

# Impact of Brexit to Security and Key Areas in the EU and UK

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**Abstract:** This paper examines possible impacts of Brexit on the remaining EU Member States from the aspect of security, with a view to the impact on politics, economy and finance industry. A final version of an agreement that would define the conditions of the UK's withdrawal from the EU will take a total of two years. The process is complex, time-consuming and requires the engagement of multidisciplinary teams of experts. There are a number of options for how the UK's withdrawal from the EU can be completed. The conducted research is current and challenging; because it is based on a series of negotiating positions that are ongoing and/or still need to be started. The main goal of this paper is to analyze and review possible impacts of Brexit to security mater and other fields, which are key and significant for EU, as politic, economy and finance industry.

**Keywords:** Brexit, UK, EU, economy, finance, politics, security.

## 1. INTRODUCTION

Exploring the reasons for Brexit requires that the British reluctant role as EU member and the complete historical development that preceded the events is previously acknowledged and noticed. The EU has its roots in the European Coal and Steel Community (ECSC), founded on May 9, 1951 by the Treaty of Paris, with signatories of the Treaty on the European Union being West Germany, France, Italy, Belgium, Luxembourg and the Netherlands. The coal and steel community is now recognized as an initial step in establishing integration among the European peoples (Stevovic and Crnobrnja, 2015).

The United Kingdom then refused the invitation to join. She did not join the original European Economic Community in 1957. She finally filed her application to join the EEC in 1961, but French President Charles de Gaulle vetoed the request of the United Kingdom. And the second application of the United Kingdom was rejected in 1967. It was only in 1973 that the United Kingdom joined the EU (Stevovic, 2016).

However, after joining, the United Kingdom quickly gained a reputation of a nation seeking special conditions, for example, the return of the British contribution to the EC budget, which was implemented and contracted by Prime Minister Margaret Thatcher. The United Kingdom did not want to join the Monetary Union, and later often criticized the extensive bureaucratic system that characterized the EU.

Furthermore, the United Kingdom faced a different problem of immigration patterns than other EU members on the continent. Immigrants in the UK have come from other EU member states in recent years, and these were usually immigrants with higher education. The immigrant participation rate in relation to the total number of

employees in the UK was higher than in other EU countries, which is another fact that also explains why British residents may have felt threatened by intensified immigration (Portes and Forte, 2017). The immigration scheme in the EU Member States on the continent was significantly different, partly because of the fact that it can be explained that English is today an international language spoken by many, so a greater number of immigrants targeted the United Kingdom (Breech, 2017).

## 2. BREXIT AND THE FUTURE OF THE EU

On June 19, 2017, negotiations began to define the form of the UK's withdrawal from the EU. It is not beyond reason to conclude that Brexit is one of the most researched and discussed topics among the most important politicians and institutions in the Western world today. In the last four decades, the United Kingdom has expressed its dissatisfaction with the EU member states. Its position has always been characterized by special privileges, which is reflected in the fact that the United Kingdom kept its currency (Sarkar, 2007).

Following the victory of the EU's "Exit" votes, some analysts thought that the outcome of this vote could mark the start of the end for the EU, or if not, then at least deep changes in the EU as yet never happened.

Two opposing opinions emerged after the voting took place. The European Commission, headed by President Jean-Claude Juncker, is arguing that Europe needs to achieve its goals through even more integration processes, which means that EU institutions should be given even more power. The opposite view was presented by European Council President Donald Tusk, who warned that more centralization would turn citizens against the EU. "Obsessed with the idea of current and complete integration, it has not been noticed that

ordinary people, the citizens of Europe, do not share the euro enthusiasm of their leaders," Tusk wrote. German Finance Minister Wolfgang Schauble acknowledged that European leaders in Brussels lost contact with citizens (Grant, 2016).

In surveys and analysis of how to react to the Brexit, the EU appears to be following the pragmatic approach by Tasco against Zanchild's federalism, as Brexit's larger message is that many EU citizens feel alienated from the government in Brussels. According to the Center for European Reform Research, the EU will not solve its problems through greater centralization, but through adoption of laws and interstate agreements. To the extent that new laws give new power to EU institutions, governments will probably keep the European Commission and Parliament under firm control, not allowing Brussels to "set the agenda" (Grant, 2016).

