

The cover image features a textured background. The top half shows a portion of the Union Jack flag (red, white, and blue). Below this, a jagged, dark hole is cut into a wall of blue stone blocks. The bottom half of the image shows a blue background with twelve yellow stars arranged in a circle, similar to the European Union flag. The title 'FORECASTING AFTER BREXIT' is written in large, white, serif capital letters across the center, with the stars integrated into the text.

FORECASTING AFTER BREXIT

By Joergen Oerstroem Moeller

ABSTRACT: The historic June 23, 2016, vote by Britons to exit the European Union (dubbed “Brexit”) surprised pundits, policy makers, and even many voters themselves. Whether the move becomes a prelude to further exits or a lesson for those favoring stronger ties with international partners is yet hard to predict, but the long-term fallout may be more worrisome than short-term disruptions.

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After the Revolt

THE RESULT OF THE BREXIT VOTE DEPICTS A REVOLT staged by ordinary people left behind, neglected, and coaxed by the elite unable to deliver on the promise of economic globalization as a golden age. People turn to politicians advocating “our own destiny,” disregarding facts, figures, and rationality. Emotions, intuition, instincts, and immediate reaction confront logic, rationality, due deliberation, and carefully weighing pros and cons.

How this trend will fare in coming decades — peter out or gain strength — may depend on what happens after Brexit. Can a country cut the links to an international political system designed to manage international problems? If so, disintegration looms as the future for the EU. Or does the experiment of taking back political control (using the vocabulary of the Brexiteers) end as disastrous, demonstrating that globalization has made pooling of sovereignty indispensable? If so, the EU will turn out as a different enterprise, but basically smaller and stronger and with an energetic core, maybe surprising by showing mettle.

The global elite surmise that Brexit demonstrates it is out of the question to withdraw from the institutional framework built to facilitate economic globalization. Legal hurdles, organizational and administrative barriers, and, most important, high economic costs speak for themselves. And they do. But the world is not solely about logic and rationality. Ordinary people have lost contact with their political systems and policy makers must read and respond. The underlying

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message is to make globalization closer to the people. If this message is not heard, another (and maybe worse) voter revolt waits around the corner. Europeans are crying for their political systems—EU and national ones—to deliver solutions.

There is a somber aspect lurking behind the curtain. The Brexit debate has unleashed political views hitherto taboo. Regressive nationalism, populism, xenophobia—yes, racism—and violence. Le Front National in France and similar political forces in other European countries have opened the door, but the Brexit debate

has given it another and more sinister dimension.

The risk is not referenda in other European countries, but a revival of political forces reminiscent of the 1930s—extremism legitimizing oppression of people who think “otherwise.” If those forces are let loose, encouraged and boosted by the Brexit debate, Europe faces an existential crisis already visible over recent years with the refugees and migrants, but now exploding.

This makes it worthwhile to examine the course of Brexit—a potential game changer for the global system put in place since 1945.

The United Kingdom of Great Britain and Northern Ireland

Politics

The ruling Conservative Party (331 seats in the House of Commons of 650) who took Britain into the EU in 1973 has since Prime Minister Thatcher (1979-1990) been divided on the EU. Prime Minister John Major (1990-1997) strived in vain to move it into the

heart of Europe, but discovered that a growing share of members of Parliament wanted Britain at the periphery. After assuming leadership of the party in 2005, David Cameron sought—also in vain—to unite the Tory party, and this time on an EU-skeptical platform. Becoming Prime Minister in 2010, in a coalition with the Liberal Democrats, he took advantage of that party’s pro-EU policy to vent criticism of the EU and allow anti-EU forces to gain traction, knowing that his coalition partner would constitute a barrier



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for turning rhetoric into political realities. This tactic floundered when he unexpectedly won a majority in the House of Commons in 2015, forcing him to fulfill the pledge of a referendum before 2017. The script was to negotiate new terms for EU-membership, return in triumph, reconcile skepticism with continued membership, unite the party under this banner, and resolve the issue once and for all through a referendum. It backfired catastrophically, putting him on an embarrassing and sometime humiliating political retreat and allowing the opposition inside his own party to set the agenda.

