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THE FUTURE OF EUROPEAN INTEGRATION AND BREXIT: IS BREXIT ONLY BREXIT?

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The consultative referendum held on June 23, 2013, showed that a majority of British voters are in favour of leaving the EU. Markets reacted and adapted, and politics made the first steps towards a UK outside the EU and an EU without Britain. This paper looks at the expected effects of Brexit in different fields: political and social effects, consequences for production and trade, and financial and fiscal effects. It then presents the institutional process of leaving the EU, stressing its indeterminacy, and considers the first steps undertaken so far. It concludes that the EU negotiation position is weak because of its internal problems and calls for the priority given in reforming the EU.

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1. BREXIT: ONE OF MANY CASES?

The standard view in the European Union so far was one of continuous enlargement and integration. The Union reached the respectable number of 28 member countries on July 1, 2013, with the membership of Croatia. There are presently five candidate countries (Albania, Macedonia, Montenegro, Serbia, and Turkey)

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and two “potential candidate countries” (Bosnia and Herzegovina, and Kosovo), which have the prospect to join the EU “in the medium to long term”.

However, during the last few years, the EU itself and various countries started to take positions and moves that showed that the enlargement process may encounter problems. Turkey applied to become a member of the then European Economic Community (EEC) already in 1987. Turkey was accepted as a candidate country only 12 years later in 1999. The accession negotiations started in 2005. This was a time-consuming and controversial process. The advantages of Turkey’s membership for the EU were recognised in different aspects: Turkey is a strategically important member of NATO and was at the time taking an arduous path to democracy and development. It was thought that EU membership could politically and socially stabilise a strategically important country, with economic and political benefits for the EU. Turkey is also a Muslim country and its membership could have created benefits for the EU in its relations with the Muslim world. At the same time, this very fact was of concern to the EU for the political implication and a possible source of internal strains.

Economic concerns for Turkey’s membership were felt primarily in South European countries, whose agricultural production overlapped with Turkey’s. These countries and other countries with disadvantaged regions felt that Turkey’s membership would divert European funds to their disadvantage, particularly the structural funds. After 2004, this concern was also felt in the new member countries of Central and Eastern Europe. The demographic dynamics of the country were also important, which were bound to soon make Turkey the most populous in the EU, overtaking Germany, which would have important consequences in the EU governance. Given the contrast of interests within the EU, the EU itself took the role of slowing down and virtually derail the accession process. Some concessions were made in 2015–2016 to ensure Turkey’s support in the management of the immigration crisis. But these were mostly financial in nature, while Turkey’s request of visa liberalisation and a visa-free regime for its citizens is still pending.

Less noticed was the reverse case: a candidate country refusing to become a member country. In March 2015, the government of Iceland requested that “Iceland should not be regarded as a candidate country for EU membership”. This request ended a process that had started on July 16, 2009, when Iceland applied to join the European Union. Formal negotiations began on July 27, 2010, and the country gained candidate status in June 17, 2010. Iceland never became a member country of the European Union and the country’s attitude to EU integration soon cooled. There were different reasons for this, but national interests (“Iceland’s interests are better served outside the European Union”) over such critically important issues as fishing regulation played a prominent role. Understandably, this took place after Iceland overcame the dramatic financial and bank crisis of 2008–2011.

As soon as September 13, 2013, after a new centre-right government took office following elections, the Icelandic government dissolved its accession team and *de facto* suspended its application to join the EU. This took place despite the deep integration of the Icelandic economy with the EU economy. Iceland is a member of various European initiatives such as the Schengen Area and the Dublin regulation on asylum policy, and participates (with no voting right) in a number of EU agencies and programmes. The country is also a member of the European Economic Area (EEA) and participates in the single market. Indeed, two-thirds of Iceland's foreign trade is with EU member states. Also, the legal system is strongly integrated and a significant number of the EU's laws are applied in Iceland.

Iceland's backing out was the first serious reversal in the EU enlargement policy. Due to the country's tiny size, which would have made it the smallest member country in terms of population, this setback went nearly unnoticed and its political meaning was disregarded. It was much less noticed than the politically more important and debated case of the prospective membership of Turkey.

There were other cases of backing out in EU history. Norway applied to become a member in 1969 and signed the Treaties of Accession to the European Communities in 1972, based on an overwhelming parliamentary majority. However, Norwegian membership in the European Community was rejected in a September 1972 referendum. Following the outcome, Norway declined to become a member. Another referendum on joining the European Union was held in November 1994. The denial won again, albeit with a strict margin.

Denmark presented an original situation of some interest for Brexit and the uneasy position of Scotland.[1] Denmark formally applied to join European Economic Community on August 10, 1961, a day after the British applied. Since France vetoed British membership and given the strict economic links between Denmark and Britain, Denmark postponed its membership until January 1, 1973, when Britain and Ireland finally joined. A referendum supported this decision with a nearly two-thirds majority. Greenland, a part of the Danish Realm, joined the European Economic Community with Denmark. However, Greenland took soon advantage of the home rule that Denmark had granted to Greenland in 1979 and in a referendum held in 1982 voted to leave the Community. Greenland withdrew from the EEC, but without seceding from Denmark in 1985. In another referendum in 2008, an overwhelming three-quarters majority of voters were in favour of the Self-Government Act. The act, effective since June 21, 2009, gradually transferred to the Greenlandic government a set of important additional respon-

[1] The Scottish Parliament and Goverment have announced that they may hold a new referendum for leaving Britain and possibly join the EU in case Brexit goes through.

sibility in different fields (police, judicial system and various legal competences, company law, financial regulation and supervision, aliens and border controls, and others). The Danish government retains control of foreign affairs, defence, and monetary policy.

And then came Brexit.

The next three sections review the political and social effects of Brexit, the consequences for production and trade, and financial and fiscal effects, respectively. Section 5 deals with the indeterminacy of the institutional process of leaving the EU and Section 6 considers the first steps undertaken so far. Section 7 concludes.

