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Risk Report

ASSOCIATED RISKS OF EU DISINTEGRATION: CRISES AND SCENARIOS

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ASSOCIATED RISKS OF EU DISINTEGRATION: CRISES AND SCENARIOS

RISK REPORT

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Summary

The UK's departure from the European Union has been a central topic of the political and economic debate in Europe since the Brexit referendum in 2016. With the Brexit deadline looming, risks and insecurities for trade and business operations arise. This Global Risk Intelligence Risk Report connects the dots between the implications of Brexit scenarios for the UK and the EU, previous crises in Europe, and Euroscepticism as a major driver of transformations in EU integration. An antagonism towards the EU and its policies has weakened the cohesion of EU member states as they drift apart on issues such as immigration, border security, monetary policies, and EU-wide social and economic responsibility. Highlighting the importance of good crisis management in politics and business, this report aims to provide a deeper insight into what moves EU politics as Brexit reaches its climax. It also sheds light on what risks and opportunities to watch out for and how to approach crisis management.

List of Abbreviations

<i>ASEAN</i>	Association of Southeast Asian Nations
<i>DUP</i>	Democratic Unionist Party
<i>ECB</i>	European Central Bank
<i>ECJ</i>	European Court of Justice
<i>EEA</i>	European Economic Area
<i>EU</i>	European Union
<i>FTA</i>	Free Trade Agreement
<i>GATT</i>	General Agreement on Tariffs and Trade
<i>GBP</i>	British Pound Sterling
<i>GDP</i>	Gross domestic product
<i>PM</i>	Prime Minister
<i>SIS</i>	Schengen Information System
<i>SME</i>	Small and Medium-sized Enterprises
<i>UK</i>	United Kingdom
<i>UNCTAD</i>	United Nations Conference on Trade and Development

BOLTS: OPERATIONAL, FINANCIAL, COMPLIANCE.

TAGS: BREXIT, BREXIT SCENARIOS, EUROZONE CRISIS, EUROPEAN MIGRANT CRISIS, CRISIS MANAGEMENT, RISK MANAGEMENT, BRITISH POLITICS, UK, EU, EU POLITICS, EU INTEGRATION, EUROSCEPTICISM, FINANCE, INVESTMENT, EUROPEAN TRADE, TRADE AGREEMENTS, MIGRATION, BORDER CONTROL, BORDER AGREEMENTS, IRISH BORDER, BACKSTOP, SCHENGEN AREA, EUROPEAN SECURITY, IRELAND, ITALY, FRANCE, GERMANY, GREECE.

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Introduction

For about a decade, the European Union (EU) has been struggling with three major crises: Brexit, the Migrant Crisis, and the Eurozone Crisis. As the Brexit deadline approaches, observers may fear for the stability of EU integration. If Brexit will be regarded a success by Eurosceptic parties in the remaining 27 EU member states, risks of an EU dissolution are likely to increase as governments ruled by Eurosceptic parties adopt and potentially improve the template of the United Kingdom's departure from the EU. The potential exit of other member states from the EU would have serious implications for business, trade, border regulations, migration, European security, social factors, and inter-European politics. With the EU's economic growth waning in recent years – particularly in large economies such as Italy or Germany – a disintegration of the EU would further harm Europe's economic strength and standing in the international arena.

A central factor in the occurrence of Brexit was Euroscepticism. The Eurozone Crisis and the European Migrant Crisis provided fertile soil for skepticism towards the EU and its policies to flourish. Utilizing failures in the EU's crisis management as a rhetorical tool, Eurosceptic parties across the EU have gained traction in recent years. Brexit is an evident result of the growing strength of Euroscepticism, plunging the EU into yet another crisis and continuing the cycle of subsequent crises. Neither the EU or Britain had sufficiently anticipated nor planned for the complexity of a disentanglement of a member state from the EU, revealing poor crisis management strategies. As the UK and the EU enter the climax of the Brexit process with the fast-approaching Brexit deadline, not only politicians but also businesses should gain deeper insight into the root causes of a potential European disintegration and future outlooks for the EU in order to manage associated risks smartly.

Section 1: The Associated Risks of Britain's Exit from the European Union

A Brief Understanding of 'Brexit'

Britain's proposed exit from the European Union, commonly referred to as Brexit, is one of many campaigns to leave the EU, but is by far the most profound and closely followed case of any country's attempt to leave the political and economic block. The core reason behind Brexit's notoriety is the fact that the decision has many associated risks, not just for the UK, but for all of Europe. Therefore, this report will highlight Brexit as a cornerstone example of a Eurosceptic movement that poses substantial risk to the future of a united Europe.

A referendum to decide Britain's cooperation with the EU was held across the United Kingdom on June 23, 2016, with over 33 million voters. The referendum concluded with a close result of 51.9% voting in favor of leaving the EU and 48.1% voting to remain (see figure 1).¹ The majority of citizens in Scotland, Northern Ireland, and London voted to remain, raising further questions regarding potential independence movements from Scotland and Northern Ireland.

Shortly following the referendum, Theresa May was chosen by the Conservative Party to replace Prime Minister (PM) David Cameron and to deliver Brexit. PM May then spent 18 months attempting to negotiate a deal between the British government and the EU, however, her deal was rejected by the British Parliament on three consecutive occasions, ultimately resulting in her resignation on May 24, 2019. By this time, the EU had already agreed to postpone Brexit's due date twice. Then on July 23, 2019, Boris Johnson was selected as the new PM. Unlike Theresa May, PM Johnson favors a prompt exit from the EU with or without a deal that could ensure a smoother transition away from the EU's single market, customs union, and common travel area. PM Johnson faces increasing difficulty achieving his goal, however, after his Conservative Party lost its majority in September

¹ **UK votes to LEAVE the EU (2016): *BBC News*. Available at: https://www.bbc.com/news/politics/eu_referendum/results (Accessed September 18, 2019).**

2019,² when several members chose to cross the aisle to the side of the Labor and Liberal Democrat Parties, both adamantly opposed to PM Johnson's plans. After the Conservative Party lost its majority, Parliament passed a bill requiring PM Johnson to seek an extension to the Brexit deadline should he be unable to produce a withdrawal agreement with the EU. Therefore, it seems likely that PM Johnson will be unable to reach a deal before the deadline and will be forced to delay Brexit once again.

The fate of Brexit remains uncertain, as its October 31 deadline looms closer, and debate between British members of parliament around if and how Britain is to leave the EU continues. Essentially, there are three probable outcomes for Britain moving forward: 1) a no-deal Brexit, 2) Britain reaches an agreement with the EU, and 3) Britain launches a second referendum on its independence.

No-Deal

Also referred to as a "hard Brexit," a no-deal Brexit would mean an exit from the European Union without a brokered agreement between the United Kingdom and the EU regarding future cooperation with or transition from the EU's customs union or single market. There is a high probability that this scenario would result in severe economic consequences for both businesses and citizens in the United Kingdom and Europe. The associated risks addressed in the report will be concerning this no-deal scenario.

Withdrawal Agreement

In this scenario, Britain would leave the European Union after reaching a brokered agreement regarding its trading arrangements, border security, and migration concerns. Sometimes referred

² Colson, T & Bienkov, A. (2019): Boris Johnson loses his majority after Conservative MP Phillip Lee dramatically crosses floor to join the Liberal Democrats, *Business Insider*. Available at: <https://www.businessinsider.com/video-boris-johnson-loses-majority-as-tory-philip-lee-crosses-floor-2019-9> (Accessed: September 3, 2019).

to as a “soft Brexit,” this scenario could entail the United Kingdom remaining part of the EU’s single market, customs union, or both.

Second Referendum

This option appears to be the least likely of the three probable outcomes. In this situation, a second vote would be carried out to determine if the majority of British citizens remain in favor of Britain’s departure from the European Union. Also referred to as “the people’s vote”, a second referendum is based on a belief that the public was misled about the benefits of leaving the European Union. There is also a debate around how the second referendum would be conducted and what questions would be asked.

Economic Repercussions

A no-deal Brexit scenario has left many in both the United Kingdom and elsewhere in Europe on edge. Much of the anxiety surrounding a no-deal Brexit is rooted in the concern of economic repercussions. The absence of an agreement detailing a smooth transition away from the many regulations that govern EU member states will likely incur financial losses, difficulties in trade, an exodus of businesses, and decreases in investment.

Expected Financial Losses

The Bank of England, the central bank of the United Kingdom, has issued a series of warnings to the British public regarding the aftermath of a no-deal Brexit scenario, including a one-in-three chance of a recession.³ Additionally, the Bank of England warned of serious economic consequences, such as an 8% drop in Britain’s gross domestic product (GDP), a 3.4% increase in the unemployment rate,

³ Partington, R. (2019): Bank of England warns of one in three chance of Brexit recession, *The Guardian*. Available at: <https://www.theguardian.com/business/2019/aug/01/bank-of-england-warns-1-in-3-chance--brexit-recession-interest-rates> (Accessed: September 20, 2019).

a three-fold increase in the inflation rate, an 11% loss of tax revenue from relocating financial firms, and a multitude of unforeseen consequences relating to London's transition away from its role as the economic capital of the EU.⁴ Additionally, the British economy is expected to shrink between 4% and 9% over the next 15 years, depending on how Britain leaves the EU.⁵ In contrast, the EU is expected to experience a 1.5% drop in GDP (see figure 2).⁶

The probability of a no-deal Brexit scenario was estimated at a 40% chance in August 2019, up from 15% in April 2019.⁷ This dramatic increase is largely due to PM Boris Johnson's insistence on following through with Brexit on October 31, 2019. Already witnessing the effects of uncertainty around the situation, the British economy is stalling, and growth is slowing. The Bank of England also predicts that a no-deal Brexit would have immediate effects on the economy. Thus far, the British Pound Sterling (GBP) has fallen 15.58% since the referendum, shifting from a value of USD 1.4795 on June 22, 2016, to USD 1.249 on September 20, 2019.⁸

Trade Issues

In a no-deal Brexit scenario, the United Kingdom would also face trade-related risks. Without a deal, Britain would leave the EU's customs union and be required to pay import tariffs on European goods. The same is true for goods traveling from the UK to EU countries. This is particularly

⁴ Partington, R. (2018): Bank of England says no-deal Brexit would be worse than 2008 crisis, *The Guardian*. Available at: <https://www.theguardian.com/business/2018/nov/28/bank-of-england-says-no-deal-brexite-would-be-worse-than-2008-crisis> (Accessed: September 3, 2019).