The Labor Party (232 seats) was equivocal about Britain's membership in 1973. After winning the 1974 election, Prime Minister Harold Wilson engineered a referendum in 1975. The "in" vote carried the day with 67 percent of a turnout of 64 percent. Since then the party has gradually adopted a pro-EU stance. The current leader, Jeremy Corbyn, has never been genuinely pro-EU, and the campaign in favor of "remain" has been lukewarm. After the vote an open revolt is staged against Corbyn, accused of not having done enough to rally support for remain. In the domestic political context, this may be understandable, as David Cameron's intention was to unite the Tory party, and one can hardly expect the opposition (the Labor party) to help him in that endeavor, but it undermines Labor's credibility as an alternative to the Tories.

The new prime minister, Theresa May, needs to unite the Conservative Party, but faces opposition inside the party, the House of Commons, and the EU. She campaigned for remain while her main job will be to negotiate exit from the EU. The appointment of three leading Brexiteers (Boris Johnson as foreign secretary, Liam Fox as secretary of state for international trade and president of the board of trade, and David Davis as secretary of state for exiting the European Union) displays political flair, but may backfire as just too clever. Ultimately she cannot pass the buck to them. How loyal will they be, and how deft will they prove to be at the art of compromising not only with the EU, but also with their fellow party members?

She needs to give a clear political steer defining what Britain wants and which concessions Britain is willing to offer. Unless that is the case, these three negotiators may use more of their time to fight each other than to seek a favorable solution for Britain.

The main risk is that she will set a trap for herself similar to what her predecessor did: Choose between party unity and a deal with the EU. She may be able to rally a united party behind her on a negotiating platform, which is unpalatable for the EU. Alternatively, she may obtain what most observers would call a good deal that will be rejected by maybe 60 or 70 Tory members of the parliament, eroding her capacity to govern. Judged by what has happened hitherto, it is likely that she will choose party unity, with dire consequences for Britain and its economy.

Negotiating new terms with the EU

Constitutionally, the decision rests with the members of the House of Commons, of whom maybe even 75 percent do not want to leave the EU. They feel bound by the result of the referendum, but not the arguments put forward by the "leave" camp. And they are split. A consensus must reconcile the majority of Conservative MPs (of whom up to

150 are Brexiteers) wanting the single market without social provisions and the large majority of Labor MPs seeing EU's social chapter as an indispensable counterweight to the free market philosophy. EU membership divides Britain on the question of free market versus the welfare state. To craft a policy stance that has a chance of success in Brussels—approved by a strong majority in the House of Commons without Brexit supporters crying foul play or, even worse, betrayal—looks close to impossible.

The core question seems to be whether Britain is disposed to give in on free movement of labor as a quid pro quo for access to the single market. If negotiations falter, 4-5 million people will feel the consequences. It is estimated that 2-3 million British citizens live in the EU and 1-2 million EU citizens live in Britain—the exact figures depend on definitions. For Britain, the snag is that those living in the EU are mainly retirees who, if coming home, will be a burden, while the majority of EU citizens living in Britain work; indeed, analyses show that EU citizens pay more in taxes than they take out in social welfare benefits.

According to the Treaty (article 50), new terms for relationships must be concluded within two years after notification of withdrawal approved by a qualified majority in the Ministerial Council. The consent of the European Parliament is required before the Council decides. It is no rubber stamp, and institutions still smart from Mrs. Thatcher's words, "a Mickey Mouse" Parliament. The two-year deadline, tight for international negotiations, can be extended, but that requires unanimity among all 27 members of the EU. If no deal is struck within two years, Britain reverts to pre-1973 status without any formal links to the EU.

In the short term, not even membership of the World Trade Organization (WTO) can be counted on. Since 1973, Britain has acted in WTO as an EU member state and has no "sleeping" fall-back status. It is subject to negotiations involving all WTO members, of which there are 162—not all of whom may be ready to forget their own national interests. Before getting back into WTO, no trade agreements can be negotiated. As of now, informal talks can be started, but as every negotiator knows, compromises and deals will only be struck when you are certain that the other part is ready to conclude, and that can only take place after WTO membership.

