

## THE FUTURE OF THE EUROPEAN UNION AFTER BREXIT

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### Abstract

*The article presents the changes that have taken place since Britain's decision to leave the Union. This process, which began with the organization of the Referendum in 2016, had a negative impact on both the EU's domestic and foreign policy, as well as its micro- and macroeconomics. Doubts have been raised about the danger of a total or partial disintegration of the Community, as well as the possibility of the future EU development at several speeds. The question is whether, after Brexit, the gap in living standards between Member States and regions will begin to narrow or will there continue to be a confrontation between small/large in territory and poor/rich in economic development member states. The weakening of the European Union's political influence worldwide with regard to international organizations (UN, G7, G20, Commonwealth of Nations – composed of 53 English-speaking Member States supporting the Queen of England, etc.) has been noted. The strengthening of Euroscepticism among the citizens of Europe has been noted, as well as the danger of fatigue before the deepening of European integration and the possibility of future EU enlargements with new member states (for example, with the countries of the Western Balkans).*

**Key words:** Brexit, European Union, euroscepticism, European integration, United Kingdom (UK)

**JEL:** D72, F50, F59, P16, P48

Undoubtedly, the European Union (EU) has undergone significant changes and upheavals over the last decade. Some of them were related to the entry into force and implementation of the Lisbon Treaty (the last existing Treaty on the Functioning of the EU – TFEU), others to the migrant crisis related to the influx of political refugees arriving from countries torn by military conflict and last but not least, the United Kingdom, an EU Member State since 1973, has decided to hold a referendum (called “Brexit”) on whether to continue to be a member of the Community. Perhaps surprisingly, in June 2016, its people chose the country to leave the EU. This is perhaps the biggest upheaval the EU has experienced, not only in the last decade, but in general since its inception in 1951 (the year of the creation of the ECSC – European Coal and Steel Community, which is considered the founder of the EU). The United Kingdom was one of the pillars of economic stability in the EU with one of the best developed economies in the world and

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leaving the country would lead to an indisputable reduction of the “European budget”, subsequently distributed in the form of EU funds to individual member states. The process of removing the United Kingdom from the Community originally had to take 2 years. During this period, the negotiations for signing a mutually beneficial agreement were extremely difficult, and in addition to the economic agreements in it, concessions had to be made at the political level. On several occasions, The UK Parliament rejected many times the final decision of approving the agreement and the specific reason was the decision on the future situation of Northern Ireland and its special status. The specific occasion was related to “hard” border that would appear between Northern Ireland (part of the United Kingdom) and the Republic of Ireland, which will continue to be a full member of the European Union in the future. As a rule, the EU strictly guards and controls its external borders, to ensure the necessary conditions for one of the fundamental rights of free movement of goods and services, capital and people within the Community and which effectively removes the borders between individual member states. Northern Ireland became an external border for the EU, which should be controlled and all regulations required for the EU free market should to be imposed. Finally, the European Union made a temporary compromise especially for this issue and this allowed the agreement to enter into force, which was ratified by the British Parliament and the Parliaments of the 27 EU member states (European Commission, 2019).

After the transition period, when Brexit became a reality in early 2021 and the United Kingdom is no longer a member of the EU, many global analysts have asked themselves a number of questions about the future of the EU as the world’s largest supranational union and the EU-UK relations.

First, to what extent will the future relations between the EU and the UK on the international scene be characterized by cooperation or by rivalry? According to Stefan Lehne (Lehne, 2021), there are four main factors that will determine the nature of EU-UK relations after the break-up in the short and medium term: emotional and political fallout from a difficult divorce; a revived transatlantic relationship that could push the UK to reengage with the EU; external challenges in front of the EU and UK and respective internal policy trends in the UK and EU. Their complex impact may bring the EU and UK closer together, but their paths may also diverge in the future.

Second, will this process unleash the future disintegration of the Community and will the growing Euroscepticism lead to the departure of other member states? Or the opposite, It will further unite other countries and strengthen the process of European integration through a future enlargement of the Union by accession of the Western Balkan candidate countries?

Third, how far has the EU made the necessary conclusions following Brexit to overcome the euroscepticism of citizens and politicians of nation-states, and whether EU institutions are capable of resolving the real problems and developing the Union by reasonable reforms? This will largely determine the path of the EU's development. It is no secret that the EU has recently faced the threat of increasing fragmentation, i.e. member states to distance themselves from each other on an economic basis and for the Union to continue to operate at two or more speeds.