2. THE EFFECTS OF BREXIT: POLITICAL AND SOCIAL EFFECTS

Brexit is not the first problem with EU membership, but it is certainly the most important and alarming for the significance of the country, its potential consequences, and the complex and critical situation that the EU is going through. Aware of the problems and dangers looming around and within the EU, the incoming new President of the European Commission, Jean-Claude Juncker announced in its political guidelines that enlargement is to be stopped for five years.[2] However, Brexit did not take place according to the vision and aims of the Commission or the Council, but against these and upon the initiative of a powerful member country. Brexit is the first case of EU shrinkage upon the initiative of an important member country. Great Britain is a country whose vision of integration was often in contrast with that of the founding members and a country which obtained

[2] "When it comes to *enlargement*, I fully recognise that this has been an historic success that brought peace and stability to our continent. However, the Union and our citizens now need to digest the addition of 13 Member States in the past 10 years. The EU needs to take a break from enlargement so that we can consolidate what has been achieved among the 28. This is why, under my Presidency of the Commission, ongoing negotiations will continue, and notably the Western Balkans will need to keep a European perspective, but *no further enlargement will take place over the next five years*" (Juncker 2014: 16). And again, in his Statement in the European Parliament plenary session ahead of the vote held in Strasbourg on October 22, 2014, President Juncker stressed: "We must not let those waiting at the door think that it might open in the next five years. Of course, the enlargement negotiations will continue with the same vigour, the same drive, the same commitment as in the past. And I would like to send a message to the candidate countries for accession to the European Union that, yes, the negotiations will be speeded up if necessary, but it is not realistic to think that they could be successfully completed before 2019" (Juncker 2014: 35).

an especially favourable treatment.[3] Yet its withdrawal is a heavy blow to the EU. Could this start a "counter-enlargement" process?

The EU project is apparently not as appealing as it once was. Is this the sign of a deep, structural, irreversible crisis? Or is it a sign of prevailing opportunism by some countries, which believe that they cannot get the support they obtained so far from the EU, or is it an attempt to blackmail the EU to attain more favourable conditions? Is this the final proof that the ideals that led to the process of European integration are dead and that only interests, mainly national interests, govern participation in the European integration?

Brexit is different. This is the first case of an EU member country to hold a referendum on EU membership in which the majority of the voters supported leaving the EU. There certainly was much populism, misjudgement, and political incompetence by various British politicians and the government. Perhaps the European Union favoured the outcome by showing itself to be ready to grant Britain favourable concessions beyond the reasonable. This perhaps suggested that tough negotiation and credible exit threats can grant unilateral advantages.

Undoubtedly, Brexit represents a major political blow to the EU and the integration process, a blow that could have long-lasting, severe consequences if not properly managed.[4] Is it also an economic and institutional blow?

Britain has traditionally had an uneasy relation to and with the EU. Three issues were fundamental to its membership and participation in the EU: (a) the size of the unified market and trade, where much of its economic and financial interest is concentrated; (b) the intent to slow down and govern the financial unification of the continent that could jeopardise the dominance of the City; (c) to prevent the continent unifying its foreign and military policy and taking an independent stance, possibly contrary to British interests. The British marriage with the EU was certainly one of convenience, not of ideals, led by traditional British pragmatism. Added to this, behind the uneasy British situation and conflicting role, there are deep systemic and institutional differences, as comparative economics and the literature on the variety of capitalisms has abundantly highlighted.

[3] "A new Settlement for the United Kingdom within the European Union" (European Council 2016a) is the latest, broader special treatment that Great Britain gained to stay in the EU. After the 23 June referendum, this Agreement that was reached at the European Council on 18–19 February 2016, "will now not take effect and ceases to exist. There will be no renegotiation" (Schulz et al. 2016).

[4] "Brexit would not just have significant consequences for the UK but also for the rest of the European Union; … in so many ways, the future of democracy and sovereignty, of security and prosperity, in Europe is at stake. … The Brexit referendum will be a watershed moment in post-war history" (Gow – Meyer 2016).

Britain consistently opposed the deepening of the EU project and maximised its advantages (common market, open finances, fiscal freedom, British contribution to the EU budget, and allocations from the EU budget), while blocking or weakening any serious integration process in critical areas (EU budget, fiscal unification, common currency and the role of the ECB, a stronger role for the European Commission, common foreign and military policy).

While the British position was led by national interests, it would be unfair to conclude that the outcome for the EU was negative. Although the British position caused problems, it also contributed importantly to developing a set of rules and policies that benefited the entire Union. Most analyses find that EU regulations, although cumbersome, do not restrain business, trade or finance, or impose particular costs upon economic activity. This outcome is also one of the merits of Great Britain's participation in defining these rules. However, it is true that on occasion, the EU mismanaged important issues, which caused problems and costs also to member countries, the latest being the mismanagement of immigration waves.

On the political and social side it will be important to see whether Brexit contributes to further alienating citizens in other countries from the EU and increasing the danger of further withdrawals, or whether it creates a stronger support for the EU.[5] The first post-Brexit social and political indirect evidence suggest that the latter is perhaps the case. Confronted with the real danger of an EU devolution or even disruption, European citizens may start to consider the value of such achievements as the borderless EU or even the euro. However, much will depend on the final outcome of Brexit and on what will happen within the UK, particularly in Scotland.

Perhaps more important in practical terms will be to see what the influence of Brexit will be on the uneasy relation between the federalist perspective of the EU and the inter-governmental practice. For the time being, it is national governments that assumed the most active role in managing Brexit. However, it is the European Commission that should lead negotiations and a new officer in charge of the EU's Brexit negotiations was appointed in the person of Michel Barnier for this purpose.[6] Barnier is generally considered to be a tough negotiator and his appointment is considered to be an anti-British move on par with the British appointment of David Davis, a supporter of the leave campaign, as the Secretary

5 The President of the ECB, Mario Draghi (2016) is particularly aware of this danger: "The more recent years of the European project have been characterized …by growing dissatisfaction. This was expressed perhaps most clearly in the referendum on 23 June, when the people of the United Kingdom voted to leave the European Union."

6 According to a press release by the European Commission (http://europa.eu/rapid/press-release_IP-16-2652_it.htm), Michel Barnier was appointed by the President of the European Commission, Jean-Claude Juncker as Chief Negotiator on July 27, 2016. He will report

of State responsible for the work of the Department for Exiting the European Union.[7] Barnier entered office on October 1. The outcome for the management of EU-27 is still largely unpredictable.

3. ECONOMIC EFFECTS: PRODUCTION AND TRADE

Great Britain is an important trade partner for the other EU member countries. It is also the home of productive activities that are important for other EU countries, very active in foreign direct investments both as a recipient and as an investor, and the European headquarter of transnational companies (in particular from the United States, Japan, and China) which produce also for the EU market.