A second referendum

After the vote June 23, 2016, 4.1 million voters signed a petition for a new or second referendum. This is troubled waters. Experience indicates that a second referendum, unless circumstances have changed, solidifies the decision from the first one. It only makes sense to opt for this course if the idea is to change the result and to achieve that a number of conditions must be fulfilled.

It is hasty to call for a new referendum so soon after the vote, but it is equally hasty to rule it out not knowing the future. In one or two years, the situation may well be so messy that a referendum commends itself as the most democratic response to a number of scenarios, all of them unattractive or even unpalatable. Without being prepared for

this eventuality, voters will, if it is called, react negatively, seeing it as another attempt to fool them.

First, there must be a clear majority in Parliament for steering toward that goal and a majority among the electorate tolerating it. If not, it will be regarded as betrayal, engineered by clever civil servants or smart politicians circumventing the will of the people. And fail.

Second, delete the word “second” from the vocabulary, as it connotes a maneuver to reverse the June 23rd vote. A sure loser. Voters will not welcome politicians implicitly classifying them as stupid.

Third, the new prime minister should fairly soon call an election on the themes of full respect for the Brexit vote to remove any fear among voters that some trickery will be attempted and confirm that negotiations for leaving and new relationship will start and soon. Voters do not classify the issue as important if Prime Minister May takes the view that she and her government can negotiate without a mandate from the people.

The number of “leave” MPs after an election can be interpreted as the voters’ reaction. If fewer “leave” MPs are returned, the electorate seems willing to give it a try. In such a scenario, Parliament should forestall accusations of foul play by stating unequivocally that the course set by a referendum can only be changed by a referendum. Conveying this to the public is a hard task, but indispensable. If the number of Brexiteers is unchanged, a new referendum is not realistic.

Fourth, some Brexiteers and part of mass media will scrutinize negotiations, harbouring a presentiment of the establishment accepting bad terms as ammunition for reversing the June 23rd decision. To pre-empt suspicions and accusations of such a tactic, politicians and civil servants must do their utmost and be seen as doing so to secure good terms for withdrawal.

Fifth, the main slogan for a campaign prior to the next referendum, if there is one, must be that terms are known, which was not the case of June 23. That makes it legitimate, reasonable, and fair to ask voters whether they want to confirm their earlier decision or remain in the EU. Not a second referendum or a plea to repent, but a new referendum on another basis.

Judged by policies or lack thereof in Britain and the position of Prime Minister May, a new referendum seems very unlikely.

The economy

The British economy looks good on the surface, but it is in reality in bad shape, mired in strong and growing imbalances. The current account of the balance of payments has been in deficit for decades, and the prognosis for 2016 is a deficit of 5 percent. Public finances depict a similar picture, with a projected deficit for 2016 at 4 percent. The public debt has doubled as a share of GDP from 2000 to 2015. Total debt (public debt + households + financial institutions + corporations) is close to 500 percent of GDP depending on definitions—a scale only matched by Japan among developed countries.

Since membership in 1973, a large part of British legislative framework for doing business is a consequence of EU membership. Estimates of the size vary, but a considerate guess is about one-third. Many of these are EU regulations directly applicable replacing national legislation. Will a British government turn them into British law, modify them, or acquiesce in a large vacuum to see what happens? Whatever course is chosen, the results are more problems for the Parliament in Westminster and uncertainty for the business sector.

Other economic problems looming on the horizon are complicated ownership (Anglo-Dutch Shell), subcontractors (Airbus), multinationals operating in Britain for export to EU's single market (Nissan), and mergers like the plan to merge London Stock Exchange (LSE) and Deutsche Boerse.

It is indisputable that the City of London continues to be a global financial center, but it is equally indisputable that it will lose some business. EU members can offer financial services in other member states (the principle of mutual recognition and the "single passport" system) without further authorization requirements. The EU is establishing a banking union, which in case of British withdrawal will ignore the City of London. Impediments for free movement of workers may complicate employment in London of qualified staff from EU member states. Other European financial centers (Frankfurt, Paris, Amsterdam, and Dublin) stand ready to grab a share of lucrative business. In case of

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Scottish independence, Edinburgh or Glasgow may enter the game.

The International Monetary Fund (IMF) has tried its hand and concludes that, depending on which terms Britain and the EU can agree on, Britain's GDP will be between 1.4 percent and 4.5 percent lower in 2021 than if staying in the EU.

