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*She was close behind it when she turned the corner,
but the Rabbit was no longer to be seen*

L. Carroll, Alice in Wonderland

The Shrinking of the European Union and Its Integration Potential

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Abstract—On January 31, 2020, the United Kingdom, a country with a population of 67 mln people and the fifth largest economy in the world, left the European Union. The case when a state ceased to be an EU member is the first in the history of European integration. Except for the episode with Greenland, which left the EEC in 1985, the group had invariably expanded before that. The currently available extensive body of literature on Brexit is mainly represented by works dedicated to Britain. Fewer works are devoted to the European Union; they mainly address institutional issues, such as the ratio of supranational and intergovernmental management methods and the pros and cons of differentiated integration. This article poses the problem more broadly. Its goal is to clarify how Brexit will affect the strategic potential of integration, not its forms. The author concludes that, although the European Union suffers significant economic, political, and conceptual losses, Brexit paradoxically imparts dynamism to the integration process. There emerge preconditions for the formation of two competing democratic regimes in Europe. The new situation draws a line under the 30-year (since the fall of the Berlin Wall) period of ideological and institutional domination of the EU as the only possible model of European development. Competition with Britain can be extremely useful for the European Union to rethink its attitudes, reject dogmas, and develop a new ideology of integration that would meet not the conditions of bipolar confrontation but the challenges of mature globalization.

Keywords: European Union, Britain, Brexit, regional integration, disintegration.

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On January 31, 2020, Britain officially ceased to be a member of the European Union. Experts call this event a political earthquake, one of the worst crises in the history of integration and evidence of its serious illness [1–3].

Since the summer of 2016, when the UK referendum on EU membership yielded negative results, there has been a significant body of literature on Brexit. It gives a comprehensive idea of the motives behind the decision made, the problems of its implementation, and the country's prospects outside the union [4–12]. Less attention has been paid to how this event will affect the European Union and, most

importantly, to the possible long-term consequences for the integration process [13–19].

The exit of Britain deprived the European Union of at least three symbols that had played an important role in its self-presentation.

First, it can no longer call itself a “common home” for half a billion people or a market with 500 mln consumers. The population of the EU has decreased by 67 mln people, which leaves no chance of returning to the previous representative mark. The six countries currently awaiting admission to the European Union (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia) are small, and their combined population does not exceed 18 mln people.

Second, the identification of Europe with itself, customary for official Brussels, and, in fact, the

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Table 1. Some macroeconomic implications of Brexit

	Indicator	Unit of measurement	EU-28	Great Britain	EU-27	EU-27/EU-28
1	Population	Mln people	513.5	66.6	446.8	0.87
2	GDP	Bln euros	15 907	2423	13 484	0.85
3	GDP per capita in 2010 prices	Euros	28 630	32 960	27 980	0.98
4	R&D spending	Bln euros	336	41	295	0.88
5	Merchandise exports	Bln dollars	6468	487	5981	0.92
6	Share in world merchandise exports	%	33.2	2.5	30.7	—
7	Digitally deliverable services	Bln dollars	1449	266	1183	0.82
8	Export of ICT services	Bln dollars	307	23	284	0.93

Sources: items 1–4, Eurostat; the rest, UNCTADStat.

Data on population and per capita GDP, 2019; the rest, 2018. Data on merchandise exports include trade between EU countries.

appropriation of the right to speak on behalf of all European peoples are now losing ground. Not only do Russia, Ukraine, Belarus, Switzerland, Norway, Iceland, and other countries without which modern European culture is unimaginable remain outside the European Union, Britain, which has played a colossal role in the formation of the theory and practice of representative democracy, is joining the cohort of “outsiders.” Following the Netherlands on the path of industrialization, Britain in the last third of the 18th century became the leading industrial power in the world. Its outstanding contribution to world culture has made it impossible to exclude the country from the daily life and mentality of modern Europeans.

Third, Brexit has dealt a blow to the credibility of the European Union. The idea of an organic combination of two processes—the deepening and widening of integration—no longer corresponds to reality. The presumption of the EU’s great attractiveness for neighboring countries, which the official Brussels adopted after the collapse of the socialist system, is losing its credibility. Since there emerged an antipode to the desire of individual countries to join the European Union, it can no longer confirm its historical correctness and the feasibility of its current policies.

