Exodus from Brexit and Wall of the EU:
British compass, financial crisis and future

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Introduction
The problems caused by Brexit are too large from the viewpoint of Globalization and financial crisis to deal with a comprehensive manner at once. Because, despite the fact that about half a century has passed since the UK delegated a part of state sovereignty to a super-national institution “the EU” and since the UK opened national economy to the supra-national economy “a single market of the EU”, Brexit is an attempt to cut off the connection between the UK and the EU, aiming at returning to an complete sovereign nation state and a single national economy. Nobody has right solutions about Brexit issues. Nobody has done cut off and return sovereign and economy according law and economic principles.

In this paper, I would like to consider solutions of Brexit at the moment against potential issues. After breaking up with the EU economy, where does the global banks in the City of London? Despite the financial crisis being predicted, why did any financial crisis not occur in markets of City at the moment of Brexit day? Why did British people choose to leave the EU? Could the UK have an effective influence on the EU financial policy after Brexit? Does City have a future as a world financial center? What are the Lisbon treaty problems of Brexit and the economic difficulties that are predicted? I would like to try to consider these issues and solutions of Brexit chapter by chapter.

1. Where do Global Banks Move toward?
Introduction
Brexit urged the global banks, for example J.P. Morgan, the US; Deutsche bank, Germany; HSBC, the UK and so on to change their global strategies between the UK and the EU as same as the UK's banks. The global banks have based on City of London, as the gate into a single market of the EU membership countries until British EU referendum result’s “Leave”. Brexit would take big effect on the global banks just like British banks. The global banks have done investment banking services, clearing and settling trades involving EU securities trading.

Because Britain is no longer part of a single market of the EU membership countries, City of London could not keep a queen of world financial centers in the near future, though City of London has been the center of world financial centers for three hundred years. In other words, the UK’s banks and foreign banks used the gateway into the EU membership countries about a half of century after the UK entered the EC in 1973. If Brexit does complete separation of banking and financial services between the UK and the EU, the UK’s banks and foreign banks could not operate investment banking services relating to the EU transactions City of London. If it proceeds Brexit, the UK’s banks and foreign banks would have to move into the other cities of the EU membership countries. So City of London might fall the status of a
queen of world financial centers.

(1) Are Banks Moving into the EU Membership Countries?

London’s Advantage
City of London still takes advantage of the other EU financial centers which are Paris, Frankfurt, Brussels, Luxembourg and Dublin. Because actually it spends large costs to move investment banking operations and financial executives from City of London to other cities of EU financial centers. Figure 1 indicates that City of London has been the gate of a single market of banking and financial industry of the EU. Secondly, it is large complexed to transferring investment banking operations in City of London to other cities in the EU. Thirdly, investment banking operations have been rooted at City of London for three hundred years from the time of Napoleonic Wars¹. Fourthly, investment banking operations have been refined under British legal system, that is common law and case law, not Roman law in Continental Europe.

Fifthly, Britain uses its language “English” as official financial business language in the UK, the EU and the global. Finally, City of London has more intangible attractive, housing, school for children and delightful culture than any other big cities in the UK.

Exodus
Even if so, the US large banks’ executives already are preparing to going to other cities of the EU membership countries (Figure 2). Because firstly the exodus is the usual measures of the US banking emergency manual when what the US large banks could not think of happens, like the big earthquake, the precedent huge waves, a nuclear power plant accident and a conflict between countries. Brexit is equivalent to these disasters in view point of the US large banks. The another reason is why the US large banks will have to deal with rules and licenses. The EU financial authority and regulator request the US large banks to do business inside the EU after the UK separates from the EU. The UK large banks would be the same situation as the US large banks.

Figure 1  The Gate of a Single Market of Banking and Financial Industry

![Figure 1](image)

Drawn by myself (based map on Wikipedia Commons in English).

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¹ These days, the famous story is that Battle of Waterloo in 1815 brings huge profits to Rothschild Co. When the market in the City of London is at opening to lunch time, Rothschild Co. is increasing to buy British sovereign bonds at cheap price secretly. Because all participants in City predicted that British and allied army would loose against Napoleon army. But after Lunch time, probably from 15:00 pm. to 16:00 pm. British and allied army got the victory against Napoleon army. Rothschild get the victory news as soon as possible in near the battlefield. Until all participants knew the British victory news, Rothschild Co. was continuing to buy British sovereign bonds at cheap price. And tomorrow morning during all participants rushed to buy British sovereign bonds at higher price. As responding the bull market in City of London, Rothschild Co. was selling them out as far as possible. So Rothschild Co. got huge profit. The profit is said to be the base on the prominent of Rothschild until now.
(2) What Options the Global Banks Select

Option 1: Joining the EFTA

The UK can choose options in order to keep the US banks in City of London. The first option is, suggested by Figure 3, that the UK will return the European Free Trade Association; EFTA\(^2\) from which had departed in 1973 when the UK joined the EU. If the UK joins the EFTA again and the UK ratifies the European Economic Area; EEA\(^3\), the UK can guarantee to access to a single market of the EU.

The Figure 3 indicates that the UK as a membership country of the EFTA can freely move people, goods, services and capital within scheme of the Europe Economic Area which consists of the EU and the EFTA. If the UK accepts the scheme of EFTA and EEA, the US large banks and the UK large banks would not run away from the City of London. Because the US large banks and the UK large banks in City of London continues to access to a single market. In the case of Option 1, there would be nothing go change as before.

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\(^2\) The membership countries of the EFTA are Iceland, Norway, Switzerland, Liechtenstein.

\(^3\) European economic area was established on 1 January 1994 by the EEA Agreement. The EEA is the area which the EEA guarantees membership countries for the free movement of persons, goods, and capital within the single market of the EU. The membership of the EEA are open to the both the member states of the EU and the EATA (Switzerland only denied to ratify the membership of the EEA).
Two Demerits

Joining the EFTA, however, has two demerits. The one demerit is that the UK will accept all EU’s rules on which the UK could no longer influence after the UK leaves the EU. That would take a disadvantage against the UK’s banking and financial industries. The another demerit is that the UK must accept the free movement of people guaranteed by the EU and the EEA. But the UK never accepts the free movement of people. Because the main reason of the UK’s leaving the EU during EU referendum is no more immigration. During the campaign of the UK EU referendum, the “Leave” advocates to repeal immigration from the EU, especially Poland, Romania and so on.

Option 2: Lonely Position in Europe

The second option, indicated by Figure 5, is that the UK will be lonely position like Switzerland. Switzerland has been a membership of the EFTA, not a membership of the EU. Switzerland also did not ratify the EEA Agreement. Switzerland can not accesses the single market of the EU. Switzerland has maintained lonely position in the field of European economy. Switzerland has to negotiate with the EU to access the single market by each sector. But until now, Switzerland has never accessed to a single market of banking and financial sector.

The option 2 is wrong for the UK. Because the process to get lonely position like Switzerland is astonishingly complicated and there is less profit to be compared to complicated procedure. In other words the first step is that the UK would join the EFTA. The second step is that the UK Parliament would have to ratify the EEA Agreement. Perhaps the UK referendum would be needed to join the EEA. The third step is that the UK Parliament or British people would have to deny ratifying the EEA Agreement. The UK finally would get lonely position.

On the lonely position, the UK has free trade with only the EFTA membership countries which consist of Norway, Iceland, Switzerland and Liechtenstein where the UK does not border. There is less merit of free trade with these EFTA membership countries. Therefore I think that the UK will not be likely to make a choice of the option 2 as same as Switzerland.
Option 3: Canadian Approach

The option 3, indicated by Figure 6, is that the UK will approach to the EU like Canada which is in the North America. Canada is negotiating to access the banking and financial sector of a single market with the EU by by-lateral negotiations. The UK will challenge to access a single market in the same way as Canada. Of course, this approach could be feasible under the International law. Perhaps, the by-lateral negotiations between independent countries might make the UK break through the barrier.

But I think that the UK could not choose the option 3 of the Canadian approach. Because the option 3 of the Canadian approach does not make sense to leave the EU in the first place. Secondly, it is a real that even Canada has excluded banking and financial services on the table with the EU. Much more the EU cannot get the seat of the table on the UK’s free access to a single market of banking and financial sector.
Option 4: WTO

The option 4 is that the UK might rely on WTO (World Trade Organization) in order to lower barrier of the EU. Figure 7 indicates that as the UK is one of membership countries of WTO, the UK will try to negotiate with the UK on Banking ans Financial industry (Figure 7).

Unfortunately WTO, however, must be no effect on the UK’s banking and financial industry. Because WTO is mainly organized to smooth international trades, not banking and financial service industry. The UK never chooses Option4 because the US banks and the UK banks in City of London could not access a single marker as before.

Option 5: Branch or Small Regional Headquarter

The best way to get a right of access to a single market after Brexit is that the UK’s banks and the US large banks would open the branch or small regional headquarter in the cities in the EU membership countries. For example, the places are Paris, Frankfurt, Brussels, Luxembourg and Dublin.

The UK’s large banks and the US banks in City of London open the branch or the small regional headquarter of the UK’s banks and the US in the EU membership countries, they could free to do operations under the EU regulation. If so, the branch and headquarter of City of London outside the EU could connect with the branch or the small regional headquarter within the UK, though they would separate their operations in City of London from the EU membership countries. This is an option 5 (Figure 8).