The short-term impact, however, may be limited. Private consumption may slip a bit, but not much. It is in the medium and long term that the negative impulses will be felt, with investment prospects less rosy. Uncertainty about City of London's access to the single market will induce financial institutions to scale down their presence. Transborder European mergers and acquisitions will increasingly bypass and omit British companies. Foreign investment will taper off. Over one or two decades, a slowing down of economic growth will result in a considerable loss that may not be seen and felt in the next year or two, possibly giving rise to complacency. An omen of ill news waiting in the wings is the gap (negative) in productivity to the other six members of the G-7 at an all-time high since modern records began 25 years ago.

Scotland's independence; Northern Ireland

Scotland's First Minister Nicola Sturgeon stated publicly on June 26 that "the UK [that] Scottish voters remain with in 2014 no longer exist." At the EU referendum, 62 percent of the Scots voted for remain and, simultaneously with Nicola Sturgeon's statement, a poll revealed that now 59 percent would vote to leave the UK.

A renewed Scottish request for independence from the United Kingdom of Great Britain and Northern Ireland would land in Westminster at the same time as EU negotiations were going on. It will be difficult to say no as the political leaders, with support from the Brexit camp, negotiate to leave the EU on a basis of a referendum. How can Scotland be rebuffed by the very politicians having insisted on the right of the people to decide on EU?

In any event, Brexit complicates relations between England and Scotland, as it would require the repeal of the European Communities Act (ECA) by which EU law is brought into the body of UK law. ECA is incorporated in the devolution status of Scotland (plus Wales and Northern Ireland), raising the prospect of a clash between the Scottish Parliament in Edinburgh and the UK Parliament at Westminster.

Maybe a more acute and hideous problem will emerge in Northern Ireland. EU membership for the UK and Ireland is deemed as indispensable for the peace process, anchored in the Good Friday agreement from 1998. The open border allowing free movement of goods and people cannot continue with Britain outside the EU and Ireland inside. Attempts will be made to square the circle and keep the border open, but it is hard to see how that can be done. Without the single market prescribing free movement of goods and people, Britain would need to impose border control—preventing EU citizens from entering Britain from Ireland—collect custom duties, and ensure that technical standards and so on are met by goods traded over the border.

Wild card: The nuclear deterrent

The lifetime of the existing nuclear deterrent, four Vanguard-class nuclear submarines, expires around 2028, which in view of planning and procurement puts a decision on replacement on the agenda in 2016. The force is based in Scotland.

The official estimate for replacing the fleet is \$44 billion, but unofficial estimates go as high as \$235 billion. The Ministry of Defense has mentioned 6 percent of the annual defense budget—a somewhat cryptic message in view of uncertainties about future defense budgets and the length of investment.

It is one of the few issues still uniting the Tory party. Almost the first major political step by Theresa May was to push this item in an effort to show that, on a key issue, the party is united and resonates with the sentiment among many Brexit voters, while at the same displaying Labor's division. This tactic paid off. On July 19, the House of Commons voted overwhelmingly to renew the Trident system. Only one conservative voted against. The opposition leader, Jeremy Corbyn, against the program, was once again humiliated, with three-fourths of Labor MPs supporting the government.

However, tactic is one thing, strategy another. The economy may throw grit into the machinery. Falling economic growth may soften the Tory determination and run counter to Prime Minister May's apparent move toward the political center by forcing her to choose between Trident and social welfare of prime importance to many voters.

An unknown factor is the attitude of Scottish National Party (SNP), which has hitherto promised to rid Scotland of nuclear weapons. If Scotland votes to leave the UK and SNP maintains its view, new facilities need to be constructed in England, adding to the already exorbitant costs. A Scottish exit from the UK will trigger tumultuous negotiations about future England-Scotland relations, and the nuclear base will be a pawn in this game.

The problem for Britain's defense forces is not so much the prospect of a European army drawn into the debate by the leave camp—attractive for some, repellant for others—but that the money is not there.

