – which is when the convention of the Conservative Party will take place, during which, after Cameron's resignation, the new head of the British government would be appointed. Cameron believes that the new Prime Minister should initiate the procedure of leading the Great Britain out of the EU. Until that time, the European Council will formulate the guidelines for the negotiations with the Great Britain. The result of those talks should be an agreement determining the terms of the British exit from the EU and the basis for the future relations between the Union and the Great Britain. Once the agreement with the Great Britain has been prepared, EU states will need to adopt it with qualified majority of votes. However, before that happens, the agreement will need to be approved by the European Parliament.[26]

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[25] If at any point in the future Britain decides to return to the EU, it will need to undergo the usual procedure and complete accession negotiations, like any other state which candidates to the Community.

[26] O. Blanchard, F. Giavazzi, *Current Account Deficits in the Euro Area. The End of the Feldstein Horioka Puzzle?*, Massachusetts Institute of Technology Working Paper Series 2014, No. 03–05, pp. 123–132.

3. Brexit implications – risk of further EU disintegration

The economic influence and the attractiveness for foreign investors of a member state leaving the EU are the main factors effecting the lives of its citizens. Business likes stability. Capital likes stable taxes, a stable economic and financial environment. Despite its flaws, the EU offers such stability. Countries from outside the EU which need to strengthen their political position, both inside their territory and outside it, and to adjust their new plans and policies in order to substitute for the functions carried out by the EU, in most cases fail to meet the same standards.

One of the most probable effects of a member state leaving the EU is a drop in foreign direct investments (FDI). In global economy, FDI prefer manufacturing and research centres operation on a wide market of goods, services and labour. Irrespective of the benefits offered by a member state leaving the EU, they will not replace the benefits arising from EU membership. In member states where there will be voices calling for a referendum on the EU membership, there is a lack of understanding of the important role of a fully integrated market, uniform for domestic markets, the EU and FDI. A decrease in export caused by the new tariffs and commercial agreement may be significant. For states which have profited from economic migration in the last decade, irrespective of the arguments regarding profits from tourism, any changes in their status may be very unfavourable. Apart from the workforce and competition policy, it is also worth remembering that the number of foreign investors on the markets which wish to change their status in regard to the EU, and the terms of participating in the EU, mean that it is possible to limit or exclude them from further FDI. Many heads of enterprises operating in the automotive, industrial and financial sector have expressed the view that should it prove impossible to solve this problem, the economic co-operation and activities in the scope of internal security would become limited. The sale of goods on newly established markets outside the EU from the position of a wide uniform market will be easier than maintaining production in countries which are not part of the EU. The problem of production capacity will certainly be an important issue for those new states outside the EU. Currently, it seems that leaving the EU will mostly constitute a challenge for countries seeking “freedom”. Taking account of the risk associated with FDI and the EU influence, we should not forget that any state leaving the EU will find itself in the position of an outside spectator. For the European project to be seen by all the market participants as fair and just, it still has a long way to go. It is key for the states to treat their EU obligations and interests seriously. A united Europe with benefits offered by the uniform market outweighs the short-term objectives related to limiting migration and other similar concerns. The main foreign investors have expressed great concerns regarding their future investments in Eurosceptical states. If a member state leaves the EU, it should be expected that this decision will affect the FDI. A large market ensures the safety of production and industrial capacities, as well as consumption. However, most consumers and enterprises need an extensive Union promoting small and large businesses, innovation and consumer protection.

The problems currently experienced by the EU started nine years ago in the USA. In mid-2007, the bubble of the American mortgage market burst, creating a domino effect all over the world. As a result – Europe, as the most exposed market – paid a higher price than the American economy. The crisis spread across the Eurozone very quickly and reached everywhere from Ireland to south-European countries. The Eurozone GDP fell drastically. It quickly turned out that the Eurozone had virtually no defence mechanisms. The Eurozone was a mechanism developed for a period of economic growth, rather than crisis, The American crisis “buried” the investors’ trust in financial markets, leading to a market collapse in the EU. The symbol of this collapse was Greece. The Union no longer “spoke with one voice”. The interests of individual Union members, which were previously shared, became so divergent that Eurozone states faced gigantic problems with finding a compromise. It took three years to reach an agreement, even though there was an urgent need to act fast.[27]

[27] S. Bhattarai, J.W Lee, W.Y. Park, *Optimal Monetary Policy in a Currency Union with Interest Rate Spread*, “Journal of Global Economics” 2015, Vol. 96, Issue 2.