I think that the option 5 is the best way. Because the foreign negotiations between the UK and the EU will not need in order for the UK’s banks and the US. Because the UK’s banks and the US large banks which open the branch and the samll regional headquarter in the EU membership countries operate as like before. The second reason is that the EU’s banking and financial authorities do not need change a lot of regulatory and rules on banking and financial industry. Thirdly those methods are easy and less cost than other options.

(3) Could the Banks Use the Scheme of a Holding Company?

Must Do Business

The branches or the small regional headquaters which belong to the UK’s banks and the US large banks actually need to operate business in the EU membership countries. In other words, they have to do local financial services and have to employ many staffs to be rooted in the local city of the EU. The branch or the small regional headquarter must not be a dummy in order to get a license to access a single market. Not to mention, the EU financial authority never approved the license if only to escape from banking regulation of the EU.

In the case of opening the branches and the small regional headquarter, there are three ways. The first way is that only the back office, call center, and paper company of the UK’s bank and the US small headquarter moves into city of the EU separating from
the headquarter in City of London. That is outsourcing of indirect sector of banking and financial industry. The second way is that they do business in rooted in the large local city or small region within the EU. That would mainly contribute to the European economy. The third way is that they would not be only established as the gate of City of London but also as the connection between the EU and the global markets.

I think that the EU’s banking and financial authority would never approve the outsourcing of indirect sector of banking and financial industry. Because the outsourcing may be loophole of Brexit. The EU’s banking and financial authority would not accept the third way. Because only the gate of City would not bring merits to the European economy. The EU’s banking and financial authority would approve the second way. For the UK’s banks and the US large banks directly contribute to European economy by way of branches and small regional headquarters of them in Frankfurt, Paris, Brussels and Dublin, even if the gate of City of London survives.
Satisfying Basel III

The branches or the small regional headquarters also must satisfy the banking regulation, "Basel III"4 which requires the banking entity enough its own capital against its risk asset. And they also must satisfy local banking regulations and rules country by country even if the banking and financial committee of the EU Council regulates a single market. Probably Dublin, Luxembourg and Malta would be more favorable with local rules and regulations. On the other hand, the traditional financial cities which are Paris, Frankfurt and Brussels would be more severe with local rules and regulations.

I think that the UK’s banks and the US banks decide where their branch or the regional headquarter moves into city in a single market by considering costs of Basel III and local regulations.

Re-Examination to Get a License

The UK’s banks which have acquired the license as the UK were the EU membership country from 1973 to 2016 would not guarantee their operations in a single market of the EU as before. Because nobody could predict that the UK will leave the EU membership country when the EU financial authority gave the UK’s bank a license.

The license is not originally designed to treat with the separation of the EU. Returning to the beginning, I think that the EU financial authority would require the UK’s banks which have had license to examine getting new license with the new standard once again after Brexit. If the UK’s bank wants to operate within a single market as usual, the UK’s banks also would have to accept re-examination by the EU financial authority.

(4) Do Banking Staffs and Employees Have to Move into the EU?

Dividing front Office into Back Office

Probably a few front staffs of the UK’s banks and the US large banks in part have to move into the cities of the EU in order to get a license of free financial operations within a single market. This front stuffs include senior managers, bankers and traders. They would have to stay the same cities where banking branch or the small regional headquarter will be opened in the EU, Paris, Frankfurt, Brussels, Dublin and Luxembourg and so on, while most front stuffs would remain in city of London.

The back office which includes personal computers, document papers and settlement behind financial operations would maintain to stay in the UK. The back office, however, would not remain in city of London because of highly costs. As internet technology advances, the banks can divide front office into back office. As a point of geography, the banks in the UK could not divide front office into back office. The UK’s bank could move only the back office toward lower cost British city, for example, Birmingham and Manchester and so on. And the US large banks might move their back office into the local city in the EU as the same reason, if the EU’s banking and financial authority approves. Because the US banks do not need to stay in City of London and the UK banks do not pay high costs the back office in the domestic.

French and German Banks in City of London

There are some EU’s banks in City of London. Especially, German banks and French banks have done the investment banking operations in City of London for decades, not in Frankfurt, Paris and Brussels. Of course, many staffs of German banks and French banks work and live in City of London. After Brexit, Figure 11 indicates that many staffs of German banks and French banks may return the home country5.

Returning Anglo-American Rules

The UK banking and financial authority will request the EU banks to accept the UK’s original financial rules and regulations in order to investment banking operations6 in City of London. Because the

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4 Basel III is a new capital regulation to maintain international activity of banks to prevent from occurring the financial crisis like a Lehman crisis 2008 and to endure risk of international financial system. The Basel Committee on Banking Supervisory Board consisting of the financial supervisory authorities of major countries “G10” announced in September 2010. Basel III is the criteria of the quality and quantity of the capital which banks hold. To operate internationally, the criteria is beyond 7 %, with the core capital (Tier 1) consisting of ordinary shares and earnings being invested and financed against “risk assets” which may suffer loss in the future. Basel III is going to begin to come into enforcement from 2013 gradually. Cited by Bank of Japan Web, “Oshiete Nichigin” (http://www.boj.or.jp/announcements/education/oshiete/pfsys/c24.htm/) accessed in 21 September 2017, translated and summarized Japanese into English by myself.

5 See Appendix “The newest news”.

6 Investment Banking Operations are “underwriting” and “M&A” and so on.
EU’s banks, including French and German banks, no more used the rules and regulations of the EU in City of London as before. The UK is no EU membership country after Brexit.

The UK’s banking and financial authority might make rules and regulations at the same time as the US banking and financial authority. The UK’s banking and financial authority would return Anglo-American rules before 1973 when the UK joined the EU.

I think that the UK’s financial authority would require the EU’s banks, including French and German banks, to establish the holding company and security subsidiaries as the US’s financial authority has forced foreign banks to build up the financial holding company and securities 20 subsidiaries in order to do investment businesses in New York within the US.

**Conclusion**

The US large banks and the UK’s banks must choose to open the branch or regional headquarter in a single market of the EU. Because they have to maintain to access a single market with minimum costs. They, however, would do actually business in city of the EU membership country. They must be obeyed under rules and regulations of the EU’s banking and financial authority and local rules and regulations in that country. Probably the UK’s bank would have to get a license of a single market again. City of London maintains the function of financial market. But the US banks and the UK’s banks would have to move a few front office staffs into the city of the EU. Therefore City of London a little bit would weaken the power of financial center.

**Appendix “The Newest News”**

The newest news reports that the UK’s big banks, the US big banks and the EU’s big banks choose option 5, which is build up new branches or new regional headquarter in cities of the EU now. By Reuters’s news article 7, they are Standard Chartered bank, J.P. Morgan, Goldman Sax, Union Bank of Swiss, and Citi group. They are planning and moving about 9,000 persons from City of London to cities on the EU for two years.

Standard Chertred bank, the UK’s big bank and J. P. Morgan, the US big bank revealed to move thier base from City of London to Frankfurt in Germany. Goldman Sax doubts the development of City of London by confusion of Brexit. The global 13 banks including Standard Chertred bank, the UK, and J.P. Morgan, the US and Goldman Sax, the US, and Union Bank of Swiss, Switzerland, and City group, the US, Deutsche Bank, Germany are planning to enlarge thier commercial and investment banking into Continental Europe in order to access a single market of the EU after the UK completes to leave the EU. The 6 global banks plan to move office or to build up new regional headquarter into Frankfurt in Germany. Deutsche Bank revealed to move max 4,000 persons to return Frankfurt in Germany in 26 April 2017. The rest of 3 global banks plan to move office or to build up new

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regional headquarters into Dublin in Ireland.

2. Populism Chase Europe into the Corner
Introduction

The voices of British people declared no more union though of narrow majority on the UK EU referendum. The result “Leave” chased the European Union into the corner. Because the withdrawal of the second largest membership country, that is, “the UK” might happen to collapse an utopia of European Union.

(1) The UK EU Referendum Shocked the EU

Not Federation but Nation States

Brexit indicates that most European citizens want to keep a nation state. On the other hand, Brexit also indicates that most European citizens would be willing to leave the EU in order to maintain only a nation state, even though “leaving” should cause the EU to disintegrate. Because most European citizens has not always supported pan-European-ism which Mr. Coudenhouw had advocated and Roman Treaty has developed from 1957. Since these days most European citizens have wanted to only the Europe without wars and military conflicts. At the beginning of the EC in 1957, the miserable memory of WW I and WW II urged to build up the European Community as the union of customs, common energy policy and common agricultural policy. European citizens believed in reaching the Europe with no more war at those time by common policies.

Threats of Russia

After 60 years, the threat of the cold war and atomic bombs in the World War III has passed away. But the shadow of war or military conflicts is approaching step by step. Russian threats near the East border of the EU. The threat of Russia strongly unites the EU, especially ex-the Union Soviet Social Republic (USSR) and Eastern European countries which are Poland, Czech, Slovakia, Hungary, Slovenia, Estonia, Latvia, Lithuania, Romania, Bulgaria and Croatia (Figure 10). So the EU must integrate to do with the threat of Russia. All leaders of the EU recognize no more “Leave”. Even if there is no

![Figure 10](image)

The Threats of Russia against Estonia, Latvia, Lithuania and East Ukraine

Figure 10: The Threats of Russia against Estonia, Latvia, Lithuania and East Ukraine

Drawn by myself (based Map from Wikipedia Commons in English).
federation but nation states now, the EU membership countries must integrate to safe Pan European values beyond economic issue, that is a single market.

No Progress

Brexit stopped the progress of federation of the EU. The progress of the federation has two tracks. One track is the enlargement of the EU. Another track is the integration of the EU. The enlargement of the EU has the force toward the outside of the EU, especially toward East Europe, while the integration of the EU has power toward the inside in order to strengthen the union of the EU.