The Atlantic Alliance

Britain has been a cornerstone—in fact the indispensable partner—for the Atlantic Alliance linking North America and continental Europe by geography, societal system, and kinship. Some observers take the view that Brexit is irrelevant—indeed, some take the view that, outside EU, Britain can form stronger links with the United States—but the reality is different.

A weaker defense would transfer a higher burden on the United States exactly at the time when the U.S. is looking for the Europeans to increase defense expenditure. Britain's future participation in U.S.-led military operations around the world can no longer be taken for granted in view of a rundown military and fiscal constraints.

It is likely that EU member states such as Poland, Germany, and France will hike military expenditure, enhancing their capabilities and making them more interesting partners for the United States.

Despite the sometimes belligerent attitude of Russia, much of the talk is bravado and hides a fundamentally weak nation that can stage hybrid warfare and sow disorder via Russian minorities in its nearby neighbors abroad, but not stage a war. Suffice to recall that Russia's GDP is at the same level as Italy's and the defense budget, at \$53 billion, about 10 percent of what the United States spends and 80 percent of what Britain spends.

The strategic interpretation of this is that there is no real need for a U.S. military commitment to Europe. In fact, an objective analysis discloses that there is no military threat comparable to what was the case before 1991. The Atlantic Alliance is kept together by a mixture of inertia, better not run the risk of dismantling it, and a useful vehicle for discussing military operations outside Europe. The common and shared values are still there, but less so than over the second half of the 20th century.

The hard truth is that the United States and Europe take a different view on Russia. The Europeans realize that Russia's saber-rattling has to be met with an appropriate response, but in the long term they look for some kind of partnership. Geography

dictates policy. Germany as the strongest EU power takes this view; France also. Central and eastern European countries may be more wary in their view, but for them geography also dictates Russia as a threat or a partner. Somehow this circle has to be squared.

If in doubt, you only have to recall the blunt words spoken in 2011 by then-Secretary of Defense Robert Gates, “If current trends in the decline of European defense capabilities are not halted and reversed, future U.S. political leaders—those for whom the cold war was not the formative experience that it was for me—may not consider the return on America's investment in NATO worth the cost.”

In nonmilitary areas, the hitherto feeling of common interests fade. Examples are the difficulties for the Transatlantic Trade and Investment Partnership (TTIP) and the recent cases started by the European commission against large American multinational companies. Isolated, they may not give rise to worry, but they form a pattern that do.

A strong Britain as a committed member of the EU and maintaining links across the Atlantic might soothe the United States, helping to keep the Alliance going—at least postpone the inevitable parting ways. A weak Britain out of Europe cannot.

The European Union

The EU reaction has been a mixture of sadness reflecting that no one wanted this and determination signaling that Britain voted to leave so you leave—you cannot have it both ways. Negotiations to find terms for leaving have to start fast—no uncertainty or dithering.

The EU is switching its attention to its own future, not Britain's. Political movements in all member states question the EU and in some cases (such as the Front National in France) advocate exit. Looking at the figures, they may influence European policies in particular on refugees and immigration, but it is very unlikely that they will get into government with power to put exit from the EU on the agenda and unlikely that other EU member states will follow Britain and call a referendum forcing exit. The first voter reaction was seen when, three days after the Brexit vote, the Spanish voters increased the share of the governing party (PP)—pro EU—and delivered a disappointing result for the anti-austerity Unidos Podemos. Polls from France, Germany, and Denmark after Brexit do not support growing allure of jumping on the Brexit bandwagon—on the contrary.

The overwhelming majority of politicians elected to national parliaments and policy makers in Brussels are fully aware of the growing popular EU-skepticism and try hard to intercept it. They want to adjust policies before it is too late. An example is the reduction of EU regulations from 14,500 in 1983 to 1,269 in 2015, of which 430 were amendments to existing regulations. Their problem is, first, that they are not certain what to do, as indeed is the case for governments all over the world; second, that the EU, like other nation-states (the United States, China, Japan, and many others), is caught in economic headwinds and a debt crisis due to policy mistakes more than ten years ago;

and third, that anti-EU politicians suffuse the agenda with assertions that are without foundation but strike a chord with the public.