⁵ Mueller, B. (2019) What Is Brexit? What Does 'No-Deal' Mean? *The New York Times*. Available at: <https://www.nytimes.com/interactive/2019/world/europe/what-is-brexite.html> (Accessed: September 3, 2019).

⁶ Best, R. (2018): Brexit: Deal or No Deal for the EU?, *Statista*. Available at: <https://www.statista.com/chart/15050/economic-consequences-of-a-no-deal-brexite/> (Accessed: September 30, 2019).

⁷ Partington, R. (2019) Bank of England warns of one in three chance of Brexit recession, *The Guardian*. Available at: <https://www.theguardian.com/business/2019/aug/01/bank-of-england-warns-1-in-3-chance--brexite-recession-interest-rates> (Accessed: September 20, 2019).

⁸ British Pound (GBP) to US Dollar (USD) Historical Exchange Rates (2019): *Exchange Rates*. Available at: https://www.exchangerates.org.uk/GBP-USD-22_06_2016-exchange-rate-history.html (Accessed: September 20, 2019).

worrisome, as Europe is the most important export market for Britain and its largest source of foreign investment (see figure 3).⁹ If the United Kingdom has no plans to remain in the EU's customs union, British exports to the EU could face tariffs of around 6%, depending on the type of goods.¹⁰ Agricultural products in particular, such as dairy and animal products, could face tariffs as high as 15-30%.¹¹ According to a report by the United Nations Conference on Trade and Development (UNCTAD), the applied tariffs are expected to cost Britain at least USD 16 billion in lost exports and likely even more when accounting for indirect effects.¹² Britain and the EU would likely reach a new Free Trade Agreement (FTA) in time, but no such arrangement has yet been made and the process can take years. PM Johnson plans to quickly reach an arrangement with the EU that would drop tariffs on both sides under article 24 of the World Trade Organization's General Agreement on Tariffs and Trade (GATT).¹³ The EU, however, has shown no interest in accepting this plan and has retained its support for the Withdrawal Agreement made with then-PM Theresa May. Ultimately, a no-deal scenario will cost both Britain and EU states a great deal more when trading goods between them. Reaching an agreement between two parties, however, has proven to be exceedingly difficult, as is unraveling 46 years of economic integration. Furthermore, the logistics of trade into and out of the United Kingdom will face significant challenges. New border checks would be required for both exports and imports resulting in higher prices, border backlogs, delays, and shortages of some food and medicine. Britain has thought to look toward the United States to form an enhanced trade

⁹ Mueller, Benjamin (2019): What is Brexit? What Does 'No-Deal' Mean?, *The New York Times*. Available at: <https://www.nytimes.com/interactive/2019/world/europe/what-is-brexit.html> (Accessed: September 3, 2019).

¹⁰ Prottis, J. (2016): Potential post-Brexit tariff cost for EU-UK trade, *CIVITAS*. Available at: http://www.civitas.org.uk/reports_articles/potential-post-brexit-tariff-costs-for-eu-uk-trade/ (Accessed: September 20, 2019).

¹¹ Chatzky, A. (2019): What Would a No-Deal Brexit Look Like?, *The Council on Foreign Relations*. Available at: https://www.cfr.org/in-brief/what-would-no-deal-brexit-look?sp_mid=60248094&sp_rid=ZGh1dGNoaW5zQGdsb2JhbHJpc2tpbnRlbC5jb20S1 (Accessed: September 3, 2019).

¹² No-deal Brexit would cost UK billions, UN says (2019): *Al Jazeera*. Available at: <https://www.aljazeera.com/news/2019/09/brexit-latest-updates-190903131130125.html> (Accessed: September 3, 2019).

¹³ Wood, V. (2019): What is GATT 24: What is the WTO clause at the center of Andrew Neil's grilling of Boris Johnson, *Independent*. Available at: <https://www.independent.co.uk/news/uk/politics/gatt-24-brexit-boris-johnson-andrew-neil-wto-no-deal-a9003211.html> (Accessed: September 23, 2019).

agreement that would recover some of the market losses, however, U.S. legislators have undercut such claims, stating that they will block any trade deal if the Good Friday Agreement is undermined.¹⁴

Business Exodus

Another troubling development for the United Kingdom is the exodus of large corporations to elsewhere in Europe. Thus far, hundreds of companies have signaled their intention to move outside of the United Kingdom in anticipation of Brexit. Many businesses and financial institutions with operations in the UK are preparing a contingency plan, and some have preemptively moved operations to other European countries in anticipation of a no-deal Brexit scenario. Several car manufacturers, including Ford and Honda, have announced their planned departure from the United Kingdom. In addition to changing market trends, Ford is citing cross-border supply chain issues increasing the cost of vehicle production as a critical reason for the closure of its manufacturing plant in Bridgend.¹⁵ Honda has announced that in 2021 it will be closing the doors of its manufacturing plant in Swindon. The closing of factories like these will result in thousands of lost jobs in the UK. The Japanese tech companies Panasonic and Sony are both moving their European headquarters to the Netherlands in order to avoid financial disruptions caused by a no-deal Brexit. Reportedly, the Dutch government is negotiating with more than 250 companies about moving operations from the United Kingdom to the Netherlands.¹⁶ Ireland, France, Germany, Belgium, and Luxembourg are also appealing options for companies looking to shift offices or operations out of the UK. The manufacturing and aerospace giant, Airbus, has said that it is also

¹⁴ O'Donovan, B. (2019): *Pelosi says Good Friday deal will be defended if threatened by Brexit*, *RTE News*. Available at: <https://www.rte.ie/news/brexit/2019/0814/1068829-pelosi-brexit/> (Accessed: September 3, 2019).

¹⁵ *Why are car makers leaving the UK?* (2019): *Conference Call*. Available at: <https://www.conferencecall.co.uk/blog/are-businesses-leaving-the-uk-because-of-brexit/> (Accessed: September 23, 2019).

¹⁶ O'Carroll, L. (2019): *Brexit: Netherlands talking to 250 firms about leaving UK*, *The Guardian*. Available at: <https://www.theguardian.com/politics/2019/feb/09/brexit-uk-companies-discuss-moving-to-netherlands> (Accessed: September 3, 2019).

considering a departure from the United Kingdom in the event of a no-deal Brexit. Airbus employs around 14,000 people directly and another 100,000 jobs indirectly through suppliers of the aircraft company.¹⁷ The departure of Airbus would be a substantial blow to British manufacturing jobs.

For many small and medium-sized enterprises (SME), the option to relocate is not always feasible. Restrictions on migration will make it more difficult for SMEs to meet labor needs, and imposed tariffs will force many SMEs to raise the price of their goods and services, making them less competitive on the market. These SMEs face significant risk, given that they may not have the financial capital to recover from expected losses.

EU regulations are also an important factor for companies to consider. For example, banks and other financial services that wish to provide services in the EU's market must have operations in at least one EU member state. As a result, the British banking and insurance group, Lloyds of London, has established an insurance company in Brussels in order to provide for partners in the European Economic Area (EEA).¹⁸ Ultimately, a no-deal Brexit scenario could lead to higher production costs, discontinued operations, reduced earnings, or postponed cooperative agreements. The resulting shift of companies away from the UK puts thousands of jobs at risk and alludes to a weaker economy in the future.

Investment Loss

The United Kingdom is also witnessing a substantial loss in investment. Due to uncertainty around future trade agreements between the UK and EU, fears of supply chain disruption, and the declining value of the British Pound Sterling, Britain has become a less and less appealing location for investment. Thus, international firms are investing elsewhere. Britain has experienced a 30%

¹⁷ **Airbus threatens to leave the UK because of uncertainty over Brexit (2018):** *Sky News*. Available at: <https://news.sky.com/story/airbus-threatens-to-leave-the-uk-because-of-uncertainty-over-brexit-11412810> (Accessed: September 23, 2019).

¹⁸ **Our base in the heart of Europe (2019):** *Lloyd's*. Available at: <https://lloydsbrussels.com/about/> (Accessed: September 23, 2019).

decrease in capital invested since 2016.¹⁹ By March 2019, the number of foreign investment projects in the UK had dropped to 1,782, reaching its lowest point in six years.²⁰ Consequentially, Britain has also seen a reduction in jobs created by foreign investment in several of its key sectors, such as business and consumer services, car manufacturing, advanced engineering and supply chain, financial services, and electronics and communications.²¹ The decline in foreign investment is an unusual trend, as the UK was historically viewed as one of the most attractive options for investment.

Security Concerns

A rising probability of a no-deal Brexit scenario has also generated fears of instability, violence, and crime. Primarily, these fears concern challenges presented by the border between Ireland and Northern Ireland, and the future of information-sharing efforts between the UK and EU regarding crime and terrorism.

The Irish Border

Perhaps the most problematic and controversial debate within Brexit discussions is that of the Irish border. Upon Britain's exit from the EU, the roughly 300-mile long border between Northern Ireland and the Republic of Ireland would be the only land border between the two parties, making this border particularly important when considering issues of trade, travel, migration, and security. After separation, the UK and EU will become sovereign trading blocks, therefore requiring customs checks for goods traveling between the two. This situation presents a considerable challenge, as people and goods have been transitioning freely between the two parties for over twenty years.

