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GIORGI BADRIDZE

81

EXPERT OPINION





საქართველოს სტრატეგიისა და საერთაშორისო ურთიერთობათა კვლევის ფონდი
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Almost a year has passed since the referendum in Great Britain on leaving the European Union (Brexit). After the British government's delay in triggering Article 50, the divorce process formally started at the end of March 2017.

At any rate, there has been enough time to look at the developments for Britain, the EU and the democratic world in general since the referendum and examine the effects of the decision of British voters to make the exit. It is also important to see whether or not this decision was based on completely rational grounds.

Expert opinion on the prospects for Brexit as expressed in the aftermath of the referendum of June 23, 2016 has been offering a largely negative forecast. Many thought that the outcome of the British vote represented a victory for populism. Brexit had been advocated by a minority of mainstream politicians and with the exception of the United Kingdom Independence Party (UKIP), leaders of none of the larger political parties supported the so-called Leave campaign. The media was split unevenly as well in this historic debate as *The Sun* (known for its controversial page three girl photos) and the *Daily Mail* defeated *The Economist* and the *Financial Times*, both renowned worldwide for their political and economic analysis. We can also admit that the *Daily Telegraph* was also pro-Brexit.

Despite pessimistic forecasts, everyone agreed that both Britain and the EU should not spare efforts in reaching a mutually acceptable agreement on both divorce procedures and future cooperation post-referendum. Let us examine the developments that have followed since the referendum in order to see whether or not the parties are any closer to reaching an agreement and what we might be able to expect in the future.

Some of the negative effects of the referendum are already evident. Regardless of how rigorously Brexit supporters emphasize the advantages and the positive effects of the devaluation of the British pound (GBP) on exports, it still takes some effort to find the good along with the bad. Of course, the devaluation of the national currency makes exports cheaper and, therefore, more competitive but it is also true that one of the crucial factors attracting investments to the British economy was the stability of the GBP. Its 20% drop after Brexit may have adverse long-term effects on

investor confidence¹ and it has already made imports more expensive and caused a significant discount on the price of real estate (particularly as concerns expensive London property) for foreign buyers, making it even less affordable for the British middle-class. This was also followed by the downgrading of the British credit rating which could have more far-reaching implications than the strength of the currency.

However, the answer to the most important question, which many analysts have been asking from the outset, is still unclear: What is the British government going to do if an amicable divorce from the EU proves to be impossible? The negative effects mentioned above were supposed to be a small price for new trade opportunities which would become possible after Britain had “liberated” itself from the “tentacles” of Brussels. In reality, in the nine months following the referendum, it has become quite clear that Brexit’s proponents did not really have much of a plan for their victory. Rather, they hoped that the exit from the European Union would resolve all of the problems by itself. Reality proved to be much more complex, however, as Brexit opponents (including the majority of economic experts and political leaders) came to realize from the first day of the new reality.

The facts today suggest that despite the longest possible delay by Theresa May’s government in terms of triggering Article 50 of the EU treaty in order to pave a smoother way for the two-year negotiation process, nine months later there is still no sign that the British government has made the divorce from the EU any easier.

For the first time since the referendum we have heard statements which demonstrate that even the British government does not believe in a Brexit which would allow the UK to enjoy most of the advantages of cooperation with the EU while discarding the majority of the unwanted obligations (which was promised by the Leave campaign). Moreover, British negotiators had to admit that there is a realistic prospect that the UK will have to leave the European single market, something that was not mentioned even once during campaigning by Brexit supporters.