Membership in the EU has both created and diverted trade for its member countries, including the UK. It is obviously to be expected that the consequences of Brexit will be similar up to a point, yet reversed. However, what this actually means depends on a host of factors, including the outcome of negotiations between the EU and the UK, and the particular content of the new bilateral agreements, the attitude of third countries to the British intent to reach new agreements, the prevailing economic climate and the perception that markets will have of the consequences of Brexit, and how strictly EU principles (in particular, the free movement of people) are accepted by Britain as a condition to keep its access to the common market.

Trade relations between Britain, the EU, and third countries were heavily influenced by the international economic crisis and Britain has a sizeable trade deficit with the EU. UK trade dropped in 2009. There was a steady growth of both imports and exports until 2012, after which imports remained initially relatively stable and then increased, peaking in Q2 of 2016, while exports peaked in Q2 of 2013.

Until 2011, UK exports to both the EU and third countries increased rapidly year after year, and exports to the EU were significantly more important than exports outside the EU. Then, in 2012, exports to the EU contracted abruptly, while exports outside the EU continued to grow. Between 2012 and 2013, a period of slight decrease in British exports in value terms, the two directions of exports were roughly on the same level. However, in 2015, exports to the EU fell signifi-

directly to the President and will have at his disposal the best Commission experts. He will be advised by a group of Directors-General dealing with the issues relevant to the negotiations. Barnier will be ranked at the Director-General level.

7 This Department has a staff of over 180 in London, plus the expertise of over 120 officials in Brussels, plus the support from other government departments (Davis 2016).

cantly to the level of 2010, while exports outside the EU increased again. Since 2015, British exports outside the EU are significantly higher than exports to the EU, while imports from the EU continue to be more important than from third countries (R&C 2016). With this, Britain is one of the least integrated countries of the EU.[8]

Centre for European Reform (CER) uses a gravity model based on the University of Groningen's World Input–Output Database to assess the extent of economic integration between the UK and the EU (Springford et al. 2016). The calculation considers both Britain's exports to the EU and the supply chains providing intermediate goods and services to exporters. The share of UK output sold to the EU amounted to 9.8% in 2011, much higher than the corresponding share sold to the United States (3.4%) or China (1%).

More important is the share of Britain's services exports, including the share of services provided by domestic firms to exporting companies. These include in particular business and financial services, which account for about one-third of Britain's total services exports and generate about two-thirds of the overall services surplus. This surplus is important for financing the UK deficit on the trade of goods (Gros 2016). The share of services exported to the EU amounts to two-fifths of the UK output of such services (compared to 17% to the US and 10% to BRIC countries). This UK advantage is likely to remain also following Brexit, both thanks to the City's advantages and specialisation, and the possibility to create subsidiaries within the EU.

The UK's proximity to the rest of Europe certainly explains part of the integration. The CER gravity model allows quantifying that Britain's EU membership has boosted its trade in goods with other member countries by 55%. There is no evidence that Britain's trade with the rest of the world has been constrained by its EU membership.

The importance of economic relations with Britain is not uniform for individual EU member countries. The national goals of EU-27 countries will be predictably important in the process of negotiations with Britain. At the same time, the EU is the most important economic partner of Britain. It seems that the loser, if withdrawal negotiations get sour, would be Britain. It is therefore important to assess the real weight and importance of economic relations between EU-27 and its member countries and Britain, and what could really happen with Brexit.

[8] According to the Eurostat database, only the Netherlands – and since 2012 also Greece – has consistently a lower share of imports from the EU-28 than Great Britain. In the case of exports to EU-28, only Malta until 2012 – and Greece in 2012 – had a lower share than Great Britain. Since 2013, the British share is the lowest in the EU.

The UK current account with the EU is traditionally in deficit and the deficit increased in the last years (ONS 2015). This is entirely due to trade in goods, while trade in services shows a surplus for Great Britain, however smaller than goods balance. In a sense, this balance depicts also the strengths and weaknesses of the two partners.

The UK has a growing trade deficit in goods with nearly all EU countries, but this is sizeable with some (Germany, Spain, Belgium, France, and Italy, in descending order), due to both decreasing exports (to the Netherlands, France, and Belgium) and increasing imports (from Spain, Germany, Italy, and Belgium) (ONS 2015; Webb – Keep 2016) *(Table 1)*. The surplus of trade in services is mainly due to the increase of exports to Italy, the Netherlands, Ireland and Spain, and the decrease of imports from the Netherlands.

However, the importance of the EU for the British economy is great also in other fields. EU member countries invest heavily in Great Britain: their share

Table 1. Sources of imports and exports of the United Kingdom (2014, %)

Country	Share of the UK's imports
Germany	14.50
China	9.27
United States	8.47
Netherlands	7.74
France	6.29
Belgium	4.92
Italy	4.11
Norway	4.07
Spain	3.18
Ireland	2.81

Country	Share of the UK's exports
United States	11.66
Germany	10.92
Switzerland	7.24
Netherlands	7.17
France	5.59
China	5.07
Ireland	4.91
Belgium	4.75
Russian Federation	3.25
Spain	3.15

Source: Evenett – Fritz (2016).

of the accumulated stock of foreign direct investment (FDI), which was 30% in 1997, increased to 50% in 2014 (Springford et al. 2016).[9]

The UK international investment position – which includes FDI, portfolio investments, and other investments – showed a net liability position of £244.0 billion at the end of 2013, with reported liabilities totalling £9,928.3 billion. Net liabilities increased to £454.1 billion at the end of 2014. The share of the total UK liabilities to the rest of the world invested by EU member countries was 40.9% (ONS 2015).

Particularly important is also the value of UK banks' assets held in the euro zone, which was 45% higher than their US assets in 2015, a disproportionate value if one considers that the euro zone economy is around three-quarters the US economy (Springford et al. 2016).

The importance of the British economy for non-EU countries is also a major issue and concern. These countries – particularly the United States, China, Japan, and Russia[10] – are deeply concerned for possible negative consequences for their economies. While the prolonged deflation dominating the EU is a major problem of the world economy, Brexit adds new uncertainties and dangers to an already gloomy situation. All these countries have taken some initiative – openly the United States, covertly and prudently China and Russia – to convince the British government of the dangers in the referendum first and to look for a fast and smooth solution later.