¹⁹ Chatzky, A. (2019): *What Would a No-Deal Brexit Look Like?*, *The Council on Foreign Relations*. Available at: https://www.cfr.org/in-brief/what-would-no-deal-brex-it-look?sp_mid=60248094&sp_rid=ZGh1dGNoaW5zQGdsb2JhbHJpc2tpbnRlbC5jb20S1 (Accessed: September 3, 2019).

²⁰ Romei, V. (2019): *Foreign investment into UK falls to lowest level in six years*, *Financial Times*. Available at: <https://www.ft.com/content/6416a20a-9805-11e9-8cfb-30c211dcd229> (Accessed: September 23, 2019).

²¹ Ibid.

Border checkpoints have not been utilized between the two countries since a time of great conflict in Northern Ireland known as “the Troubles” that ended with the Good Friday Agreement in 1998. Conflict between loyalists and Irish nationalists caused a great deal of violence at checkpoints along the border. Thus, any checkpoints along the border resulting from Brexit would be seen as incompatible with the 1998 Good Friday Agreement that brought an end to decades of violence. Restored checkpoints along the border could become targets of violence once again.

To rectify this situation, then-PM Theresa May included a clause in her draft treaty negotiated with the EU known as the “Backstop”. This Backstop would keep the UK in a trading relationship with the EU until a final deal could be agreed upon.²² This draft treaty, however, was rejected by the UK House of Commons on three occasions. One party in particular, the Democratic Unionist Party (DUP) of Northern Ireland, was adamantly opposed to the Backstop, rejecting any regulatory differences between Northern Ireland and the rest of the United Kingdom.²³ Without a special case made for Northern Ireland or a trade agreement in place, the border between Northern Ireland and the Republic of Ireland would need to be controlled. Despite this complication, both the EU and UK are opposed to any security checkpoints between the two parties as it violates the Good Friday agreement.²⁴ Ultimately, if there is no deal and no backstop to ease the transition out of the EU’s single market and customs union, a system must be put in place to monitor the movement of goods and people between the two countries. Given that border checkpoints are expected to become targets for violence, neither the UK nor the EU seems willing to enforce a hard border between Ireland and Northern Ireland. Thus, the risk of smuggling goods between the two sides will be high as will the difficulty of enforcing regulations on agricultural and food products. Some

²² Conley, H. & Ruy, D. (2019): *What Is the Brexit Backstop and Why Is It Important?*, *Center for Strategic and International Studies*. Available at: <https://www.csis.org/analysis/what-brexit-backstop-and-why-it-important> (Accessed: September 3, 2019).

²³ Mueller, Benjamin (2019) *What is Brexit? What Does ‘No-Deal’ Mean?*, *The New York Times*. Available at <https://www.nytimes.com/interactive/2019/world/europe/what-is-brexit.html> (Accessed September 3, 2019).

²⁴ *The Impact and Consequences of Brexit for Northern Ireland (2017)*: *European Parliament*. Available at: [http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/583116/IPOL_BRI\(2017\)583116_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/583116/IPOL_BRI(2017)583116_EN.pdf) (Accessed: September 26, 2019).

efforts have been made to implement the use of advanced technology,²⁵ such as electronic customs registration, screening techniques, and blockchain technology to monitor activity along the border while ensuring frictionless cross-border trade, however, it is unclear if these technological options will be available in time or provide an adequate solution.

Intelligence and Information Sharing

In addition to concerns around border security, Britain's departure from the EU also alters the intelligence-sharing relationship between the two parties, making it more difficult to maintain policing and security cooperation. Historically, the UK has been a major contributor to the policies, projects, and operations of Europol, the main body performing the support and coordination of intelligence gathering and sharing among EU Member States.²⁶ The UK has often lead Europol operational projects, however, this level of cooperation would be very difficult to maintain post-Brexit. The relationship between the UK and Europol would certainly change as only EU member states are entitled to membership in Europol.²⁷ Europol does allow for partnership with non-EU members under certain cooperation agreements, as is the case with Europol and Denmark. Even in this scenario, however, the UK would still lose its place on Europol's Management Board, along with voting rights, and would no longer have a formal say in the strategic decisions of Europol. Furthermore, the UK would have limited access to Europol's Information System, which includes a database on crime and terrorist information. If no arrangement is made at all, the UK would lose access to this powerful source of information, and Europol would lose a valuable partner. Additionally, the UK would also lose access to the Schengen Information System (SIS), as it has chosen to remain outside of the Schengen area. Ultimately, both the EU and the UK will be inhibited by the separation, regardless of its extent. Adding further complexity to this issue, the UK would no

²⁵ Gilchrist, K. (2017): UK defends 'frictionless' post-Brexit Irish border as mutually beneficial, CNBC. Available at: <https://www.cnbc.com/2017/08/16/uk-defends-frictionless-post-brexit-irish-border-as-mutually-beneficial.html> (Accessed: September 26, 2019).

²⁶ Graziani, C. (2018). UK-EU Intelligence Information Sharing after Brexit, *Brexit Institute*. Available at: http://dcubrexitinstitute.eu/2018/05/uk_eu_intelligence_information_sharing_after_brexit/ (Accessed: September 24, 2019).

²⁷ Ibid.

longer be subject to the direct jurisdiction of the European Court of Justice (ECJ), which rules on any dispute between Europol and its members. Meaning that, if cooperation continues, the ECJ would have no jurisdiction over the actions of a critical partner to Europol.²⁸

Social Issues

A no-deal scenario will also have a number of social consequences. Issues regarding migration have played a major role in the Brexit discussion. There are around 3.2 million EU citizens living legally in the UK, and around 1.3 million British citizens living in other EU countries.²⁹ For these millions of people, a no-deal Brexit scenario would complicate their citizenship status, and their once-guaranteed freedom of movement between the UK and the rest of the EU is now in jeopardy. Politicians like PM Johnson have promised that the rights of EU citizens living in the UK will be protected, but many fear the validity of these claims and have left the UK amid the uncertainty. Moreover, the citizenship rights of British people living in the remaining EU countries would entirely depend on each individual EU member state.³⁰ Former PM May's Withdrawal Agreement would have offered temporary guarantees for UK citizens in EU countries, yet this agreement was refused by parliament.

EU citizens are free to work in any EU member state; however, a no-deal Brexit scenario creates obstacles for EU citizens working or looking to work in the UK. In 2017, net migration in the UK dropped by 49,000 people.³¹ According to the Office for National Statistics, this was the first time in two years the balance of people arriving and leaving the UK had dropped below 300,000. The

²⁸ Satori, P. (2018): *The perils of inflexibility: European security after Brexit*, *European Council on Foreign Relations*. Available at: https://www.ecfr.eu/article/commentary_the_perils_of_inflexibility_european_security_after_brexit (Accessed: September 30, 2019).

²⁹ Chatzky, A. (2019): *What Would a No-Deal Brexit Look Like?*, *The Council on Foreign Relations*. Available at: https://www.cfr.org/in-brief/what-would-no-deal-brexit-look?sp_mid=60248094&sp_rid=ZGh1dGNoaW5zQGdsb2JhbHJpc2tpbnRlbC5jb20S1 (Accessed: September 3, 2019).

³⁰ Peter, L. (2019): *Brexit: How would no deal affect UK citizens in the EU?*, *BBC News*. Available at: <https://www.bbc.com/news/world-europe-46841041> (Accessed: September 24, 2019).

³¹ *Net migration to UK falls by 49,000 (2017)*: *BBC News*. Available at: <https://www.bbc.com/news/uk-39062436> (Accessed: September 4, 2019).

uncertainty around Brexit and the resulting exodus of people are also having implications for the labor market. In general, UK-based employers will have a more difficult time finding qualified staff, as foreign workers will look elsewhere for employment. If the trend continues, the British government will need to find new ways of replacing the lost human capital.

Operation Yellowhammer

On September 11, 2019, the British government released a report on the worst-case scenarios of Brexit. This cross-government civil contingency plan, codenamed Operation Yellowhammer, highlighted an abundance of possible negative outcomes that include, but are not limited to, the following:³²

1. In the event of a hard border between Northern Ireland and the Republic of Ireland, the **agri-food sector** will be severely strained due to a heavy **reliance on a cross-border supply chain**.
2. There will likely be **shortages of certain fresh food**, therefore reducing **availability** and **increasing prices**.
3. The supply of **medicines and medical supplies** are estimated to be **disrupted** for up to 6 months.
4. An **increased cost of food and fuel prices** will affect **lowest income citizens** the hardest.
5. Some businesses could be forced to **cease trade**, resulting in a **loss** of thousands of **jobs**.
6. Delivery personnel could face waiting times of over 2 days at the border.
7. An estimated 85% of trucks crossing the channel to France are unprepared for new **customs regulations** there, resulting in rejected products and longer processing times.
8. **Public disorder** and rioting are also a risk, which would require police attention and could overstretch law enforcement.
9. **Prolonged border delays** over the longer term are likely to adversely impact Gibraltar's economy.
10. An inability to **police cross-border trade** could cause an increase in **black market trade** and **smuggling** in Northern Ireland and Gibraltar.
11. Disputes around fishing practices in territorial waters could occur, spurred on by **competition for resources** and an abrupt change in regulations.
12. The **price of electricity** could increase significantly for British consumers and would likely lead to wider economic and political impacts.

