

The British are going. Not a familiar refrain.

Our top risks for 2016 started with Europe — the politics of Europe and the "hollow alliance" between the United States and Europe. There were far too many serious risks poised to hit Europe this year for one not to run the EU off its rails. Brexit, the biggest of them, proved the one.

Brexit was nearly a 50/50 proposition for months. And while it was an extremely close call as to which way the referendum would eventually go (the polls were just too tight), we have a very firm conviction that the political and economic implications are going to be longer-lasting and deeper than is presently expected.

I'll start with the vote itself and the next steps for the United Kingdom. Then how this plays out in Europe, and finally the international and global macro context.

## **Brexit**

First, what happened. It was a close vote for leave, at not quite 52%, with the highest turnout since UK general elections in 1992, at nearly 72% (the most recent national elections' was 66%). Young voters registered in large numbers in the final weeks, but overall turnout skewed considerably older. Indeed, of those under 24 (who skew strongly towards remain, at around 75%), turnout was only 36%.

Demographics reflected an extraordinarily divided Britain, much as was expected. Cosmopolitan, wealthy London strongly supported remain with the exception of a few poorer exurbs. As did Scotland (though turnout there was low, particularly in capital Glasgow, hurting the remain cause) and northern Ireland. Wales, expected to lean towards remain, voted more along class/education than territorial lines, and was the most significant surprise of the day. Outside of London, England polled strongly for leave across the board, the only outlier being heavy Labour party districts turning out less strongly for remain than expected, despite support from their leadership.

The economics argument never made an impact on the leave voters; nor did immigration or sovereignty on remain. Instead, those views' fault lines remained firm and consistently-divisive over the course of the campaign. But a broader anti-establishment sentiment grew, and the unusual rancor of the campaign helped it along.

The assassination of parliament member Jo Cox slowed the leave momentum and civilized the discourse around a particularly polarizing and negative campaign. But it didn't diminish citizens' anger towards their country's political establishment — including political leaders, parties, the media, and public intellectuals.

It's worth remembering that the leadership of all three of Great Britain's established political parties were out in favor of remaining in the European Union. Essentially, a leave vote was the equivalent of Trump and Sanders support in the United States taken together. The referendum result was at least as much a repudiation of establishment leadership as it was of Europe.

## **UK politics**

First, the political fallout. Prime minister David Cameron announced his resignation almost immediately, planning to leave office before the conservative party congress in October. The intention being to organize a new government before the commencement of formal exit negotiations through article 50 of the Lisbon treaty.

The betting markets think it a nearly forgone conclusion that the next United Kingdom prime minister will be former London mayor Boris Johnson. Certainly, Brexit represents a career win for him as a front runner of the leave campaign, and his leadership would succeed in picking up the strongly pro-Brexit right wing of the conservative party. But Johnson was sidelined over the past months because he wasn't seen to be handling the campaign well and had created significant political divisions within the leave camp. A more moderate and unifying conservative party figure, particularly Home Secretary Theresa May (who was largely absent from the Brexit debate, and is referred to by admirers as "Britain's Merkel"), is nearly as likely a possibility.

There's also a leadership shakeup in the Labour party. Under the gun for large numbers of traditional Labour voters across the country opting for leave. 11 ministers have already left offices. Labour party leader Jeremy Corbyn refused to quit, quickly pulling together a new shadow cabinet instead. But it's only going to get more difficult from here: a potential no confidence vote and at best tepid support from a strongly divided voter base .

The liberal democratic party hasn't been particularly public on the issue, and so there's not much change expected. The United Kingdom independence party (UKIP) and their leader Nigel Farage is another matter entirely. In principal they were the biggest winners of the day. And yet UKIP isn't set to make much of its win. Pre-referendum UKIP was polling at around 16% and could probably top 20% with Brexit to its credit — possibly making it into government should the UK hold a snap election. But it's not in anyone's interests to hold such an election: Labour would only win the seats it already has; and the party's finances are in no shape for an expensive campaign. While the conservatives would lose seats to UKIP.

