THE IMPACT OF BREXIT ON DEVELOPMENT OF THE EUROPEAN UNION

Nicolae ȚÂU,
doctor habilitatus, University professor,
State University of Moldova

SUMMARY

Analyzes, show that due to Brexit, the EU would lose the place of the second largest economy among the member states, the country with the third largest population and the "financial capital of the world". The population is reduced from 513 million (EU-28) to 447 million (EU-27) in 2020. GDP decreased from 15.9 trillion (EU-28) to 13.5 trillion (EU-27) in 2020; GDP per capita changes from 31,000 (EU-28) to 30,000 (EU-27) in 2020. In addition, the EU loses its second largest net contributor to the EU budget (2015: Germany €14.3 billion, UK €11.5 billion, France €5.5 billion). Thus, Britain's departure would result in an additional financial burden on remaining net taxpayers, unless the budget is cut accordingly: Germany, for example, would have to pay another €4.5 billion for 2019 and again for 2020; In addition, the UK would no longer be a shareholder in the European Investment Bank, in which only EU members can participate. The UK's share amounts to 16%, €39.2 billion (2013), which the UK would withdraw if there is no change to the EU treaty.

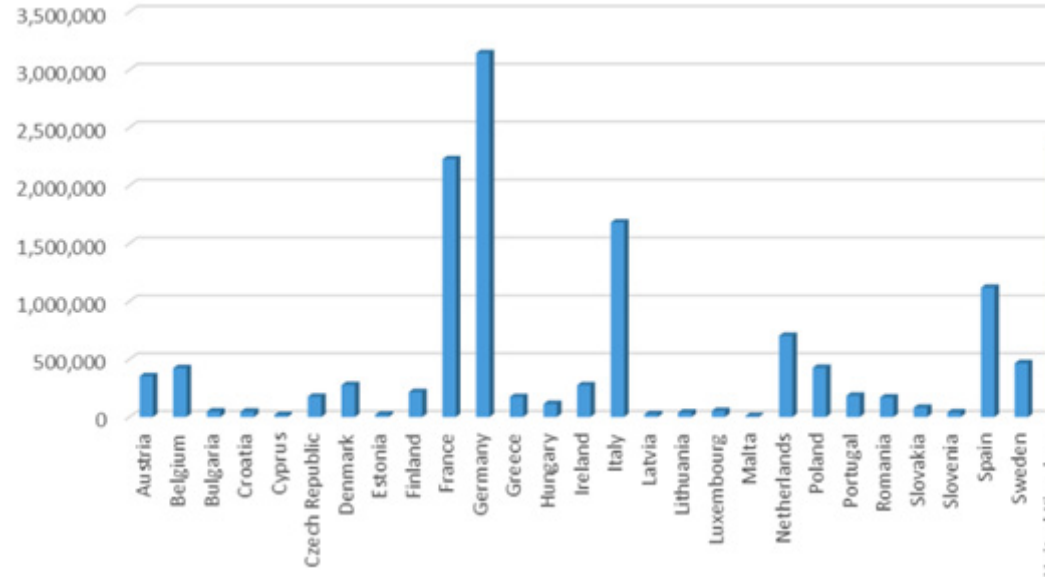
Keywords: *European Economic Community, Development of the European Union, European Union budget, GDP, European Parliament, EU- 28, EU 27, European Union treaty, brexit.*

General considerations

Statistical data provided by Eurostat illustrates that the aggregate GDP of the European group reached EUR 14,908.8 billion in 2016. The member state that contributed the most to the consolidation of the EU's economic power was Germany, which recorded a GDP of 3,144 .050 billion EUR, representing 21.1% of the total GDP. The United Kingdom follows in the ranking, the analyzed indicator reaching 2,395,801 billion euros, which corresponded to a percentage of 16.1% of the total GDP of the EU. Other countries that recorded significant amounts in 2016 were France (€2,228,857 billion), Italy (€1,680,948.1 billion) and Spain (€1,118,522 billion). The Member States with the lowest values for this indicator, contributing less than 0.3% to the GDP of the European bloc, were Lithuania, Latvia, Estonia, Cyprus and Malta. Thus, given the UK's significant share of total GDP (16.1%), it is likely that the EU's economic power will be partially eroded once Brexit is completed. Consequently, in the short term, it will be difficult for the EU to regain its position as global economic leader, the position it held until 2014, and overtake the United States of America. At the same time, in the long term, the EU will have to define a strategy to ensure strong economic growth against the background of the threat posed by emerging economies on the Asian continent [1, p.117].