Unexpectedly, it was Japan which took the most open, detailed, and bold position. Japan has sizeable interests in the UK and the EU. Japan is not among the top traders of the UK, but is the 6th largest single country in terms of in-

9 FDIs represent approximately 13% of the stock of UK assets abroad (£1,267.5 billion at the end of 2013 out of total reported assets at £9,684.3 billion). More than one-half of British FDIs (52% in 2013) are invested in Europe, mainly in the EU. European FDIs in the UK are still more important for the British economy at 58.6% of the total in 2013 and a net balance of £56.6 billion. The overall share of the EU is outstanding at 48.1% (ONS 2015). While FDI balance showed traditionally a net asset position for the UK, at the end of 2014, a net liability position of £148.0 billion was registered for the first time.

10 On the consequences for the *United States*, see Haass – Fonte (2016): "Be it resolved that: It is not in U.S. national interests for the UK to exit the EU." (Haas is the President of the Council on Foreign Relations.) On *China*, see García-Herrero – Xu (2016), who conclude that the short-term impact will be smaller for China than for other regions, although there are important considerations further ahead. As to *Russia*, there may be a trade-off between the negative economic and financial impacts of Brexit and the hope that it will help easing European sanctions against Russia (Sushentsov 2016).

vestment, with 4% of total stock of international investment into the UK.[11] Japanese firms in the EU employ 440,000 people and nearly half of Japanese direct investment to the EU flowed to the UK in 2015. In a written message to the United Kingdom and the European Union released on September 4, 2016 (MOFA 2016), the Ministry of Foreign Affairs of Japan took the unprecedented initiative to detail an excellent analysis of the dangers of Brexit for the international economic community and a set of requests coming from Japanese firms with interests in Great Britain and elsewhere in the EU. Given the traditional prudence of Japanese official organs, the message is surprisingly outspoken, which is a clear sign of the international worries that Brexit has caused. Japan's position can be taken as representing the view of other non-EU countries too. Indeed, Brexit is of general concern and includes dangers for individual foreign businesses.[12]

[11] In terms of numbers of investments, the top investors in the UK are United States, France, India, and China (including Hong-Kong). The UK attracts the highest number of FDI among the EU countries. In value, the top investors are the United States (holding 27% of FDI stock), followed by the Netherlands (15%), and France (8%). Globally, the UK is the third largest country in terms of its absolute value of inward FDI stock, behind the USA and China (UKTI 2015).

[12] On the former, the message stresses that "Uncertainty is a major concern for an economy. We hope that predictability is secured whereby all stakeholders, not just the negotiating parties, have a clear idea of the post-BREXIT landscape. This will be possible if the BREXIT negotiations are conducted through an uninterrupted and transparent process, which could include arrangements such as the establishment of a provisional period and, if there need to be institutional changes, the granting of time for the transition and publicising of such changes. … It is imperative for the UK and the EU to regain the confidence of the world and ensure their unwavering competitiveness by increasing the predictability of the BREXIT process, ensuring the outcome is free of unpleasant surprises and reducing the risks emanating from uncertainty." Along with the general problem, the situation is serious for Japanese businesses, various of which "have invested actively to the UK, which was seen to be a gateway to Europe, and have established value-chains across Europe". Since any change can jeopardise their situation, the Japanese government and firms "strongly request that the UK will consider this fact seriously and respond in a responsible manner to minimise any harmful effects on these businesses." Failing to do so may jeopardise the present situation of those Japanese businesses which have their bases in the UK to oversee their activities in the EU and lead the message to openly state that "Japanese businesses with their European headquarters in the UK may decide to transfer their head-office function to Continental Europe if EU laws cease to be applicable in the UK after its withdrawal" (MOFA 2016).

4. FINANCIAL AND FISCAL EFFECTS

Financial and fiscal effects are likely to be more important. In fact, Britain, and the City of London in particular, are key players in the international financial markets. Not only do they have a superior expertise than other EU member countries, but the British financial market is truly international and is largely used by continental companies and even public organisations. The London Stock Exchange (LSE) is the fourth largest stock exchange in the world and the largest one in Europe. It is the most international of all the world's stock exchanges, with around 3,000 companies from over 70 countries admitted to trading on its markets (*Table 2*).

Table 2. Stock exchanges (2011)

	Market capitalisation	Trade value	Listed companies
		USD billions	
New York Stock Exchange (NYSE)	14,242	20,161	8000
NASDAQ OMX	4,687	13,552	3400
Tokyo Stock Exchange	3,325	3,972	2292
London Stock Exchange (LSE)	3,266	2,871	3000
Deutsche Börse (DB)1	1,185	1,758	765
		In percent	
NYSE/LSE	4,36	7,02	2,67
NYSE/DB	12,02	11,47	10,46
LSE/DB	2,76	1,63	3,92

Source: Own calculations based on World Stock Exchanges (http://www.world-stock-exchanges.net/top10.html)

The attractiveness of financial markets also depends on the fiscal treatment of capital. Great Britain has an important advantage in this, being one of the countries in the world with the most favourable fiscal treatment of capital. According to the World Bank,[14] only Croatia, Luxembourg, Cyprus, Denmark, Ireland, Bulgaria, and Slovenia guarantee capital a more favourable general fiscal treatment (total tax rate payable by companies). The same can be said regarding corporate tax rates: only Bulgaria, Ireland, Cyprus, Latvia, Lithuania, Romania, Slovenia, Poland, Hungary, and the Czech Republic are more attractive than Britain.

However, most of these countries are unable to compete with the expertise, the general attractiveness of the British market, and the efficiency and predictability of its fiscal system. According to the World Bank Doing Business database[15],

[13] DB is the tenth stock exchange market in the world and the second one in the EU.

[14] World Development Indicators, http://wdi.worldbank.org/table/5.6

[15] http://www.doingbusiness.org/rankings

Britain is 15th in the ranking of paying taxes.[16] Among EU member countries, only Ireland (6th) and Denmark (12th) do better.