Down the road, these divisions could lead to a shakeup in the overall party structure of the country. But for now, the overall direction of domestic policy depends on succession within conservative party. There's going to be more pressure from the right to tack more in that direction on policy (strict limits on immigration and a heavier fiscal spend) — exactly the opposite of what an independent United Kingdom would need to become more competitive. But for now the focus will have to be on finding more money given the coming economic contraction (most economists — and the IMF — now project a British recession) and fiscal shortfalls (likely leading to budget cuts and increased taxes). Whether or not that takes the form of Chancellor George Osborne's promised "emergency budget," it's the overall direction the government is heading.

## **UK devolution**

Then there's the critical question of what happens to the United Kingdom itself — specifically Scotland and northern Ireland — as well as what form the eventual UK-EU relationship will take. Both of which are, of course, deeply connected questions.

First, there's no turning back. Petitions for a second referendum or parliament simply ignoring the referendum's results are both legal, but neither are politically possible or practical--particularly as European leaders quickly move coordinate their future without the brits. Domestic pushback, however, will push the new government more towards a pragmatic deal that preserves strong economic ties with Europe--an outcome the conservative party leadership — whether under Johnson, may, or someone else — will be increasingly inclined to favor. But the now-resurgent right wing of the conservative party will want more favorable terms and a more limited relationship, undermining the renegotiation process.

The Scots face a quandary. Scottish national party (snp) leader Nicola Sturgeon gave a fiery speech saying Scotland's future was in Europe and that a new independence vote was "highly likely". That's true, but for now it's more of a negotiating ploy than a plan to schedule a another referendum. because 1) the scots already lost a bruising independence vote in 2014; 2) low Scottish turnout in Thursday's vote was an important reason for remain's failure to reach 50%; and 3) with low oil prices hurting the Scottish economy and an extremely uncertain Europe about to start negotiations with the united kingdom, a Scottish exit result would be far from certain. that's reflected in latest polls, showing 45% of the Scottish population now opposed to a second referendum, with only 42% in favor. So there would be significant political downside for the snp in actually pressing ahead.

Instead, the party is better off using the threat of a vote as a bargaining chip with London, both to get Scotland a seat at the British negotiating table with European institutions, and to argue for reasonably close non-EU integration for post-Brexit United Kingdom: ideally a "Norway model," where the Brits would remain part of the common market. That's also the logic behind threats to veto the Brexit--which sturgeon mentioned the Scots (as well as the parliaments of northern Ireland and wales) could potentially do under the new post-Scottish referendum devolution rules. There's a good argument for that approach: 56 snp members in the parliament and a Scottish government that now has significantly more devolved power from Westminster. But Scotland's preferred outcome is extremely difficult — from the view of either the UK's conservatives or, even more so, the European leadership. Yet going through the process and failing gives the Scottish national party a much stronger case for an eventual referendum, and independence. in short: Scotland probably goes. It's just going to be a few years.

Then there's northern Ireland, which could actually be the bigger, and certainly more near term worry. As in Scotland, post-Brexit, the Sinn Fein leadership immediately called for an Irish unification vote (essentially a referendum to seek independence from the UK). Unlike in Scotland, there's not broad support for such a referendum in northern Ireland, and it's hard to imagine them leaving. But the immigration issue is another matter entirely.

Northern Ireland is the United Kingdom's only land border (aside from Gibraltar). Ireland itself remains treaty-bound with the European Union to accept freedom of movement. So the present completely open border between northern Ireland and Ireland won't be sustainable post-Brexit. That doesn't mean hard customs control, but even arguments for spot checks would cause uproar on both sides of the border. there's also an economic issue: very poor, northern Ireland receives large amounts of funding from the European Union, which a fiscally-challenged United Kingdom government will be hard pressed to match. These problems are serious and nobody's really prepared to deal with them; especially in a northern Irish government in which, despite a peace process that requires everyone to work together, tensions between protestants and Catholics were never quite worked out. The political order in northern Ireland could well break down over an impasse over the transition. The prospect of a sudden resurgence of militancy and even terrorism from northern Ireland is now a real medium term concern.

## Europe

The most important challenge is Europe. Here, strong economic links between the United Kingdom and the continent promote favorable negotiations: as little discontinuity in trade terms as possible. But the politics play the other way around. exactly the opposite of what transpired with Greece. There, the economics

were difficult (a critically poor and unsustainable Greece) while the politics ensured a solution would nevertheless be found.