In the present article, we will look at some of the main implications of Britain's exit on the future of the EU. The negative consequences in the short term can be grouped into economic, political and organizational. By analyzing the most important of them, we will prove that in the short term for both parties – the EU and UK, the separation will have a negative impact, while in the medium and long term they will more likely cooperate rather than compete. Most of the problems of the EU, we have to admit, existed before Brexit, but after the UK left the EU they are accelerating.

### **Main Impacts of Brexit on the EU Development**

#### ***The EU as a global power in international relations and the global economy***

The UK's departure from the European Union (Brexit) will undoubtedly weaken the EU's position internationally and will have negative consequences in the short and, even in the long term, way for the functioning of the Community. The EU will lose some of its global geostrategic influence on the international stage. The United Kingdom was one of the EU's main foreign policy players with a first-class foreign service, membership of all key global networks and institutions and an established tradition of diplomacy. With the loss of a large economy, military power and a leading country among English-speaking nations, it will be more difficult for the EU to interact with organizations united around the crown and the Queen of England – the Commonwealth of Nations (53 member states) and others.

On the other hand, the EU is an example throughout the world of an organization that ensures the maintenance of peace, protection of human rights in a democratic political order and the prosperity of member states in Europe with a high standard of living for their citizens. The departure of the UK weakens the image of the Union in this respect.

***Impacts on four fundamental freedoms of movement in the EU (goods, services, capital and persons)***

One of the fundamental rights in the EU, namely the free movement of people, goods and capital, would be suspended and businesses in the EU and UK would be severely affected. The trade between the EU and the UK, despite the agreed zero duties and taxes, will decline considerably and the transport of goods will be hampered by additional bureaucratic procedures. The Clifford Chance estimates that additional bureaucracy could cost British businesses about \$23 billion a year and EU businesses about \$19 billion (Hamilton, Quinlan, 2021).

In general, there is no area of the economic and social sphere that is not affected by the changing conditions of trade and production. An interim agreement on trade and cooperation between the EU and the UK came into force on 1 January 2021 (European Commission, 2020a). A detailed trade agreement should be signed to regulate all areas such as the elimination of customs duties, regulation of competition rules, investment and state aid, tax control, transport (air and road), fishing, energy, data protection, social coordination security, etc. The existence of any real barriers would hamper the significant trade between the EU and the UK, which is inherent in regionally bordering countries. This will be a long and difficult process of negotiations and the business of EU countries needs a significant support to mitigate the negative economic consequences. In this regard, the Council of the EU and the European Parliament voted a huge financial instrument to overcome the negative consequences for the business of Brexit for the period 2021 – 2025. 80% or 4 billion euro of the total amount (5 billion euros) will be redeemed as pre-financing – 1.6 billion euro in 2021, 1.2 billion euro in 2022 and 1.2 billion euro in 2023. In 2025 one billion will be provided. Member states will benefit from access to these funds, depending on how the funding is spent in previous years and taking into account all shortcomings.

From a purely pragmatic point of view, the UK exit will hinder to some extent the labour migration between countries and the large tourist flow on both sides. Before Brexit a large number of people used to cross the “virtual” Schengen borders on a daily basis to reach their jobs beyond the territory of their country of origin (including the UK). Now the travel should be with a passport and a work or tourist visa. Cooperation in the field of research, education, etc. will also be hampered.

In the negotiation process, the EU institutions had to find a balance in the current situation to maintain the EU's relations with the UK in as many areas as possible and the need to protect the fundamental freedoms declared for the Union in its creation and functioning. The difficulties in finding compromises acceptable to both sides are obvious.

***Impact on the European integration development***

We should also note the role of the balancer that the UK has played in making important decisions at European level for the development and speed of European integration. With its weight in the decision-making process, the UK has deterred the desire of Brussels and the major powers (Germany, France, etc.) to transfer more and more power to the European institutions at the expense of nation states. In the EU, there has long been opposition against the integration process between *unionists* and *separatists*. Discussions have accompanied throughout the whole Union's development *whether to deepen integration by integrating more and more areas of the political, economic and social life into the common European legislation in parallel with the enlargement process of the accession of new countries and expanding the European economic market*, despite the significant socio-economic differences between member states, or *waiting for poorer and backward countries to first reach at least the average pan-European standard of living before proceeding with the integration process* (more evolution approach).