Brexit makes the enlargement of the EU backwards, while Brexit makes the integration of the EU strong. Brexit also brings a question on the enlargement and the integration of the EU. At the result of Brexit, Figure 11 indicates that the enlargement of the EU will stagnate and will more strengthen the integration of the EU. The EU would not develop the federation of Europe by way of the EU in near future. Probably the EU will keep itself as it has been for a long time. Therefore, there is no progress on the enlargement.

Shocked over Europe

British EU referendum’s result shocked all over the Europe. The impact was huge like a megaton bomb. Because no membership country has left since 1957 when the EC founded by Rome Treaty. Any membership countries could not think of “leave” from the EU in spite of article 50 “divorce clause” of Treaty of Lisbon 2007 (Material 1). The UK’s divorce from the EU just has been the first case by use of article 50 “divorce clause” of Treaty of Lisbon 2007.

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8 Perhaps enlargement of the EU might shrink a little. France might leave from the EU at the result of Ms. Le Pens’ victory in French Presidential Election 2017. Mr Macron who is even young next leader at 39 years old won Ms Malia Lepin on French Presidential Election on 7 May 2007. Cross Reference p.6 “French Presidential Election in 2007”.

Material 1  Article 50 “divorce clause” in Lisbon Treaty in 2007

Article 50

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.

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

3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.

4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it. A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the Union.

5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.

Source: EU Document Web

The Principle of Majority Rule

Brussels’ bureaucrats and main membership countries which mean French German axis are shocked by the principle of majority rule of National referendum. Because “Leaves voters” entirely triumphed over “Remain voters” though of narrow majority. Figure 12 indicates that the principle of majority rules made “Leave voters” take all in all over the UK. National referendum could not influence on every kind of citizens’ decision unlike Parliamentary democracy. Because National referendum directly reflects the will of majority into the will of Nation. In case of National referendum, there is no buffer like Parliament Members. Therefore, narrow deference between “Leave” and “Remain” created large difference.

Figure 12  The UK EU Referendum Result

Drawn by myself (Data Source: Clarke, D. Harold, Goodwin, Matthew and Whiteley, Paul, Brexit: why Britain voted to leave the European Union, Cambridge University Press, 2017, p.151 Figure 7.1 Percentages Voting Leave in 23 June 2016 UK Referendum on Continued EU Membership (Original Source: Eurostat Commission).
Scotland, Catalonia and Northern Ireland

Brexit inspired regional citizens to be independent from Nation states (Figure 13). In this case of Brexit, most Scottish votes “remain” in the EU. Scottish narrow majority rejected “independent” on Scottish Independence referendum in September 2014. On Scottish side, Scotland does not have a reason to leave the EU by Scottish result of the UK EU referendum. So if Scottish wants to be remain the EU, Scottish would try to challenge “Independent” referendum in near the future again. Spain government concerns about stimulating the independent movement of the region of Catalonia\textsuperscript{10}. The Catalanian independent voting referendum is implemented by Catalonia State Government on October 10 2017. Spanish government has not admitted this referendum as illegal. In the current opinion poll, Catalonia independence and opposition are even during the Campaign period. The latest Independent Protectionist is over 41%. Independent Opponents are less than 49%. Now in JST 2 October 2017, Independent Protectionist voted a victory over 90 % in Catalonia Independence referendum\textsuperscript{11}. The Catalonia state declared an Independence. In any case, Catalonia’s independent voting is believed to cause a serious crisis in Spain’s national regime\textsuperscript{12}. British government also might worry about the future of the peace settlement of Northern Ireland. Brexit might disassemble a nation state in the nearest. Brexit makes every EU membership country reorganize the possibility of disassembling its own nation state.

\textsuperscript{10} The economy of Catalonia would shrink as much as 30% of GDP in this region and the unemployment would be doubled in case of Catalonia wins its independent according Spanish Economic Ministry. Cited Financial Times Web “Catalonia could see 39% GDP drop if it leaves Spain” in 18 September 2017. (https://www.ft.com/content/ff0d694-b053-3d37-9a7b-3166c2740d1) accessed in 19 September 2017.


French Presidential Election in 2017

Mr Macron who is even young next leader at 39 years old won Ms Malia Lepin on French Presidential Election on 7 May 2017. Throughout French Election campaign, Mr Macron appealed to remain the union of Europe while Ms Maria Lepin who has been the leader of Front Natinal - ultra right wing party - since 2011 advocated to leave the EU. Most French citizens wisely and calmly voted to select _stato quo_. Figure 14 indicated that Macron won the Presidential Election with a double score on Ms Lepin. I analyze that the result of the victory of Mr Macron brakes the rapid development of populism and stop the collapse of the union of Europe in near future temporarily. But I think that Mr Macron’s ability of governance might be unstable because he is too young to govern France with support brilliant French bureaucrats. The movement of leaving the EU certainly stops, but this may be temporarily. If the Franco-German axis becomes unstable, the populism against the EU will heart again. It may be a key for President Mr Macron to change populism to be favorite with the EU.

(2) The EU may be Welcome to Brexit

Welcome to Brexit

On the other hand, all EU membership countries always are not welcome to Brexit. In field of monetary and financial policy, Britain has been apart from the other EU country for a long time. Because Britain has not ratified “euro” and ECB of three pillars (Figure 15). Britain has held “sterling pound” and Bank of England. Britain always has not looked good on the Union of Monetary, Finance, Budget and European Central Bank. So the Euro zone countries which use “euro” advocated common budget and common unemployment insurance scheme for Euro zone 19 membership countries. They do not discuss these scheme in EU 28 membership countries including the UK. If Britain leaves the EU, they will be willing to develop these schemes.

Euro Zone Assembly

Another plan is that European countries will not use the European Parliament but Euro zone assembly (Figure 16). There have been difficulties between wealth member countries and poor member countries for decades in European countries. That is to said, “Southern and Northern issues in Europe”. These difficulties have tried to establish the budgetary permanent mechanism to transfer funds from wealthy European countries to poor European countries.

Unfortunately the European Parliament 28 membership countries involving the UK have discussed for long and long time. But they could not reach the solution of these difficulties to create the new mechanism. After the UK leaving the EU, Euro zone assembly which consists of mainly Continental Europe

EU Leaders must Do ASAP

Apart from EU citizen’s opinion, all leaders of the EU membership countries think that the progress of integration must never stop. They also recognize that all leaders must do recover the shape of the union as soon as possible. Firstly Germany leads the EU six founder13 members to hold a meeting on Brexit in this week. Secondly though the German chancellor Ms Angela Merkel has been so extremely busy on some political issues, she clearly brings Brexit and the EU up to top priority. She promises to discussion including all EU 27 membership countries. Ms Merkel is a host to invite Mr. Matteo Renzi Italian prime minister, Mr. Donald Tusk European President and Francis Holland French President in Berlin in order to prevent from further collapsing the union in near the future. All leaders of the EU have just begun to do as soon as possible.

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13 The EU six founder members are Belgium, Netherlands, Luxembourg, France, Germany and Italy.
countries might solve these difficulties to create the new mechanism to prevent from the difference of the wealth. Because the UK always has opposed to solute these issues by transferring funds from wealthy membership countries to poor membership countries. The timing of Brexit must be a good chance.

**Completing Economic and Monetary Union**

Further new plan proposes too. Mr. Trusk European president, the heads of the European Commission and Mr Mario, Draghi, the governor of the European Central Bank and Mr. Tajani, Antonio, the chairman of the European Parliament made public the blueprint of Brussels in 2015\(^\text{14}\). This blueprint involves as follows.

1. Economic Union
2. Financial Union which involves completing the Banking Union
3. the Capital markets Union
4. the European systematic risk board
5. Fiscal Union.

\(^{14}\) Juncker, Jean Claude and Tusk, Donald and Diitsselblom, Jeroen and Draghi, Mario and Schulz, Martin, *Completing Europe’s Economic and Monetary Union*, EU Comission, Brussels, 2015, Appendix 1.
If Brexit resulted “Remain”, the blueprint would be stagnant or abolished. Because it is cleat for the UK to oppose this blueprint. The road map, however, will proceed step by step whether the UK leaves the EU or not. Brussels must accomplish the road maps towards completing Economic and Monetary Union from 1 July 2015 to 30 June 2017. Brussels must never delay the road map absolutely. If Britain does not exit from the EU membership, it might be delayed for the EU authorities to complete the blue map of Economic, Financial, Banking and Capital markets union until the deadline of 30 June 2017.

(3) Unstable Foundations

Centrifugal Force

Perhaps Brexit makes centrifugal force weak. The EU clearly has been intend to enlarge toward Eastern Europe. The enlargement of the EU reached ex-Soviet dominion countries, Estonia, Latvia, Lithuania beyond ex-Eastern countries, Poland, Hungary, Czech, Slovakia, Romania. Centrifugal force from the French and German axes is reaching Ukraine which Russian military invaded East Ukraine. But I think that centrifugal force may stop before Ukline. Because Brexit weaken the EU’s military power. Therefore Figure 17 indicates that the EU without the UK may build up the new Wall from Scandinavia to Black Sea against Russia.

Centripetal Force

The UK’s Leaving the EU will be rather stronger centrifugal force than before. The EU hopes that the enlargement will reach the Ukraine and more enlargement will accomplish in near future. But after Brexit, the EU strengthens centripetal force. That means to increase quality of the union. Because the UK’s decision blew the atmosphere of enlargement away over Europe. If the UK completely withdraws from the EU, the EU has a crisis of the EU itself. At this point, the EU could be no more enlargement. Therefore, the EU would integrate the union of membership countries, not enlargement.