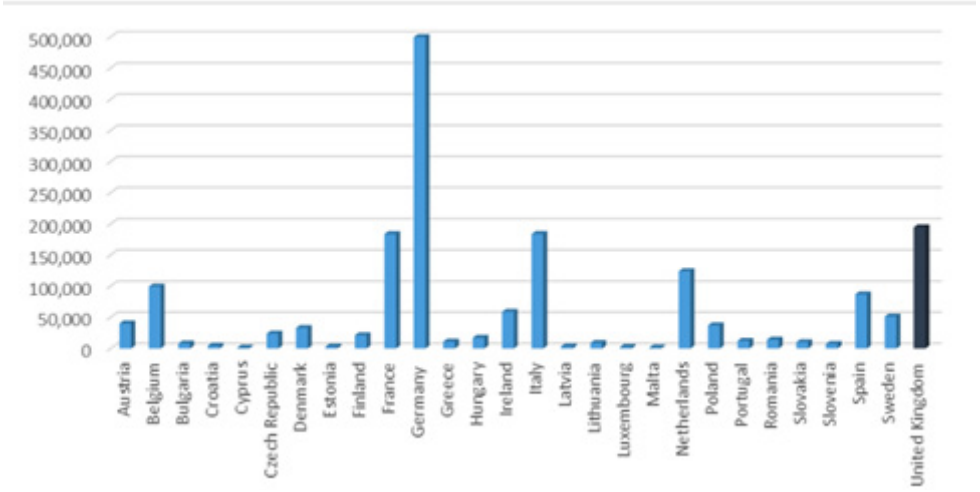
In the near future, the EU should launch reforms that lead to growth and job creation and, in particular, provide a stronger foundation for the euro area. Figure 1:

Figure. 1: GDP recorded by EU member states in 2016 (millions of euros - current prices) Source [2]



According to experts, the losses recorded by the EU will be 10-15 times smaller than those of the United Kingdom, taking into account the ratio of 1 in 5 of UK GDP and EU global GDP. From the perspective of Emerson et al., the losses will be minor for the European group, ranging from 0.11% (for optimistic scenarios) to 0.52% of GDP (for pessimistic scenarios). Given that these amounts are calculated as aggregate values until 2030, the annual average could vary between 0.01% and 0.05% of GDP. For the United Kingdom, losses would range between 1.31% and 4.21% of GDP by 2030 [158]. When looking at EU exports, Germany reined supreme, exporting goods worth €499,720.2 million, which corresponded to 28.9% of the total exports recorded by the European bloc. The second position was occupied by the United Kingdom, which supplied goods to third countries valued at 194,458.8 million euros, representing a share of 11.1% in total. The ranking is followed by Italy (EUR 183,856 million) and France (EUR 183,766.7 million), both countries having a share of 10.5% in total EU exports. Other European countries that exported goods over €50,000 million in 2016 were the Netherlands, Belgium, Spain, Ireland and Sweden [2]. Figure 2:

Figure. 2: Merchandise exports of EU member states in 2016 (millions of euros)) Source: [3, p.122]



Regarding the imports registered by the member states, Germany held the leading position, registering an amount of 321,416.5 million euros, which corresponded to a share of 18.8% of the total exports. Great Britain also imported goods representing 284,349.5 million euros, respectively a percentage of 16.6% of the total imports registered at EU level. Other important trade players considering the value of goods imports were the Netherlands (€241,360.6 million), France (€159,664.6 million), Italy (€144,288.8 million), Belgium (€123,075.8 million) and Spain (€107,177 million).

Thus, Member States will see a decrease in trade flows with the United Kingdom after the completion of Brexit. However, with the exception of Ireland, the EU's losses will be smaller than the UK's. According to Sampson, in a favorable situation, Brexit will lead to a decrease in consumption by 0.14% per capita in the EU. From a pessimistic perspective, the percentage will reach 0.35%. At the same time, it is worth noting that third countries may benefit from the UK's withdrawal from the EU due to trade-distorting effects, but the quantitative effects will be negligible compared to the losses that will affect the two parties involved. The decline in EU exports to the UK will range between 1.7% (optimistic scenario) and 3% (pessimistic scenario). In contrast, for the United Kingdom, exports will decrease by 21.8% or 12.5%, depending on the scenario [4].