It is also important to note the fact that a member state that has not fully achieved its European integration is leaving the EU and during its long period of membership in the Community the UK has always sought special treatment from Brussels, negotiating certain concessions regarding the implementation of a common European legislation. The United Kingdom stayed away from the Eurozone, relying on the stable British pound and not applying the Schengen Agreement in its part of border control. In fact, this was a border between the UK and the other member states of the Community. According to the accession treaties in the EU, all member states must be admitted to the Schengen area and adopt the euro currency when they have met certain criteria. However, there is a group of countries in the current situation that refuse or have agreed on preferences and discounts not to introduce the common currency – these are Denmark, Sweden and the UK until recently was also among them. This fact to some extent stops the overall European integration and harmonization in the EU. Some countries as Bulgaria, Romania, Croatia, Poland, Hungary and the Czech Republic, were not encouraged until recently to join the euro zone. Of course, it should be noted that the financial crisis that hit Greece years ago and the uncertainty in the Eurozone during the 2009 financial crisis also contributed to this slow process of integration. In addition, Bulgaria and Romania are not included in the Schengen area too and have become a buffer zone between free movement without borders within the Community and third (non-Community) EU countries.

As a result of Brexit, EU leaders in Brussels will try to boost their image by admitting and encouraging new members to join the Union (e.g. the states of the Western Balkans – the Republic of Northern Macedonia, the Republic of Albania, the Republic of Serbia, the Republic of Montenegro, as well as in the longer

term European countries, such as the Republic of Bosnia and Herzegovina, the Republic of Ukraine, the Republic of Moldova, etc., expressing a desire to become part of the EU, when ready). It is also time to strengthen the Schengen area with the accession of Bulgaria, Romania and Croatia and to attract new members to the Eurozone more cautiously. The strengthening future of the European integration towards enlargement with new member states requires the establishment of stricter conditions and rules that oblige the applicant countries to follow a consistent and transparent policy, committing to implement and deepen European integration, far after they have achieved their goal of joining the largest supranational world organization with huge financial assets with the help of euro funds.

### ***Organizational and Institutional implications***

Britain's withdrawal from the Union also has an impact on the institutions' organizational performance and the way decisions are taken by the Council of the EU, one of the two most important institutions in the Union's legislative work. The rule of qualified majority (the so-called double majority introduced by the Lisbon Treaty in 2014) is based on decisions proposed by the Commission or the High Representative of the Union for Foreign Affairs and Security Policy on 2 terms: 55% of the member states that voted to vote in favor and those countries to represent at least 65% of the total EU population. In practice, this means 15 out of 27 countries. Leaving the UK, a country with a large population (over 68 million) changed the status quo by increasing the importance of small countries with large populations in the decision-making process of the Council of the EU. Thus, several (small) EU member states, but with large populations, can come together and make decisions in the Council, even though they are a minority. This could lead to a new division between member states, sharp opposition to decision-making in the Council and the achievement of the Union's common objectives. Of course, there are still sensitive issues within the EU's remit, such as the enlargement of the Community to new member states, where decisions are taken unanimously.

### ***Delay in reforms of the EU***

The decision of UK to leave the Union appeared as an additional catalyst for an increase of the existing Euroscepticism for the future of the EU – both in the state leaders of the individual member states and among the citizens of these countries. Brexit has caused reflections on the necessary significant reforms of the Union organization (optimization of powers between the European level and national authorities, decision-making process, etc). But, despite this, we must emphasize that the UK's exit has slowed down these reforms. Everyone was convinced of how connected the states in the Union are already (in economic, political and

social terms) and how many areas of life already depend on the state of the Union and the decisions of European institutions. This led to the publication of the White Paper on the Future of Europe until 2025 for discussion by the European Commission on 1 March 2017. Unfortunately, the activities of the negotiation process and Brexit have delayed the adoption of principled decisions on Union reforms. The more intensive discussions about the causes of Euroscepticism that began after Brexit did not result in more specific proposals for reforms in the EU organization. And this result will have long-term consequences in the future. The explanation that Britain is giving up the EU just because of migration policy cannot be accepted as the only reason. Excessive restrictions on the freedom to make decisions at national level, standardized European policy without taking into account national and regional specificities, combined with the low legitimacy of the European institutions for citizens, can always lead to a referendum that is not in favor of the EU. Sometimes, the citizens could not make informed choices because of the propaganda by Eurosceptics, nationalists or populists in an election campaign.

### ***Internal problems in UK as a result of Brexit***

The results of the referendum on Britain's departure from the EU showed also differences in the attitudes of individual nations in the UK. In England and Wales citizens supported the referendum, while in Scotland and Northern Ireland a majority of citizens voted against it. For example, in 2014, a referendum was held in Scotland (preceding "Brexit"), answering whether the country should remain part of the Kingdom. At that time, with minimal difference, its status had not changed, despite the number of attitudes among the Scots to achieve independence. To date, the country has its own Parliament, which can make some independent decisions, but the central government is still concentrated in London. After leaving the EU, the Scottish Government once again wants to put the issue of Scottish independence under the pretext that the country has not voted "for Brexit" and may be in its favor to rejoin the EU as an independent state. This fact again brings to the fore the question of the future of the Kingdom in its present form and whether there will be a complete or partial disintegration.