The EU Becomes Weak

The power of integration has weaken after the Lehman’s crisis 2008. The EU divided the wealthy membership countries into the debts membership courtiers. The former countries are Germany, the UK, France, Belgium, the Netherlands, Denmark, Luxembourg, Austria, Ireland, Italy, Sweden, Finland, Iceland. The later countries are Portugal, Spain, Greece, Malta, Poland, Czech, Slovakia, Bulgaria, Romania, Estonia, Latvia, Lithuania, Hungary, Cyprus. The lender countries and borrower countries have conflicted each other. The Greece debts crisis 2010 caused a step before Greece expelled from the EU in the EU Council.

Military Power also Becomes Weak

The strong military Western European countries are France and Germany. The weak Eastern European countries consist of ex-Soviet Baltic countries which are Latvia, Estonia and Lithuania. Both of them must have the defense system against the threats of Russia. But the debt membership countries have weaken the military defense power of the EU due to Greece debts in 2010. The fiscal issues between wealth membership countries

Figure 17 Centrifugal Force toward Ukraine and Build up the New Wall

Before Brexit

After Brexit

Drawn by myself
and debts membership countries may trigger to disassemble itself. Therefore, I think that the EU has been weaken the military power of integration because of wealth of membership countries, whatever Brexit results or not.

Conclusion

The UK’s leaving the EU strengthens integration of the EU, while the UK’s leaving the EU weakens enlargement. More integration will proceed the union of banking and financial policy, especially capital markets. Because the UK has opposed this propose for a long time. The UK will also escape from the European Monetary Union. At the result of the weak of enlargement and the strong of integration, the UK will build up the new defense wall from Scandinavia, Ukraine and Baltic to Black sea by itself. The UK’s leaving the EU will divide the wealthy membership countries into the debts membership countries more widely. This difference might trigger to disassemble the union of security and military policy. The difference might also make economy unstable in the EU.

3. Why did not Financial Crisis Occur like a Lehman Crisis?

Introduction

Anybody predicted that the markets of City of London would fall such as a Lehman shock in 2008. Anybody also predicted that Brexit might trigger the global financial crisis. But there is nothing to happen in markets. What does the result of the UK EU referendum cause in markets of City of London? Why did not the markets collapse on that day? I analyze this situations as follows in this chapter.

(1) Why Nothing Happened on Brexit Day?

Quiet Friday

It could be said that nothing happened in the markets (Figure18). Because most investors did not panic in the markets on the Brexit day. Capital flight from Britain never happened. All people who connect with markets, from investors to political leaders, predicted that the financial crisis such as a Lehman Shock in 2016. Indeed, in some markets, such as currencies and European bank stocks, UK sovereign bonds, prices were remarkably up and down until 23 June 2016. These markets, however, stayed calm as the result of the UK EU referendum turned out. City of London was like calm oceans.

No Sellers and No Prices

No sellers certainly sell European cooperate bonds. And no buyers buy these bonds. “There are no sellers.” “We can not buy the credit names we want.”

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15 One European hedge fund manager on a conference call on Friday, in Tett, Gyllian “No Lehman moment as system functions ‘in an orderly manner’ in Financial Times’ on Monday 27 June 2016.
Therefore most traders could not find the prices of European cooperate bonds (Figure 19).

**Reason of Calm Markets**

The reason why the market was calm is that no sellers exist on that day, the UK EU Referendum. So the buyers could not buy financial goods, for example cooperate bonds, even if the buyers wanted to buy them. Then calm ocean of the markets could not be rough. Therefore the next question is why any sellers did not sell financial goods in markets of City of London on Brexit day.

**No Sellers**

No sellers were in markets of City of London on the UK EU referendum. Because any sellers do not throw financial goods, for example cooperate bonds, stocks, sovereign bonds and sterling pounds into the markets. All sellers did predict that cooperate bonds, stocks, sovereign bonds and sterling pounds fell down into the bottom of the markets on that day, while all buyers also did not exit in the markets on that day. All sellers escaped from huge losses by falling into the bottom. So they did not sell any financial goods. There were no financial goods, for example cooperate bonds, stocks, sovereign bonds, and sterling pounds which traders should buy in the markets.

**Counter-Part Risk**

There was no panic in the City of London at the moment. Theoretically this situation is the problem on "counter-part-risk". The counter-part risk has been predicted by most participants in markets. But the counter-part risk never explored on Brexit day.

The counter-risk is a kind of the market risk. Counter-part risk means the risk which individuals or organizations who conclude a contractual counter-party financial agreement default on their obligations or that one does not follow contractual agreements. This risk brings out when traders cut off selling or buying if financial crisis makes the counter-part default on obligations or agreements. This risk did not explore because traders freeze each other and markets are frozen. In case of falling into this situation, perhaps market prices might be fixed stationary. Therefore, there is nothing to happen in the City of London.

**Lender of Last Resort**

The reason why counter-part risk never happened also depended on that all participants of the markets believed in the stable of the market when the UK revealed to leave the EU. Because all did not predict capital flights from City of London to other foreign financial centers of global markets despite predictions before Brexit day.

Firstly all participants never could seen a crash in the markets of City of London. Secondly Bank of England which is a central bank would have support the markets in City of London with full power even if the markets collapses by any confusion of Brexit. A central bank has the function of "lender of last resort" in monetary and banking economics. Thirdly the

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predawn of financial crisis at that moment exists only within in the UK, not foreign markets, for example in NY, or Tokyo and so on. It seemed like that most citizens and Parliament Members approved to make markets calm by use of UK’s Taxes. They did not reject the emergency support plan of “lender of the last resort” by the financial policy of Bank of England. They believed that taxes of the UK should never be used in foreign financial centers of NY or Tokyo and so on. All crisis were settled with Bank of England’s credit order policy only within the UK by the using UK taxes. So all participants believed in the calm markets at that moment.

(2) Lessons from a Lehman Crisis

Experiences of Central Bankers

City of London has continued to function as usual though of the UK EU referendum’s result. Because central bankers which are Bank of England in Britain and major central bankers around the world had learned severe lessons from the experience of a Lehman Crisis in 2008. I think that central bankers have taken advantages of their experiences of a Lehman crisis to the potential crisis of Brexit. In other words, Bank of England must be ready for her trigger the central bank’s function, “lender of last resort” which is the unlimited loan with no collateral in order to rescue the bank with excess debts by markets crisis in City of London (Figure 20). When a Lehman crisis happened in 2008, Federal Reserve Board had nothing to do in order to rescue Lehman Brothers at that moment. The collapse of monetary and financial markets in New York happened by bankruptcy of Lehman Brothers, as if FRB had abandoned his role of central bank’s “lender of last resort”.

This time, Bank of England was enough to treat with market crisis of Brexit. All participants in markets of City of London believed their central bank. Therefore the panic never happened, and the market could challenge to reprice foreign exchanges, cooperate bonds, stock prices and sovereign bonds as soon as possible after Brexit. City of London got a breathe in the midst of the storm.

Figure 20  Lender of Last Resort by Bank of England

[Diagram showing the lender of last resort with various financial flows]

Drawn by myself (based photo & flags from Wikipedia Commons in English)

17 Before Lehman crisis, FRB of New York had exercised the unlimited emergency loan with no collateral to Bear Sterns’ bankruptcy crisis by way of J.P. Morgan Chase on March 2008. J.P. Morgan Chase officially bought Bear Sterns in 30 May 2008. FRB had had a role of central banker’s function, “Lender of Last Resort.” Lehman Brothers, however, could never rescued in 15 September 2008. FRB of New York had not rescued Lehman Brothers by the unlimited loan with no collateral. Because Lehman Brothers is an independent investment bank, not a commercial bank which is directed and supervised by FRB. Secondly bedizens of the USA and Congress had never approved the rescue emergency unlimited loan with no collateral to Lehman Brothers. If the rescue emergency unlimited loan defaults, the huge loss should be made a compensation by taxes. When election had been coming up, White House, US Treasury Department and FRB could not make a decision to trigger “Lender of Last Resort”. Thirdly though the UK’s bank, Barclay’s Bank had tried to buy Lehman Brothers, this option had never exercised. The UK’s minister of finance had rejected this rescue package. Because the UK’s minister of finance never approved to use the UK’s taxes to rescue foreign investment bank, that is Lehman Brothers at that moment.
Lessons of Central Bankers

The central bankers of the world were enough to be ready for financial crisis in City of London when the citizens of the UK decide to vote “Leave”. Because central bankers of the world had learned painful lessons from a Lehman crisis in 2008.

All Central Bankers have Forgotten

When a Lehman crisis happened, there has been no huge financial crisis since 1929, what is called “Great Depression”. After Great Depression, small shocks sometimes had taken place in monetary and financial markets. The world central bankers, however, had relatively easily controlled the markets. Therefore the world central bankers, including Federal reserve Board, might have forgotten the emergency method to make financial crisis calm in the case of facing a Lehman Crisis in 2008. If the initial response is wrong, financial crisis spreads world wide like a big forest fire. That had brought the financial disaster of a Lehman crisis in New York to the world monetary and financial markets in 2008. Chinese market turbulence, multiple euro zone crisis and deepening Japanese recession followed after a Lehman crisis.