Some argued that voting in the UK would have the so-called "domino" effect, encouraging other Euro-skeptic and separatist parties. Others argued that the EU without the United Kingdom, which has always been a member of the EU at the very least, could become more cohesive.

It should be noted that the political influence of Brexit can not be analyzed in isolation from economic arguments, since these two are closely cause-effect related. If, for example, the United Kingdom is able to achieve an attractive outcome in trade negotiations and single market, this positive outcome could have an impact on the political sphere, encouraging other EU members to follow the example of the United Kingdom. Of course, the opposite is also true.

### 3. THE IMPACT OF BREXIT ON STRATEGIC SAFETY ISSUES

The United Kingdom Army was the strongest among EU members, so the United Kingdom's withdrawal will diminish the strength of the European defense, at a time when European security is endangered by terrorist threats. The United Kingdom has a long history as the main actor on the international scene. She is a member of the UN Security Council, G7, G20 and NATO. In the literature (Chatham House Report, 2017) concludes that the UK has three channels of international influence:

- 1) The EU,
- 2) Economic and security partnerships with the USA, and
- 3) Other bilateral and institutional relations.

The report notes that the ability of the United Kingdom to influence the world is reduced as a result of long-term structural relations and new security challenges related to Russia and the Middle East, as well as new climate change conditions.

When the United States is more focused on security challenges in Asia, the United Kingdom becomes a less important partner, and therefore for the United Kingdom, the EU has become leverage for projection of a powerful force in the world. The EU has served as means for the United Kingdom to pursue soft power through the world's largest market, enabling it to shape policies towards the eastern and southern borders of the EU and in the context of global climate change policies. "Leaving the EU would make the United Kingdom permanently become a less significant factor in the global order" (EMI, 2016, page 10).

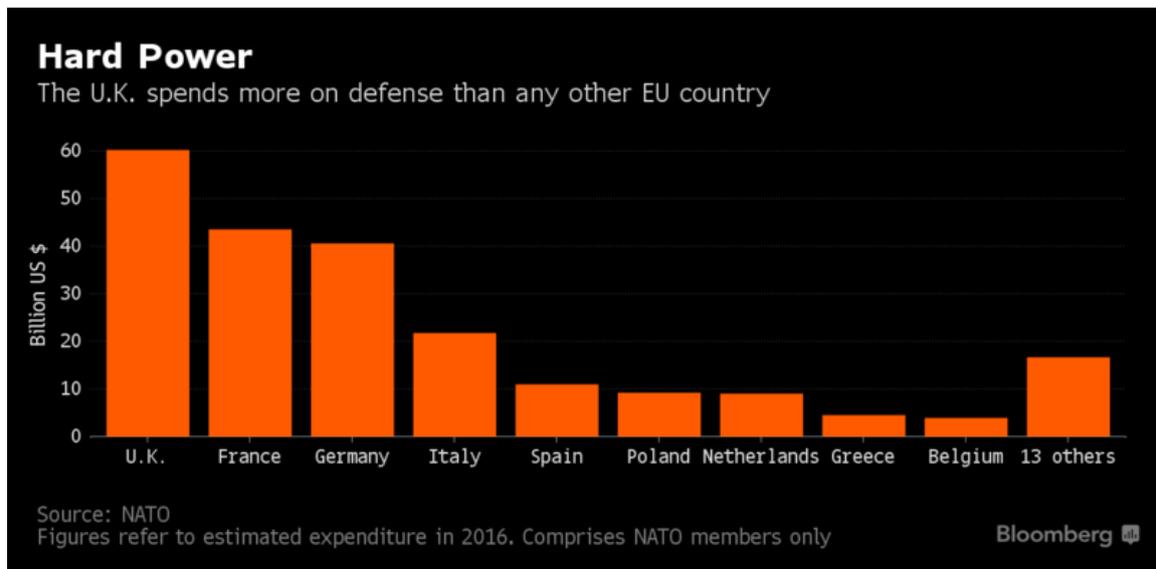
A similar question is related to the fact that the United Kingdom has played an important role in linking the interests of the United States with the EU. American politicians consider the United Kingdom as a bridge between the United States and continental Europe and have counted on the UK to "direct the EU towards relatively difficult friendly positions with the United States, especially in relation to the West's attitude towards Russia in the event of Ukraine" (Grant, 2016).