The Northern Ireland issue is even more complicated. For years, there has been enmity between the Catholic (Irish) and Protestant (English) populations in the country. The border areas separating the Republic of Ireland and Northern Ireland, part of the UK, have been the scene of unrest and bloody attacks. On one side is the IRA (Provisional Irish Republican Army), which wants to unite the two countries into one, and on the other are the British loyal to the Queen. In 1998, the Belfast Peace Agreement was signed, ending decades of ethnic conflict. Today, after Brexit became a fact, discontent is rising again among the people of North-

ern Ireland, as the separation from the EU has introduced a kind of “hard” border between them and the Republic of Ireland. Business, tourism and many other sectors of economic and social nature will be affected by the new dividing line on the Irish island. For this reason, a special protocol was signed to the agreement on the withdrawal of the UK from the EU, regulating the issue of Northern Ireland, giving a special status to the border under consideration (European Commission, 2020b). The results of its application are yet to be analyzed.

## Conclusion

The effect of Brexit on the development of the EU is difficult to predict in all its complexity – in economic, political and social terms. It will take a longer period to monitor the effects of this act. We can only make some cautious assumptions and conclusions that the breakup between the UK and the EU will have a negative impact on both parties. In any case, I think too little time has passed since Brexit to say for sure exactly how it will affect the future development of the EU. Complete disintegration of the EU – It is unlikely that other countries will leave the Community in the near future, as well as some countries will deepen their European integration, while others will continue to lag behind and distance themselves from Brussels’ policies.

1. The United Kingdom (UK) was not followed by other countries on its departure from the Union, despite predictions of the beginning of the break-up of the EU. The EU survived, albeit with one large and powerful country less. The EU institutions have shown an enviable ability to protect the Union’s interests in the negotiation process and to adjust the budget and planned policies with the elimination of the third largest contribution from the UK – around 9.5 billion pounds net after deducting the funds received (2019, the last full annual contribution of the UK before leaving) (Keep, 2021).
2. The main agreements reached at the exit of the UK are only a basis for the future EU-UK relations. There are still a number of areas where difficult and lengthy negotiations are ahead. It is necessary to consistently reach a pragmatic agreement and a refusal to sharpen the negative tone of the British Government to distance itself from its past as a member of the Union in an attempt to justify Brexit decisions.
3. In economic terms, the EU-UK relations will continue to have a significant impact on both sides, given the share of mutual trade and relations in manufacturing, the financial sector and services. After Brexit, both countries reported significant losses and difficulties in the movement of goods, services and people. In the conditions of COVID-19 the EU reports a decline in GDP by 6.2%, and the United Kingdom – by 9.9% in 2020 (according to Eurostat). Despite Britain’s global ambitions worldwide,



its economy will work for EU countries and the EU will be a market for business in the UK.

4. Although not enshrined in the signed EU-UK agreements, there is coordinated action and cooperation in the field of foreign policy and security on such important global issues as the rule of law, global peace, the fight against terrorism, the protection of human rights, environmental issues and others. In these important areas, the EU and the UK stand on the same principles and cooperate, albeit informally, especially in the so-called E-3 format (Germany, France and the UK) plus the United States. There are many examples – Iran’s nuclear program, Russia’s unacceptable actions, the unrest in Libya, the Middle East crisis, the deteriorating relations between Israel and the Palestinians, and so on (Price, 2019).
5. In the EU, Britain balanced its conservative policies with the attempts and ambitions of Germany and France to lead the Union on the path to a European superpower through rapid European integration and enhanced powers at the European level at the expense of national governments. With its release, the deepening of divisions between Member States is likely to intensify and group the member states as “rich states-poor countries”, “old members-new members”, “north states-south states”, etc.
6. The EU has not yet made an in-depth analysis of the reasons for Brexit, which would be a rational basis for improving the governance of the Union – policies, procedures, organizational problems in decision-making and their implementation, etc. The most important efforts of the analysis should focus on assessing the speed of European integration and the centralization of power at European level at the expense of national governments and assessing the need for redistribution of powers in a number of areas of the Community’s socio-economic and social life. Discussions on this issue, which have already begun, have been frozen since Brexit and COVID-19. Currently, the EU authorities are focused on the health and social problems of COVID-19 and the economic recovery in Europe after the negative effects of the pandemic. The effect of leaving the UK on Euroscepticism among *citizens* and *the Union’s political elite* has yet to be analyzed.

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