The core of Europe is still the original six—Germany, France, and Italy, plus Benelux. Maybe a couple of others can be added. They perceive the EU as a vehicle for some kind of a united Europe, a federation, or a confederation or whatever the future has in store for adjacent countries pursuing analogous policies. Their visions grew out of a feeling that fundamentally they face common challenges that had to be addressed by common policies.

Successive enlargements since 1973 looked attractive, even statesmanlike, when they took place. The painful reality is, however, that most of the newcomers, including Britain, did not join because they shared the European vision, but because they searched for economic benefits. Surreptitiously in the beginning, but gradually with more conviction, they have tried to stop the integration.

Realizing this, the core will react. No nation or group of nations will accept that its vital interests are blocked by other nations. For the core a more united Europe is a question of long-term survival and, judging by history, it is almost certain that they will close ranks in one way or another.

Around Europe, there are approximately 600 million people with a much lower living standard. Russia has become unpredictable, at least in the short term. Ukraine is not successful in its endeavor to turn itself into a Western-style nation. Turkey is breaking with the Atatürk

tradition, the Middle East is in flames, and North Africa is a potential powder keg. South of the Sahara, millions of Africans look at Europe. The United States is questioning its commitment to Europe. China and India are eating into Europe's share of the global economy. A colossal debt burden keeps the world economy in the doldrums.

Information and communication technology make it possible for migrants in Europe to maintain ties with family and culture often contradictory to European values, producing a clash of values. These are existential threats for the core, and the political consensus is that either they are met by common policies or Europe as we know it perish.

After some hesitation and pondering about what course to take, France and Germany will in one way or another announce a stronger integration in key areas such as the single currency (euro) and defense—maybe also refugees and migration. The door will be open for other member states to join, but without derogations, exemptions, and special agreements. Over the years, the British and the French have tried to step up

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cooperation, but with limited success. The two costly weapons systems—nuclear deterrent and carrier strike groups—look tantalizing for cooperation in the eyes of everybody but policy makers and top brass. To imagine a revival of such efforts in the slipstream of Brexit appears fanciful.

The Treaty (article 20 and 326-334) foresees that a minimum of nine member states within the EU structure can establish advanced integration without the participation of those who do not want to take part.

What has been called multi-speed or multilayered integration or concentric circles will emerge. Next to the core, a group member states applying analogous policies, but not yet ready or willing to join, will appear. A third circle will consist of those preferring a looser link to the core and content with how the EU looked before the Treaty on European Union (The Maastricht Treaty) from 1993.

The existing EU decision-making machinery will function as the place where decisions are taken and negotiations done. In reality, the core will decide for new provisions covered by enhanced integration and leave it to the rest of member states to decide whether they want to come along or not.

The idea of all moving toward the same goal albeit with different speed is put aside. In this model, countries can be members of the EU without fully subscribing to the ultimate goal, instead opting for some kind of a la carte membership. The price paid for such status is less influence on decision making. Or, in other words, take it or leave it, but with the option of not taking it and continuing as member.

At a first glance, this looks like a patchwork quilt, but a closer look reveals that it may be the only way forward. The experience for which Europe has paid a high price is that almost all European countries (including Britain) want to take part in a European integration but do not share the end goal or the speed going there. Trying to hold on to this principle—in many ways commendable, even admirable—risks starting disintegration. On the other hand, those who have reservations cannot claim the right to hold back the core group from pursuing its vital interests.

Global Outlook

What kind of Britain will the world see? What kind of EU will emerge out of the maze? Will geopolitical partners face a reappraisal of their policies vis-à-vis Europe?

The prevailing mood, at least in Britain, is a more outward-looking country no longer hemmed in by EU. Time will show. There is, however, a risk that Britain will turn more self-centered and overestimate its role and importance in the world, neglecting other countries' interests. Even if such an attitude is not *ex definitione* insular and inward-looking, it may turn out to be so, depicting Britain as a country reading the international concert wrongly. The foundation for international cooperation is *quid pro quo*—and awareness of other countries' problems and interests—without which no deals can be struck.

It has not escaped the attention of the EU that debate in Britain, academic and political, solely focuses on what Britain wants. Self-centered. There is no apprehension

of the problems Brexit has created for the rest of Europe. If an analogous attitude surfaces when Britain engages the world, it bodes ill for the good will it will meet.