Liquidity Risk

The unexpected series of financial disasters from New York has remembered central bankers and financial authorities of classical financial credit order policy. These disasters have given them the contemporary training lessons to deal with financial crisis. They learned remarkably “Liquidity Risk” which is sudden short or money in monetary and financial markets by some shock.

The countermeasure against “Liquidity Risk” is two measures. One is the measure to strengthen net capital of a commercial bank. The second measure is the function of central bank, what is called, “lender of last resort”. After a Lehman crisis, central bankers and financial authorities often had started to communicate and collaborate each other on a daily basis. Therefore, I think that Central bankers of the world were enough to know how to control “Liquidity risk” when they faced Brexit.

Strengthen Commercial Banks

Of course, not only central bankers but also commercial bankers learned many painful lessons from a Lehman crisis in 2008. Because commercial bankers are not enough to be ready for financial crisis though they had satisfied Basel I & Basel II. Commercial bankers felt into the situation which are short of liquidity against “Liquidity risk”. Commercial bankers had too much unprecedented trading positions against “market risk” at that moment. Figure 21 indicates that their net worth could not reach the level of preventing from financial and market crisis.

\[\text{Figure 21 Strengthen Profit against “Liquidity Risk”and “Market Risk”}\]

**Diagram:**

- **Monetary and Financial Markets**
- **Risk Assets**
- **Net Worth (Net Capital)**
- **Increasing Level**
- **Liquidity Risk**

**Drawn by myself**

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\[\text{18 Basel I & Basel II are international regulations for financial crisis. BIS, Bank of International Settlement, Basel in Switzerland had regulated these regulations. Generally speaking these regulations have forced commercial banks high level of net profit against risk assets no matter when central banks cope with financial crisis.}\]
Lessened Commercial Bankers

Commercial bankers which got painful lessons by this financial crisis have been increased the capital levels against “Liquidity risk” and “market risk” (Figure 21). They gradually increased net capital by adequate position against “market risk” for about ten years. Therefore, their increasing net worth and cash liquidity make the market strong against the potential of financial crisis of Brexit in City of London.

(3) Another Risk Still Lies

Risk of GDP

From point of short term view, there was nothing to happen in monetary and financial markets in City of London on that day of the UK EU referendum result. But from the point of the long term view, there are another risks. Those risks are the economy in the UK and the economy in the Euro area.

In other words, even if central bankers, financial authorities and commercial bankers are enough ready to deal with financial crisis, the financial crisis prediction completely has not passed away during the EU UK referendum campaign. Although City of London may escape from financial crash, there are still economic risks for banking and financial industries. Both the UK GDP growth rate and Euro area growth rate are predicted to decline after Brexit. Figure 22 indicates that the UK’s GDP rate was declining deeper minus 0.388 per cent point within a year after Brexit than Euro area minus 0.319 per cent point.

Good Performance of the UK Economy

The reason of the UK stagnation is that firstly Figure 23 indicates the UK’s economy has enjoyed a single market. If the UK leaves the EU permanently, the UK economy will dramatically fall because of being apart from the EU economy. Only a UK’s economy has dominated large potion 22 per cent of the economy in Euro area which consists of 19 countries. The detached effect will be great. Secondly Figure 24 indicates that the UK GDP growth rate 3.1 per cent in 2014 and 2.2 per cent in 2015 has been highest in the advanced other EU membership countries, Germany, France, and Italy in late three years. Since British economy and the EU economy are originally inseparable, they are forced to be separate, so the EU will lose the growth engine of British economy. Britain will lose the market of the EU. Both economic potential growth power will greatly lose in near future.

![Figure 22 GDP Growth Rate: Euro area and the UK](image)

Drawn by myself (Data Source: IMF Economic Outlook Data Base Web).

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19 Euro area is defined by circulating Euro currency. Population of the Euro area 3,600 millions. Euro area consists of Ireland, Italy, Estonia, Austria, Netherlands, Cyprus, Greece, Spain, Slovakia, Slovenia, Germany, Finland, France, Belgium, Portugal, Malta, Latvia, Lithuania, Luxembourg.
Damaged Bankers

The economic stagnation of the UK EU referendum would damage the UK bankers’ profits. Continental European bankers could not use City of London as before. Actually global banks, including the US banks and European banks are moving their people and sectors into Frankfurt, perhaps or Dublin. If so, global European banks, for example Deutsche Bank, ING Ing, ABN Amro, UBS and so on also would be damaged by Brexit. Especially their investment banking would damaged for a while. Because firstly they has worked investment banking in City of London about one hundred fifty years. Secondly they would be distance from business chance with the US company and the UK company.
Never Feel Selling

Another risk might happen after a while in City of London. This risk is similar to the financial shock of the Long Term Capital Management failure in 1998. This is a “fear selling.” If hedge funds and investment groups rushes to sell off their portfolio in order to get money. Because financial asset prices may fall. They connected with LTCM. As if the LTCM failure triggered throwing away, market crisis spread. Brexit may trigger panicky throwing away by hedge funds and investment funds which connects with Britain. Fortunately, however, there is no sigh about panic like LTCM shock in 1998. There are no financial institutions which make huge loss like the LTCM shock. On the other hand, there are no hedge funds and investment funds which sell throw their portfolio to money in order to survive.

Conclusion

Brexit could not trigger financial crisis in City of London. Because firstly counter part risk never happened as like a Lehman Crisis in 2008. So Brexit could never give City of London critical damage. The Second reason is that central bankers, of course including Bank of England, could take effect on the markets tumbling by their safety net. Bank of England and other central bankers did well treating with “liquidity risk”, “market risk” and “fear selling” in City of London at that moment. Therefore I concluded that Bank of England and central bankers succeeded in calming monetary and financial crisis down in city of London by learning severe lessons from LTCM crisis in 1998 and Lehman crisis in 2008. Thirdly, commercial banks also has increased net capital in order to sustain financial crisis. But there are still minus factors in City of London. After Brexit, the UK is predicted weak economy. The US global banks and European global banks is moving into Continental Europe. Fortunately, the calm markets in City of London on Brexit day might become the starting point of the bridge between the UK and the Euro Area to develop themselves in the future. If so possible, the GDP growth ratio of the UK might up stair and Euro area too.

4. The UK could not Influence on Europe after Brexit.

Introduction

City of London has been a queen of world financial centers for three hundred years since Napoleonic era. Even if the UK completely leaves from the EU, I think that City of London, more or less, will continue to be a financial center in the future. Because, fortunately, there is no boarder about monetary flow by foreign exchanges.

(1) City of London Withdraws EMU

The EU closes City of London

The UK participated in European Monetary Union (EMU) which has established both European Central Bank and a single currency “Euro” in 1999 according to Material 2. But the UK did not use the Euro. And the UK also ought not to participate in the European Central Bank. The UK has continued to maintain the independent currency “sterling pound” and Bank of England as a central bank. On the contrary, the Franco-German Axis has directly influence the European Central Bank and Euro as the result of completely participating in European Monetary System; EMS.

Though the UK’s monetary system has not accept “Euro” and has not been controlled by ECB, City of London has been a center of world financial centers. Because firstly there is no border about money flow by exchanging sterling pound to euro or euro to sterling pound. Secondly Bank of England closely cooperates with ECB within the EU financial zone, what is called. “euro zone” (Material 3).

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20 Long Term Capital Management was a hedge fund. LTGM was established by John Meriwether who is a famous bond of Solomon Brothers in Greenwich, Connecticut in 1994. LTCM’s board consist of John Meriwethwe, and Miron S. Sholes and Robert Cox Marton. Sholes and Marton are Nobel prizewinner in Economic science awarded of achievement to making “Black Sholes equation” in 1997. LTGM succeeded for the the year. But in Asian financial crisis in 1997 and Russian currency crisis in 1998 shocked and damaged LTGM to decline thereby performance in investment portfolio. Investors rapidly escaped short term money from Asian countries by Asian financial crisis. And Russia declared default short term Russian government bond which investors though relative safe in 18 August 1998. Therefore LTCM’ investment management rushy fell into bankruptcy of business in 18 September 1998. Total loss of LTCM crisis is about 4 billion and 60 million dollars by investigation of Goldman Sax which invested in LTCM.
Material 2  European Central Bank’s History

The European Council under the European Commission decided to begin to walk on the road map toward European and Monetary Union (EMU) in June 1988. The President of the European Commission, Mr Jacques Delors led the committee to study and propose a blueprint of EMU. He resulted and appeared, what is called, “Delors Report”. This report indicated the three steps to achieve economic and monetary union. These steps were epoch making of Central Banking and currency history. These concrete steps, as cited below

“[Stage One: starting 1 July 1990] Complete freedom for capital transactions; Increased co-operation between central banks; Free use of the ECU (European Currency Unit, forerunner of the €); Improvement of economic convergence” “[Stage Two: starting 1 January 1994] Establishment of the European Monetary Institute (EMI); Ban on the granting of central bank credit; Increased co-ordination of monetary policies; Strengthening of economic convergence; Process leading to the independence of the national central banks, to be completed at the latest by the date of establishment of the European System of Central Banks; Preparatory work for Stage Three”

“[Stage Three: starting 1 January 1999] Irrevocable fixing of conversion rates; Introduction of the euro; Conduct of the single monetary policy by the European System of Central Banks; Entry into effect of the intra-EU exchange rate mechanism (ERM II); Entry into force of the Stability and Growth Pact”


Material 3  Members of the European Union Using Euro & not Using Euro

- Members of the European Union using Euro
  Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain: 19 countries

- Members of the European Union not using Euro
  Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Rumania, Sweden, the United Kingdom: 9 countries


Confronting Franco-German Interest

But after Brexit, Bank of England and sterling pound would break up with European Monetary Union, that is, Europe Central Bank and “euro”, even if sterling pound is able to exchange to euro or euro to sterling pound. Because the UK will be no longer the EU membership country. The UK will do nothing with the Europe Central Bank, “Euro” and European Commission’s monetary, banking and capital markets policy. So City of London, indicated by Figure 25, would not been directly influenced by ECB, “euro” and European Commission’s monetary, banking and capital markets policy which has been at the center of Franco-German national interests.