The impact of Brexit on the European Union budget

The European Union has a budget for financing policies carried out at European level such as agriculture, regional development, space, trans-European networks, research and innovation, health, education and culture, migration, border protection and humanitarian aid. The European Union budget is primarily an investment budget. Its purpose is to implement the priorities agreed upon by all EU members. It provides European added value by supporting actions which, in accordance with the principle of subsidiarity and proportionality, can be more effective than actions taken at national, regional or local level. The budget of the European Union is fundamentally different from the budgets of the federal countries and represents only about 1% of the gross national income (GNI) of the EU. The EU has a long-term budget of €1,082.5 billion

for 2014-2020, representing 1.02% of EU-28 GNI, and €1,074.3 billion for 2021-2027.

The long-term budget, also called the Multiannual Financial Framework, is a seven-year spending plan that allows the EU to plan and invest in long-term projects. The UK's contribution to the EU budget in 2016, after accounting for its reduction, was €19.4 billion. After removing around €7 billion that the UK receives in EU subsidies, the loss to the EU budget comes to around 5% of the total [5]. Thus, there is a €94 billion hole due to Brexit in the EU budget for 2021-2027 [6, p.188] and EU countries are reluctant to increase contributions to fill this hole, while also covering spending on the new priorities, with some states such as Austria openly asking for a reduction in the EU budget [7]. Thus, we can see that Brexit has caused a dispute between EU member states regarding the need to increase each one's contribution to fill the financial hole as a result of Great Britain's exit. Finally, following the agreement of the European Parliament, on 17 December 2020, the Council adopted the regulation establishing the EU's multiannual financial framework (MFF) for the period 2021-2027. The regulation provides for a long-term EU budget of €1,074.3 billion for the EU27 at 2018 prices, including the integration of the European Development Fund. Together with the €750 billion Next Generation EU Recovery Instrument, it will enable the EU to provide an unprecedented €1.8 trillion in funding over the coming years to support recovery from the COVID-19 pandemic and long-term priorities of the EU in different policy areas. Thus, we can state that Brexit was one of the causes of the increase in the contribution of the EU27 states to the EU budget [8].

The impact of Brexit on the institutions of the European Union

In addition to the general impact of directing the future of the European Union, Brexit will probably also have a number of more specific effects on the EU's institutional structures, starting with the European Commission, the European Council and the European Parliament. As the EU's third most populous state, with over 12% of the Union's population, the United Kingdom has been an influential player in the European Parliament and the Council of the European Union. Its absence will affect the ideological balance within the EU institutions [9].

Brexit will have only a limited formal impact on voting in the Council and the European Council, but a potentially larger impact on power relations within the Union. The EU normally takes decisions by consensus and only rarely resorts to qualified majority voting. In recent years, the United Kingdom has caused the need to use such a decision-making system and has been overruled several times by qualified majority voting, especially on one major issue – the fiscal pact. The UK's departure could thus facilitate EU decision-making in the future, but probably only to a limited extent, and this would also have a direct impact on the actual mechanics of qualified majority voting. According to the provisions of the Treaty of Lisbon, which are now fully in force after the end of the transitional provisions on 31 March 2017, qualified majority voting is contained in Article 16 of the Treaty on EU (TEU). is "defined as at least 55% of the members of the Council, comprising at least 15 of them and representing Member States comprising at least 65% of the population of the Union". The first condition is likely to remain unchanged in practice, as 55% of the 27 (compared to 28 pre-Brexit Member States) is still 15. The second condition, however, will need to be modified considerably, as the UK

is the third member state to population. Applying the 65% rule to an EU with 64 million fewer inhabitants could thus lead to a different constellation of states in any voting majority, with the total EU population falling from 513 million citizens to 447 million in 2020. The implications of this for smaller and medium-sized member states, such as Ireland, are dangerous, as the five largest EU member states were somewhat without a qualified majority before Brexit, while after Brexit they would only have a majority on their own. The simulations indicated that the remaining larger member states could gain some voting power and that the smaller member states could lose some. Potential winning coalitions could also change.. In the Council, during the period when Britain was a member, there were two principal blocs, each capable of forming a blocking minority against the other: the protectionist bloc of states mainly made up of southern states, and the liberal bloc of states mainly made up of from the northern states. As a member of the liberal bloc, Britain's departure will diminish its importance, as Britain has been a considerable and fervent supporter of an economically liberal Europe, greater trade deals with third countries and further enlargement of the EU. Concomitant with the decline of the influence of the liberal bloc, Germany's individual position in the Council is strengthened by the loss of a key counterweight.