Without the United Kingdom in the EU, the United States will have significantly less influence on key foreign policy issues, and the EU is likely to adopt more independent positions on issues such as sanctions against Russia or the security and political situation in the Balkans.

The foreign policy implications of the United Kingdom's withdrawal from the EU can also be viewed in the context of policy changes in the administration of US President Donald Trump, who wants EU members to increase defense spending (Straw, 2017).

In the last week of May 2017, German Chancellor Angela Merkel signaled that Europe will continue with a fundamentally different security strategy after the vote on the Brexit. Speaking to her allies from the Christian Democratic Party in Munich, Chancellor Merkel said Europe must take its fate in its own hands, pointing out that the US under President Trump and the United Kingdom after voting for Brexit are no longer reliable partners (Tautvein, 2017). Her comments and interpretations were made a few days after meeting with President Trump during his first visit to Europe, when Trump again criticized the major allies of NATO for lack of investment in the military and armaments (Ilgen, 2016).

Trump has already raised doubts about NATO's usefulness and has recently refused to support the Paris Global Climate Change Agreement, which has led to the departure of Washington and Brussels (Amadeo, 2017).



**Chart 4** – Participation of NATO members in total heavy weapon costs, Source (Ilgen, 2016)

The fact that Chancellor Merkel met with great support and approval in Munich points to Europe's new mood. It can be concluded that voting for Brexit, together with various other events, has created a completely new basis for European strategic security, such that it can lead to the reorganization of existing security issues.

In addition to strategic security issues, Brexit will also influence operational security issues (Stevovic, 2017). Depending on the outcome of negotiations with the EU, the United Kingdom may lose access to the 2004 European arrest warrant, the European Criminal Records Information System, the 2005 EU Counter-Terrorism Strategy, the Schengen Information System II and the Prum Conclusions fingerprints and DNA files that will come into force in 2017 (EMI, 2016).

To date, no alternative security structure has been created except for the one that the EU represents, neither Norway nor Switzerland have equal access to the European Arrest Warrant<sup>1</sup>.

#### 4. THE IMPACT OF BREXIT IN THE FIELD OF POLICY

At the political level, the UK's withdrawal from the EU is an opportunity, but also a threat. The threat is reflected in the fact that the same forces that led to the victory of "Exit" in a referendum in the United Kingdom also exist in many European countries. Globalization has left many working-class families to fight for naked existence, and the unprecedented migrant crisis that began in 2015 is overburdening social assistance systems of many countries. More importantly, the arrival of so many foreigners, most of

whom are very religious, with the practice of a completely different religion from Europeans, makes many Europeans feel threatened, as if the essence of their being and cultural identity is being endangered.

However, the situation in the United Kingdom was unique in different ways; many immigrants in the UK were actually from EU countries (Eastern Europe), they were better educated than immigrants in other EU countries, and consequently their participation rate in the UK economy was higher. This has created a feeling among many Britains that they are economically vulnerable, which has further created dislocation against immigrants in their country. Also, the fact that the English language is the mother tongue in the UK, and at the same time the most popular international language in the world today, has contributed to a higher degree of immigrant employment. Because of all the above differences, there is reason to believe that the UK does not represent a typical EU member state.

The withdrawal of the United Kingdom will certainly affect the balance of power within the EU, especially at the institutional level (i.e. in the European Council and the European Parliament). Germany, which is already the most influential EU member state, is even more dominant. Political analysts will monitor whether the United Kingdom's relations with France will become more strained or friendlier. As the UK led a neoliberal block of EU member states that often voted against the introduction of regulations for a more liberal economy, the neoliberal bloc will lose great power from Brexit, which is why the withdrawal of the UK from the EU is likely to affect in the future the types of regulations that will be brought by legislative bodies.

According to the rules adopted in 2014, the "blocking minority" in the European Council requires 35% of the vote. The Liberal Block, together with the German vote, made 41% of the vote, but after the United Kingdom leaves the

<sup>1</sup> EAV has resulted in 7,000 people being extradited from the United Kingdom and over 1,000 to return to the UK to face justice. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/503908/54538\\_EU\\_Series\\_No2\\_Accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503908/54538_EU_Series_No2_Accessible.pdf)

Council, the Liberal Block and Germany will only have 33% of the vote, which will not be enough to achieve a blocking minority (Lawless and Morgenroth, 2016). This can also affect the legislation that the Council will adopt. Political analysts expect the EU to give up the adoption of neoliberal legislation and move more towards static solutions, which are more prevalent in the French tradition and tradition of southern European countries.