The 2007 crisis was further reinforced by subsequent ones – mostly refugee crises. Union states showed just how different they are and how difficult it is to reach a compromise. Eurosceptical attitudes are gaining popularity in the Community, while Great Britain, which never fully identified itself with the Union,[28] gained another reason to leave.[29] The list of arguments supporting the exit is growing. On one hand, there are social threats, and on the other, a dream of hyperglobal Great Britain.[30]

In formal terms, the referendum held in Great Britain is binding,[31] which means that the United Kingdom is setting out on its way to leave

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[28] According to the data of VoteWatch Europe – a non-government organisation situated in Brussels, which monitors how European politicians vote – between July 2009 and March 2015 it was the Great Britain that mostly found itself in the minority during EU Council voting sessions, in which ministers representing member states participate. The British government was in opposition 85 times out of 680 votes. It is twice more than the next countries on this list – Austria and Germany, and over three times more than Poland. In the period at hand, the EU Council held 67 votes on the structure of the budget and what to spend EU funds on. London was in the minority 23 times – more than any other state. Great Britain also abstained during the vote on the preliminary budget for 2015. Between 2009–2015, out of 43 votes on agricultural issues, Great Britain was in the minority 8 times – which is also the most often compared to other countries. The Brits also exhibited a negative attitude towards initiatives relating to common foreign and safety policy. Out of 15 votes on those issues, London was in the minority 7 times.

[29] The first votes talking about the British need to leave the EU structures were heard in 1984, when an Eurosceptic, Margaret Thatcher, became the Prime Minister. During her electoral campaign, the politician called for decreasing the mandatory contributions to the common budget, claiming that Great Britain was not fully using the common agricultural policy. Additionally, London significantly delayed making the decision on the participation in the exchange-rate mechanism, which it quickly left in the end. Moreover, it was reluctant to join the Schengen area and the Eurozone. In addition, London refused to sign the Fiscal Compact, which was supposed to ensure financial discipline. In February 2016, the British Prime Minister David Cameron decided to try the patience of European leaders once again. A new agreement was then signed on the terms of the British membership in the European Union.

[30] Report by Oxford Economics Commissioned by Business for New Europe, *An Indispensable Relationship: Economic Linkages between the UK and the Rest of the European Union*, London 2009.

[31] On 9.07.2016, the British government formally rejected the online petition signed by 4.1 million people demanding a new referendum on the British membership in the EU. The Prime Minister and the government clearly indicated that it was a one-time vote in a generation and the decision should be respected.

the do EU structures after 43 years of constituting its part. So Brexit became a fact, and the Union found itself in a crisis it has not seen before. Leaving the EU will put Great Britain in a very difficult position internally, made even more severe by the emerging risk of: Scoexit. After the victory of those in favour of Brexit, the support for the separation of Scotland from Great Britain exceeded 50% in opinion polls.

Brits will face the challenge of regulating several vital aspects of their internal and external policy. The first of them – and probably the key one – is trade. According to Stratfor, the EU market is responsible for about 45% of the British export and 53% of import.[32] In practical terms, this means that Great Britain will need to conduct negotiations with the Union in this regard (mainly: with Germany, France, Italy and Spain) and non-EU states. It is expected that the negotiations may take up to 10 years. It is already known that the consequences of Brexit for trade in Great Britain will be very costly, as the state will need to pay duty charges on goods and services exported into the EU. The custom tariffs determined by the WTO range from 32% applied to wine and 4.1% to LNG natural gas. Goods such as cars (9.8%) and cereal products (12.8%) fall in the middle of the range. Therefore, the total cost will be very high – from 2.2% of the British GDP (40 billion GBP) even up to 9% GDP[33]. The biggest threat to British export, however, will be new regulations regarding trade with other EU states and "barriers other than custom tariffs", which will make it more difficult for Great Britain to export its services.[34]

An important aspect London needs to determine are legal regulations. It is unknown how to interpret EU norms in place in Britain after the exit. Therefore, Great Britain will face the question of what to do with acts adopted by the parliament in recent years. Should the previous

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[32] https://www.stratfor.com/about (accessed 1.07.2016).

