



## DAHRENDORF ANALYSIS

# What impact would a Brexit have on the EU?

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**A British exit from the EU would be an unprecedented event with uncertain consequences for the future of European integration and cooperation. This Dahrendorf Analysis outlines how a Brexit might change the EU by outlining its possible impact in three scenarios for the EU's future: an EU that falls apart, continues to muddle through, or integrates further. The conclusion outlines five key factors that will shape how the EU responds.**

### EUROPE'S BREXIT QUESTION

This is a worrying time for the EU. The Eurozone remains fragile, Schengen is vulnerable to collapse, Euroscepticism is on the rise, Russia's attitude towards Ukraine and Eastern Europe raises the prospect of war, relations with the USA may reach new lows should negotiations over the Transatlantic Trade and Investment Partnership collapse or if Europeans fail to respond to Washington's efforts to cooperate more on defence. Into this mix we must add the question of Britain's membership of the EU.<sup>1</sup>

The debate about the UK-EU relationship focuses largely on what a Brexit could mean for Britain.<sup>2</sup> By comparison, there has been less discussion of what it could mean for the EU, despite the potential implications being far bigger and more serious. For a long time many – including in the UK – felt a British in/out referendum was a distant if unlikely possibility, especially when compared to other crises. Given Britain's long-running problems with the EU, including an in-out ref-

erendum in 1975, the rest of the EU could also be forgiven for feeling they've been here before but an actual exit has never come to pass. To be fair, the issue of losing any EU member state is a taboo. It challenges many ideas and theories of European integration.

But would the EU be better off without Britain? To borrow from US President Johnson, would it be better for the EU to have the UK inside the tent pissing out or outside the tent pissing in? We can only answer that by asking what type of union the EU would be if the UK left.

If the EU loses the UK then what options and limitations would it face in dealing with the UK on the outside, and how can it know that these would outweigh the costs of any efforts to keep the UK inside? These are not just questions for the EU. The British people and political elite need to assess Britain's value to the EU. If Britain leaves, then what type of post-withdrawal relationship follows will also depend to a large extent on what the remaining EU is willing to grant.

<sup>1</sup> This brief builds on a broader discussion of the geopolitics of a Brexit in Tim Oliver, 'A European Union without the United Kingdom: The Geopolitics of a British Exit from the EU', LSE IDEAS Strategic Update, February 2016. Also see Tim Oliver, 'Europe's British question: The UK-EU relationship in a changing Europe and multipolar world', *Global Society*, Vol. 29(3), July 2015.

<sup>2</sup> Some exceptions include Tim Oliver, 'Europe without Britain' SWP Research Paper, September 2013; Luis Simon, 'Britain, the European Union and the Future of Europe: A Geostrategic Perspective', *The RUSI Journal*, 2015, Vol. 160, No. 5, pp. 16-23.

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This will in turn depend on how the EU is changed by the loss of the UK.

This also presents a problem for the UK. Too often the UK's debate is largely oblivious to the fact that it will be the rest of the EU that largely decides what kind of new UK-EU relationship will follow a British withdrawal. That will depend on what type of Union the EU becomes. The stability, security and prosperity of the EU will remain one of Britain's most important national interests. What could become of the EU should be an issue raised in the referendum debate.

### MAPPING OUT THE IMPLICATIONS FOR THE EU

There are five broad areas where Brexit might change the EU. For each area three overall scenarios are discussed, scenarios similar to those outlined by Tom Wright in his piece 'Europe's Lost Decade'.<sup>3</sup>

- **Scenario 1** imagines a Brexit triggering centrifugal forces that unravel or weaken the EU.
- **Scenario 2** is a largely no-change scenario, with the EU continuing to move forward (or sometimes not at all) as it has done in the past with some muddling through in the face of a Brexit.
- **Scenario 3** portrays a Brexit leading to more integration in the EU.

The aim here is not to assess which of the scenarios is the most likely, although some passing assessment is inevitable. In the limited space available the aim is instead to briefly map out a range of possible implications for the EU. To conclude, the briefing sets out five factors that will help explain how the EU responds.