Today, it is becoming clearer that there is virtually no chance that the UK could maintain its access to the single market, which accounts for more

1 Swati Dhingra, Gianmarco Ottaviano, Thomas Sampson and John Van Reenen, *The Impact of Brexit on Foreign Investment in the UK*, Centre for Economic Performance, London School of Economics and Political Science, 2016, London.

than half of British foreign trade, if it rejects the principle of the freedom of movement for EU nationals which served as a principle source of motivation for Brexit supporters.²

Let us see now if these nine months were used by the British government for the purposes of elaborating a strategy for negotiation. According to statements of its representatives, a meaningful plan still does not exist. More often than not, we can also hear them claim that “no agreement is better than a bad agreement” which can only be interpreted as the willingness of the people in charge of Brexit to put political interests ahead of the strategic economic interests of the country.

It appears that European Union leaders also view Brexit and the process of its negotiation through the prism of political priorities. They consider a possible precedent for the “soft exit” of a member state from the EU as unacceptable. This would demoralize pro-European forces and further embolden anti-EU elements which have been on the rise over the last years.

This leads to a conclusion that a “soft” Brexit, which would be based on mutual compromise, has become almost impossible. Both the British government and the EU are currently guided by political considerations rather than economic interests. After the ensuing mutual damage becomes more evident, the UK and the EU may become willing to make an extra effort and try to rebuild economic cooperation but the prospect for serious harm to the trade interests of both sides seems inevitable for now.

It must be pointed out that Brexit supporters have faced some unexpected although quite legitimate complications during these last nine months. They considered the referendum of June 23, 2016 as a legal mechanism for leaving the European Union; however, the Supreme Court has ruled that without the Parliament’s vote, any triggering of Article 50 would be illegal. This ruling is based on the principles of Britain’s unwritten constitution which considers Parliament as the ultimate source of political legitimacy. This is why the British political system is known as a Parliamentary sovereignty.

The most extraordinary part in this legal challenge was that Brexit supporters, who claimed they wanted the repatriation of their sovereignty

2 Charles Grant, *Mrs. May’s Emerging Deal on BREXIT: Not Just Hard but also Difficult*, Centre for European Reform, February 20, 2017, London.

from Brussels to the British Parliament and British courts, not only vigorously rejected the idea of the parliamentary vote but also energetically attacked the court that took the ruling. This proved to be just a minor diversion as both houses of Parliament gave the green light for triggering Article 50 but it still served as an indication of how poorly the Leave campaign understood Brexit's constitutional implications and how ill prepared they were for their own victory.

Another Brexit complication is connected to the status of Scotland and Northern Ireland. The population of these two constituent countries of the United Kingdom overwhelmingly voted for staying in the EU (unlike Wales). Not only did the Remain campaign receive the overall majority of the votes in Scotland but there was not even a single electoral district in which Scots voted for Brexit. On this basis, for the first time since the 2014 referendum, the Scottish government gained a pretext for bringing the issue of Scottish independence back to the political agenda and has already demanded a new referendum. One can hardly deny that the nationalists in Scotland have a solid argument in favor of an independence referendum, both legally and in the sense of fairness. This should not surprise anyone – in their view, Scotland voted to remain in the UK because they chose to remain in the European Union.

The Scottish Parliament has already voted in favor of a second independence referendum in which the governing Scottish National Party (SNP) was backed by the Greens (against the Scottish Conservatives, Labor and the Liberal Democrats). The First Minister, Nicola Sturgeon, said that the new referendum would be held by early 2019 when the Brexit settlement is reached between the British government and the EU.

The demands of Northern Irish separatists for a similar referendum have much less of a chance for success as the majority of the region's residents do not favor the idea of Irish unification; however, Brexit may become a real threat to the peace that was so painstakingly achieved in the 1990s.

To sum up the developments of the nine months since the Brexit referendum, the reality is quite complex: instead of creating favorable conditions for a relatively painless separation, Theresa May's government has made the most radical version of Brexit practically inevitable. For the moment it looks like the UK is not only leaving the EU's "political shackles" but the European single market as well. It may also find itself out of the European customs union, too.

More specifically, without a mutually beneficial agreement, which now seems very unlikely, Britain may face a number of serious economic problems with potentially grave implications at the end of the two-year negotiation process: many businesses in Britain, including a large part of the car manufacturing industry, depend on car parts and components imported from Europe and on their products being able to be freely exported to the EU without tariffs.