Shifting London to Frankfurt and Paris

British financial institutions would be beaten by Franco-German power. Because Franco - German axis actually can make a rule and financial policy of Europe Central Bank and the European Commission’s monetary, banking, and capital markets policy, even if City of London will survive a center of global financial markets outside of the EU. There would be no opinion of the UK on the front line between London and the Euro zone because of withdrawing British bureaucrats from Brussels, Strasbourg, Luxembourg and Frankfurt in which European Union administration, Parliament, Supreme court and European Central Bank exist. The monetary and financial power of euro zone might shift
City of London to Frankfurt in Germany and Paris in France as economic power of the UK which is the second largest economy of the EU completely moves to Continental Europe in near future.

Actually, after a year from the UK EU referendum, this prediction is realizing now. Big British financial institutions, U.S. Global banks and Financial conglomerates of the EU in City of London are shifting their staffs and investment banking to Frankfurt in Germany. Nomura Holdings which is a Japanese investment bank decides the headquarter of the EU from City of London to Frankfurt, Germany in 22 June 2017\(^2\). Frankfurt might rob City of London of the role of financial center. Monetary and banking dealing with

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Continental Europe would move toward Frankfurt, Germany. Therefore City of London may shrink the role of global financial center (Figure 26). And the order of global financial markets may change in near future. The reality goes beyond our expectation.

London’s Nightmare

It is difficult to see how City of London will make a shape of the future. I could not ignore the Franco-German axis’s interest at the front of an ambiguous future of London. When British government loses her influence on European Central Bank and Euro, I could not expect what will happen in European economy, especially monetary and banking economy.

On the other hand, it is easy to predict that France and Germany axis will revive the plan which had beaten by financial power of London before. That plan will be eager to rob London of the status of financial center in the world. The EU will also try to bring the center of financial operations in euro zone from London to the cities in the EU 27 membership countries like Frankfurt, Paris and Luxembourg, Brussels, and Dublin. Moreover, European Central Bank might move to establish “the Euro clearing organization” within euro zone again, though the ECB’s plan was annulled by the EU’s top court once\(^\text{22}\).

\(^{22}\) European Court of Justice dismissed ECB’s argument in 4\(^{th}\) March 2015. The ECB’s argument involved that ECB should the new clearing organization on Euro dominated securities within Euro area, not City of London by in 5\(^{th}\) July 2011. This new clearing organization should have responsibility of management and operation about transaction and clearing of Euro dominated securities. This function has depended on City of London. If City of London should fall into the dysfunction like September 11 2001 in New York, the US, the confusion of monetary ad financial role of City of London might destroy all transactions and clearing of euro dominated securities and non euro dominated securities in Euro area. Therefore the ECB aims at the Euro Securities Clearing system in Euro area. But the UK appealed in European Court of Justice that the ECB’s plan is violated the principle of the single market which is the free movement of people, goods and services, and capital. European Court of Justice accepted the argument of the UK. European Court of Justice declared that ECB has no responsibility of clearing securities and the ECB only has responsibility of clearing money. So I analyze that Franco- German interest defeated by the UK and City of London by way of European Court of Justice. Cited by Mizuho Research Institute Web (accessed in 5 June 2017).


(2) The Franco-German Axis Makes Britain Fade Away

Fading away from the EU

British’s political and economic power will directly fade away from the EU.

Because people who employees in financial industry will not only depart from City of London in field of financial industry, but also people who moved from the EU will return from Brussels, Strasbourg, and Luxembourg at the official level of the European Union. The British EU members, executives and bureaucrats of the EU will gradually depart from every organization of the EU. Brexit does not only leave the UK prime minister Mr. Cameron and next prime minister Ms. May from the EU council, but also leaving British EU parliament members, executives and bureaucrats from Strasbourg and Brussels.

Actually a British commissioner will depart from the EU Commission just after Brexit\(^\text{23}\). British members of the European Parliament will be gone from the European Parliament in Strasbourg and Brussels. British judges will disappear from the Court of the Justice of the European Union in Luxembourg. Of course British executives and bureaucrats of the EU headquarter will return England from Brussels. In short, Figure 27 indicates that all British official members will withdraw from all EU authority, organizations and institutions in at least about five years.
No Influence on European Commission

Britain has still no influence on European Commission’s “euro”, banking, capital markets policy forever. Because British ex-commissioner, Lord Hill who has been responsible for “euro” and banking services and capital markets of the EU, was resigned just after Brexit. Of course the new British commissioner will temporarily nominate for the union in the field of national securities, not “euro,” banking services and capital markets. Now Valdis Dombrovski, the commission vice president, Latvia’s commissioner has taken from British ex-commissioner which is the Lord Hill’s responsibility for “euro” and the financial services and capital markets of the union²⁴.

Change of the EU Policy

British commissioner’s resignation will change EU’s money and financial policy to the new policy. Because Britain had opposed to most EU membership countries, mainly France and Germany about money and financial policy of the EU for a quarter of century. Britain has aimed at coexisting Euro zone and the EU’s banking union permanently. Euro zone means countries which use currency “euro”. Euro zone countries does not necessarily match EU membership country. Britain has intended to enlarge Euro zone than current status, even if the enlargement of euro zone makes a single market weak.

On the other hand, France and German have thought of arranging a single market with the economic interests of the Euro zone and the EU banking union in order to strengthen a single market, even if that arrangement does not make a single market large. Brussels’s plan which was accepted Franco-German axis interest has intended to make two steps in order to strengthen a single market. Firstly, Figure 28 indicates, the main euro used countries, France, German, the Netherlands, Belgium, Luxembourg would advance the way to make strong and integrate euro zone. And Secondly Italy and Greece which have damaged EU’s finance and euro which would be followed the main euro countries with improving financial red line²⁵.

²⁴ Supra Ibid.
²⁵ Cited the Liberty Web accessed in 10th June 2017.
Disadvantages

If Britain should maintain to access a single market of the EU, Britain stands at the three way street. The first way is that City of London, the UK administration, unilaterally will accept the rule of the EU about monetary, banking and capital markets as Britain used to be. In that case, Britain will accept it with no conditions. Because no British member must the seat of round table of European Committee in near future.

The second way is that the EU financial authorities will make some restrictions to British banks, the US global banks and investors in London in order to access a single market. Never the EU approves a free rider of Britain after Leaving the EU. Perhaps the EU financial authorities might deprive British banks, the US Global banks and investors in London of all privileges as a single market membership country.

The third way is that British financial institutions and investors will do nothing with the EU. Because the UK will become only a foreign country as to the EU. No matter what the EU 27 without the UK makes its choice, any British banks and financial institutions will not hold their privileges of the EU as a membership country after Brexit, as long as British banks and financial institutions really operates in the EU membership countries or Euro zone. Therefore, I think that British banks and financial institutions will more disadvantage than French, German, and Netherlands’ banks and financial institutions in a single market of the EU.

(3) City of London in Post Brexit Era

Lost Privilege

Even if the UK and Brussels negotiate each other on access to a single market during two years of article 50 “divorce clause”, the UK’s privilege of a single market as an EU membership country will be gone in near feature, post Brexit era. The UK made a choice on some protectionism by EU referendum which resulted at leaving from the EU. On the other hand, the single market of the EU 27 membership countries will be more protected, as populists and nationalists are increasing in French and the Netherlands with listening the news about the victory of the UK Leave. Therefore, I analyze that the UK must be no longer to be accessible to a single market of the EU as the UK used to be.

Take an Action to Shift

The UK banks and the US global banks in City of London have already taken an action to shift in part their operations into the cities of Euro zone, for example, Frankfurt, Brussels, Luxembourg, and Dublin. Because the UK banks and the US global banks in London absolutely have to maintain license of their operations in the EU, whatever the outcome of separate negotiations between the UK and the EU will reach. As the center of Banking and financial servicing operations in London moves into the cities of Euro zone like Frankfurt, Brussels, Luxembourg and Dublin, they can continue to maintain privilege to access a single market of the EU.
Making the new rule

British financial authority will have to make new rules when the UK in actual leaves from the EU. Because the UK’s financial authority will have to build a wall of rules between the UK and the EU. The UK will exist outside a single market of the EU or Euro zone. When the UK belonged to the EU, the rule of the EU was in principal superior than the rule of the UK. After the UK breaks up with the EU, the rule of the EU will be equal to the rule of the UK as a completely independent country. If the banks and financial institutions in the UK accesses to a single market of the EU, the rules of the EU limit on British banking operations. British banks and financial institutions will still have to obey to the rules of the EU in a single market or Euro zone, even if the UK is outside of the EU. In the case of Brussels guarantees a free access to a single market to British banks and financial institutions as before, I think that the UK will begin to negotiate with the EU on a single market in field of banking and finance and the UK will try to arrange new rules between the UK and the EU.