### UNITY OF THE EU AND ITS PLACE IN EUROPE

Worries that granting Britain a renegotiated relationship in the EU will lead to its unravelling because it could lead

to an EU 'à la carte' have to be compared with worries that a UK exit could set an example that challenges the direction of European integration that other states then follow.<sup>4</sup> Whether this happens depends on how the UK performs outside the EU. It is also likely to depend on how a Brexit impacts on Germany, the EU's driver, paymaster and indispensable nation. In his analysis of European disintegration theories, Douglas Webber argues the EU has never faced a crisis 'made in Germany'.<sup>5</sup> A Brexit combined with such a crisis could lead to an EU reduced to a core of Eurozone members that form one of a series of overlapping organisations managing European relations. Alternatively, rid of 'an awkward partner', the EU could become more united.<sup>6</sup> The Eurozone and the EU would more neatly align allowing for more integration. Instead of hitting Germany, a Brexit could strengthen Berlin's position and German support for more integration. However, the Eurozone's problems demonstrate how even with the UK out of the room the EU has struggled to find the necessary unity to manage common problems. This problem would be even clearer in any muddling through scenario which would see the EU continue to cope with, but not solve, its underlying problems.

### BALANCE OF POWER

Britain's departure could upset complex relations within the EU between north and south, east and west, small and large members, liberal free-trading states and ones more inclined to protectionism. Franco-German relations, often considered the motor of European integration, have often used the UK to balance the other.<sup>7</sup> The EU's institutions would lose their British influences, with the EU having to renegotiate QMV, national quotas and make up for the loss of the UK's budget contribution (£8.5 billion in 2015).<sup>8</sup> The outcome could be a more confused, divided and weakened EU. Alternatively, as noted above, Germany's position could be strengthened enhancing German support for further integration, and strengthen the Eurozone and EU institutions.

<sup>3</sup> Tom Wright 'Europe's Lost Decade', *Survival*, Vol. 55, No. 6, (2013), pages 7-28.

<sup>4</sup> 'EU à la carte not on menu, Paris tells UK' FT, 17 January 2013.

<sup>5</sup> Douglas Webber, "How likely is it that the European Union will disintegrate? A critical analysis of competing theoretical perspectives," *European Journal of International Relations*, Vol. 20 No. 2, (June 2014), pages 341-365.

<sup>6</sup> Stephen George, *An awkward partner: Britain in the European Community*, (Oxford: Oxford University Press, 1998)

<sup>7</sup> See the French and German views in Almut Möller and Tim Oliver (eds.), *The United Kingdom and the European Union: What would a Brexit mean for the EU and other states around the world?* (Berlin, DGAP, 2014).

<sup>8</sup> See the view from the EU institutions in Almut Möller and Tim Oliver (eds.), *The United Kingdom and the European Union: What would a Brexit mean for the EU and other states around the world?* (Berlin, DGAP, 2014); Matthew Kemp, *EU Budget 2014-20*, House of Commons Library, Briefing Paper 06455, December 2015



However, a muddling through scenario would see Germany remain ambivalent about leading or further developing the EU, with other states such as France also being weary of any growing power in Brussels.

### **POLITICAL ECONOMY**

Any survey of views by other states into what a Brexit might mean reveals concerns about economic costs. The UK constitutes 14.8% of the EU's economic area, with 12.5% of its population.<sup>9</sup> It represents 19.4% of EU exports (excluding intra-EU trade) and within the EU runs a trade deficit that can range between £28 billion (2012) and £61.6 billion (2014).<sup>10</sup> Many proposals for a post-withdrawal relationship focus on maintaining close economic relations. But it is not just trading figures that are of concern. Losing Britain's 'Anglo-Saxon' economic influence with its strong support for free trade could lead to an inward looking, protectionist EU.<sup>11</sup> However, we must ask whether countries such as Germany or even France could allow the EU to become more inward looking and protectionist. Even the European Commission, often lambasted by British Eurosceptics as a bastion of state-socialism, is also often seen as pursuing a neoliberal trade agenda.<sup>12</sup> Pressure from the USA or China, and international trade negotiations, may mean the EU must continue to embrace an outward looking economic agenda. Granted, models of state-capitalism in Russia or China may grow in appeal. Should the EU integrate further and feel more confident then it may begin to espouse its own model for managing globalisation.<sup>13</sup>