The same applies to the aircraft industry which has been one of the real symbols of the economic success of European integration. Airbus, the pan-European aviation corporation, builds its aircraft in several European countries, including the UK, where it employs 10,000 people and spends around GBP 4 billion each year on parts and components produced there.³ A potential trade war between the UK and the EU could inflict serious damage on both sides. Unfortunately, however, such a conflict is not impossible in a situation when politics prevail over economic interests.

Long-term problems may occur in industries and services with high numbers of European employees. This includes the National Health Service (NHS) which employs thousands of European doctors, nurses and support personnel which would be impossible to replace in the case of a deal on foreign workers not being achieved. The same applies to nursing homes for the elderly where a large number of personnel are legal immigrants from Europe and whose status may change in two years.

Services and, particularly, the banking sector are traditionally an important pillar of the British economy, something which has turned London into a world financial center. Brexit represents a real worry for the financial services industry because the loss of access to the single market would deal a serious blow to its competitiveness. Some of its representatives may consider moving to Dublin, Frankfurt or Paris, as a result, and are likely to take some of their clients with them.

In the end, the sides will most probably agree on a free trade deal but putting together such an agreement within the relatively short period of two years and, particularly, in such an environment, will be a real challenge.

It is not quite clear what British voters think when they are told that “no deal is better than a bad deal” but this may actually mean that the UK could

³ Airbus in the UK, accessible at: www.airbus.com/company/worldwide-presence/airbus-in-uk/.

lose all of its privileges in trade with the EU that it currently enjoys and may face actual border and tariff barriers with its largest trading partner.

Naturally, if such a scenario becomes a reality, the interests of the EU countries, including its largest economy – Germany, will suffer as well but the scale of losses (with the exception of Ireland for which the UK is the largest trade partner) will be significantly higher for the British side. The problem is that British politicians are not the only ones putting political considerations above economic interests. EU officials and European leaders think that they cannot afford to allow a precedent that could serve as encouragement for Euroskeptics in other countries and cause a domino effect. Sadly, this is understandable: if Britain gets what it wants, resurgent anti-European far-right forces (in some cases, the radical left) can seize the opportunity to grab their chance.

* * *

After Britain, the European Union will be the first to be affected by the implications of Brexit but one cannot ignore the other major global political upset of the year 2016 which, by its nature, is related to Brexit: the victory of Donald Trump in the US presidential election. His victory would be hard to describe as a victory for the Republican Party because it put up a real fight against candidate Trump until the last moment, giving in only when it became clear that Mr. Trump was ready to become an independent candidate which would then have guaranteed the defeat of the GOP. Thus, one should give credit to Donald Trump for defeating the Republican Party first before taking on Hillary Clinton in the country's presidential election.

The combination of Brexit and the Trump victory caused panic among many European liberals and encouraged Europe's radical anti-globalist and anti-EU forces. It created a danger that Europe could face a string of "Brexits," eventually destroying the Union.

Although Europe's most important election is still to come – on April 23, 2017, French voters will cast their ballots in the first round of the presidential election – it can be argued that European Armageddon does not look inevitable. Making political and especially electoral forecasts is often a futile job but the first of the European elections since Brexit and the victory of Donald Trump may have offered a glimmer of hope: the far-right candidate lost in the second presidential election in Austria last December, Mark Rutte defeated Geert Wilders in the Dutch Parliamentary

election and a pro-European party won the majority of seats in the Bulgarian Parliament.