## 5. THE IMPACT OF BREXIT ON ECONOMY AND THE FINANCIAL SECTOR

The EU27 will at the same time have to face the loss of 10 billion euros of funds that the UK pays to the EU budget. The United Kingdom paid significantly more funds than it received, and therefore withdrawal of the UK represents a net loss in the budget, which will have to be compensated either by increasing the level of funds being paid or by reducing consumption, or by combining these two variants. Higher spending is currently prevented by rules that limit the amount of funds to be paid into the budget, presented as part of the overall GDP (Busch and Matthes, 2016). These changes are likely to cause some tensions between countries that contribute more to the budget and the states that receive more than they pay.

Another likely change will be in the area of defense and foreign policy in the EU. With its large and modern army, along with its colonial history, the United Kingdom is one of the most influential EU member states capable of using hard and soft power. Also, the United Kingdom often acted as a bridge between the EU and the United States, which is still regarded as a major force despite the loss of influence. The United States, through the United Kingdom, could often influence and direct EU policies towards attitudes that were in line with US foreign policy. One example is international sanctions against Russia over the situation in Ukraine (De Ville and Orbie, 2014).

There is a suspicion that the EU without the United Kingdom, at least initially, will lose some international influence. More importantly, the recent conclusions of German Chancellor Angela Merkel suggest that the EU may reconsider its new defense strategy and foreign policy. Without the United Kingdom, the EU will feel more freedom to create an independent EU policy. However, the challenge will be to create an external policy that reflects the needs of all 27 EU Member States.

In order to give conclusions to the research on the potential political impact of Brexit, the dynamic function of changing the effects of British withdrawal must be respected. Although they will change over time, they are likely to be the most important effects of the UK's withdrawal from the EU. Without the United Kingdom, which intended to influence the EU towards US positions, the EU can develop its own foreign policy to reflect the needs of the EU27. Without the United Kingdom, the EU27 may have to review

the defense policy and may have to increase its defense costs to offset the loss of the EU's leading military power.

The economic impact of Brexit has been quantified (Castro et al. 2010). It is easier to calculate, but in the end it again depends on the kind of agreements that the UK and EU27 under Article 50 still negotiate. The most optimistic cases (EEA-type agreement) that are not realistic, those in between and the most pessimistic (WTO without a preferential trade agreement), which is also unlikely, are analyzed (PwC 2016).

The UK wants to get as much access to a single market as possible without actually belonging to the EU, but the EU traditionally aligns regulation with market access. The EU wants to reach a favorable deal with the United Kingdom, but at the same time wants to send a clear message to other EU members that leaving the EU can not be economically painless. The most likely outcome is that the UK, as well as Norway, will have to contribute to the EU budget in exchange for market access (De Grauwe, 2016).

Generally, the UK will lose much more economically than the EU27 after Brexit, because the United Kingdom's trade with the EU represents much more of its own GDP than is the case with the EU27 (Emerson et al. 2017). However, several Member States, including the Netherlands, Ireland, Belgium, Luxembourg, Malta and Cyprus, are significantly more exposed than other EU Member States. Some of these exposures reflect the use of ports for trade (the Netherlands and Belgium), while others represent the role of the finance industry (Cyprus).

Finally, it can be concluded that the economic impact of Brexit will be more significant for the United Kingdom, reflecting a slower GDP growth than would have been the case if the UK remained in the EU. The UK hopes to make up for this loss through new bilateral trade agreements with other countries (Haas and Rubio 2017).

It is also clear that the financial industry in the UK, one of the leading industries in the world, will be significantly shaken. They will remain the leading financial sector in Europe because they have developed many secondary services that complement the business of the financial sector (for example legal services and the like) (Slaughter and May 2016). However, significant changes are inevitable due to passport rules and currency regulations, and therefore Brexit is considered a growth opportunity for financial centers outside the United Kingdom, especially in Amsterdam, Luxembourg, Frankfurt and Paris (Djankov, 2017).

The most significant influence will be the influence of Brexit on the long-term political environment, which is specifically related and will cause consequently a series of different economic results (Ringeisen-Biardeaud, 2017).