[33] Global Stability Report IMF 2015; Eurostat 2015, World Economic and Financial Surveys, *Global Financial Stability Report*, International Monetary Found April 2016; http://ec.europa.eu/eurostat/data/database (accessed 10.07.2016).

[34] R. Cooper, H. Kempf, D. Peled, *Insulation Impossible: Monetary Policy and Regional Debt Spillovers in a Federation*, "Journal of the European Economic Association" 2015, Vol. 12 (2).

ones be restored? Should they be amended? Should some be revoked? These questions will remain unanswered for some time.

Another aspect is emigration, which played a prominent role during the pre-referendum campaign. For instance, it is still unknown what will happen to nearly a million Poles working in Great Britain today and whose status is regulated by EU norms. On the other hand, other EU states are facing a similar dilemma, as they will also need to decide about the future of British citizens residing outside the borders of the Community.

Brexit is already causing problems for the British economy. After the rapid decrease in pound sterling value and the decline on the London stock exchange, it was time for credit rating agencies to respond (Table 1). The Moody's Agency decreased Britain's rating outlook to negative. A similar decision, before the referendum, was made by the American Standard & Poor's agency.

The Moody's agency decided to decrease the rating outlook from stable to negative, as the period of uncertainty will be a great threat to the British economy. According to Moody's, the negative effects of a lower economic growth rate will outweigh the financial reserves which Great Britain will gain by suspending the contributions to the EU budget. A similar decision was made by Standard & Poor's. The Agency stated that the vote itself creates a serious risk to the British economy and the perspectives for its further growth. Also the Fitch agency followed suit and decreased the British credit rating, on the basis of the negative economic effects of the country leaving the EU. According to the agency – the decision to leave the EU will have a negative impact on the British economy, public finance and political stability. In the Fitch ranking, Great Britain fell from the second highest level, AA+, to the next one down, AA, with a negative rating outlook – which means that further degradation is possible. Earlier, S&P decreased the British AAA, which is the highest in its qualification, straight by two points, to AA – with the reservation that the outlook is also negative here.

Table 1
Britain's rating as a result of Brexit

Agency	Rating
S&P	AAA Negative outlook
Moody's	Aa1 Negative outlook
Fitch	AA+ Stable outlook

Source: own elaboration.

According to the experts from the International Monetary Fund (IMF), as a result of Brexit, Great Britain will need to expect major economic and financial costs. IMF analysts forecast that after Brexit, Britain's economic potential may, in the most extreme scenario, fall long-term by 5.6 percent, and the country may face recession as soon as in 2017. According to the estimates of the Organisation for Economic Co-operation and Development (OECD), the British GDP after Brexit – until 2020 – will decrease by 3%, which translates into the cost of 2200 GBP for each household, and thus a "negative shock" for the economy.[35]

The consequences of Brexit and associated risks also depend on the speed and timing of the British exit from the EU. The longer the political uncertainty caused by the procedure of leaving the EU structures lasts, the more severe the consequences may be for the British economy. Entrepreneurs, both domestic and foreign, will withhold their investments. On the other hand, consumers witnessing the looming downturn, may limit their spending. As a result, production will fall, which will also negatively impact the financial results of companies. From there, it is only one step more to recession. As pound is considered a currency that tends to fall down while risk aversion grows – the "shrinking" of the British economy as a result of Brexit will be another negative aspect for GBP. A consequence of the above issues will probably be a change in the monetary policy in Great Britain. Right now, the market expects cutting of the interest rates from the current 0.5% to 0.0%. It is also likely that

[35] House of Commons, Official Report: Parliamentary Debates (Hansard), 15 May 2013, Vol. 536, No. 6, p. 750.

quantitative easing may be initiated, which most often depreciates the currency.

Undoubtedly, an important consequence of Brexit will be that the EU leaders will want to discourage other states from leaving the Union, therefore, they will not offer Great Britain satisfactory terms of access to the common market. EU-trade oriented exporters from Britain will suffer a significant loss (despite the, favourable for them, drop in pound value), while financial institutions will move from the City of London to centres inside the Eurozone. The London housing market will also be affected.