The institutional impact of Brexit on the European Commission is less obvious, as the number of commission members only decreases from 28 to 27 and only a limited reallocation of portfolios is required. However, the potential institutional implications of Brexit for the European Parliament are very considerable. First, Brexit has had a substantial impact on the composition of the European Parliament. Thus, from 1 February 2020, the European Parliament will have 705 seats, compared to 751 (the maximum allowed by the EU treaties) before the UK's withdrawal from the EU on 31 January 2020. Of the 73 UK seats, 27 were redistributed to other countries, while the remaining 46 will be kept in reserve for potential future expansions. The redistribution of seats ensures that no EU country loses a seat, while some gain from one to five seats to address underrepresentation due to demographic changes. The new distribution takes into account the size of the population of the member states as well as the need for a minimum level of representation of European citizens in the smaller ones. This principle of "digressive proportionality" means that smaller countries have fewer MEPs than larger countries, but also that MEPs from a larger country represent more people than their counterparts from smaller countries.

After Brexit, the 27 seats were redistributed among the following 14 member states: France (+5), Spain (+5), Italy (+3), the Netherlands (+3), Ireland (+2), Sweden (+1), Austria (+1), Denmark (+1), Finland (+1), Slovakia (+1), Croatia (+1), Estonia (+1), Poland (+1) and Romania (+1)) (European Parliament, January 31, 2020).

Second, Brexit has changed the composition of the European Parliament's political groups and thus the political balance within the Parliament. With the United Kingdom leaving the EU, the majority needed to pass a resolution in the European Parliament will drop from 376 votes to 353. The biggest advances will go to the center-right European People's Party (EPP), which will regain five of the 34 seats it lost in the 2019 European Parliament elections. The right-wing Identity and Democracy (ID) party will also gain three seats, overtaking the Greens as the fourth largest party in the European Parlia-

ment, however, the departure of the 23 Brexit Party MEPs from the UK (who are not one of the recognized members). Political groups is likely to weaken broader nationalist opposition to the Commission's pro-European agenda. All other parties will lose seats; in particular, the Progressive Alliance of Socialists and Democrats (S&D), the Greens and Renew Europe (Renew) will lose six, seven and eleven seats respectively. The two largest groups – EPP and S&D – have a combined total of 335 seats, so the former power duopoly will still not have an absolute majority. Shifting alliances will remain crucial in what has historically been (and will continue to be) a fragmented European Parliament. Once the new composition is in place, the larger centrist parties (such as S&D and EPP) will continue to seek alliances with smaller groups (such as Renew and/or the Greens) to form a majority and strengthen their hands MEPs in their negotiations with the other EU institutions. The Greens will be particularly influential in this regard and are likely to use their newfound influence to shift the European Parliament's agenda to the left on environmental, social and home affairs issues. On trade and foreign policy, the influence of Renew MEPs is likely to ensure that the center-right will continue to dominate the political debate.

Maintaining the balance of power between EU member states is a fundamental principle of the European Union, and changes in the balance of power brought about by Brexit are of major concern. The balance of power within the EU has traditionally classified the UK as a counterweight to the predominant Franco-German Alliance, or more recently to the predominance of Merkel's Germany. Moreover, there have been concerns within Germany about the possibility of it becoming too dominant in the EU, exemplified in the past by Helmut Kohl's preference for a "more European Germany rather than a more German Europe" [8]. Germany's future role will clearly be strengthened, and how it chooses to exert its influence will also be crucial to the promotion of European democracy. Another vital change determined by Brexit concerns the position of France, namely the fact that France remains the only remaining nuclear power in the EU 27 and the only EU member of the UN Security Council, thus increasing its influence considerably within the union, and an alliance the Franco-German company would have monopolistic tendencies within the EU.

Also, Brexit could also influence the balance of power between Eurozone and non-Eurozone states. The relationship between Eurozone and non-Eurozone states was the subject of fierce debate when the UK was a member of the EU, and in light of its withdrawal from the EU. Brexit will have an impact on the balance of power between those in the euro zone and those outside the euro zone, due to the fact that Great Britain was a strong anti-euro zone voice, and in its absence, states such as Poland (also anti-euro zone) they might feel more pressure from member states [9].