Better Choice to Continue as Britain Used to Be

The UK and the EU will have to build the new rules at a global financial level. The new rules had better continue the nature of the present rules as it used to be if possible. In other words, British banking and financial institutions had better get the near access a single market as before. Because both the UK and the EU might lose the strength of monetary, banking and financial power each other, if so not. However, it is difficult for British banking and financial institutions to predict to have privileges of free access to a single market or Euro zone. Because Brexit refused free access of people, goods, service and capital.

No British presence

It is taken granted that Britain could not affect on a number of the new EU and ECB rules. Because the UK will be no longer the EU member country. Many and many of new EU and ECB rules will include a single market of the banking and financial institutions, a single market of investments, an organization of a single capital market and new commercial banking capital rules. Without Britain, Germany, France and Italy which are large financial countries could directly influenced on all new EU’s rules in monetary, banking, and financial sector according to interests of their banking sectors.

Conclusion

I think that the EU banking and financial service industry will develop along side traditional universal banking system in post Brexit era. To my regret, any financial authorities and banking financial institutions in the UK could not influence on the EU’s making rule systems about monetary, banking and capital policy. Britain has an unique separate banking system, that is the separation commercial banking and securities industry while German, France Italy, the Netherlands, Belgium, Luxembourg and Ireland have universal banking system which is not separating banking and securities industry. Probably I analyze that the EU financial authority would more integrate the single market of banking and financial services, especially investment banking and securities in capital markets by Continental European Banking System. Because it is no longer unnecessary for the EU 27 membership countries to consider British banking, financial and securities system, in other words. City of London.

5. Brexit may Change relations with the EU

Introduction

The UK citizens showed their wills “Leave” though of narrow majority. The direct democracy of National referendum indicated how Britain should be in near future. They decided to leave the EU, not remain in the EU. Brexit gave a blow to the EU enlargement which has continued about 70 years since Rome treaty in 1957. The UK had been a main membership country a half of century, not a small country or dominion like Greenland which exited from the EC in 1985 as a dominion of Denmark. The pain of breaking up with the EU is huge great. Probably Brexit might change the tide of EU enlargement in reverse.

(1) The EU, NATO and Commonwealth

Reshaping the EU

As I mentioned in the previous chapter, it spends years to divorce the UK from the EU. And the UK was large country as population or an economic scale. Brexit will definitely give the impact to the shape of the EU. The UK citizen’s will may stop the EU enlargement temporally and shrink the Euro zone. Perhaps Brexit might fracture the European Union in
the future. And Brexit also might make the order of the globe change into confusion. The EU membership countries confronts the critical problem. It can be said that the EU membership 27 countries without the EU are entrusted steering Western world.

**Biggest Loss**

If Britain really leaves from the EU, the EU will lose the main membership country which is the second biggest economy after Germany, the biggest military power equipped with SLBM and aircraft carrier as much as France, the most active leader of free trade and liberal economy, and a permanent member of the Security Committee, the United Nations.

**NATO and Commonwealth**

The UK’s narrow majority convinced that diplomatic situation around the UK will never change. Because Brexiter believe that the UK can diplomacy on the base the treaties which the UK had concluded treaties before 1973. For example, in the field of military and national security there has been NATO. In the field of trade policy, there has been a network of Commonwealth of Nations which has been derived from British Empire. In the field of alliance, there has been the USA which was a colony of England, and has been a special alliance country favorite the UK. Probably NATO, Commonwealth and the US will drive the carriage of the UK after the UK will completely break up with the EU in the future.

**Becoming Cool**

But the UK’s “Leave” voters would be optimistic for the UK’s future. Because all traditional alliance country, of course including commonwealth of Nations and the USA were against the UK’s breaking up with the EU. Mr. Barack Obama, the US president, said "Britain’s EU membership gave Washington “much greater confidence about the strength the transatlantic union” [25]. Obama administration had hoped that the UK remain in the EU, and that gave the US and the UK alliance strong. Yet we know nothing about Donald Trump next administration’s thinking of Brexit. The European Council and Brussels bureaucrats are against Brexit. Mr. Donald Tusk, the European Council president, said: “I am fully aware of how serious or even dramatic this moment is politically and there is no way of predicting all the political consequence of this event, especially for the UK,” if they might be emotional [27].

(2) **What’s about the Union?**

**Union Collapse**

The second largest member country after Germany indicates that quite a few citizens of the EU may think the EU needless any longer. Brexit completely passed Europhilia away [28]. If the EU leaders can not stop the tide of populism like a Brexit, the union would collapse in the near future. Generally speaking, East European EU membership countries want to remain in the EU. Probably they also want to strength the union. But the citizens of France and the Netherlands may want to divorce from the EU though of less than majority.

**Next Referendums is it?**

Ms. Marine Le Pen in France and Mr. Geert Wilders in the Netherlands advocates to implement the EU referendum in each country like Brexit. France and the Netherlands face general elections next year. Probably Mr. Geet Wilder in the Netherlands will not get the poll, but Ms. Marine Le Pen in France might get the poll. Anyway, after general election ends in France and the Netherlands next year, Ms. Marine Le Pen and Mr. Geet Wilder will be increasing influences in each country.

**Keep Union**

Of course not to mention Brussels, I think that Germany continued to keep the EU unite, and could not give up the EU enlargement after the Brexit in a reality. Brussels and Germany strongly want the EU to keep unity and consistency again. They warned the UK to suffer great economic loss and political loss by exit from the EU. Ms. Merkel still progresses the European Union projects to bound the unity of the EU 27 members countries each other. That leads to defense

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25 Baker, Alex “Geopolitics Result puts 70 years of EU into reverse” Financial Times 25 June/ 26 June 2016.
27 Supra ibid.
28 The term of Europhilia was used when the EU membership countries established European Monetary System in 1999 by abolishing every country’s original currency; for example mark, franc, lira, peso, etc.
the EU on borders against the East, that is the threat of Russian invading Ukraine.

(3) **Diplomatic and National Security**

**Regional Economic Zone**

Brexit will change the viewpoint of the EU in the future. The world would recognize the EU as a regional market within the Continental Europe, though of Ireland and Iceland membership countries. Perhaps the world also might consider the EU as a economic bloc of the Continental Europe. As a result, the EU might lose the credit of economic and national security partner in long term.

**Soft Power Maintain or Not**

Both the EU and Brittan are worry about losing not only hard power but also their soft power which defines by Joseph Nye, Harvard University business administration. The soft power between the EU and Britain has been established for about a half century. People outside the EU and Britain see that the UK will be isolated in view of hard and soft power when they will completely divided.

On the contrary Brexeters often appeal that values of Britannia, what is called “soft power”, have been decreasing by uniting the EU. Boris Johnson said, “Leaving will bring a dynamic, liberal, cosmopolitan, open, global, free-trading, prosperous Britain”. But I also think what they say is wrong like many people outside the EU and Britain. Because soft power which includes the “dynamic, liberal, cosmopolitan, open, global, free-trading, prosperous” is based on truly culture, people coming and going, and attractive in its country. As Brexit closes the gate from the EU, Britain’s culture and people exchange will stop, and Britain’s attractive will fade away. Therefore I think that the soft power will become Britain weak in contrary to what Boris Johnson says.

**Keeping a Hard Power or Not**

The EU 28 membership countries within the UK have been facing critical threats from Russia where Mr. Putin has been a leader. Mr. Putin, the president of Russia, caused Crimea crisis 2014 and invasion to East Ukraine. He dominates liquid natural gas which send from Russia to the EU. The energy of the EU membership countries in Continental Europe depends on Russian’s liquid natural gas. Unfortunately, Russia has not shared values of western countries. Therefore, the EU must protect herself by common foreign policy and common defense policy against Russia now.

**Only NATO**

At present, European countries have protected not by the joint EU forces, but by NATO including the USA on the front line against Russia. So Royal Air Force of the UK patrolled the air over Lithuania, Estonia, and Latvia in the scheme of NATO. In the emergency, the EU membership countries should use the EU joint military forces under common defense policy adding to NATO. But in view of long term of the future, Brexit would weaken a hard power of the EU, especially military forces. Because the UK’s military which equipped with SLBM submarines and two air craft careers will have to leave from the EU joint military and the common defense policy. The EU joint military ISBM power will halve by leaving Royal Navy’s SLBM submarines. The EU joint military Naval air power will be one-third even by not using Royal Navy’s two air craft careers. The EU joint military air power also will be halves or one-third even by returning most advanced fighter “Typhoon” squadron from Baltic countries. Therefore I analyze that only the EU could not protect herself against Russian invasion after Brexit.

**Conclusion**

The EU 27 membership countries without Britain must keep tie more strong with the US against strong Russia and Mr. Putin. Germany and France loss the UK which has been an allied nation under the European Union. The US and the EU use the UK as a gate of Continental Europe which has continued since “D day” of WW2 in 1945. From international relations of the theory, Brexit robbed that gate in the EU of the Germany, France and the US. As a result, I analyze that Germany and France will directly accelerate military relations the US not through the UK. I also think that the UK will more strongly bind an alliance

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29 Nye defines politics, economics, and national security as a hard power, free trade, basic human rights, liberalism, and culture as a soft power.

30 Baker, Alex “Geopolitics Result puts 70 years of EU into reverse” Financial Times 25 June / 26 June 2016.
rope to the US. Brexit changes soft power and hard power of the EU and the UK. Therefore Brexit makes the order of Western hemisphere.

6. Political and Legal Questions on Brexit

Introduction

There are million and million questions to solve about Brexit between the UK and the EU. It is no time to solve those questions like a spaghetti. Once the UK government officially notifies “Leave” to the EU membership countries, the UK and the EU will have to proceed and end the divorce each other within 2 years according to the Lisbon Treaty 2007, article 50 “divorce clause”. But no one can predict whether the UK “Leave” procedure completes within 2 years. Because the procedures of Brexit are more complex, unprecedented and too much. And the membership country’s withdrawing from the EU has been for the first time since the EC established.