THE ECONOMIC DIMENSION OF BREXIT

Contrary to popular belief, the largest event in the history of European integration was the Western replenishment of 1973, when Britain, Ireland, and Denmark joined the six EEC countries, and not the Eastern enlargement of 2004–2007, when ten states of Central and Eastern Europe, Cyprus, and Malta joined the European Union. In the former case, the population of the group increased by 31%, and the GDP, by 27%. In the latter case, the population

increased by 27%, and the GDP, by only 6% because the former socialist countries had a relatively low standard of living.¹

After the exit of Britain, the population of the European Union decreased by 13%. The incurred demographic damage is tantamount to the withdrawal from the union of all states of the Eastern enlargement of 2004–2013, except for Poland.² The total GDP of the European Union is reduced by €2.5 trillion, or 15%. Since Britain is a relatively wealthy country, the EU’s average per capita GDP dropped after Brexit by €650 (Table 1).

Britain is famous for its liberal economic model. In terms of the share of GDP redistributed through government budgets of all levels, it is on the same level with Poland and the Czech Republic but behind France and most Western European countries (Fig. 1). It is expected that its exit will make it easier for the European Union to say farewell to market fundamentalism and to find a new balance between the public good and individual freedom, corresponding to the conditions of the global digital economy. Several factors will contribute to strengthening the functions of the state: a decrease in the effectiveness of monetary policy and an increase in the role of fiscal, structural, and prudential policies [20]. In March 2020, in the context of the coronavirus pandemic, the European Commission for the first time in 30 years expanded the ability of member states to support businesses, including through partial nationalization. Simultaneously, the Stability and Growth Pact was suspended to

¹ Calculated according to the UNCTADStat electronic database.

² Twelve countries in total: Bulgaria, Croatia, Cyprus, Czechia, Estonia, Hungary, Latvia, Lithuania, Malta, Romania, Slovakia, and Slovenia.

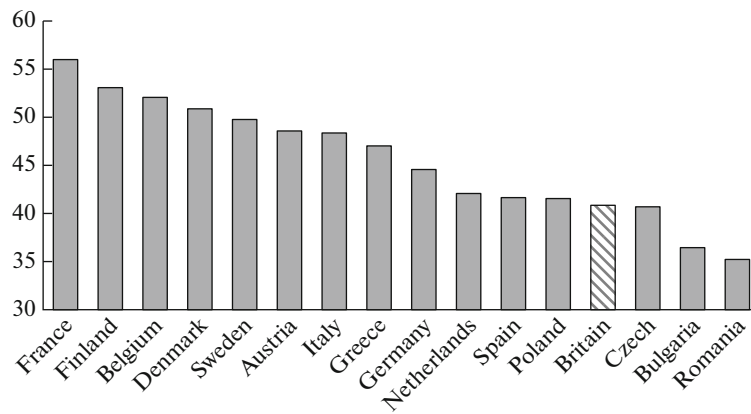


Fig. 1. Ratio of total government spending to GDP in 2018, %.

enable governments to inject additional money into the economy [21].

Brexit has moderately affected the position of the European Union in world trade. Its share in world merchandise exports has decreased by 2.5 percentage points. The cost of information and telecommunication services that EU countries provide to foreign partners has decreased by about 7%. A noticeable decline is observed in international trade in digitally-deliverable services. In 2018, their total market was estimated at \$2.9 trillion, of which \$1.4 trillion fell on the EU-28 countries. The largest contribution (\$266 bln) belonged to Britain. Quite far behind, it was followed by Germany, Ireland, the Netherlands, and France, their indicators being \$150–190 bln. After Brexit, the EU's share in this global market fell from 49 to 40% (Table 1).