With Brexit, Britain may want to strengthen this significant advantage and initiate (or better said, strengthen) fiscal competition with the EU, particularly in the case of the fiscal treatment of businesses. This may be more a negotiation weapon than a real danger, a weapon though that is likely to restrict the EU's negotiating strength in fiscal and other matters, particularly the regulation of capital flows. Similar considerations hold in the case of a possible interest rates war or currency war. The role of international regulation apart, it is not in the interest of Britain to cut interest rates and depreciate the sterling in the long run, because this would go against the interest of the British financial community, the most important sector of the British economy. It would be an entirely different matter if the British government decides to promote a policy of the country's re-industrialisation. In this case, a weak sterling would help and the policy would put EU exporters under pressure. Overall, the present easy monetary policy is likely to be a relatively short run answer to political and market uncertainty under the blow of the unexpected outcome of the referendum. But all this, again, weakens the negotiation weapons in the hands of the EU.

The consequences are inevitable also for the EU budget. With Brexit, Great Britain will end contribution to the EU budget. The UK is a net contributor to the common budget, corresponding to less than 0.5% of its GDP (Dallago 2016). Britain has a double problem with this contribution. The first problem is that when leaving the EU, Britain will also lose EU financial support to disadvantaged regions and subsidies to agriculture. While this may be beneficial to British consumers, some regions – notably Wales and Northern Ireland, which are net beneficiaries of the EU budget – will suffer. The opportunity to compensate losers, together with the action of the agricultural lobby, may create political and fiscal problems.

The second problem is that the EU links the free access to its common market to third countries that also contribute financially to the EU. Third countries which enjoy free access to the European single market include the countries of the European Economic Area (EEA) such as Norway. Switzerland, which is not a member of the EEA, has various bilateral agreements with the EU and can thus

[16] *Doing Business* records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as the administrative burden of paying taxes and contributions. Taxes and contributions measured include the profit or corporate income tax, social contributions, and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees. (http://www.doingbusiness.org/methodology/paying-taxes).

participate in the EU market. In exchange for the access to the EU internal market, these countries contribute to financing selected programmes to the advantage of Eastern European member countries (infrastructure, regional development fund, R&D, and training projects). The same rules should apply to the UK if the latter wants to keep its access to the EU single market. According to Springford et al. (2016), the net UK contribution would fall by 9% (following the Norwegian model) or 55% (following the Swiss model).

Along with a financial contribution, the UK should guarantee the free movement of persons from and to the EU,[17] together with the free movement of goods, services, and capital. Friction between the EU and Great Britain over the issue of intra-European migration is already clear. Indeed, migration was one of the major issues in the Brexit referendum. Moreover, Britain should continue to adopt part of the Law of the European Union.

5. INSTITUTIONAL INDETERMINACY OF BREXIT

Given the great deal of uncertainty over the economic consequences of Brexit, we have to turn to institutions and the regulation of withdrawal from the EU to gain a better understanding of the economic consequences. Unfortunately, things may become even less clear in this perspective.

In fact, one of the main difficulties with Brexit or exit by any member country is that the process is largely institutionally undetermined and left in the end to negotiations between the interested partners: the EU and its continuing member countries on one side, and the withdrawing country on the other side. This event is only regulated by a rather generic article of the Lisbon Treaty (the Treaty on European Union or TEU).[18] The article is quite liberal, since it foresees that any

[17] There are approximately 1.2 million British migrants living in other EU countries, including various retired persons, compared with around 3.2 million EU migrants living in the UK, most of whom have a job, often a highly specialised job (Hawkins 2016). The national origin of EU citizens living in Britain and the destination of British emigrants show remarkable intercountry differences: most immigrants to the UK come from Poland, followed by Ireland, Romania, and Portugal. Most British emigrants live in Spain, followed by Ireland and France.

[18] Article 50 of the TEU foresees the following: "1. Any Member State. 2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament. 3. The Treaties shall cease to apply to

member country is free to withdraw upon its own decision only ("may decide to withdraw from the Union in accordance with its own constitutional requirements"). Its only duty is to "notify the European Council of its intention". This obviously leaves the initiative entirely in the hands of the exiting member state and indirectly strengthens its negotiation position.

Once the notification is received, the negotiation process starts. The EU organ responsible for defining the guidelines of the negotiation process and for concluding the negotiation is the European Council, which acts by a qualified majority, after obtaining the consent of the European Parliament. Putting the European Council in charge of negotiations leads to differences among the national governments of member states based on their respective national interests.[19] The importance of this process lies in that it concerns not only the withdrawal process, but also the framework for defining the future relations between the EU and the withdrawing country ("setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union.").

It is only when the withdrawal agreement enters into force that the EU treaties stop applying to the withdrawing country. Obviously, this creates the curious situation that the withdrawing country continues to be part of the EU also during the negotiation process. Although it is foreseen that the prime minister of Great Britain "shall not participate in the discussions of the European Council or Councillor in decisions concerning it", he/she nevertheless may have the possibility to influence decision-making from within in all other fields. Indeed, he/she continues to partake in discussions and decision-making on all other issues, a situation which the withdrawing country may exploit to obtain strategic advantages in the withdrawal negotiations. In order to circumvent this situation, the EU started to use informal meetings such as the one of the European Council in Bratislava on September 16, 2016.

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the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period. 4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Councilor in decisions concerning it. A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union. 5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49." (http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/577971/EPRS_BRI(2016)577971_EN.pdf).

19 The European Council includes the heads of state or government of the member states, the President of the European Council (presently Donald Tusk), the President of the European Commission (presently Jean-Claude Juncker), and the High Representative of the Union for Foreign Affairs and Security Policy (presently Federica Mogherini).

Article 50 also foresees the possibility that Brexit does not go through. As a matter of fact, the decision to invoke Article 50 is a unilateral act that the UK may or may not undertake. This does not depend on what other member states think or do. If the agreement on withdrawal is not reached, the Treaties will nevertheless cease to apply in the withdrawing country two years after the notification, "unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period." This is a blurred provision, which can leave ample space for strategising. As a matter of fact, the June 23, 2016, referendum was a consultative one and "both the UK government and Parliament may change their views or may decide to hold a second referendum." "Nothing in Article 50 would then prevent the UK from deciding, in conformity with its constitutional requirements, to withdraw its unilateral 'intention'" (Piris 2016).[20] However, the British government repeatedly made its intention clear to fully implement Brexit. Yet the reality, given the present rules, is that remaining in the single market and the customs union will strongly limit Britain's sovereignty in regulating the movement of labour and the possibility to negotiate bilateral trade deals with third countries. Withdrawing from these arrangements will disrupt British participation in multinational supply chains.