The most significant changes and risk related to Brexit will also concern the economies of the EU states. In its annual 2016 report, the IMF lowered the growth forecasts for the Eurozone after the British Brexit referendum; it is expected that in 2017 the growth rate will fall by 0.2–1.4%. The argument behind downgrading the forecasts is that the investors' trust will likely be undermined as a result of financial instability and the fall in the demand for import from the Great Britain. In the medium-term perspective, the IMF forecasts low economic growth for the Eurozone, as the "deep scars" after the crisis still prevail in the form of high indebtedness and unemployment levels, especially among the youth, and the problems related to the banking systems in various countries have not been solved. Over the next five years, it is expected that the GDP increase in the Eurozone will not exceed 1.5% with inflation at the level of 1.7%, i.e. not reaching the target of 2% set out by the European Central Bank.

However, the political aspect will be much more significant – it is unknown if other countries may decide to follow in Britain's footsteps. If the Union fails to overcome the internal conflicts and stays on its current course, other states might also leave soon (Table 2). Over the last year, the anti-Brussels camp was growing in strength all over Europe. The growing reluctance and Euroscepticism are a result of the toxic combination of the economic stagnation and mismanagement of the migration crisis.[36]

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[36] Invitation to Join the Government of Britain: *The Conservative Manifesto 2015*, Conservative Campaign Headquarters, London, April 2015, pp. 113–114.

The EU fragmentation process has just begun. It is additionally reinforced by the growing role of populist parties[37] (Figure 2). Moreover, increased Russian activity is also apparent, with the aim to break down European unity and unanimity, also in such countries as the Netherlands, the Czech Republic, Austria or Hungary. The most easily allured are right-wings circles, such as the Hungarian Jobbik, Greek Golden Dawn, Italian Northern League, but also left-wing groups, such as the Greek Syriza[38].

Table 2
Evaluation of the support for the EU in Eurosceptical member states as of May 2016 (in %)

Negative assessment	State	Positive assessment
36	Hungary	64
48	Italy	50
44	Sweden	54
51	Netherlands	46
49	Spain	47
48	Great Britain	44
61	France	38
71	Greece	27
63	Czech Republic	36
54	Denmark	43
48	Germany	52
44	Slovakia	54

Source: own elaboration based on *Global Attitudes* survey by Pew Research Center, Spring 2016.

The first state in the "Exit queue" is certainly the Netherlands, where the anti-immigration and anti-European Freedom Party leads the polls. Its leader, Geert Wilders, is calling for a referendum on the continued

[37] According to Morgan Stanley, with the current increase in the support for those parties, Brexit only gives them more confidence and strengthens their belief that their votes can indeed cause a change.

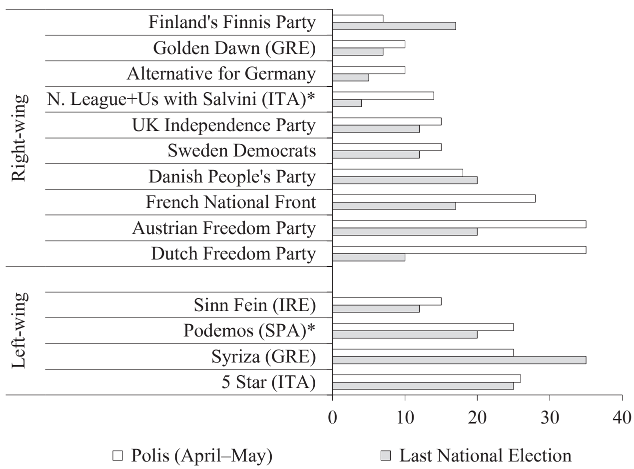
[38] C.A. Chu, C. Guido, Ch.-Ch. Lai, Ch.-H. Liao, *Inflation, R&D and Growth in an Open Economy*, "Journalof Global Economics" 2015, Vol. 96, Issue 2.

membership of the Netherlands in the EU. Similar attitudes have long been present in, among others, France, where Marine Le Pen from the National Front is waiting to take control. If that happens, France would most likely also pursue to leave the EU, and the crisis in the institution would become more severe. Whereas Germans look more favourably on the Alternative for Germany – a party calling itself Eurosceptical. The elections in Rome have just been won by the first woman in history, Virginia Raggi, from the Five Star Movement. The FSM is described as populist and rather Eurosceptical.