³² **Operation Yellowhammer (2019): GOV.UK. Available at: <https://www.gov.uk/government/publications/government-response-to-humble-address-motion> (Accessed: September 12, 2019).**

13. Disruptions to the **supply of medicines for veterinary use** could reduce the UK's ability to prevent and control disease outbreaks, potentially resulting in detrimental impacts on animal health and welfare, the environment, general food safety and availability, and zoonotic **diseases** that can directly affect human life.
14. Law enforcement **data sharing** between the UK and EU will likely be disrupted.
15. UK nationals could **lose EU citizenship** and are expected to lose other rights over time.
16. **Healthcare and treatment plans** for UK nationals in EU countries would change depending on the EU member state.
17. Regional **traffic disruption** caused by border delays is expected to obstruct the **fuel supply**, particularly to the Southeast of London.
18. Severe weather and seasonal illnesses could exacerbate some impacts and further **strain resources**.

Ultimately, Operation Yellowhammer illustrates that there is a variety of genuine concerns facing the United Kingdom as it ceases to be a member of the European Union and reverts fully to a "third country" status.

Brexit may be the most apparent and closely watched case of anti-EU rhetoric manifested in political change, however, Brexit is only a cornerstone piece to the foundation on which many Eurosceptic political movements have based their *raison d'être*. The interconnection of crises throughout Europe and Euroscepticism has formed a cycle of instability affecting the unity of EU member states.

Section 2: The Impact of European Crises

The Three Crises in Europe

European integration and unity have been challenged by three major crises in the past decade: The eurozone crisis starting in 2009, the European migrant crisis peaking in 2015 and 2016, and the Brexit crisis unfolding since 2016. All three of these crises have corroded European unity and the belief in the European Union as a strong institution and connecting link between the 28 member states, creating a sense of 'Euroscepticism' across the continent. While the phenomenon of Euroscepticism – an antagonism towards the EU and its policies – is universal across Europe, the causes and expression of antagonism differ in the various EU member states.³³ The emergence of Euroscepticism in Greece, for instance, was strongly influenced by the eurozone crisis and the migration crisis, but less so by the Brexit crisis. Spain also suffered from the eurozone crisis, which fostered Euroscepticism to a high degree. Yet perhaps surprisingly, an academic study shows that Euroscepticism in Spain was not strongly influenced by the migrant crisis, even though the coastal state received many incoming migrants during the crisis.³⁴ Euroscepticism in France, in contrast, was brought about by all three crises. Particularly Brexit had initiated a discourse on a French exit from the EU – Frexit. In Eastern European countries like the Czech Republic, Hungary, Poland, and Slovakia, Euroscepticism stems largely from the impact of the migration crisis.³⁵

Understanding the importance of political risk in managing crises can aid governments and companies in making smart decisions. Political risk is an inherent component of the EU as a large body attempting to join the various, oftentimes colliding policy interests of its member states. Particularly far-reaching transformations such as the three major European crises are bound to bear risks associated with investment, the security of business operations, or governmental regulations

³³ Taggart, P. & Szczerbiak, A. (2018): Putting Brexit into perspective: The effect of the Eurozone and migration crises and Brexit on Euroscepticism in European states, *Journal of European Public Policy* 25:8, pp.1194-1214.

³⁴ Ibid.

³⁵ Ibid.

and compliance. The most recent crisis – Brexit – has prompted questions about the longevity of the EU, the shape of future economic relations between the UK and the EU, as well as potential future financial hubs replacing Europe’s current financial capital London.

The Eurozone Crisis

A crisis that largely impacted the entire European continent was the eurozone crisis. The euro was introduced as a single currency as early as 1999 to knit tightly together European political, geopolitical, and economic interests after the Cold War. As member states joined the eurozone, they abandoned their own currencies and monetary policies, which provide control of money supply and interest rates. Subsequently, the European Central Bank (ECB) was created to oversee and govern monetary policies within the eurozone, which comprises 19 member states at present.³⁶ While the eurozone was regulated by its monetary union, policymakers did not establish a unified fiscal policy, allowing the member states to retain their individual domestic policies on tax collection and government spending.

The interconnection of national banks in the eurozone made cross-border business more efficient, facilitating mutual lending, trade, and the establishment of companies and business relations across borders. The customs union and the single market of the EU further connected European markets. Despite these positive aspects, the eurozone leveled out differences in credit-worthiness and economic strength of its member states. When Greece joined the eurozone in 2001, for instance, it was economically weaker than other members such as Germany or France; yet Greece received the same cheap credits as the other member states, which fueled its overspending behavior. The 1992 Maastricht Treaty was adopted among members of the European Union who agreed to set a 3% limit on their state budget deficits and a debt limit of 60% of their GDP in order to prevent debt and overspending risks.³⁷ Between 1994 and 2009, Greece’s public debt reached

³⁶ **The 19 member states are Finland, Estonia, Latvia, Lithuania, Ireland, the Netherlands, Germany, Belgium, Luxemburg, Slovakia, Austria, Slovenia, Italy, Greece, Cyprus, Malta, France, Spain, and Portugal.**

³⁷ ***Treaty of Maastricht on European Union, 1992.* Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:xy0026> (Accessed: September 18, 2019).**

an average of 104% of its GDP and peaked at 148.3% in 2010, exceeding the limits established by the Maastricht Treaty even before the country joined the eurozone.³⁸ Furthermore, the Greek government admitted in 2004 that its budget deficit had never stayed below the 3% mark since 1999.³⁹ In addition to this factor, credit lending at low rates created an enormous housing bubble in Ireland and Spain. When the 2008 global financial crisis brought credit lending to a halt across the world, Europe plunged into a debt crisis as economically weaker states could not borrow any more money nor repay debts, pulling stronger economies with them.

Establishing a fiscal union and a corresponding central institution within the eurozone can be regarded as a solution to the cycle of overspending and borrowing. This would limit spending and control taxes systematically across countries of the eurozone. This solution, however, interferes with state sovereignty, as eurozone members would have to transfer their sovereign power to a centrally governing institution by adopting a eurozone-wide fiscal policy instead of individual domestic policies. Some argue that this issue is central to the corrosion of the eurozone. Yet some argue that the lack of a fiscal union is not the most important factor that led to the eurozone crisis but rather the “failure to build the capacity to handle a banking crisis.”⁴⁰ The eurozone was prone to the risk of collapse not only because of a systemic flaw but also because of its inadequate crisis management and accountability mechanisms. The EU lacked comprehensive guidelines on what risks to anticipate and how to manage them during and after a crisis. Mapping out such guidelines and applying them during a crisis, however, requires a high level of discipline and cooperation, which is no simple feat given the size and complexity of the EU and the eurozone.

The impact of the eurozone crisis on the UK was limited, since the British government refused to join the eurozone from the beginning. The UK also refused to support indebted eurozone countries

³⁸ European Parliament (2014): *Greece: Troika success story or a warning against too much austerity*. Available at: <https://www.europarl.europa.eu/news/en/headlines/eu-affairs/20140129STO34108/greece-troika-success-story-or-a-warning-against-too-much-austerity> (Accessed: September 18, 2019).

³⁹ Wearden, G. (2010): *Greece debt crisis: timeline*, *The Guardian*. Available at: <https://www.theguardian.com/business/2010/may/05/greece-debt-crisis-timeline> (Accessed: September 18, 2019).

⁴⁰ Tooze, A. (2018): Chapter 4: Eurozone, in: *Crashed: How a decade of financial crises changed the world*. London: Penguin Random House UK, pp.91-117.

with bailouts since 2010 when David Cameron became the first Conservative British PM since the 1990s.⁴¹ After PM Cameron, the Conservative Party continued to govern British politics under PM Theresa May and PM Boris Johnson, following the same policy line and further distancing the UK from the EU through Brexit. Brexit itself, however, will have little substantial impact on eurozone integration, since this matter must be managed among eurozone countries. The central hurdle in this regard is to align diverging interests of northern eurozone countries, which prefer a “national risk reduction first” policy, and southern eurozone countries, which favor a “European-wide risk sharing” approach.⁴²

The Migrant Crisis

The European migrant crisis began and reached its peak in 2015 when roughly 1.3 million refugees sought asylum in Europe. Approximately 50% of them were Syrians escaping the Syrian civil war.⁴³ The migrant crisis in 2015 and 2016 had unveiled several weaknesses in the EU’s crisis management: the disparity in political views among its member states and its strategic short-sightedness that prevented it from coping with the incoming wave of migrants adequately. The stance of European countries on managing the migrant crisis was separated into East and West. Eastern Europe and the UK pursued an isolationist policy, preventing migrants from entering their countries, whereas Western Europe and particularly Germany pursued a more lenient policy, granting refugees asylum.⁴⁴ Yet even Western and Central European countries displayed an unwillingness to take in

⁴¹ Oliver, T. et al. (2018): *The impact of the UK’s withdrawal on EU integration*, *Policy Department for Citizens’ Rights and Constitutional Affairs of the European Parliament*. Available at: [http://www.europarl.europa.eu/RegData/etudes/STUD/2018/604973/IPOL_STU\(2018\)604973_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2018/604973/IPOL_STU(2018)604973_EN.pdf) (Accessed: September 18, 2019).

⁴² Ibid.

⁴³ Miles, T. (2015): *EU gets one million migrants in 2015, smugglers seen making \$1 billion*, *Reuters*. Available at: <https://www.reuters.com/article/us-europe-migrants-idUSKBN0U50WI20151222> (Accessed: September 10, 2019); Virgili, T. (2019): *Ways forward after the migration crisis?*, in: Nirenstein, F. (ed.): *The Migration Wave into Europe: An Existential Dilemma*. Jerusalem: Jerusalem Center for Public Affairs.

⁴⁴ Virgili, T. (2019): *Ways forward after the migration crisis?*, in: Nirenstein, F. (ed.): *The Migration Wave into Europe: An Existential Dilemma*. Jerusalem: Jerusalem Center for Public Affairs.

refugees. Austria and Slovenia, for instance, threatened to close their borders with Italy, a central entry point into Europe. France, Sweden, and Denmark implemented more rigorous immigration policies.⁴⁵ As a result of this fragmentation of opinions on immigration, trust in the EU has turned into skepticism, weakening European integration.