In Table 1, a recapitulation of all possible impacts of Brexit on key areas in the EU27 and the UK, according to Global

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Counsel, 2015, has been made. In particular, trade, liberalization and regulation, industrial policy, investment, immigration, finance, trade policy, international relations,

the budget and general uncertainty, including the “Domino effect” (“Contamination effect”).

**Table 1** – Recapitulation of possible impacts of Brexit on key areas, Source (Global Counsel 2015)

Area	Impact on the UK	Impact on the EU
Trade in Europe	Regulatory divergence grows in time by increasing trade costs, influencing the UK's quantity and position in supply chains	Trade with the EU is more important for the United Kingdom than the UK trade with the EU, but some countries with high bilateral ties will feel the macro instability of Brexit
Foreign Direct Investments	The United Kingdom is less attractive as a base for corporate centers and as a location for investments from Europe	Companies consider the relocation of investments from the United Kingdom as being non cost-effective and there is a risk that the UK will try to undermine the EU in terms of FDI attracting standards
Liberalization and regulations	The United Kingdom loses its influence on EU legislation, and does not get a lot of freedom to form its own independent one	The balance in the European Council is moving away from liberalization and it is becoming increasingly difficult to form a blocking minority against non-liberal measures
Industrial policy	The United Kingdom gets flexibility in relation to industrial policy, but loses its benefits from scope and influence in some areas	There may be a weakening of competition policy, less cooperation in education and research, and impact on public procurement
Immigration	Immigration is tough, compromising competitiveness, especially in London, but in which extent will depend on the Brexit model	Some countries are under the influence of remittances or redirected migration, given the expansion of political uncertainty
Financial services	The United Kingdom retains strong competitive advantage, but most likely loses businesses as it becomes more difficult to provide certain services to EU markets	One or two financial centers can benefit, but businesses and households suffer from liquidity losses and increased costs of financial services
Area	Impact on the UK	Impact on the EU
Trade policy	The United Kingdom has less leverage as a partner of lower priority in trade negotiations and resolves trade disputes with more difficulties	The EU is a less attractive trading partner without the United Kingdom in agreements and loses a member state that has used its political power in negotiations
International influence	The United Kingdom loses its benefits from influencing both in the EU and through the EU on economic and foreign policy interests	The UK loses significant capacity for soft and hard power, but may be able to function more coherently from outside and in international institutions
Budget	The United Kingdom gains financially, but how much it will depend on the chosen model. Variations in net influence across the UK regions make Brexit's policy more difficult	The EU loses resources in the budget and the main net contributor, whereby the gap must be filled by higher collection among others or with less spending
Uncertainty	Brexit is a long-lasting process that lasts for several years with uncertainty in relation to the final outcome, affecting all involved companies	Uncertainty is bad for doing business in the EU, but the greatest risk is the “Domino effect” (“Contamination effect”) after a successful EU abandonment

### 6. CONCLUSION

This paper presents the impact of Brexit on the security issue, economy, finance sector and policy of the United Kingdom and 27 European Union countries. It can be

concluded that voting for Brexit, together with various other events, has created a completely new basis for European strategic security, such that it can lead to the reorganization of existing security issues.

At the political level, the UK's withdrawal from the EU is an opportunity, but also a threat. The threat is reflected in the fact that the same forces that led to the victory of "Exit" in a referendum in the United Kingdom also exist in many European countries and domino effect is possible to be happened. The withdrawal of the United Kingdom will certainly affect the balance of power within the EU, especially at the institutional level.

From the economy point of view EU27 will have to face with the fact of losing 10 billion euros of funds that the UK pays to the EU budget. The United Kingdom paid significantly more funds than it received, and therefore withdrawal of the UK represents a net loss in the budget, which will have to be compensated either by increasing the level of funds being paid or by reducing consumption, or by combining these two variants.

On the same time, it is clear that the UK will lose much more economically than the EU27 after Brexit, because the United Kingdom's trade with the EU represents much more of its own GDP than is the case with the EU27. However, several Member States are significantly more exposed than other EU Member States. Some of these exposures reflect the use of ports for trade, while others represent the role of the finance industry.

The financial industry in the UK, as one of the leading industries in the world, will be significantly shaken. Although they will remain the leading financial sector in Europe because they have developed many secondary services that complement the business of the financial sector, significant changes are inevitable due to passport rules and currency regulations, and therefore Brexit is considered a growth opportunity for financial centers outside the United Kingdom.

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