Sweden may also be another state that leaves the EU ranks. The Brexit decision – made by Stockholm's political ally – may persuade Swedes to take a similar step – Swexit, even more so that London and Stockholm look a European matters from a similar perspective. The British exit from the EU means that Sweden will lose one of its closest political allies in the Community. A symbol of the similarities between those countries was the decision to keep the national currencies while Europe was rushing to adopt Euro. It can be expected that a debate on the continued membership in the EU will now ensue in Sweden, to which the protracted Eurozone crisis may be conducive. Similar attitudes are also apparent in Denmark. Danish Euroscepticism has been known for a long time. In the 1992 referendum, the Danish people decided to exclude their country from some provisions of the most important EU treaty – the Maastricht Treaty. Those exclusions concerned: defence, currency union, the justice system and internal affairs. In the next referendum in 2000, they also rejected the idea to join the currency union. The Danish reluctance towards the EU structures was the most apparent in the referendum held towards the end of the last year: 53% of Danish citizen voted against deepening the relations with the EU.

An unflattering view of the Community is also held by the majority of the citizens of the Czech Republic, Greece, Spain, Italy, Hungary and Italy (Table 2). It is possible that Brexit will create a domino effect in Eastern Europe. Even though the Czech Republic joined the Community in 2004 and received billions from the EU funds, the Czechs are not happy with their membership. The Czech public opinion is outraged with

Brussels' migration policy. At the start of the year, the Prime Minister, Bohuslav Sobotka, announced that if Brits decided to leave the EU, the Czech Republic would have to engage in a similar discussion (63% of Czech citizens say that they would vote to leave the EU in a referendum). Also in Slovakia – an extreme right-wing party, the People's Party Our Slovakia (PPOS) announced that it was starting to gather signatures on a petition to hold a referendum regarding the country's future in the EU. According to the party, it's time Slovakia left the Community.



* SPA-lates polis for coalition with United Left. ITA-last elections.

Figure 2. Evaluation of the support for populist parties in Europe as of May 2016

Source: National polls, Morgan Stanley Research 2016.

The future of countries such as Serbia, which is in accession talks with the EU, is also uncertain. In the current situation, the talks could be threatened, which may affect the social attitudes towards countries applying for accession.

From the political perspective, disintegration of the EU in its current shape could quickly lead to the closure of the Schengen area. In practice, this would mean going back to closed borders, and thus to extensive border security checks. This certainly will not be greeted with enthusiasm among numerous European citizen travelling around the world, who are used to moving quickly between different states. Countries shutting themselves off from others would create more problems with immigrants and refugees arriving in Europe. The lack of international restrictions would create so-called "brick wall Europe" along the borders. Political leaders could also lose control over financial developments. This scenario could certainly involve Greece leaving the Eurozone. Decreasing the Eurozone may, in turn, result in limiting the European free trade zone. That would be a terrible blow which, according to many experts, could have more severe consequences than decreasing the number of countries with the Euro currency. This scenario could occur if the financial markets decide to attack the weakened Eurozone. This may sound paradoxically, but the will to introduce reforms to save the EU may peter out and cause an even more severe crisis in the continent. A reform which could contribute towards the decline of the Community is the Fiscal Compact from 2012. Many communities consider it too strict and unfair. It introduces austerity, which would contribute to reinforcing anti-European trends and attitudes. A complete collapse could cause a far-reaching catastrophe in the form of multiannual recession in Europe and also in the USA. According to the experts, just the fall of the Eurozone alone could have a more negative impact on the American economy than the Great Depression at the end of the 1920's, as it would play a significant role in the devastation of the system regulating the value of currencies and crude oil prices. Furthermore, the fall of the EU could destroy the regulations regarding international lending all over the world. May banks would attempt to freeze the credit markets, which would make it more difficult for companies to borrow money.

A political and financial barrier would definitely suit Vladimir Putin, who has been dreaming of going back to the times of the imperial Russia respected worldwide for a long time. EU disintegration would just help him achieve that goal, as not only will he be able to make business with individual countries, rather than the EU as a competing whole, but also strengthen his influence on the settlement of global conflicts for his benefit. EU disintegration will also mean weakening the position of the United States, which are the main competitor for Russia in the fight for global impact, especially in the Middle East.

Irrespective of the EXIT risk in Europe, in particular: Scoexit, Nethexit, Fraexit, Swexit, Denexit, Sloexit and Czexit – one thing is certain: Brexit has started the end of Europe in its current shape.