This does not mean that the European project is free from danger and that common sense has prevailed because the problem is not just in the resurgence of the far-right. Marine Le Pen would not be anywhere near where she is in the polls just by anti-European slogans. The popularity of politicians like Le Pen is often the result of the disillusionment of many people in traditional party politics. Most French opinion polls suggest that neither candidates of the country's two main parties – the Republicans and the Socialists – would even make it into the second round. The reason is the perception of corruption in democratic politics. This seems to be a direct reflection of the 2016 US presidential election in which Trump's populism and e-mail leaks were enough to beat Hillary Clinton. In France, a newly emerged centrist politician, Emmanuel Macron, may save the day. He presents a rare alternative to the unpopular traditional political leaders and the far-right led by Marine Le Pen. In most other countries, a credible "third way" has not been identified.

So, what has been happening on the Continent since Brexit? Twenty-seven leaders just recently celebrated the 60th anniversary of the Treaty of Rome. This event served as a good opportunity for Europeans to reflect on the achievements of the integration project designed with the aim of rebuilding the countries devastated by war. Today, many people do not realize that the idea of a united Europe was conceived by the people who witnessed the destruction of the two worst wars in the history of mankind.

Some take this for granted but as a result of this process, European nations have been able to benefit not only from the longest period of continuous peace they have ever enjoyed but also from a level of economic and social prosperity which is unparalleled in history and remains out of reach in most parts of the modern world.

However, the historic achievements of the European Union do not change the fact that the Union faces a real test today. Brexit exposed not only the perils of populism but real problems as well which should have been addressed by Brussels and other European capitals but were ignored. This is why Brexit should be treated as an alarm bell and there are signs that European leaders have already realized this. Today, they are seriously discussing the possibility of switching to a European Union of "multiple

speeds.” This means that if not all member states are keen to be part of an even-closer union, this should not become the reason for a new crisis: some countries may be allowed to join some projects at a later stage, when they are ready, or opt out altogether. A similar offer was negotiated with the British Prime Minister, David Cameron, prior to the Brexit referendum. It did not work at the time but with the mounting cost of a potential break-up, such an approach may be considered as a more attractive alternative in the future.

The need for a reform of the European institutions is becoming obvious as well. First of all, there is a need to revise the authorities of the European Commission and redistribute certain powers back to national institutions. On the other hand, the idea of deeper integration and more streamlined decision-making is being considered as well, including switching to the majority vote instead of the current consensus-based procedure.

Thus, Brexit seems to be the first act in a string of vitally important events taking place in modern European history. Brexit may be considered as just one of the symptoms of a European crisis but it has launched a process at the end of which Europe will never be the same.

The process may take two radically different paths. Scenario one creates a domino effect and, after encouraging a populist resurgence in other European countries, will destroy the European Union as we know it. Such a scenario looks plausible with the victory of Donald Trump in the US presidential election. However, anti-European far-right victories have not yet materialized in post-Brexit European elections. This leaves the hope that Brexit and Trump’s victory may actually serve as a warning rather than a model to follow.

Initially, the success of Brexit and Trump signified a precedent for the defeat of the untrustworthy political establishment and opened the door for a discussion of problems previously labeled as taboo. But from today’s standpoint, the circumstances have changed as the illusions of Brexit are filled with the reality of its actual costs while President Trump’s government style (the appointment of his family members to key political positions, for example) prompts serious questions among some of his supporters. The failure to repeal and replace Obamacare in Congress is one such example. It turned out that Trump, who claimed to be the ultimate dealmaker, even failed to reach a deal with representatives of his own political party.

The inability to deliver on the part of populist leaders must serve as a sobering effect for voters who have yet to make a crucial choice this year. It is becoming clear that populists cannot solve real-life problems more effectively than traditional politicians but in many cases usually make them worse.

Many of Brexit's negative effects are already visible and their number may grow as the negotiations on leaving the EU continue to progress. But together with Trump's presidency, Brexit may have a sobering effect and give Europe's healthy political forces a fighting chance against populism and far-right extremism.

It is clear that 2017 is going to be an historic year for Europe. The Dutch election gave it a good start. Let us hope that after the French and German elections, Europe will find new energy to keep moving forward.