Britain has always played an important role in international capital markets, being a major net exporter of foreign direct investment (FDI) until 2008. At the end of 2018, it accounted for 5.9% of the world stock of inward and 5.5% of outward FDI. The same figures for the EU-28 were 31.3% and 37.1%, respectively.³ In other words, as a result of Brexit, the European Union loses about a fifth of its previous segment in the global foreign direct investment. The total assets of British banks were estimated at the end of September 2019 at \$7.4 trillion, which was almost 9% of the corresponding world value, \$86.5 trillion. At the same time, the bank assets of France were estimated at \$8.2 trillion and those of Germany, at \$8.1 trillion.⁴ In other words, Britain's indicator was very impressive but not a record for the European Union. However, Britain clearly overtook its partners in the global derivatives market. Thus, in December 2019, exchange-traded interest-bearing futures and options worth over

\$9 trillion were nominated in pounds sterling—9% of the global volume. The share of the euro in the respective markets did not exceed 15%, while 70% of such transactions were concluded in US dollars.⁵

A highly developed banking and financial infrastructure made the City a convenient hub for operators from EU countries and partly reduced their interest in creating such services on their own territory. Here is a case in point: in December 2019, almost 90% of all over-the-counter (OTC) derivatives positions taken by euro area institutions were cleared at UK global clearing houses. In 2012–2018, almost half of all debt and equity issuance for euro area nonfinancial corporations was carried out by global banks based in London. The exit of Britain from the European Union increases, according to the European Central Bank, the risk of financial fragmentation of the eurozone and creates the basis for a dangerous “race to the bottom” in the regulation of banking activities and capital markets [22].

In 2019, the pound sterling accounted for 13% of the global foreign exchange market turnover, while the euro accounted for 32% and the US dollar, for 88%⁶ (the sum of the percentage shares of individual currencies always totals 200% because two currencies are involved in each foreign exchange transaction). Since Britain was not part of the eurozone, this fact can hardly be viewed as a loss from Brexit. The faint hope that it will adopt the euro faded after the global economic crisis, when the European Union embarked on the coherent reform of the EMU architecture, disregarding the interests of the City [23].

Much less known and potentially risky is another fact: London has traditionally been the world's main platform for currency trading. The size of this market

³ Calculated according to the UNCTADStat electronic database.

⁴ Data of the Bank for International Settlements in Basel. Summary of consolidated statistics, by nationality of reporting bank. Stocks at end of September 2019.

⁵ Data of the Bank for International Settlements in Basel. Exchange-traded futures and options, by currency Notional principal.

⁶ Data of the Bank for International Settlements in Basel <https://stats.bis.org/statx/srs/table/d11.3>.

is truly enormous. In April 2019, the *daily* turnover of the global foreign exchange markets reached \$8.3 trillion, which is equivalent to almost 10% of the world's *annual* GDP. Note that Britain alone made transactions worth \$3.6 trillion, which amounted to 43% (!) of world turnover. The corresponding share of the United States was almost three times less, 16%. The positions of the leading states of the EU-27 were incomparable with the role of the City. France accounted for 2.0% of the global foreign exchange turnover; Germany, for 1.5%; the Netherlands, for 0.8%; Spain, for 0.5%; and Italy, for 0.2%.⁷ Thus, after Brexit, the EU states, including the eurozone, become dependent on the norms and practices of regulating foreign exchange transactions in a country that is no longer governed by EU law.

POLITICAL AND CONCEPTUAL LOSSES

To understand what the European Union loses in terms of integration capacities and its credibility, it is useful to turn to the documents of the time when Britain joined the Community. It was clear already at the negotiation stage that its accession would not be a simple act of geographical expansion. The Six acquired valuable political assets and significantly increased its weight in international affairs. This is vividly evidenced by the materials of the first meeting of the EEC heads of state and government, organized at the initiative of the leaders of France and Germany—G. Pompidou and W. Brandt. Since the Community members had completed the plan on the creation of a customs union in 1968, it was time to define further strategic directions for integration. The next step was the question of forming their own resources and a monetary union.

The summit began in the Hague on December 1, 1969. On the second day, representatives of the EEC Commission were invited to the meeting rooms. The final communiqué of the summit reported that “The European Communities remain the original nucleus from which European unity sprang and developed.” The entry of new countries “will undoubtedly help the Communities to grow to dimensions, still more in conformity with the present state of economy and technology” [24]. The Commission called the forthcoming enlargement “an essential factor in the creation of Europe,” called for an early start of negotiations with the candidate countries, and reaffirmed its position on the simultaneous strengthening and enlargement of the Community [25].