There is an ongoing debate about what will happen. The EU showed its irritability in front of an unforeseen and unwanted event (regret, respect, and resolve was the typical phrasing in Brussels and national capital cities), but soon gained control of its political and institutional nerves. Intense open and hidden diplomatic activity is taking place. Different countries have different opinions based on different national interests and diverse views of the integration process. But the initiative is in the hands of the British government.[21]

Brexit is clearly a major political defeat for the EU, an outcome that sees the Union institutionally unprepared. This may not be an insurmountable problem, though, since the Union had weathered several integration crises, which gave the necessary impetus to go ahead and find ad hoc solutions. Yet this time it may be different.

So far, crises were caused by clashes of interests among member countries (the most famous being Gaullist France's empty seat and Thatcher's "I want my money back!"), or unforeseen events (the most prominent being the international financial crisis). This time, it is a prominent member country which decided to leave the Union. This is not a "simple" clash of interest among member coun-

[20] Piris is a former director-general of the Council of the European Union's Legal Service.

[21] The turmoil apparently dominating British currency and financial markets in fall 2016 stress that there may be a contrast between the British government and the British financial community over the approach to Brexit.

tries willing to remain part of the club, as was the hypothetical case of Grexit. This time, it is a genuine divorce. Knowing where a divorce leads is never easy, particularly so if the institutional and procedural frameworks are blurred or incomplete.

Since Brexit is a political defeat for the European Union, the real issue henceforth is to understand whether this setback can be transformed in an economic and institutional opportunity. Great Britain took the initiative and chose to go in a new direction, and the British government seems to have a rather clear vision (Davis 2016), although the clarity may be more about what the British government desires than on what is reasonably possible (Stephens 2016).[22] The EU was caught by surprise and is presently uncertain as to how to proceed. One thing is

[22] British Secretary of State David Davis, in charge of negotiations for exiting the European Union, in a statement to the Parliament on September 5, 2016, gave a rather clear picture of British approach to Brexit (Davis 2016). Brexit "is a national mandate and this government is determined to deliver it in the national interest. … there will be no attempt to stay in the EU by the back door. … It means getting the best deal for Britain – one that is unique to Britain and not an 'off the shelf' solution. This must mean controls on the numbers of people who come to Britain from Europe – but also a positive outcome for those who wish to trade in goods and services. … we do not see Brexit as ending our relationship with Europe. It is about starting a new one. We want to maintain or even strengthen our co-operation on security and defence. It is in the interests of both the UK and the EU that we have the freest possible trading relationship. We want a strong EU, succeeding economically and politically, working with Britain in many areas of common interest. …Negotiating with the EU will have to be got right. We are going to take the time needed to get it right. We are going to take the time needed to get it right. And we will strive to build a national consensus around our approach. … And so, as we proceed, we will be guided by some clear principles. First, as I said, we wish to build a national consensus around our position. Second, while always putting the national interest first, we will always act in good faith towards our European partners. Third, wherever possible we will try to minimise any uncertainty that change can inevitably bring. And, fourth, crucially, we will – by the end of this process – have left the European Union, and put the sovereignty and supremacy of this Parliament beyond doubt. … Finally, we are determined to ensure that people have as much stability and certainty in the period leading up to our departure from the EU. Until we leave the European Union, we must respect the laws and obligations that membership requires of us. We also want to ensure certainty when it comes to public funding. … structural and investment fund projects signed before the Autumn Statement and research and innovation projects financed by the European Commission granted before we leave the EU will be underwritten by the Treasury … after we leave. Agriculture is a vital part of the economy, and the government will match the current level of annual payments that the sector receives through the direct payment scheme until 2020, providing certainty. In terms of the position of EU nationals in the UK, the Prime Minister … is determined to protect the status of EU nationals already living here, and the only circumstances in which that would not be possible is if British citizens' rights in European member states were not protected in return – something that I find hard to imagine." Yet this picture is still quite general, full of desiderata and rhetoric, and perhaps not fully in tune with the reality.

clear amidst the great uncertainty and serious dangers for the sustainability of European integration: the challenge is clearly the greatest one the EU has faced so far. The way this challenge will be approached and the solutions given to it will determine the future of the Union for the decades ahead, be it towards its strengthening or its melting.

6. PREPARING TO NEGOTIATE

The outcome of the referendum was a surprise and a shock for all international agencies and governments also outside of the EU. The IMF, in an update of the World Economic Outlook released in mid-July (IMF 2016), writes that the outcome surprised global financial markets and caused an important downside risk for the world economy.

Quite clearly, the EU was hit the hardest. In a joint statement released the day after the referendum (Schulz et al. 2016), the four Presidents of the EU (European Parliament, European Council, Council of the EU, and European Commission) stressed that "The Union of 27 Member States will continue." They also ask that the UK government proceed "to give effect to this decision of the British people as soon as possible, however painful that process may be." While the EU is "ready to launch negotiations swiftly with the United Kingdom regarding the terms and conditions of its withdrawal from the European Union", the statement also warns that "Until this process of negotiations is over, the United Kingdom remains a member of the European Union, with all the rights and obligations that derive from this. According to the Treaties which the United Kingdom has ratified, EU law continues to apply to the full to and in the United Kingdom until it is no longer a Member."

These statements are formally correct but appear to reveal the danger that this process hides for the cohesion of the EU. While the statement notes that "we hope to have it [the UK] as a close partner of the European Union in the future", speed is fundamental for curbing uncertainty. In a similar vein, commissioner Neven Mimica (2016) makes the point particularly clear: "The European Union is faced with a crisis that is more existential than the Greece and migration crises taken together. We are to undergo an unplanned, unique stress-test."

It is certainly so, not least owing to the economic, political, and military power of Britain and its privileged relation to the United States, which led various officers and national politicians in the EU to express "regret, respect, and resolve" on the outcome of the referendum. This approach may be unfair, in particular if one considers the lack of regret and respect towards Greece in summer 2015 and how badly immigration was mismanaged. Yet *realpolitik* requires that a different approach is taken in the case of Britain. But which approach? Commissioner Mimica rules out a comprehensive approach in the federalist perspective: “the outcome of the UK referendum should not lead us to new institutional reforms, a new Convention, new Treaty renegotiations, new calls for more Europe or a federal Europe.” The explanation is that the EU should not feed anti-EU populists and extremists, or provide them with new arguments. On the contrary: the best response would be “forging in ‘better Europe’ reforms”.