### **SECURITY AND GLOBAL RELATIONS**

Britain, along with France, has been crucial to many of the EU's efforts to work together on foreign, security and defence policies. Losing Britain could undermine such efforts; potentially further weakening much sought after – especially by the USA – efforts to strengthen the European side

of NATO whether this be in defence business cooperation or in taking a more robust line with Russia. The outcome could be a UK that emerges as one of the poles of a multipolar Europe.<sup>14</sup> This could make more likely a scenario, outlined by Jan Techau, of a Europe that 'is not a pillar of world affairs but a territory that risks being pulled asunder between the United States and Asia.'<sup>15</sup> But Britain's central role in this area has also not been entirely constructive. Fears about sovereignty and jeopardising NATO have constrained UK commitment. Removing the UK could free such an obstruction. We should remember that the EU's international relations – whether in military or soft power – are varied and widespread.<sup>15</sup> However, once again, should the EU without the UK act more coherently then it could develop as a more robust European arm of NATO, or, as some fear, an alternative to it. The rest of the world would also continue to develop direct relations with Brussels.

### **RELATIONS WITH THE UK**

Both the UK and EU will be compelled by geography, economics, law, demographic links – indeed, by sheer realpolitik – to develop a working relationship for managing common problems. A variety of proposals exist ranging from special trade deals through to membership of EFTA and/or the EEA.<sup>16</sup> What would be the best deal for the EU is rarely assessed despite the EU also having to agree to it.<sup>17</sup> What the EU agrees to will depend on what is in the interests of the remaining EU, which will be shaped by whatever the outlook is of a post-Brexit EU. The UK may attempt to use its new position to redraw the economic and political relationships of Europe, moving away from the more supranational political relationships of the EU towards more intergovernmental arrangements focusing on trading links. The UK may also expect to be treated in some special way to reflect that while it might no longer be an EU power it remains a powerful European power that by 2050 could have a population

9 Data from taken from Eurostat

10 See answer from Baroness Warsi, Harsard, HL Deb, November 14, 2012, c1507. <http://www.publications.parliament.uk/pa/ld201213/ldhansrd/text/121114-0001.htm#12111438000002>; and James Nickerson, 'How important is the EU to UK trade?' City

AM, 26 June 2015. <http://www.cityam.com/218917/how-important-eu-uk-trade>

11 Charles Grant, 'In defence of Anglo-Saxon capitalism' CER, 29 September 2008. <http://www.cer.org.uk/insights/defence-anglo-saxon-capitalism>

12 Ferdi De Ville and Jan Orbie (2014), The European Commission's Neoliberal Trade Discourse Since the Crisis: Legitimizing Continuity through Subtle Discursive Change. *The British Journal of Politics & International Relations*, Vol. 16, No. 1, pp 149–167

13 Mark Leonard, *Why Europe will run the 21st century*. Fourth Estate, 2005.

14 Ivan Krastev and Mark Leonard, *The spectre of a multipolar Europe*, ECFR, London, 2010.

15 Jan Techau, 'Europe Torn Apart in the Asian Century?' *Carnegie Europe*, 1 July 2014. <http://carnegieeurope.eu/strategieurope/?fa=56054>

16 Bastian Giegerich and William Wallace, 'Not such a soft power: the external deployment of European forces' *Survival*, Vol. 46, No. 2, 2004.

