

THIS WEEK IN GEOPOLITICS

Stalking the Black Swan with *George Friedman*

Is Brexit the End of the EU?

Jun 27, 2016

The vote has come and gone. A major European nation has [chosen to leave the EU](#). The markets have had their obligatory decline. A weekend has passed. It is time to think about [what exactly has happened](#)... and what it means, if anything.

The real drive to leave had little to do with economics. It had a great deal to do with immigration. The EU's economy has been in wretched condition since 2008.

The EU has been unable to forge a plan that would fix dire unemployment in southern Europe and revive the stagnant economy. The EU's founding treaty promised prosperity. It has failed. Germany has the healthiest economy in Europe, but even it struggles to grow.

The case for staying in the EU was that leaving would ruin the British economy. This assumed, of course, that staying in a broken union would help the economy. The logic of that escaped me. It is hard to see any economic benefits that would be lost. As I put it in my book *Flashpoints*, "Britain will avoid the destabilization in Europe by pulling away from the EU and closer to the United States."

The EU, Not Britain, Is the Weaker Player

The UK is Germany's third-largest export market. It is the fifth-largest for France and Italy. It is absurd to think these countries would stop selling to Britain or put tariffs on British exports. The British would respond in kind, and Europe cannot afford a trade war even if it feels insulted. The EU did not create the existing trade patterns. They were already in place. The EU's members will not allow Brussels to disrupt them.

Nor did the EU create the patterns of investment. Britain's banks channel global capital and are a huge source of investment for the Continent. The EU is hardly going to hamper that flow by blocking investments.

As for regulations that could force EU banks to relocate jobs and resources to Frankfurt, this misses a number of points. Given Europe's weakness, the burden is on the EU to show continuity. It needs the flow of capital.

Further, it is the clients who will determine the world's banking hubs. London has been a traditional banking center preferred by foreign clients. New York—not Frankfurt—is the alternative to London. If clients had wanted to bank in Frankfurt, they would have already done so.

Obviously, [nothing will happen in the immediate future](#). But it is not clear to me that there will be any real economic blowback. The UK is not Greece. Attempting to shun the British carries heavy potential consequences. Anything imposed on the British will resonate on the Continent. And Germany—which gets almost 50% of its GDP from exports—is not likely to let anyone hinder that trade.

The economic impact of the UK leaving the EU is minimal because the EU—not Britain—is the weak player. The EU is fighting with Poland over political changes... has criticized Hungary on human rights... is still engaged in the Greece disaster... has an emerging Italian banking crisis. Additionally, Finland is in grave economic trouble, and [anti-EU parties](#) are gaining strength in several member states.

The EU has so many internal issues they are hard to count. Its retaliation is the last thing Britain should fear.

Immigration Seen as Loss of National Self-Determination

As troubling as Europe's economy is, it was not the prime mover in the referendum. The contentious immigration debate holds that honor. And immigration itself was not really the issue. Britain was quite comfortable with immigrants until Brussels began making demands.

The EU dictating the rules was the problem. It was a [question of sovereignty](#). That the EU could make decisions that would change the character of Britain was not okay.

Granted, there was a large vote for staying. The British media have been eager to point out that [those who voted to leave were less educated](#), had lower incomes, and so on. They were also most likely to be affected by immigration.

Immigration is socially destabilizing. There is always friction between older residents and immigrants. I immigrated to the US as a small child. The buffeting of that experience on both sides is burned into my memory.

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...but, better educated and wealthier individuals normally don't experience this element of immigration. The tension on the streets rarely enters the halls of academia, senior civil service, or banking.

Not surprisingly, the question of sovereignty wasn't critical to this class. Just as large-scale immigration did not concern them. Immigrants like my family would not be moving into their neighborhoods.

We moved to the Bronx in New York because that was all we could afford. We lived next to other people who settled there because it was all they could afford. The older residents had a sense of ownership of the neighborhood. As my family and others moved in, that ownership was threatened. They had little else to claim as their own.

In Britain, the immigrant issue was critical and created a sense of powerlessness. First, Britain was not in control of its immigration policy. Second, the British who were for it, to a large extent, did not feel the profound social costs of immigration.

That fee was going to be paid by those who—again with many exceptions—voted for leaving. So it was a revolt against the British establishment and the EU. As with most things, it was much more complex than it seemed.

When All Else Fails, Acknowledge the Obvious

[The EU has already responded.](#) This statement from the foreign ministers of Belgium, France, Germany, Italy, Luxembourg, and the Netherlands, defines the future:

We will continue in our efforts to work for a stronger and more cohesive European Union of 27 based on common values and the rule of law. **It is to that end that we shall also recognize different levels of ambition amongst Member States when it comes to the project of European integration. While not stepping back from what we have achieved, we have to find better ways of dealing with these different levels of ambition so as to ensure that Europe delivers better on the expectation of all European states.... However, we are aware that discontent with the functioning of the EU as it is today is manifest in parts of societies. We take this very seriously and are determined to make the EU work better for all our citizens.**

This was the EU's answer to Brexit. They recognized that not everyone wants the same level of integration and will respect that. They are aware that many are discontent with the EU.

In other words, after the British vote, they acknowledge the obvious. This is a unique

evolution. It is not clear what they are going to do, but they are not going to punish Britain. They can't afford to.

At the same time, there is a bit of humor in the statement. The EU has 27 member states and, apparently, only six foreign ministers met and drafted this response. Poland wasn't there. Neither was Spain. Nor were the other 19 members. The new "inclusionary" EU has met and promised to do something. We'll see if anything actually happens.

We will have much, much more to say on Wednesday when we release our *Deep Dive* into the future of Europe.



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