Perhaps. But this position hides the danger of negotiating with a determined partner from an unstable and worsening position.

7. CONCLUSIONS

What, then, should we expect from Brexit? Apparently, economic indeterminacy and institutional uncertainty. Economic and political experts, international organisations, and the business community have advanced different predictions that emphasise the indeterminacy of the outcomes. Typically, three scenarios are presumed: a pessimistic scenario, an optimistic scenario, and a more balanced one. The probability attached to each scenario depends on both the British and EU attitude and policies, and on external circumstances. Yet none of them, except the generic and unproved statements by the initiators of Brexit, foresees a positive outcome for both the EU and Britain (Bond et al. 2016; CPE 2016; Dhingra et al. 2016; Giles 2016; Gow – Meyer 2016; IMF 2016; Irwin 2015; Kierzenkowski et al. 2016; OE 2016; PwC 2016; Springford – Tilford 2014; Springford et al. 2016; Webb – Keep 2016).

There is an overwhelming concern for what is expected to happen in the UK, much less in the EU-27. This is in part due to the fact that most analyses originate in Britain and are motivated by the necessity to prepare countermeasures before leaving the EU. At the same time, analyses also had the not-so-hidden aim to convince voters to choose to remain. However, part of the explanation lies also in the fact that the EU as a whole elicits less attention than in the past and its situation is too blurred to allow for reliable forecasts.

Generally, a rather pessimistic mood prevails: expectations are that economic consequences could be negative for Britain and mildly negative for the EU. This means that most scholars, experts, and observers contend that EU membership was beneficial to Britain, while British membership was mildly beneficial to the EU. For instance, a recent OECD study (Kierzenkowski et al. 2016) finds that living standards (measured as real GDP per capita in constant purchasing power parities) in the UK have risen more since it entered the EU in 1973 than UK “peers” (Australia, Canada, New Zealand, and the United States). The same

OECD report concludes that "UK exit (Brexit) would be a major negative shock to the UK economy, with economic fallout in the rest of the OECD, particularly other European countries. In some respects, Brexit would be akin to a tax on GDP, imposing a persistent and rising cost on the economy that would not be incurred if the UK remained in the EU. The shock would be transmitted through several channels that would change depending on the time horizon."

It is also expected that the prevailing business and political uncertainty over the outcome of Brexit would have particularly negative consequences for the EU member countries in the economically and financially most difficult situation, notably Italy, Portugal, Greece, and perhaps Spain. It is noteworthy that the economic ties of these countries with Great Britain are well below the level of economic ties between Great Britain with Germany, the Netherlands, or France. It seems that the most worrying effect of Brexit is business and financial uncertainty.

Overall, while costs for Britain exist and may represent a problematic perspective for the country, the advantages of Brexit are typically considered mild or even illusory. Scholars and observers believe that the balance of Brexit between advantages and costs is negative, although it is hard to quantify. A different opinion is that Brexit may turn out to be beneficial for the EU. This opinion is based on the negative role that the UK has played in the EU in undermining integration and slowing down or blocking cohesion: "it is not in the interest of the EU to keep a country in the union that will continue to be hostile to '*l'acquis communautaire*' and that will follow a strategy to further undermine it. … When Britain is kept out of the EU it will no longer be able to undermine the EU's cohesion. The EU will come out stronger" (De Grauwe 2016).

One is left with the impression that once negotiations are through, nothing much will change. As one report puts it, Brexit "would be economically costly – and the best way to mitigate those costs would be to ensure that the economic relationship between the UK and the EU replicates membership of the single market as closely as possible." As a consequence, the final outcome may be that Britain will be left with "EU regulation without representation'" (Springford et al. 2016). The first data on the UK's economic performance and business climate apparently show that not much changed, apart from the 10% depreciation of the sterling (Pickard – Cadman 2016). However, this may just be a momentary situation. The critical moment will be the exit from the single market, after which losses will become evident, with business holding back on investment, foreign investors leaving the country, public finances worsening, and living standards falling due to the sterling depreciation (Gros 2016; Stephens 2016).

More importantly, the British government seems to be fairly in control of the process and proceeding rapidly to set up the complex machine that will lead Great Britain out of the EU. It also appears to have worked out a clear and shared exit strategy, and is starting to work on the particular components and steps. However, this is the easy part of the job, with the most important issues – primarily the single market and the customs union – still unsettled. The reaction by markets to that determination in fall 2016 suggests that that the government's control over processes may be far less firm than leavers think.

As for the EU, it is clearly under stress. It is true that according to article 50, the initiative must be taken by Britain. Yet the EU still has the fundamental issues unsolved. While the Chief Negotiator, Michel Barnier, has been appointed, he started his new office only in October. The general circumstances of his job are still ill-defined, as much as his staff is. In particular, it is unclear what his effective role will be: will the Chief Negotiator have full negotiation power or will his role be submitted to the approval by member countries (at least through the European Council)? Will this approval be pre-emptive, before the agreement with the British counterpart is reached, or will it be on the draft agreement reached by the two parties? In case of disagreements, who will deal with the Chief Negotiator: the President of the European Commission who appointed him or the European Council? And what will be the role of the European Parliament? The feeling is that these issues may remain unsettled for a long time, weakening the EU negotiation position.

The problem with the EU is that there are too many different and perhaps divergent interests and, most important, it lacks a shared project of further integration amidst incomplete and asymmetric common institutions. Brexit has revealed the fundamental flaws of the integration process, which remained halfway between a supranational project and a kind of inter-governmental construction. Minimising the EU agenda, as Commissioner Mimica suggests ("forging in 'better Europe' reforms"), may make the EU's task easier, but will inevitably weaken its negotiation position and fail to solve the fundamental problems of the integration process.

Negotiating with a smart, skilled, and determined partner, as Britain is, with an unsound and blurred domestic basis is usually the best way towards failure. Under these conditions, the UK has excellent chances to obtain what it wants, also to the disadvantage of the EU interests. Yet, now that Britain is getting out, there is an excellent possibility to clarify some fundamental issues on the future of the EU.