The impact of Brexit on EU security and foreign affairs

The UK was a key player for the EU in foreign affairs and defense, as the UK was (along with France) one of the EU's two major military powers and had significant intelligence capabilities, soft power and a network wide-ranging diplomacy. Without the UK, EU foreign policy may be less influential [9]. The US has always seen the UK as a bridge between the US and Europe, and the UK has helped align EU positions with the US and provide a tougher policy towards Russia [10]. However, Brexit has also created

new opportunities for European defense cooperation, as Britain has consistently rejected moves in this direction through its veto, arguing that such a defense development would undermine NATO. With the withdrawal of the United Kingdom, the European Council placed defense cooperation as a major project in its post-Brexit declarations in Bratislava and Rome and continued with the establishment of a European Defense Fund and the activation of permanent structured cooperation, this being a clause of defense from the Treaty of Lisbon [11] In the context of Brexit, in order to prelaunch defense cooperation, the European Commission proposed at the end of 2016 the creation of a five billion euro fund and the cancellation of the regulations that stopped defense investments from the common EU budget. Separately, the European Commission, which administers an annual budget of 150 billion euros, will start allocating funds for military research. The target is 500 million euros annually starting in 2021. A pilot plan of 90 million euros is running since 2017. The foreign ministers of the EU member countries have come to the conclusion that they must defend their own interests - i.e. the interests of the Europeans - and to reaffirm its strategic role worldwide by strengthening defense and security capabilities. Germany advocates, in the context of Great Britain's exit from the EU, for the acceleration of the integration of the defense structures of the European Union, an initiative supported by France, Italy and Spain. The European Union must create military structures at the level of those of the North Atlantic Alliance, proposed the German Minister of Defense Ursula von der Leyen, in the context in which Germany, France, Italy and Spain advocate for community defense policies, separated from the Great Britain and the USA. Invoking the enormous impulses to modernize NATO's military capabilities, Ursula von der Leyen believes that the same energy must be invested in the modernization of European security structures and in the EU's defense policy. The addition of European military capabilities must "take into account the fact that a competition cannot develop" between the European Union and NATO, "but they should collaborate in a complementary way". In the context in which Great Britain decided to leave the EU, France, Germany, Italy and Spain are advocating for a European defense policy. In a joint letter, the four countries argued that the European Union should be able to respond to external military crises without the coordination of the United States ([12].

Conclusions

The evolution of the European Economic Community, created with the initial objective of strengthening the economic cooperation between the six founding countries: Belgium, Germany, France, Italy, Luxembourg and the Netherlands, from a simple community to a political and economic union of 27 states members, containing 7.3% of the world's population, with a nominal gross domestic product representing approximately 24.6% of global nominal GDP, was impossible to predict. What started as a purely economic union has gradually evolved into an organization that acts in many different policy areas, from climate, environment and health to foreign relations, security, justice and migration. For more than half a century, the EU has ensured peace, stability and prosperity, helped raise living standards, and launched the single European currency: the euro. The single market is the EU's main economic engine. It allows the free movement of most goods, services, capital and people. The EU aims to exploit this huge

resource in other areas as well, such as energy, knowledge and capital markets, to ensure maximum related benefits for European citizens. And in 2012, the EU received the Nobel Peace Prize for supporting causes such as peace, reconciliation, democracy and human rights in Europe.

Brexit, however, was the coup de grace on the European Union in its almost 70 years of existence. Was De Gaulle right when he predicted that "Britain will be a drag on EU development and a Trojan horse for transatlantic influence"? Probably yes. After a simple retrospective analysis of the way in which Great Britain joined the European Community, or rather the reasons that determined its orientation towards the EEC, we can deduce that the Brexit would have been an inevitable event, sooner or later. In the 1950s, Britain, overshadowed by wartime success and a strong sense of postwar moral superiority, refused to even consider integration into what was to become the EEC. Shortly after, with the emergence of its economic problems, against the background of increasingly prosperous CEE states, Great Britain suddenly changed its paradigm. The reason for the attempts to join the European project is simple and has nothing to do with the European ideology, but was perceived as a way to stop its economic decline. In 1950, the UK's GDP per head was almost a third higher than the average GDP of the EU6. In 1973, however, the UK's GDP per head was about 10% lower than the average GDP of the EC member states. On this basis, the main reason for the UK's EC membership was economic, not ideological, and it worked – it helped halt Britain's relative economic decline vis-à-vis the EU.