Most migrants accessed Europe via the Mediterranean Sea, which is why the coastal states Greece, Italy, and Spain counted the highest number of incoming migrants (see figure 4). Other countries that were accessed the most in 2015 were Bulgaria, Malta, and Cyprus.⁴⁶ Migration and anti-immigration policies remain a controversial issue in Italy, even after migration into Europe has abated. At present, migrants accessing Italy over sea routes are mostly from African countries such as Eritrea, Somalia, Sudan, Nigeria, Gambia, Ivory Coast, Guinea, Mali, Senegal, and Ghana.⁴⁷ Citizens of these countries largely flee their homeland in order to escape political insecurity, repression, armed conflict, extreme poverty, or to seek economic opportunity in Europe.⁴⁸

In order to reduce the number of incoming migrants, Italy signed a Memorandum of Understanding with Libya in 2017. According to the agreement, the Libyan coast guard would prevent migrants from exiting the African continent and accessing Italy through boats over the Mediterranean Sea route.⁴⁹ Italy's former Deputy Prime Minister and Minister of the Interior, Matteo Salvini, maintained an anti-immigration, Eurosceptic position on Italy's affairs and channeled efforts into stopping migrant boats from landing in Italy. Between 2016 and July 2019, the number of

⁴⁵ Virgili, T. (2019): *Ways forward after the migration crisis?*, in: Nirenstein, F. (ed.): *The Migration Wave into Europe: An Existential Dilemma*. Jerusalem: Jerusalem Center for Public Affairs.

⁴⁶ Miles, T. (2015): *EU gets one million migrants in 2015, smugglers seen making \$1 billion*, *Reuters*. Available at: <https://www.reuters.com/article/us-europe-migrants-idUSKBN0U50WI20151222> (Accessed: September 10, 2019).

⁴⁷ United Nations Africa Renewal (2017): *Migration: Taking rickety boats to Europe*. Available at: <https://www.un.org/africarenewal/magazine/special-edition-youth-2017/migration-taking-rickety-boats-europe> (Accessed: September 10, 2019).

⁴⁸ *Ibid.*

⁴⁹ *Memorandum of Understanding between the State of Libya and the Italian Republic, 2017*. Available at: http://eumigrationlawblog.eu/wp-content/uploads/2017/10/MEMORANDUM_translation_finalversion.doc.pdf (Accessed: September 18, 2019).

refugees reaching Europe by sea has decreased tenfold from 362,000 to 34,200.⁵⁰ Yet Salvini's rigorous stance on immigration created tension between Italy and the European Commission, which appealed to Italy to give refugee boats access to land. At the same time, Salvini's position also caused tension between Italy and other EU states such as Germany and the Netherlands because German and Dutch NGOs brought refugees to Italy on their ships, frustrating Salvini and other right-wing politicians in Italy.⁵¹

After the Italian government collapsed in August 2019, the Democratic Party and the Five Star Movement formed a coalition, ousting Salvini's ruling Lega Nord party. The new government appears to aim for easing diplomatic pressure on the matter of immigration in Europe. France's President Emmanuel Macron and Italy's PM Giuseppe Conte agreed to cooperate on distributing incoming immigrants responsibly and efficiently among member states in the hope that the EU will find common ground on immigration.⁵² Development in the delicate matter of immigration could lead to a more collaborative behavior among larger EU states and strengthen European unity.

Two central international agreements regulating immigration, movement, and border control in the EU that have come into focus since the onset of the migrant crisis in 2015 are the Schengen Agreement signed in 1990 and the 2003 EU Dublin II Regulation. The Schengen Agreement lifts border controls in 26 European states. These signatory states also agree to systematically register migrants in the governmental database Schengen Information System (SIS).⁵³ According to the Dublin II Regulation, the EU state that an asylum seeker enters first must "take charge of the applicant and process the application."⁵⁴ The Dublin II Regulation put coastal states like Italy, Greece,

⁵⁰ **United Nations High Commissioner for Refugees [UNHCR] (2019): *Europe situation*. Available at: <https://www.unhcr.org/europe-emergency.html> (Accessed: September 10, 2019).**

⁵¹ **Bastaroll, S. (2019): *Salvini droht deutscher ‚Capitana‘*, *Die Presse*. Available at: <https://diepresse.com/home/ausland/welt/5651037/Salvini-droht-deutscher-Capitana> (Accessed: September 10, 2019).**

⁵² **Der Standard (2019): *Frankreich und Italien wollen Verteilungsmechanismus für Flüchtlinge*, *Der Standard*. Available at: <https://www.derstandard.at/story/2000108817637/frankreich-und-italien-wollen-verteilungsmechanismus-fuer-fluechtlinge> (Accessed: September 10, 2019).**

⁵³ **European Commission (n.d.): *Schengen Area*. Available at: https://ec.europa.eu/home-affairs/what-we-do/policies/borders-and-visas/schengen_en (Accessed: September 19, 2019).**

⁵⁴ ***Dublin II Regulation, 2003*. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3AI33153> (Accessed: September 19, 2019).**

Spain, Malta, and Cyprus, which served as entry points into Europe, under pressure. Therefore, the Dublin II Regulation prevents an equal distribution of responsibility for immigrants among EU states and creates diplomatic tension. Italy threatened to refuse responsibility for incoming immigrants by not registering them in the SIS, facilitating illegal immigration.⁵⁵ To mitigate the risk of diplomatic friction and a fragmentation of the EU, current regulations should be reviewed and efforts to collaborate should be initiated in order to balance out responsibility.

The Relevance of Crisis Management

Adequate crisis management plans and tools are vital to comprehending and coping with various types of risk factors associated with a crisis. Crises can appear in the form of natural disasters, accidents, technology emergencies, or conflicts of interest. What is important in understanding crisis management is that it focuses on reacting to threats and negative events before, during, and after they have occurred. While crisis management covers a broad field of responsibilities and tasks, risk management rather involves identifying and assessing potential threats and vulnerabilities in order to avoid negative outcomes and achieve positive gains. Assessing risks, anticipating elements of surprise, and handling short time spans for decision-making are central factors in crisis management. In order to adequately manage a crisis, the following sequential steps must be taken into account:

- **Preparation** : Identifying risk scenarios
- **Prevention** : Mapping out ways to avoid and manage these risk scenarios
- **Identification** : Determining necessary skills and available tools to manage a crisis
- **Recovery** : Implementing plans with the previously established skills and tools in order to de-escalate the crisis
- **Monitoring** : Observing developments after a crisis in order to anticipate and assess further pitfalls

⁵⁵ **Bastaroll, S. (2019): Salvini droht deutscher ‚Capitana‘, Die Presse. Available at: <https://diepresse.com/home/ausland/welt/5651037/Salvini-droht-deutscher-Capitana> (Accessed: September 10, 2019).**

These crisis management steps apply to businesses, states, organizations, and institutions alike. The different stages of crisis management are a cycle that must be reviewed repeatedly. This will allow businesses and other entities to cope with newly arising risks and events in the future.

Euroscepticism

Considering that the crisis management of the EU is relatively weak, placing focus on the above-mentioned stages of crisis management is highly important for the EU as an institution and for businesses operating within the EU. An event such as the exit of a member state from the EU was a scenario that the EU did not regard as likely enough. The UK government itself had not adequately anticipated the realization of a departure from the EU before the Brexit referendum in 2016, forgoing the vital crisis management steps preparation, prevention, and identification. Ultimately, the Brexit crisis only added pressure on the EU, which had already lost trust from member states as a result of the eurozone crisis and the migrant crisis. These three events made it difficult for the EU to create confidence among member states and gave Eurosceptic parties the opportunity to gain traction within their countries as they utilized these crises as the basis for anti-EU rhetoric and addressed the frustrations of EU citizens.

Of the three European crises, Brexit appears to have the least impact on domestic affairs in other EU countries. The UK's exit from the EU reinforced but did not significantly strengthen Euroscepticism as compared to the eurozone crisis and the migrant crisis.⁵⁶ While companies in the UK are concerned about the impact of Brexit on their businesses, companies in other EU states are more apprehensive of the economic slowdown in the eurozone. Real GDP growth averaged at only 1.6% in the EU and at 1.3% in the eurozone in 2019, demonstrating that global trade wars and isolationist economic trends also reflect back at the health of the EU's economy.⁵⁷

⁵⁶ Taggart, P. & Szczerbiak, A. (2018): **Putting Brexit into perspective: The effect of the Eurozone and migration crises and Brexit on Euroscepticism in European states**, *Journal of European Public Policy* 25:8, pp.1194-1214.

⁵⁷ International Monetary Fund [IMF] (2019): *Real GDP growth: annual percent change*. Available at: https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/EU/EURO/EUQ (Accessed: September 23, 2019).

In the second half of 2018, Germany, one of the EU's strongest economies, almost experienced a recession. Economic growth in Germany now hovers around the 0.5% mark.⁵⁸ Moreover, Germany's car manufacturing sector is diminishing – a serious concern since Germany is highly dependent on automobile exports. In Italy, economic growth has almost come to a standstill at 0.1% in 2019.⁵⁹ Since Germany and Italy account for roughly 40% of the economic output of the eurozone, these figures forecast a bleak future for the eurozone's economic development.⁶⁰ France is relatively stable at 1.3%, but political unrest such as the yellow vest movement also causes instability. By contrast, Poland and Hungary have experienced significant economic growth with 4.2% and 3.7%, respectively.⁶¹ This explains why Euroscepticism in Poland and Hungary stems largely from an anti-immigration sentiment in politics rather than from economic factors. Euroscepticism in Germany is less pronounced, but Germany's right-wing party Alternative for Germany also focuses on anti-immigration policies. Euroscepticism in Italy is based more so on an aversion for the eurozone than the EU at large.⁶²

Despite negative economic outlooks, unemployment rates in the EU have gradually fallen in recent years, reaching a record low of 6.6% at the end of 2018 (see figure 5).⁶³ At the same time, the EU recorded the highest levels of trust since 2014. The EU reported in August 2019 that “the proportion

⁵⁸ Becker, A. (2019): *Risiken für Stabilität und Wirtschaftskraft nehmen zu*, *Deutsche Welle* [DW]. Available at: <https://www.dw.com/de/risiken-f%C3%BCr-stabilit%C3%A4t-und-wirtschaftskraft-nehmen-zu/a-48766417> (Accessed: September 9, 2019).