The present economic and institutional muddling through that prevails in the EU, made up of keeping the old convergence criteria, rules and policies while softening their implementation, may be understandable and even wise in the short run (Dallago 2016). However, it is dangerous in the long run and may lead to further disruption. It is clear that the present situation is dangerous and unsustainable in the long run because of the deep economic and social faults it is causing within the EU. Brexit offers an important opportunity to rethink the EU. This goal should get priority over the management of Brexit and should also dictate the terms and timing of the EU negotiation. While apparently this would weaken the EU negotiation, it could actually strengthen the EU position by curbing the temptation to manage Brexit according to national interests and keeping the UK at bay. More importantly, when the existent settlement jeopardises the future of the EU, as it does, using an external challenge such as Brexit to find a better solution may be the best opportunity around.[23] Even if there may be costs to be paid.

The latest developments give rise to both hopes and fears. Clearly, EU officers and national governments are aware of the dangers, although an attempt by some national governments to exploit the present uncertainty to their own advantage is also present. The European Commission is apparently the most determined in pursuing a strategic agenda of revamping the process of integration, subordinating – correctly in my view – the management of Brexit to this goal.[24] In his recent "State of the Union Address 2016" (Juncker 2016), President Juncker admitted that "Our European Union is, at least in part, in an existential crisis. … Never before have I seen so much fragmentation, and so little commonality in our Union." To invert this dangerous trend, he proposes "a positive agenda of concrete European actions for the next twelve months. … the next twelve months are decisive if we want to

[23] The position of the presidents of the French and the German central banks recently expressed is particularly clear in this sense and can be easily shared (Villeroy de Galhau – Weidmann 2016). Important is the position of the president of the ECB, Mario Draghi (2016). Draghi stresses the dramatic necessity to revive the process of integration, which "needs to be guided towards outcomes that are more efficient and more directly aimed at the people, their needs and their fears". This requires a better defined role of the EU and of national governments, taking action in the case of the most urgent problems (including migration, security, and defence), devote more attention to growth, and the redistributive aspects of integration ("policies that unleash growth, reduce unemployment and empower individuals, while offering essential protections for the most vulnerable"), completing European institutions. An interesting proposal comes from Pisani-Ferry et al. (2016), who propose a continental partnership, which would allow Britain to participate in goods, services, capital mobility, and some temporary labour mobility. The UK would have a say on EU policies, but ultimate formal authority would remain with the EU. This would create a new system of inter-governmental decision making and enforcement of common rules to protect the homogeneity of the deeply integrated market managed in a two-circle Europe: an inner circle, the EU, and an outer circle, the UK and perhaps in time other countries such as Turkey, with less integration. This would lead the EU to nearly justify Brexit ex-post, but the proposal makes sense provided that the euro zone proceeds toward a stronger integration.

[24] "Though the outcome of the referendum in the UK affects us all, it must not dominate our agenda for the next years. We have a positive reform agenda in front to us to strengthen our Union, to respond forcefully to the challenges of our times and to create a better Europe that empowers and protects citizens where needed. We must move ahead and act effectively with a sense of urgency, determination and above all unity." (Juncker – Timmermans 2016).

reunite our Union." Three proposals are particularly important in the economic field: the introduction of a new European Fund for Strategic Investments that the European Parliament already supported and adopted, whose duration and financial capacity will be doubled; to accelerate the establishment of the Capital Markets Union; and "implement the Stability and Growth Pact with common sense".[25]

The "State of the Union Address", released on September 14, 2016, was followed by the Bratislava Declaration on September 16, 2016. The informal meeting of the European Council in Bratislava was the first without the participation of the British prime minister.[26] There were worries and intercountry tensions before and during the meeting. Yet the 27 member countries came to an agreement on a "Bratislava roadmap" that includes some novelties and progress, and tries to move beyond Brexit. The roadmap presents a work programme in 5 points ("I. General diagnosis and objective, II. Migration and external borders, III. Internal and external security, IV. Economic and social development, youth, V. Way ahead"), along the lines of the "State of the Union Address". It attempts to define a fast reaction to the most pressing political and social challenges, and to move towards a better coordination between the EU organs and national governments. Overall, the impression is that the EU wants to become less technocratic and more pragmatic and realistic. The priority is given to the solution of the most pressing problems by promoting a better coordination among national governments, with the European Commission taking the initiative, but not ruling ("Need to be clear about what the EU can do, and what is for the Member States to do, to make sure we can deliver on our promises.")

[25] The latter may not mean a revolution, but promises a more comprehensive and transparent approach to convergence: "The Pact's creation was influenced by theory. Its application has become a doctrine for many. And today, the Pact is a dogma for some. In theory, a single decimal point over 60 percent in a country's debt should be punished. But in reality, you have to look at the reasons for debt. We should try to support and not punish ongoing reform efforts. For this we need responsible politicians. And we will continue to apply the Pact not in a dogmatic manner, but with common sense and with the flexibility that we wisely built into the rules." (Juncker 2016). This is still muddling through, but it may intend to give a better managed, less episodic approach to a reasonable management of rules. The emphasis on reforms is important, although excessively generic.

[26] "Today we meet in Bratislava at a critical time for our European project. The Bratislava Summit of 27 Member States has been devoted to diagnose together the present state of the European Union and discuss our common future. … Although one country has decided to leave, the EU remains indispensable for the rest of us. … We are determined to make a success of the EU with 27 Member States, building on this joint history." (European Council 2016b). At the press conference following the Bratislava summit on September 16, 2016, Donald Tusk (2016), President of the European Council, stated: "Our assessment is sober but not defeatist. … we are determined to correct the past mistakes and move on with common solutions as the EU of 27. We will not continue business as usual."

Overall, the climate after Brexit is sober because external and internal problems are daunting and time is not on the side of a motionless EU. The Brexit surprise is fading away, but the problems remain. Yet there are hopes and signs that the EU is not giving up and is perhaps moving to a new, promising approach, less sensitive to formal rules, less hostage to the lack of mutual trust, and more open to problem management and solution finding. Although the EU took a clearer position on some fundamental issues such as migration and security, in the economic field this approach is still too generic. It is generic on policies and criteria, and fails to clearly stress the fundamental issue of institutional reforms at both national and EU level.

This approach is not the resolution of what has so far prevented a more effective integration and a viable monetary and economic union, but may be a step in that direction. The future will decide whether this is done in time. If so, Brexit is the shock that was needed to start putting petty, short-sighted national questions aside, placing convergence criteria in a long-term perspective, and concentrating on the institutional and structural problems of integration, be they common or national. This is at least the hope of all those who believe that the EU is a fundamental value for our lives in the present and the future.

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