The mountain to climb in getting free-trade agreements all over the world will be steeper as, recalling the Brexit vote, trade partners ask the simple question of whether Britain's word and signature can be trusted. Not even the most melodious declarations that Britain leaves the EU but not Europe can gloss over the negative sentiments about continental Europe and belonging to a rule-based international system. In fact, prior to the vote, leading politicians—including Theresa May in her capacity as home secretary—advocated withdrawing from the European Convention on Human Rights.

Outside the EU, without the explicit and implicit support, Britain faces an abrupt awakening. Spain has already raised the issue of Gibraltar, floating ideas of shared sovereignty. Next to come may well be Argentina and the Falkland Islands (Islas Malvinas). Relations have markedly improved since the recent political change in Argentina but have not removed the underlying issue.

Many observers take the view that Britain outside connotes a less global and more inward-looking EU—protectionist. This is right, probably, but not to the extent normally assumed. Countries—and this also goes for the EU—pursue interests, not headlines. Thirty or 40 years ago, a parochial Europe (economically at least) was feasible, but no longer. The EU stance in world trade negotiations, where the bloc negotiates on behalf of member states, reflects a broad consensus and cannot be ascribed to Britain or any other member state.

Europe will be less capable of projecting military power, but, except limited actions undertaken by France, has not done so on its own for several decades. Dealing with the turmoil in the 1990s in the former Yugoslavia required U.S. military force. More than 30 peacekeeping operations have been launched requiring limited military power, and there is no reason to expect another posture. The same can be said about the EU's participation in negotiations about global warming or policies about human rights.

Since the demise of Yugoslavia, the EU has played a major role in only one major foreign- and security-policy problem, and that is the Minsk agreement (September 2014) about war in the Donbas region of Ukraine. It was signed by Ukraine, Russia, Germany, and France. Britain was absent from efforts to settle this problem of crucial importance to Europe.

Russia is assumed to watch the EU's troubles with glee, but the Kremlin's perspective is a multipolar world with respect for Russia and its interests as a major power, which is not fully consistent with a too-weak EU tipping the scales toward a stronger U.S. too "big" for Russia. The feeling, unsaid, may be that the EU can be easier to deal with than the United States, if for no other reason than that the EU and Russia are neighbors.

The dog that didn't bark! On June 30, 2016, President Putin gave his biannual policy statement to Russian ambassadors. The tone vis-à-vis the West was conciliatory. No hint of using Brexit or classifying it as welcome.

China allegedly also toyed with the idea of multipolarity, where EU disintegrating does not fit in, for the same reason as is the case for Russia: Concentration of more

power in the hands of the United States. The current leadership has invested heavily in Britain, but as a member state of the EU not outside. President Xi Jinping paid a high-profile official visit to Britain in October 2015, and he will lose face with Brexit, being accused of betting on the wrong horse. China may turn out to be a big loser from Brexit.

Only a few weeks after taking over, Prime Minister May interfered in a high-profile project with China—indeed, the flagship project signed under President Xi Jinping's visit—postponing the final signing ceremony with a few hours' notice. Hinkley Point nuclear power station—a project costing £18 billion—with two main partners: Electricite de France (EDF) and China Nuclear Power Group (CNNP). The Chinese company has signed up for one-third, with the prospect of subsequently building a Chinese-designed nuclear power station.

How this was managed can only be seen as a snub to China just a week after Chancellor of the Exchequer Philip Hammond's visit to Beijing floating the idea of a free-trade agreement. Furthermore, precisely at the moment after Brexit, when Britain is looking for international investors, the prime minister is sowing uncertainty about treatment of foreign investment. Whatever reasons underpin the decision to delay the project, it will not be taken kindly by global investors. In mid-September, the British government gave the green light, but it is not clear what motivated this return to previous policy and whether circumstances have changed.

The main effect is, however, to be found in the global steering system forged in 1945 by the victors of World War II.

Britain is a permanent member of the UN Security Council and sits in various UN institutions, with considerable voting power. If Brexit triggers a Scottish secession, can England then claim to be successor state to Britain? And will other members of these institutions accept that?