The first enlargement was seen by the EEC leaders as a chance to change the balance of power in the context of a bipolar confrontation, when the agenda was determined by two superpowers—the United States and the Soviet Union. Now, according to Pompidou,

Western Europe had a chance to “recover its means of influence” and “to make its voice heard in all areas of world politics” [26]. Brandt expressed himself very clearly, “The community must grow beyond the Six if it wants to hold its own, economically and technologically, against the superpowers and meet its worldwide responsibilities.” And further: “In any event ... without Britain and the other countries which have applied for membership, Europe cannot become what it should and can be” [27].

It was from the Hague summit that the EEC countries began to call themselves *Europe*. Prior to that, official documents used the names *EEC*, *Communities*, and *the Six*. Europe (by it, Western, i.e., “democratic” Europe was meant, as opposed to “nondemocratic” Eastern Europe) was never equated with the EEC. Semantic expansion became possible thanks to the accession of large and highly developed Britain, which at the same time left the rival group it had created—the European Free Trade Association.

The membership of Britain, a traditional and close partner of the United States, gave the Community additional political weight. Recall that Britain, Ireland, and Denmark joined the European Union on January 1, 1973, and on April 24, US Secretary of State H. Kissinger called on the partners to conclude a “new Atlantic Charter.” Presumably, the United States was to perform the functions of the political leader of the entire West, while Western Europe was to play a secondary, subordinate role. Official Brussels flared up. The Commission unequivocally condemned Washington’s messianic claims. The Nine defended the right to a foreign policy identity, which would have been extremely difficult or impossible to do without the support of London.

According to the official position, upon leaving the European Union, Britain intends to play the role of a global power, although, according to experts, it will find itself among “middle powers” [9]. Anyway, the European Union will no longer be able to use the British resource in its foreign policy. Britain is no longer subject to the principles of its common foreign and security policy. Obviously, Britain will pursue its own goals in relation to the regions with which it is linked by historical ties and strategic interests, such as China, India, and the Middle East.

Progress is likely in the EU’s framework dialogue with the African, Caribbean, and Pacific (ACP) Group of States. Some of these were formerly Britain’s dependent territories, including Botswana, Gambia, Ghana, Guyana, Kenya, Lesotho, Malawi, Nigeria, and Sudan with a total population of 350 mln. All of them joined the system of preferential agreements with the EEC after Britain had joined the Community. The Cotonou Agreement currently in force between the parties expires in December 2020. Whether the EU-27 will be willing to continue aiding “someone else’s”

⁷ Data of the Bank for International Settlements in Basel <https://stats.bis.org/statx/srs/table/d11.2>.

poorest states, where they will face the interests of Britain and its companies, is highly questionable.

Brexit makes it even more difficult to discern European identity and the mental boundaries of Europe. The exceptional contribution of Britain to world culture and above all to literature is obvious to an ordinary person. Many characters created by Shakespeare and his compatriots from Jonathan Swift to Bernard Shaw have become firmly established not only in the European mentality but also in everyday speech and have become an integral part of political discourse. Now, any mention of Hamlet or Sherlock, the habitual allusions to *Robinson Crusoe*, *Gulliver*, *Alice in Wonderland*, or *Pygmalion* will become politically sensitive. The EU speakers will have an unpleasant alternative: either to carefully cut out all *Oliver Twists* and *White Rabbits* from their speeches (as some divorced spouses remove photos of their “exes” from the family album) or to pretend that nothing happened, that Scrooge and Mowgli remain old citizens of the European Union. In both cases, any educated European will feel the difference between the European cultural space, which shrank in January 2020, and the EU’s claim to be the steward of entire European megaculture.

A nontrivial situation arises around the English language. As is known, the initial official documents of the EEC were drawn up in French. The entry of Britain and Ireland in 1973 had little effect on the situation. It took the English language several decades to penetrate the speech practices of European officials. For example, until the end of 1987, the minutes of meetings of the Committee of Governors of the Central Banks of the EEC countries were published in French and German. Only the agendas of the meetings were translated into English. English became the lingua franca of European integration in the 1990s, under the pressure of globalization and EU enlargement.