17 Tim Oliver and John Bruton, 'Consent of the rest of the majority of the rest of the EU will be needed if there is to be a new UK-EU relationship' *British Politics and Policy* blog, 16 January 2014. <http://blogs.lse.ac.uk/politicsandpolicy/the-painful-truth-for-the-uk-is-that-the-consent-of-a-majority-of-the-rest-of-the-eu-will-be-needed-for-a-new-uk-eu-relationship-britain-cannot-simply-assume-this-will-happen/>

18 Eurostat, *Population projections 2010-2060* (8 June 2011), available: [http://europa.eu/rapid/press-release\\_STAT-11-80\\_en.htm](http://europa.eu/rapid/press-release_STAT-11-80_en.htm); PWC, *UK Economic Outlook 2015*, <http://www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook.html>



and economy bigger than any EU member.<sup>18</sup> While it will move from decision maker to decision shaper, it will also be one of the best placed to shape decisions bilaterally, multilaterally, through civil society, business or other avenues. The biggest test for the EU will be in whether it can present a united front to the UK, or manage relations through forums such as an EU+1 arrangement, an EU2+1 involving France, Germany and the UK, or a modified version of the EU's current G6.<sup>19</sup> However, should the EU become more united, its attitude to the UK might mirror that of the USA: a one-sided 'special relationship.'

**THE FIVE I'S OF BREXIT:**

Which of these paths the EU follows will depend in no small

part on how it – the governments of 27 member states, the EU's institutions, allies and the UK – respond to such a vote. Five factors should be watched: ideas, interests, institutions, the international, and individuals.

**Ideas**

A vote for Brexit would challenge the idea of European integration in an unprecedented way. Will the idea of disintegration then take hold across the EU as some domino effect sees other governments and citizens give up on the EU? Or will other EU member states respond in much the same way as they have to many other crises by trying to integrate further? If so, then any new deal with the UK would prioritise EU unity, blocking any UK-EU deal that allows Britain a

**SCENARIOS OF HOW A BREXIT MIGHT CHANGE THE EU**

	<b>SCENARIO 1: EU IS WEAKENED</b>	<b>SCENARIO 2: EU MUDDLES THROUGH</b>	<b>SCENARIO 3: EU MORE UNITED</b>
<b>Unity of the EU and defining ideas about Europe as a political space</b>	UK leads the way in EU fragmentation, potentially unraveling EU. Best outcome for EU is a core Eurozone union as one of a series of overlapping organisations in Europe.	Tensions remain over intergovernmental and supranational approaches, but Eurozone as heart of EU is strengthened. EU remains Europe's predominant political organisation.	Without one of its most awkward members integration becomes more likely. EU continues to emerge as the dominant political organisation in Europe.
<b>Balance of Power</b>	Adds to confused leadership with no clear leader; small or large states gain; East/South v's North/West; Eurozone under pressure.	German power enhanced, tensions with France remain, but EU remains generally rudderless.	Clearer leadership for EU institutions, complimented by enhanced power of Germany.
<b>Political economy</b>	More inward looking, protectionist or divided.	Retains strong outward looking agenda thanks to global pressures.	A global economic power pushing its own model.
<b>Security and global relations</b>	EU remains a 'military worm'. Europe/EU is vulnerable to divide and rule by external powers.	Fragmented military and security relationships, NATO and bilateral links remain key. EU remains central security actor on many new security challenges and major player in economic power. Continues to rely, with difficulty, on civilian power.	EU acts more united with some military power, but never fulfills military potential without UK. NATO remains strong, but potential strong EU dimension. Other global powers continue to develop direct relations with Brussels.
<b>Relations with UK</b>	Difficult, UK plays a role in trying to redraw Europe's political relationships.	UK a close partner, engaged with EU, but political relations strained by continued mutual dependence.	UK treated as close but junior partner, similar to attitude of US in US-UK relationship.