When the Soviet Union broke up in 1991, all the other states acknowledged the Russian Federation as successor state, and no other power had objections. Will that be the case for Britain? For a start, what will Scotland say? Probably not objecting, but maybe asking for concessions, as it wants to enter these institutions on its own. What role will the uncertainty of the British nuclear deterrent play, especially with regard to Britain as a permanent member of the UN Security Council?

For some time, reform of the institutions aiming at getting rid of the immediate post-World War II structure has taxied up and down the runway without taking off. Brexit could be the event that marks a turning point and launch a serious adjustment to how the world looked in 2016 and not in 1946.

Conclusion

The most likely scenario is that negotiations between Britain and EU will start in early 2017. Prime Minister May might prefer to postpone even further, but pressure from the Brexiteers will force her to stop dithering. It is highly doubtful whether Britain will have been able to analyze its position, so it will not be fully prepared. That makes a stalemate likely when the two-year deadline sets in, probably sometime in the first half of 2019.

Negotiations can be extended, but in reality only if both parties sense a possibility of breaking the deadlock. Maybe Britain would be prepared to do so, but the EU will feel an increasing need to move on without Britain and not be inclined to use more time and resources on painful and time-consuming negotiations with no prospect of a successful conclusion. Therefore, in mid-2019, the mousetrap clause in article 50 will snap and the treaties cease to apply for Britain.

A scramble will start for membership of the World Trade Organization (WTO), with the applicant, Britain, searching for a fast decision, which not all member states of the WTO will be ready to deliver. It could easily drag on for a couple of years, putting formal negotiations of trade agreements in conformity with WTO rules on hold until sometime 2022-2023, in a best-case scenario.

“Economically, the short-term effects may be small. Growth will be lower, but it’s difficult to see how much lower. In the medium and long term, the consequences will be palpable.”

Concomitantly, politics may turn to an almost feral state of affairs, with the Conservative Party in turmoil and Labor in civil war between the left-wing leader Jeremy Corbyn and a majority of Labor members of parliament. Scotland and/or Northern Ireland may go for a vote on independence, and even if they don’t, this ghost will haunt the political scene. It is hard to escape the observation that Britain over the next five years (maybe even longer) gets close to becoming ungovernable, with internal strife among the politicians and conflicting perceptions of which way to go ruling out any consensus.

Economically, the short-term effects may be small. Growth will be lower, but it’s difficult to see how much lower. In the medium and long term, the consequences

will be palpable. The uncertainty about the future status vis-à-vis EU and WTO connotes reluctance, maybe even strong reluctance, among investors. The City of London will see a decline in business, albeit it is difficult to say how much and how fast. The longer the uncertainty reigns, the more severe will be the downward trend in investments and belief in London’s status.

If Brexit had been managed better, with a clear political agenda, it is possible that globalization skeptics or outright opponents of globalization around the world would have looked to Britain’s exit from the EU as a precedent.

But as it looks now, dominated by uncertainties and no political design for a future outside the EU, the repercussions may be negative, visible, and even frightening, conveying the message that such a course is ill-advised.

The more likely effect on globalization will be the global system gradually grinding to a halt. The big trade rounds—the Doha Round, Trans Pacific Partnership (TPP), and

the Transatlantic Trade and Investment Partnership (TTIP)—look unlikely to be approved. A reform of the UN system is nowhere to be seen. The IMF is similarly caught in an outworn frame.

Animosity against foreign direct investment is growing. Most important of all, the free movement of people is coming under attack. The openness vis-à-vis foreigners characterizing many countries and societies until a few years ago is, at best, at status quo, but in reality is rolled back and replaced by restrictions, quotas, or other measures to reduce the influx of foreigners.

In the era of economic globalization, it is a paradox that the opposition to this model comes from human contacts. An increasing number of people find the explanation for their problems in openness to immigration.

No suitable answers are forthcoming. Consequently, the risk grows almost daily that anger about immigration spills over into other segments of globalization.

The human factor so often overlooked or forgotten in mapping out policies have come home to roost, and the result may be more nationalism and populism. The tools for globalization in the form of technology and economics are available, but the mind-set of people is still primarily local. High economic growth has glossed over this phenomenon. As the global economy runs out of steam, the hard truth emerges. Economic globalization is under attack from people.

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