After Brexit, the union is left with two countries where English is the official language—Ireland and Malta, with a total population of 5 mln people. Among the adult population of the European Union, English is the most common foreign language: 38% of citizens speak it. French and German as foreign languages are spoken by 11–12% of adults each. At the same time, almost half (46%) of the EU institutions do not speak any other language except their native one [28]. The EU institutions will have to continue to use English as the language of international communication, while it is not native to 99% of the citizens. The best solution would be to translate the materials into all 24 official languages, including such rare ones as Estonian or Croatian. However, this will require colossal efforts and resources, which is beyond reason. Another option—using French and German as partial substitutes for English—would lead the European Union to the Tower of Babel situation.

The exit of Britain suppresses the once unambiguous trend of the geographic expansion of European

integration. After the emotionally charged Eastern enlargement of the European Union, contemporaries observe its western contraction. While the negative outcome of the British referendum gave rise to talk about the collapse of “the ideology of constant and steady development of integration” [1], Brexit removed the taboo from considering European integration through the prism of standard laws of logic. The earlier thesis about the cyclical, uneven course of the integration process, when “tides” are replaced by “ebb tides” [29], has been confirmed in practice. Previously, such a cycle was viewed as an alternation of periods of growth and stagnation, while now the lowest point is understood not as slowdown but as regress. It is not by chance that experts have started talking about a hypothetical deconstruction of the European Union, and the word *disintegration* has returned to the political lexicon.

THE POTENTIAL OF INTEGRATION

The successful implementation of the Economic and Monetary Union and the expansion of the EU to most of Europe gave the impression in the mid-2000s that the integration program was close to being fulfilled. According to the well-known scheme of B. Balassa, after the creation of a common market and a monetary union, only one step remains to achieve a political union. The dream of the United States of Europe built on the principles of democracy and market economy has almost come true. Contrary to entrenched ideological attitudes, the monetary union did not become a “carrier rocket” of a political union [30]. At the moment when the European Union seemed to have achieved everything and could celebrate a historic victory over the defeated planned economy, the big goal slipped out of sight—almost like the White Rabbit that Alice was chasing in the famous novel by Lewis Carroll.

The failure of the Constitutional Treaty in 2005 caused a deep political and ideological crisis in the European Union. For many years, official Brussels could not admit the loss of a strategic goal. In 2010, it tried to revive the failed Lisbon Strategy by proposing the Europe 2020 strategy instead. The new name hid the same fruitless idea, to build a conglomerate attractive to society out of disparate integration elements, without providing it with an ideological core. Strange as it may seem, public thought was not stirred even by the grave crisis of the eurozone, which put it on the brink of collapse. One got the impression that no one was interested in the future fate of the European Union, and society was waiting for a decision to come from somewhere else [31].

Some progress was seen after the May 2014 elections to the European Parliament, when President of the European Council H. Van Rompuy invited the leaders of the EU countries “for an exchange of views on the strategic agenda for the Union in times of

change” [32]. The debate widened as the migration crisis escalated and the British referendum approached. On June 3, 2015, the economics ministers of France and Germany announced the need to strengthen the eurozone through a major reform of the European Union [33]. The foreign ministers of Britain and Italy publicly called for deep reform of the European Union and simplification of its procedures on December 14, 2015.

The final awakening came on June 24, 2016, at 7 a.m. London time, when it became clear that the Brexit supporters were victorious. A few days later, the heads of state and government, who gathered for an informal meeting on June 27–29 in Brussels, announced their decision to begin a broad exchange of views on the ways of integration. In January 2017, the President of the European Council, D. Tusk, sent a letter to the leaders of member states, in which he called the then state of mind one of the three main threats to the European Union [34]. Soon a *White Paper on the Future of Europe* was published [35]. The new European Commission, led by U. von der Leyen, presented to the public an updated set of EU strategic priorities, including digitalization and the Green Deal [36].

Thus, the first merit of Brexit is the awakening of the European elites from a state of ideological conformism and inaction.