⁵⁹ Ibid.

⁶⁰ Goodman, P. S. (2019): *For Europe, the threat of a no-deal Brexit comes at a bad time*, *The New York Times*. Available at: <https://www.nytimes.com/2019/09/02/business/brexit-europe-recession.html> (Accessed: September 9, 2019).

⁶¹ Becker, A. (2019): *Risiken für Stabilität und Wirtschaftskraft nehmen zu*, *Deutsche Welle* [DW]. Available at: <https://www.dw.com/de/risiken-f%C3%BCr-stabilit%C3%A4t-und-wirtschaftskraft-nehmen-zu/a-48766417> (Accessed: September 9, 2019).

⁶² Taggart, P. & Szczerbiak, A. (2018): *Putting Brexit into perspective: The effect of the Eurozone and migration crises and Brexit on Euroscepticism in European states*, *Journal of European Public Policy*, 25:8, pp.1194-1214.

⁶³ Eurostat (2019): *Unemployment statistics*. Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics#Youth_unemployment_trends (Accessed: September 19, 2019).

of respondents who have a positive image of the EU (45%) has increased in 23 EU Member States.”⁶⁴ While it was established that the eurozone crisis and the migrant crisis had a greater influence on Euroscepticism than Brexit, the UK’s exit from the EU will still be highly relevant to the cohesion of the EU and trust in the EU among European citizens. If the realization of Brexit will be regarded as a success, the risk of other countries leaving the EU could rise. If Brexit will be considered a failure by other EU member states, Brexit may serve as a deterrent, stopping other EU countries from attempting to leave the EU as well. The future of the EU certainly depends on how Brexit is implemented and whether other member states will view Brexit as a legitimate template for their own potential departure from the EU.

It is clear that increasing Euroscepticism and a dissolution of the EU will not only entail complex political and economic disentanglement processes but also a weakening of cross-border business and trade among European states. Trade barriers and tariffs would have to be re-negotiated and re-imposed, which would harm businesses. Furthermore, international economic agreements between the EU and non-European states would exclude states that depart the EU. This would force these departing states to seek international trading partners anew and negotiate new deals. In this case, individual countries could possess less leverage to reach an agreement on economic partnerships than the EU due to their relative size. Therefore, the EU and individual businesses must lay out crisis management plans for the long-term future of the EU as they monitor the unfolding of the UK’s departure from the EU.

Potential Alternatives: Replacing London as the EU’s Financial Hub

Despite negative economic outlooks for London after Brexit, some supporters of Brexit in the UK anticipate that the UK can turn into a ‘Singapore upon Thames’ by emulating Singapore’s economic strategy in order to retain economic strength. While lowering taxes and opening up the economy to investment and trade flows might appear attractive to the UK post-Brexit, Singapore and the UK

⁶⁴ **European Commission (2019): *Spring 2019 Standard Eurobarometer: Europeans upbeat about the state of the European Union – best results in 5 years.* Available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_19_4969 (Accessed: September 19, 2019).**

differ vastly in many aspects, which will render a 'Singapore upon Thames' strategy difficult to execute. Firstly, the UK's GDP was only half the size of Singapore's GDP in 2018, and average investment in Singapore was much higher at 29% of GDP between 2008 and 2018 than the UK's 17% of GDP.⁶⁵ Singapore also banks on favorable budget surpluses of over 5% of GDP annually since 1990 and a high savings rate of 35% to 53% of GDP since 1981.⁶⁶ Coupled with a strong regional integration with organizations such as the Association of Southeast Asian Nations (ASEAN) and a stable political landscape, Singapore's diplomatic outlook differs from the UK's current situation. Singapore's economy depends on a multinational workforce.⁶⁷ By contrast, the UK intends to stop immigration and regional integration through Brexit. The UK's departure from the EU has forced many businesses in global financial center London to consider resettling in Europe in order to escape economic and financial risks and to stay within the EU.

This situation has initiated a competition between several EU cities to follow in London's footsteps. Frankfurt, Paris, Dublin, Madrid, Amsterdam, and Luxembourg have been mentioned as viable options. Amsterdam and Luxembourg are often considered too small.⁶⁸ While Madrid has the advantage of having the strongest link to Latin American markets, tax and legal regulations make it less attractive than other competitors.⁶⁹ Dublin is considered a tax haven, but has been struggling with this image as the EU has taken technology giant Apple to court over the company's tax evasion practices in Ireland.⁷⁰ British bank Barclays is transferring assets worth \$280 billion to Dublin and

⁶⁵ Wolf, M. (2019): The Brexit delusion of creating 'Singapore upon Thames', *Financial Times*. Available at: <https://www.ft.com/content/a70274ea-2ab9-11e9-88a4-c32129756dd8> (Accessed: September 19, 2019).

⁶⁶ Lim, L. (2019): Brexiters, stop fantasizing about Singapore-on-Thames, *Bloomberg*. Available at: <https://www.bloomberg.com/opinion/articles/2019-02-13/post-brexit-u-k-can-t-turn-itself-into-singapore-on-thames> (Accessed: September 19, 2019).

⁶⁷ Wolf, M. (2019): The Brexit delusion of creating 'Singapore upon Thames', *Financial Times*. Available at: <https://www.ft.com/content/a70274ea-2ab9-11e9-88a4-c32129756dd8> (Accessed: September 19, 2019).

⁶⁸ The Economist (2019): London's reign as the world's capital of capital is at risk, *The Economist*. Available at: <https://www.economist.com/finance-and-economics/2019/06/29/londons-reign-as-the-worlds-capital-of-capital-is-at-risk> (Accessed: September 18, 2019).

⁶⁹ Ibid.

⁷⁰ Toplensky, R. (2019): Apple can't win its \$14 billion European tax battle, *Wall Street Journal*. Available at: <https://www.wsj.com/articles/apple-cant-win-its-14-billion-european-tax-battle-11568895635> (Accessed: September 19, 2019).

asset managers and funds are also applying at the Irish central bank to move to Dublin.⁷¹ In order to become a viable candidate for the next financial capital of the EU, however, Dublin will have to make greater efforts to gain the EU's trust over tax regulations.

Although none of the other European cities can compare with London, the financial hubs most likely to take over London's position as the EU's financial center are Frankfurt and Paris. The ECB is already located in Frankfurt and large banks such as Goldman Sachs, Morgan Stanley, and UBS are moving assets totaling \$280 billion from London to Frankfurt. Credit Suisse is also shifting assets from the British capital to Germany's financial hub.⁷² As finance professionals are settling in Frankfurt, the city is building more homes for new arrivals, and housing prices in and around Frankfurt are increasing.⁷³ Similarly, property prices in Paris are also skyrocketing and French banks BNP Paribas, Credit Agricole, and Societe Generale are transferring staff from London to Paris.⁷⁴ At the same time, housing prices in London are falling.⁷⁵ Frankfurt may be a favorable choice because financial deals sealed in this city are less likely to be very risky.⁷⁶ Furthermore, Frankfurt is attractive for its regulatory and political stability and predictability, and also for its high ranking as the world's

⁷¹ Akram, S. (2019): Which city is winning the race to be Europe's next finance hub? None, *OZY*. Available at: <https://www.ozy.com/fast-forward/which-city-is-winning-the-race-to-be-europes-next-finance-hub-none/91755> (Accessed: September 18, 2019).

⁷² Ibid.

⁷³ Papon, K. (2019): Auch die Speckgürtel werden teurer, *Frankfurter Allgemeine Zeitung*. Available at: <https://www.faz.net/aktuell/finanzen/immobilien-boom-auch-die-speckguertel-werden-teurer-16358369.html#atc-ImageDescription> (Accessed: September 19, 2019).

⁷⁴ Akram, S. (2019): Which city is winning the race to be Europe's next finance hub? None, *OZY*. Available at: (Accessed: September 18, 2019); Der Standard (2019): Wohnraum in Paris kostet erstmals mehr als 10.000 Euro pro Quadratmeter, *Der Standard*. Available at: <https://www.derstandard.at/story/2000108278089/wohnraum-in-paris-kostet-erstmal-mehr-als-10-000-euro> (Accessed: September 19, 2019).

⁷⁵ Elliott, L. (2019): London house prices fall at fastest rate in 10 years, *The Guardian*. Available at: <https://www.theguardian.com/money/2019/jul/17/london-house-prices-fall-at-fastest-rate-in-10-years> (Accessed: September 19, 2019).

⁷⁶ Akram, S. (2019): Which city is winning the race to be Europe's next finance hub? None, *OZY*. Available at: <https://www.ozy.com/fast-forward/which-city-is-winning-the-race-to-be-europes-next-finance-hub-none/91755> (Accessed: September 18, 2019).

15th most attractive finance hub in the Global Financial Centres Index.⁷⁷ Some view Paris as the more attractive choice in terms of trading and because of its relatively low labor costs.⁷⁸ On the Global Financial Centres Index, Paris ranked nearly as high as Frankfurt in September 2019, becoming the 17th most attractive financial city in the world.⁷⁹

In terms of politics, both France and Germany are key players within the EU, giving direction and seeking cooperation under German Chancellor Angela Merkel and French President Emmanuel Macron. Political developments in Germany after long-time Chancellor Merkel will free her position for another successor in 2021 must also be monitored in order to assess future diplomatic developments in the EU. Finally, both Paris and Frankfurt, have advantages that could render them a central financial hub for the EU in the future. Alternatively, trade and finance could potentially be distributed among several EU cities; this development could, however, lead to logistical difficulties. Tracking the relocation of assets and staff from London to other European cities after Brexit is therefore an important factor to determine which city could follow in London's footsteps.