Achieving Brexit is an unprecedented task both for the modern British government and for the entire European community, due to its speed of implementation, its scale and political and diplomatic difficulty, and the level of public scrutiny to which it is subject. At its heart are three great challenges: negotiation, implementation, and bearing the consequences. The United Kingdom therefore became the first full member in the history of the European Union to decide to withdraw after 45 years of active participation in the decisions of the European Community, thus giving the coup de grace to what is practically the largest existing union, setting a precedent dangerous for other possible departures from the bloc, as well as the encouragement of the populist speech of certain political forces in the European states, pertinent examples serving Poland, Hungary, but also Italy or France, states within which Eurosceptic speech is an issue on the agenda.

BIBLIOGRAPHY

1. Geddes, A., 2016. Britain beyond the European Union? in Heffernan et al. Developments in British Politics, 256 p.
2. Nugent, C., 11 Aprilie 2019. TIME - It's Complicated: From the Roman Empire to Brexit, Britain Has Always Struggled to Define Its Relationship With Europe. Valabil la: https://time.com/5563689/britain-europe-relationship-history/ [Accesat la 18 06 2023].
3. Holobiuc, A.-M., THE ANALYSIS OF THE ECONOMIC IMPACT OF BREXIT ON THE EUROPEAN UNION , Bucharest: Bucharest Academy of Economic Studies. 250 p.
4. Rojas-Romagosa, H., 2016. Trade effects of Brexit for the Netherlands. CPB Neth-

erlands Bureau for Economic Policy Analysis.
Valabil la: https://www.cpb.nl/sites/default/files/omnidownload/CPB- Backgroud-Document-June-2016-Trade-effects-of-brexit-for-the- netherlands.pdf [Accesat la 04 06 2023].

5. Blenkinsop, P., "From trade to migration: how Brexit may hit the EU economy," 24 Iunie 2016. [Online]. Valabil la: https://www.reuters.com/article/uk-britain-eueconomy-europe/from-trade-to-migration-how-brexit-may-hit-the-eu-economyidUKKCN0ZA0KI?edition-redirect=uk. [Accesat la 20. 06 2023].
6. Darvas Z., and G. Wolff, "RETHINKING THE EUROPEAN UNION'S POST-BREXIT BUDGET PRIORITIES," Bruegel, Brussels, 2018. 345 p.
7. Amaro, "The EU's biggest post-Brexit fight is about to get real," 20 Februarie 2020. [Online]. Valabil la: https://www.cnbc.com/2020/02/20/eu-budget-the-biggest-post-brexit-fight-is-about-to-get-real.html. [Accesat la 22 06 2023].
8. Tisdall, S., 17 Ianuarie 2017. Helmut Kohl: leader who united Europe as well as Germany.
Valabil la: https://www.theguardian.com/world/2017/jun/17/helmut-kohl-leader-who-united-europe-as-well-as-germany [Accesat la 22 06 2023].
9. Patel, O. & Reh, C., 2016. Brexit: The Consequences for the EU's Political System. Valabil la: https://web.archive.org/web/20170512024234/http://www.ucl.ac.uk/constitution-unit/research/europe/briefing-papers/Briefing-paper-2 [Accesat la 20 06 2023].
10. Grant, C., 24 Iunie 2016. THE IMPACT OF BREXIT ON THE EU. Valabil la: https://www.cer.eu/insights/impact-brexit-eu [Accesat la 12 06 2023].
11. Henley, J., 28 Mai 2017. Angela Merkel: EU cannot completely rely on US and Britain any more. Valabil la: https://www.theguardian.com/world/2017/may/28/merkel-says-eu-cannot-completely-rely-on-us-and-britain-any-more-g7-talks [Accesat la 25 06 2023].
12. Popovici, C. & Popovici, A., 2017. IMPACTUL BREXIT ASUPRA POLITICII EUROPENE DE SECURITATE ŞI APĂRARE. Valabil la:https://ibn.idsi.md/sites/default/files/imag_file/23-33.pdf [Accesat la 15.06 2023].