<sup>19</sup> Nicolai von Ondarza, Strengthening the core or splitting Europe? Prospects and Pitfalls of a Strategy of Differentiated Integration. SWP Research Paper, March 2013

<sup>20</sup> Paul Gillespie, 'Ireland must not let Brexit affect position in EU' The Irish Times, 24 October 2015. <http://www.irishtimes.com/opinion/paul-gillespie-ireland-must-not-let-brexite-affect-position-in-eu-1.2403706>



privileged alternative relationship that could weaken the Union. Individual member states, most notably Ireland, have already made clear they will not allow the UK to harm their commitment to the EU.<sup>20</sup> Other EU states are clear that their priority is not Brexit but integration in the face of crises such as that in the Eurozone.<sup>21</sup>

### **Interests**

Britain's large economy and a trade deficit with the EU, that in 2014 was £61.6 billion, leads some UK Eurosceptics to argue the EU needs the UK more than the UK needs the EU.<sup>22</sup> The EU would face a cost, but such opinion is not held elsewhere in the EU given that Britain represents somewhere around 16% of total EU trade (admittedly excluding services) while the EU represents 44.6% of the UK's exports.<sup>23</sup> Nevertheless, economic, social and security interests can play a powerful role. The potential impact on German car manufacturers or Ireland's economy could shift those countries; the large EU population in the UK and UK population elsewhere in the EU will need to be considered; some states may seek to take advantage of the UK's exclusion by attract investment, locking out the UK or changing the political economy of the EU.<sup>24</sup> The role the UK plays (both blocking and facilitating) in EU cooperation on foreign, defence and security interests will also be factored in.<sup>25</sup>

### **Institutions**

Institutional and treaty arrangements will shape the EU and UK's response to Brexit. Whether it is Article 50, the EU treaty's withdrawal clause, or the many legal and administrative

procedures that will require long, drawn out negotiations by both sides. Both will also be constrained by international treaties and other arrangements such as trade rules set down by the WTO or existing arrangements for membership of EFTA or the EEA.

### **International**

The UK and EU will not be oblivious to how international factors will impinge on their negotiations. Things such as the Transatlantic Trade and Investment Partnership will need to be changed to accommodate a Brexit, with the aim of Europe and the USA to shape global economics requiring them to include Britain in some way.<sup>26</sup> Terrorist attacks, aggressive behaviour by Russia, common concerns about the environment or migration could compel the two sides towards co-operation.

### **Individuals**

Finally, how the EU responds to a Brexit will in no small part be the product of how individual leaders react to the vote. Their reaction will reflect domestic factors such as elections or Eurosceptic pressures. Having spent time renegotiating the UK's membership when they would rather have been focusing on other matters, EU leaders may be in no mood to offer much to the UK as an exit deal. Whether time will sooth feelings depends on how long these individuals remain in office and how well negotiations proceed. Given their complexity they could easily lead to antagonism and strained relations.

21 'Cameron's letter: European views on the UK's renegotiation' EUROPP Blog, 10 November 2015. <http://blogs.lse.ac.uk/europpblog/2015/11/10/camerons-letter-european-views-on-the-uks-renegotiation/>

22 See 'How important is the EU to UK trade and investment' 26 June 2015. <http://www.ons.gov.uk/ons/rel/international-transactions/outward-foreign-affiliates-statistics/how-important-is-the-european-union-to-uk-trade-and-investment/-sty-eu.html>

23 See Jonathan Portes, 'After Brexit: how important would UK trade be to the EU?' NIESR Blog, 2 November 2015. <http://www.niesr.ac.uk/blog/after-brex-it-how-important-would-uk-trade-be-eu#.VsxSd5OLSb->; and ONS statistics above.

24 'France ready to 'roll out the red carpet' for British exit from EU' The Telegraph, 26 January 2013. <http://www.telegraph.co.uk/finance/financialcrisis/9820327/France-ready-to-roll-out-the-red-carpet-for-British-exit-from-EU.html>

25 Tim Oliver, 'Europe's British question: The UK-EU relationship in a changing Europe and multipolar world' Global Society, Vol. 29(3), July 2015

26 Rem Korteweg, 'It's the Geopolitics, stupid: why TTIP matters' CER Insight, 2 April 2015. <http://www.cer.org.uk/insights/it%E2%80%99s-geopolitics-stupid-why-ttip-matters>

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