Strategic Summary

Opportunities

- Unlike London, the EU's new economic and financial hub post-Brexit is likely to be within the eurozone, facilitating business.
- The lesson learned from Brexit, the Migrant Crisis and the Eurozone Crisis is that good crisis management is vital for mitigating risk. Brexit demonstrates the complications of a departure from the EU and serves as a warning, potentially fostering EU integration. A stable

⁷⁷ Yeandle, M. & Wardle, M. (2019): *The Global Financial Centres Index 26, September 2019*. Available at: https://www.longfinance.net/media/documents/GFCI_26_Report_v1.0.pdf

<https://www.bbc.com/news/world-44397372> (Accessed: September 18, 2019).; Ibid.

⁷⁸ Jenkins, P. & Morris, S. (2018): *Paris set to triumph as Europe's post-Brexit trading hub*, Financial Times. Available at: <https://www.ft.com/content/ba826420-c49e-11e8-8670-c5353379f7c2> (Accessed: September 18, 2019).

⁷⁹ Yeandle, M. & Wardle, M. (2019): *The Global Financial Centres Index 26, September 2019*. Available at: https://www.longfinance.net/media/documents/GFCI_26_Report_v1.0.pdf
<https://www.bbc.com/news/world-44397372> (Accessed: September 18, 2019).

EU with strong inter-governmental communication, cooperation, and crisis management mechanisms is beneficial for businesses within the EU. Achieving this, however, is inherently difficult because of the diverging opinions of politicians and parties in all member states.

Risks

- Brexit's implementation could encourage other countries to pursue their own departure from the EU, which could ultimately result in the dissolution of the EU.
- A potential dissolution of the EU would mean that companies must anticipate greater financial uncertainty and instability.
- Cross-border trade in Europe will be impeded as trade barriers and tariffs will be re-imposed and new trade agreements formed.
- Isolationist politics will put a strain on the strength of EU integration. Monitoring ruling governments and government coalitions in EU member states to anticipate the level of Euroscepticism is therefore important.

Tactical Breakdown

Operational

- Cross-border trade, especially that between Ireland and Northern Ireland, will face significant disruptions. This will result in long delays for goods transitioning in either direction.
- The EU's Europol will suffer the loss of a critical information-gathering partner. Consequentially, the UK will take a more limited role regarding intelligence sharing with Europol and will have limited access to Europol's information database on crime and terrorism.
- While a highly complex task, the EU should strengthen its crisis management strategies and take even unlikely situations into account. Relevant skills, tools, and accountability mechanisms to achieve this are key components.
- While inherently difficult due to differing policy stances, governments of EU states should seek dialogue and compromise in order to decrease the risk of an EU dissolution. As the

case of Brexit demonstrates, a departure from the EU entails serious economic, security, and social risks.

- Businesses in the EU may seek to relocate after Brexit, leaving London for other cities such as Frankfurt or Paris. Relocation is likely to demand logistical effort regarding staffing, property renting or acquisition, and smart asset movement.

Financial

- Both Britain and the remaining 27 EU countries will suffer financially due to implied tariffs.
- Hundreds of businesses are likely to relocate out of the UK as a result of Brexit, resulting in thousands of lost jobs.
- The value of the British Pound Sterling is likely to continue its downward trend until the UK is able to show stability.
- The UK will experience a further reduction in foreign investment as investors seek a more stable market.
- If states left the EU and the eurozone, they could reissue their own currencies. This option was considered by Italy, which is struggling with economic decline, and Greece following the eurozone crisis, which plunged the Greek government into heavy debt. While this scenario may appear unlikely, companies should nevertheless consider the implications of such a development in order to strengthen their risk management plans. A Europe with many different currencies would complicate cross-border business, resembling pre-EU times.
- Euroscepticism may arise in an EU member state despite positive economic outlooks. The examples of Poland and Hungary demonstrate that Euroscepticism in these countries was rooted in an anti-migration sentiment rather than an economic downturn. Poland and Hungary experienced the most significant economic growth in the EU in 2018/19 as compared to Germany, which struggles to avoid an economic recession while still assuming a more pro-immigration stance on the spectrum. Businesses must therefore avoid premature or simplistic conclusions and take a closer look at the correlation of Euroscepticism with economic and financial factors.

- Brexit and a corrosion of European unity may force businesses to relocate. A movement of operations would entail risks such as increased costs and financial uncertainty at the new location.

Compliance

- The UK will face a variety of complications regarding the regulation of commodities such as fishing, agricultural, and food products.
- The EU must work on revising existing EU-wide migration agreements. The Dublin II Regulation has earned much criticism from coastal states like Italy for its unequal distribution of the responsibility for incoming migrants. Finding an alternative solution to the Dublin II Regulation that equally balances out responsibility among all member states could lower Euroscepticism levels and decrease the risk of an EU disintegration.
- Companies operating in a disintegrated Europe would have to attain knowledge of and manage varying trade barriers and regulations.

Conclusion

A weakening Eurozone and a rapid influx of migrants into the EU spurred on Eurosceptic attitudes, ultimately becoming critical rationales behind the Brexit campaign. As Brexit appears to be quickly approaching a no-deal scenario, the UK faces many risks, including economic hardships, trade issues, security concerns, and social issues. Should the UK demonstrate a “successful” departure from the EU, it could serve as an example for other Eurosceptic movements to follow. Alternatively, the many challenges associated with the separation will most likely discourage other countries from following suit. Furthermore, the transition of the EU’s financial capital from London to an alternate location will likely result in dramatic shifts for many workers and businesses alike. Altogether, the Eurozone crisis, migration crisis, and Brexit demonstrate the fragility of the EU, as well as the need for improved crisis management and response mechanisms.

Figures

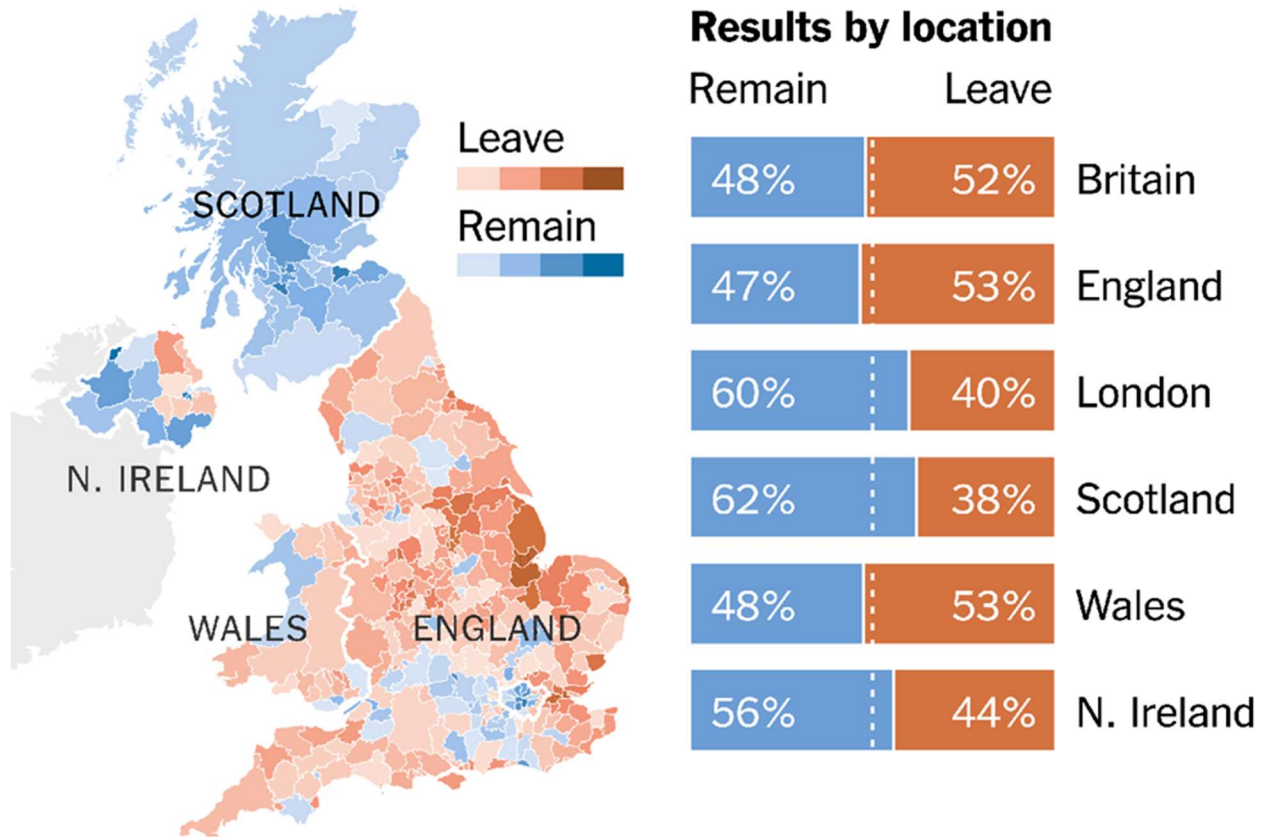
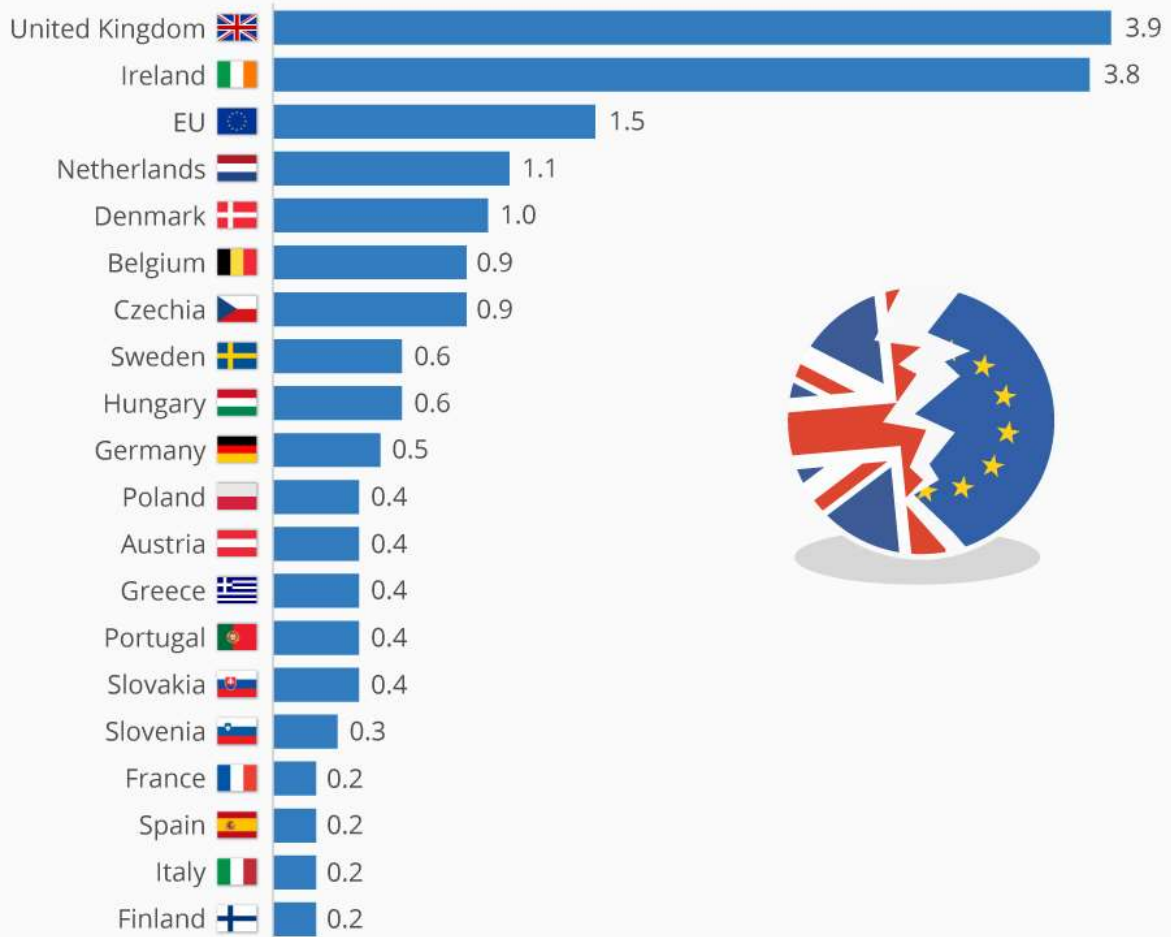