From the economic perspective, Brexit can be described in one word – chaos. Brexit is a new blow for the European economy after the financial, Greek and migration crises; its first consequence will be growing uncertainty and destabilisation all over Europe. 2.2 billion USD has already "fled" the market (according to Standard & Poor's Dow Jones Indices that is how much the global markets lost straight after the announcement of the result of the British referendum to leave the EU), pound sterling – and other European currencies – have drastically fallen in value, panicked investors started selling everything associated with any risk. Brexit announces a period of uncertainty on financial markets, which will be characterised by high variability and a departure from risky assets to safe assets. This departure to a "safe harbour" can already be observed on the markets, as so-called *safe haven* currencies are growing stronger, such as, the American dollar, Japanese yen and Swiss franc.

In the short-term perspective, over the next several dozen weeks, currencies will remain under pressure sue to the tense atmosphere on financial markets. Brexit's impact on the European and global economy will depend on the organisation of the new relations between Great Britain and the EU.

According to estimates, Polish, Latvian and Lithuanian export into Great Britain generates between 2 and 3% GDP annually (data from 2015). If the British import rate falls significantly as a result of Brexit, those countries will be hit hard. In Slovakia, Hungary and the Czech Republic, export to Great Britain is responsible for 3–5 % of GDP. It is estimated that Brexit will have the most painful consequences in the Czech Republic, where it may reduce the economic growth even by 0.7%. Behind the Czech Republic, there is Hungary with 0.5% GDP, which may be lost as a result of the drop in demand not only in Great Britain, but also in the Eurozone. Turkey and Poland are also considered countries which will suffer a loss as a result of Brexit, as Great Britain is the recipient of 7.1%. of their export. Also money transfers sent by emigrants to their home countries play a significant role. Poland receives 1.2 billion USD per year by money transfers sent by Poles working in Great Britain. The second top country in terms of the value of money transfers is Hungary, which received 385 million USD last year.

According to Greek politicians and experts, the uncertainty that will now hover over the entire Europe will stop companies from investing in Greece. All this is happening straight after completion of the first assessment of the Greek reforms, which were to positively contribute towards changing the perception of the country. Specialists also anticipate that the decrease in the value of pound sterling will limit the export of Greek products to Great Britain, as they will be too expensive for the Brits. For the same reason, the Greek tourism will suffer as well. Over the last decade, British tourists spent over 16 billion Euro in Greece and were the second largest national group to holiday in that country. The change in the exchange rate of the British currency will also significantly affect the situation of Greeks studying in Great Britain.

A significant consequence of Brexit is that in the near future, between 2016–2020, Great Britain will remain in the EU for at least two more years and keep paying its contributions. However, it may turn out that it will not be willing to do so for those last two years, and then other EU states will have less money for various investments. Brexit will therefore create four financial scenarios for Europe. Two of them assume that the shortages will be replenished after 2020 by budget cuts or increased contributions. One envisions that London may leave the Community early and the negative consequences will appear in the short-term perspective. Another scenario anticipates changes in the principles of determination of the EU budget in the future.

Conclusions

Brexit creates a risk which cannot be fully predicted, with consequences we cannot fully anticipate today. At the same time, it is the realisation of a catastrophic scenario which means that EU disintegration has become practically irreversible.

Despite this clear threat to the continued existence of the EU, the first plan of action should be a quick and amicable “divorce” with Great Britain in order to avoid uncertainty on the financial markets, a negative impact on commercial relations and loss of jobs.

Brexit forces all other member states to answer the question of whether they want to support the goal stated in the Treaty of Lisbon – of an “ever closer union”, i.e. even closer integration? Or will they choose fragmentation of the integration. The conflict on the future of the integration is certain over the next few months. For that reason, the most probable model is “Europe of two speeds” – divided into the “core” and “union outskirts”. In practical terms, Western Europe would reach the level of a political union, while the eastern part of the continent would stop at the current level of integration. The leadership in the construction of the political union would be held by Germany and France. Eastern-European states would actually become marginalised and excluded from the decision-making process. In practice, this would also create the risk of a loss of their influence on decisions made in the capitals of the wealthiest countries of the continent.

Brexit should be a new impulse for EU integration, with the final result being not only British “opt-out”, but also far-reaching changes in the approach towards integration to benefit all EU member states.

In order to achieve that, a complex programme of Eurozone reforms is required, which would need to include a true banking union, a limited budget union and much stronger democratic responsibility mechanisms. It is true that the EU is a flawed structure. After Brexit, everyone who believes in the values and principles for the purpose of whose materialisation the Union was established must join forces to save the EU through its total reconstruction and reform.

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