(1) Brexit Causes Political and Legal Problems

Getting Back Sovereignty

Brexit just has ended the UK’s membership of the EU for 43 years. The UK gave the European Community in part sovereignty which are trade policy, foreign policy, agricultural policy and energy policy in 1973. Brexit makes the UK get back her sovereignty which gave over the EU. Unfortunately the UK has existed without original trade policy, original agricultural policy and original energy policy for a half of century. On the other hand, the EU breaks up with her sovereignty which the UK gave over, and will have to rebuild a injured single market in mainly Continental Europe.

What does the UK Want?

When Brexit is in reality now, what does the UK want? Of course, the UK wants to stop to submit contribution of money to the EU. The UK also wants to escape from obligations of the EU. For example, the UK will bloc waves of immigration from the EU eastern membership countries, especially Poland and Romania. At the same time, the UK still may want to continue free trade between the EU, although it seems the UK is considering only her own merits. On the contrary, the UK may want to revive tariffs on goods imported from the EU. The result of Brexit depends on the difficult deal with Brussels of the EU because of unprecedented, complex and huge procedures.

Anyway, the UK and the EU membership countries anchored a voyage to go unexplored land. Perhaps this ship trip may be dangerous. The UK and the EU might emotionally harm each other. Nobody knows ultimate result of Brexit in the future. But I believe that the UK and the EU could try to take a right path whether the solution of Brexit is a soft landing or a hard a landing.

(2) The Procedure by Article 50 “divorce clause”

The EU warned the UK

The EU leaders give severe message to the UK government and British people. A joint statement of Donald Tusk, European Council president and other leaders of the EU institutions warned the UK that Brexit “to give effect to this decision of the British people as soon as possible, however, painful that process may be. Any delay would unnecessarily prolong uncertainty”31.

Article 50

According to the EU law, when the EU membership country wants to leave from the EU, that country firstly faced Article 50 of the Lisbon treaty 2007. Article 50 is so called “divorce clause”32. Article 50 requires two years of that country to divorce from the EU. The two years are as the deadline for completing leaving the EU. Two years might be too short to deal with very complex and many legal problems which will be occurred by Brexit. Any membership country leader, bureaucrats of Brussels and lawyers could not think of a good solution. Because there is no concrete procedures in article 50, Lisbon Treaty. There is only the deadline of two years in article 50, Lisbon Treaty.

Disturbing and Muddy Process

Alongside article 50 Lisbon treaty, the problems will exist in the field of the EU civil law which law covers persons, companies and trade between the UK

31 Baker Alex ‘Divorce talks open up with ‘a million mad questions’” Financial Times, 25 June/ 26 June 2016.
and the EU. In an actual daily life, personal activity and company’s activities in the UK, the EU civil law are superior to the UK domestic law. These problems will require more complex negotiations when the UK notifies “Leave” to the EU. The UK might have to return to old civil law from current civil law under the EU law system. The law that the UK should return is the law at the time of 1973 when the UK was perfectly independent from the EC.

Of course, not only in the domestic, the UK and the EU might also have to revert current trade system under a single market to the previous trade system between the UK and the EU as before 1973. If the EU denies accepting a comprehensive and one time negotiation on Brexit, the UK will have to negotiate with each 27 EU membership countries and some international institutions separately. These are a disturbing and muddy process.

Tension between the UK and the EU

Finally the terms and conditions which the UK requests against the EU membership countries and bureaucrats of Brussels may occur the tension between the UK and the EU. The “Leave” campaign on the UK EU referendum appealed to exert article 50 “divorce clause” as soon as Brexit had done. “Leave” campaign also appealed to repeal some EU obligations. On the other side, Brussels will certainly resist acceptance the UK’s terms and conditions. The tension between the UK and Brussels must be happened no matter what kind of negotiation will do. Brussels may consider alternative option to prevent from continuing the privileges of the UK companies under a single market before the UK officially divorces from the EU by article 50 after two years. The UK’s terms and conditions might trigger the confusion in Europe, perhaps to the world.

(3) Waiting or Going. That is a Question

Ms. Theresa May

The environment around British companies would not change in the coming months before the UK’s notice “Leave” based on article 50. The beginning of Brexit would be late more than we support. Because it spent only a month for the UK to elect the next British prime minister from the Conservative party after Mr.

David Cameron stepped down. Ms. Theresa May was elected a prime minister in July after Brexit. Changing the prime minister too early made the power of the prime minister Ms Theresa May vulnerable. Actually, Her administration will negotiate with the EU over latter a half of 2016. Probably she had been in the timing of making a decision of the trigger article 50 “divorce clause.” So she officially informed the EU of “Leave” on the base of article “divorce clause” in 29 March 2017.

Any Serious Negotiations never Begin

Mechanical procedures of the bureaucratic level started from 25 June 2016 one day after the UK EU referendum33. But any serious negotiations could not begin until the UK administration will draw a blue print of Brexit. That is how the UK wants to be in the future after ending all procedures of Brexit between the UK and the EU 27 membership countries. That is how the UK Parliament wants to be too. Two questions will also exist during two years when article 50 “divorce clause” gives the UK.

Treating with a Single Market

Leaving campaign advocated to break up with a single market of the EU. Some campaigners appealed the bilateral deal with EU 27 membership countries, and wanted to get the privilege of trade one by one. On the contrary, some Labor Members of Parliament have told that the UK should stay in a single market as a non EU membership country, if possible. I could not get a good idea of staying in a single market, though the UK EU referendum resulted “Leave”. Because a single market is closely inseparable from the EU membership countries.

New Trade Scheme or not

After all, there is the biggest risk at Brexit no matter what the UK and the EU will negotiate in near future. This risk is that the UK and the EU could build up the new trade scheme when the UK completely exits from a single market. Perhaps, it would be better not to have a new trade scheme. Because it may be relatively easy for the UK to escape from the UK’s obligations and contributions of the EU membership. Canceling obligations and contributions of maintaining a single market would bring a fundamental solution

33 Supra Ibid.
about the UK's burden budget for the EU. Canceling obligations and contributions will also bring the fundamental solution about the immigration problem beyond the boarder between the UK and the EU. On the other hand, it is much more difficult for Brussels to build up the new trade scheme with the UK. Whether the new trade scheme will work or not, it depends on the plan of the UK's terms and conditions of Brexit.

Conclusion

Probably it would spend more five years to build the new relationship with the EU beyond two years by article 50 “divorce clause”. If article 50 includes “divorce” and “trade”, the UK administration and Brussels must completely make the new trade scheme only within two years. If article 50 does not include “trade”, the UK and Brussels will have to need more two years. In case of the latter is right, trade negotiations should open to begin alongside divorce negotiation under article 50. Brussels would firstly want to finish only the divorce negotiation not including “trade”. In other words, the governance of the UK and the EU is the first step, and economic problems is the second step. Though “governance first” is right on the base of theory of law, I think that the UK and Brussels had better deal with “trade” negotiations at the same time of beginning withdrawal negotiations, whatever the legal interpretation of article 50.

I think that the worst case is a hard landing. Because Brussels affirmed to treat with “divorce” and “trade” separately. So “divorce” will completely end within two years, and “trade” must be confused. Therefore I could predict that firstly the UK completely might be shut out from a single market of EU. Secondly the UK should accept the less damaged trade plan from some options. That will be realistic UK’s independent.

Conclusion

As I have seen before in this paper, the UK must in principle cut off the connection with the EU as long as she notifies the withdrawal notice of Article 50 “divorce clause” of Lisbon Treaty. It is a matter of course because it is a statement of nation state’s intention that directly reflects British people’s will of national referendum. It can be said that just populism has kicked out Britain, the second largest economic scale in a single market, from the EU against the intention of the prime minister, Mr Cameron at the time and most of the high income earners, noblemen, young men and inhabitants in London. British departure has many influences, but if I focus on financial industries and financial markets, which is the subject of this thesis, the first thing that can be thought of is that global banks which has been in London for over 300 years since Napoleon’s era whether global banks as they are going to keep their bases as they are in City of London or relocate to the cities of the EU. The answer seems to be the Continental financial city of Frankfurt, Germany, the largest economic country in a single market in the EU, among the various options as discussed in this paper, which is becoming obvious now.

The UK real economy can not use a single market as a sales channel, and real economy also would lose price competitiveness and sales channels. It would be difficult for domestic economy to make London as the financial center only within the UK. To consider the only possible measure, I predict two compasses. One compass is the absolute stability of financial markets of City London that could not make financial crisis at that moment of Brexit, even if Brexit was a critical crisis of City of London. The practice and the principles of the crisis management of the Bank of England and its financial authorities, which has addressed numerous financial crises for over 300 years. Healthy finance of banks are inside and outside of the market. And the excellence of market participants. Even so, there is not anywhere in the global financial market that is strong against this financial crisis. It is the only one in stability all over the world.

The second compass is that London is extremely easy to use for EU companies raising funds in pounds and euro, dollars. Because City of London outside the EU regulation, Continental law, German and French law plays a positive role in the investment banking business. Investment banking has been historically developed under English common law and case law. City of London under English common law and case law has been matched and will be able to match the investment banking. May be global banks which moves towards Frankfurt might return City of London.

I conclude that two directions of city of London would be the compass principle of the UK economy and City of London as a global financial center in near future.
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