Figure 1: Results of the Brexit Referendum (Aisch, G., Pearce, A. & Russell, K. (2016): How Britain Voted in the E.U. Referendum, *The New York Times*. Available at: <https://www.nytimes.com/interactive/2016/06/24/world/europe/how-britain-voted-brexite-referendum.html> (Accessed: September 3, 2019).)

Brexit: Deal Or No Deal For The EU?

Estimated GDP loss in a "no-deal Brexit" compared to a non-Brexit scenario (in percent)

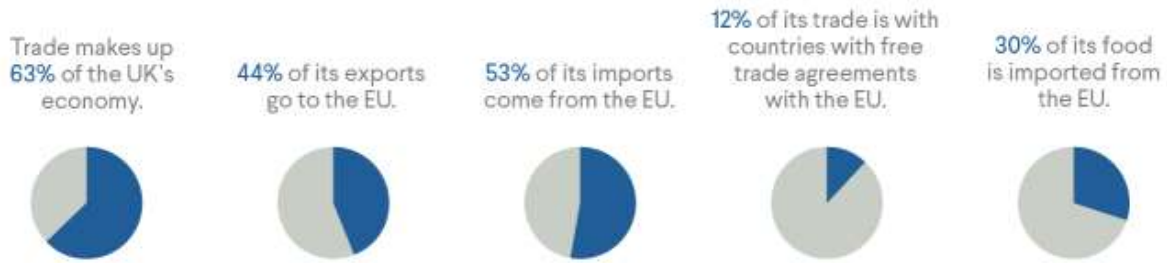


@StatistaCharts Source: IMF via The Guardian



Figure 2: Estimated GDP Loss in a No-deal Scenario [de Best, R. (2018): Brexit: Deal or No Deal for the EU?, Statista. Available at: <https://www.statista.com/chart/15050/economic-consequences-of-a-no-deal-brexit/> (Accessed: September 30, 2019).

UK Trade With the EU, 2017

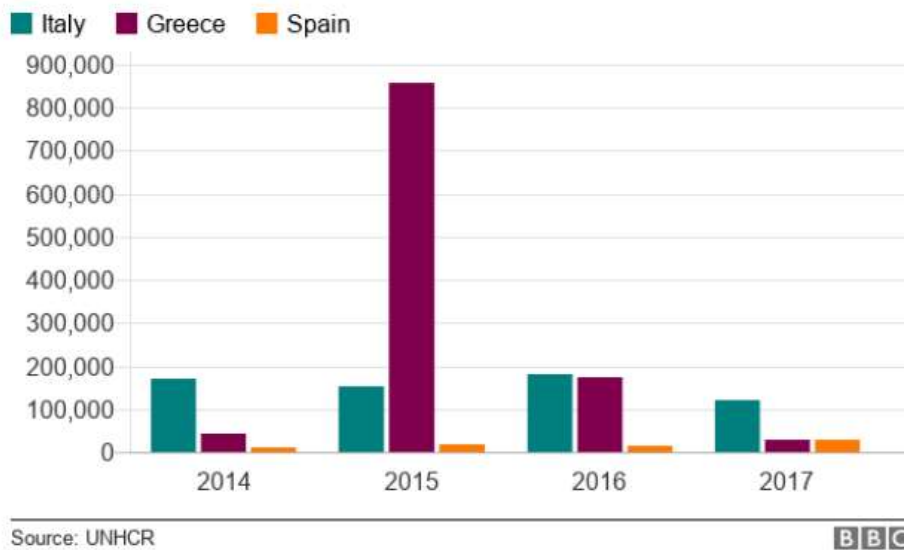


Note: Includes trade in both goods and services.

Sources: World Bank; UK Parliament; UK Department for Environment, Food & Rural Affairs.

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Figure 3: Trade Between the United Kingdom and the European Union in 2017 (Chatzky, A. (2019): What Would a No-Deal Brexit Look Like?, Council on Foreign Relations. Available at: https://www.cfr.org/in-brief/what-would-no-deal-brexit-look?sp_mid=60248094&sp_rid=ZGh1dGNoaW5zQGdsb2JhbHJpc2tpbnRlbC5jb20S1 (Accessed: September 3, 2019).)

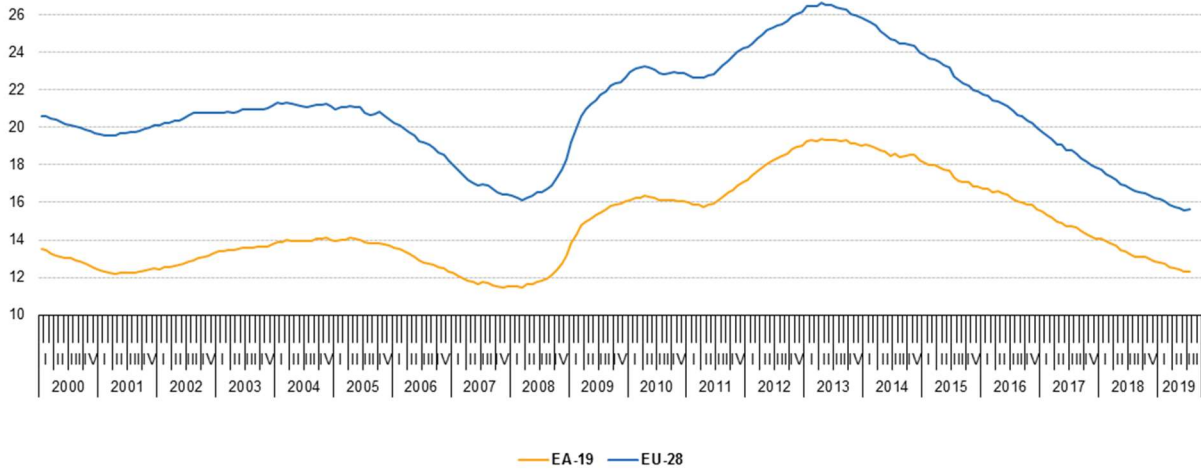


Source: UNHCR

BBC

Figure 4: Total arrivals of migrants and refugees in Italy, Greece, and Spain 2014-2017. (BBC (2018): Matteo Salvini: interior minister's claims about immigration, BBC. Available at: <https://www.bbc.com/news/world-44397372> (Accessed: September 18, 2019).]

Unemployed persons, in millions, seasonally adjusted, EU-28 and EA-19, January 2000 - July 2019



Source: Eurostat (online data code: une_rt_m)



Figure 5: Unemployment rates in the EU 2000-2018. (Eurostat (2019): *Unemployment statistics*. Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics#Youth_unemployment_trends (Accessed: September 19, 2019).)



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