There are other aspects as well. The exit of Britain reduces the effectiveness of the conditionality principle widely applied by the EU institutions. It was adopted in the early 1990s, when the Maastricht and then Copenhagen criteria appeared (respectively, for countries wishing to join the monetary union and the European Union). The political deal was based on the implicit idea that getting into a closed club was a great success. Since everyone wants to join it, the “entrance ticket” must be deserved.

After a large, wealthy country has voluntarily retired from the club, membership in it is no longer a self-evident reward. The precedent turns the perception of codependencies existing within the union upside down. It becomes unclear who needs who more: the EU needs a country, or a country needs the EU. As a result, the European Union, represented by its institutions, is losing its monopoly on truth. Its rules can no longer be considered the only correct ones, and accordingly, the ability to act as a normative power is reduced.

Similar loss would have occurred as a result of the exit of any country. However, the UK exit case is special. Now outside the European Union is a country that was among the first to blaze the trail towards democracy and market freedoms. England in the 18th century, as L. Siedentop writes, had much more experience in self-government than any other state of the time. Its traditions of parliamentarism and a decen-

tralized state, with entrenched of citizens and a system of judicial review, formed the basis of the political culture of other nations [37].

Germany, which is willy-nilly becoming the political and economic leader of the European Union, has neither moral nor historical grounds for setting standards of “correct behavior.” Before Britain’s joining the EEC, this problem did not exist, since the activities of the Community were concentrated around economic issues and did not go beyond the customs union. When, after the collapse of the bipolar system, Brussels put forward the concept of European values in its own interpretation, they were perceived as such insofar as all the leading states of the Old World were EU members.

This coverage no longer exists. There will inevitably be gaps between the views of the European Union and Britain on how, for example, independent courts should operate, or the rights of minorities should be protected. The idea of some common EU norm will be blurred. The current common truths may well fall under the fire of criticism. For example, it has not yet been proven empirically that compliance with the Maastricht criteria contributes to economic growth and ensures long-term price stability.

Of course, Brussels will not easily abandon the use of regulatory power. In the recently published strategy for the digital future, the European Union sets the task to embed its rules in agreements with third countries and in the practice of international organizations, to actively influence the developed global standards of advanced technologies [38]. Now it will be more difficult for the European Union to set its own rules of the game because Britain is on the same platform with it. As was already shown, it has obvious interests in global trade in digital services. Brussels will not only have to postulate its values and norms but also substantiate them.

The second and most important consequence of Brexit is the erosion of the monopoly on truth that the European Union had appropriated for itself after the fall of the Berlin Wall.

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Britain’s exit from the European Union significantly reduces the latter’s economic and political potential. Brexit makes it even more difficult to determine the mental boundaries of Europe and the identity of Europeans. According to all the laws of logic, the European Union is losing the right to identify itself with Europe and speak on behalf of the entire Old World, although it is unlikely to give up this practice.

The European Union suffers significant reputational losses not only because a large country with advanced economy, strong democratic traditions, and rich history and culture has left the group. The idea of European integration as a continuous progressive pro-

cess, which organically combines deepening and widening, has been disrupted. The question is arising about the benefits of integration for each individual country, the ratio of the resultant benefits and costs.

At the same time, Brexit creates conditions for the EU institutions and the political elites of the member states to start searching for a new agenda to replace the one that was implemented and therefore exhausted after the EU enlargement to the east. The negative outcome of the British referendum has sharply increased the relevance and practical significance of public discussion about the future of European integration.

With the exit of Britain, the European Union loses its monopoly on truth. Two competing regimes are emerging in Europe, neither of which can any longer be perceived as marginal or outdated on the grounds that it is insufficiently democratic or does not conform to the principles of the free market. It is rivalry, mutual views across the English Channel that can return today's Europe to its natural state of competition between political systems, which it lost after the disintegration of the Soviet Union. This competition can become a rich source of new ideas, meanings, and practices in our difficult time, when the socioeconomic structure of the European Union, like most countries in the world, needs a radical restructuring. Conditions are emerging for the European Union to transform its current value-based approach into a more pragmatic one, focused on solving specific problems.

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