For Greece, "in (ultimately) meant in," or else establishment parties and leaders would face greater domestic political challenges from Euroskeptic populations. For the United Kingdom, "out means out," or those parties and leaders will face even greater domestic challenges from now stronger and more Euroskeptic populations. The political motivation of most European leaders is to make the Brexit path and ultimate outcome as unpalatable to other would-be independence seekers as possible.

And there are many. Spain avoided the first with a poor turnout by Euroskeptic Podemos in yesterday's elections (though Podemos's support for Labour's Corbyn and nominally the remain camp may make them an outlier). In Italy, Brexit makes Matteo Renzi's watershed October referendum even more vulnerable to populism — especially after wins from the five star movement in Rome and Turin in elections last week. The polls now show support and opposition for Renzi's plans is nearly even. Freedom party leader Geert Wilders of the Netherlands immediately called for a referendum on the back of the Brexit vote — this will prove politically contentious for his rivals in the run-up to their 2017 ballot. As did the national front's Marine Le Pen in France, presently polling first in a three way race for 2018. Scandinavia, east and southeast Europe are problematic too... nearly every European state is now grappling with stronger fringe party candidates at home, with large populations (generally from 30%-60%) in favor of getting their own referenda.

To be clear, it remains quite unlikely any of these fringe party leaders can actually win in Europe's major countries. But the process of buying them off will be challenging, and far more so if exiting an increasingly broken European union looks like an ever more plausible option from the perspective of the domestic populations. So the initial opening statement from the European union needs to be hawkish — push for a fast declaration of article 50 (which the Brits will resist) and hard economic terms with little integration. The Germans will be the most pragmatic, but even there Chancellor Angela Merkel is constrained by weakened domestic support and strong opposition both within her coalition (particularly from finance minister Wolfgang Schäuble) and out. Merkel will for some time be focused on next year's election. Germany is central to the dilemma. If Merkel can and does push for a tight relationship with the United Kingdom, she'll elicit resentment of German hegemony. If she doesn't, we get a void. If Germany doesn't lead, then who?

Not France. The French were already distracted by their own election--now they'll be fully consumed by that, and economic woes. Without German-French condominium and leadership, there's just no way we get strong continuity in UK-EU relations. Indeed, I can't see even where maintenance of current levels of EU integration would come from. And while we're here, the nature of Franco-German relations will become an issue again after a seven decade respite. Ties are fine now, but the United Kingdom is less available a balancer if this relationship dips.

Meanwhile, east and southeast European governments, particularly those where populist leaders are already in power (Poland, Hungary, Slovakia), will leverage agreement on any eventual United Kingdom deal to extract more concessions for themselves. In other words, the UK negotiation process essentially reopens the terms of the entire European Union treaty base. The European Union as a whole will become both more disjointed and more protectionist accordingly.

Given all of that, there's no near-term prospect for movement on pre-Brexit integration efforts...despite efforts by France to advance what's been on the table. The EU capital markets union will fall by the

wayside. So too the completion of a digital single market (and speaking of that, the UK's participation in Europe-wide technology research projects — some of which are truly transformative — will be hard pressed to continue). And the transatlantic trade and investment partnership (TTIP) with the United States was in trouble; now it's on a respirator. A single area that shouldn't take too much of a hit: defense and security, where continued UK cooperation will be seen as essential by the Europeans; and Nato's role, while becoming less relevant over time, won't wither any further as a consequence of Brexit. Indeed, Britain's military strength (like its rotating brigade in Poland and the Baltics) will be one of its few bargaining chips. Though even here, there's a wrinkle: an independent Scotland has absolutely no interest in basing nuclear forces... this is all just so much messier than people realize.

## Everybody else

Outside European Euroskeptics, the clear winner is Russia. President Vladimir Putin sees Russia as benefiting from a weak Europe and transatlantic alliance; he benefits from divide and conquer strategies between them. Russia doesn't care much about strength of other major economies in terms of trade, but is hurt by multilateralism, particularly when it comes to things like sanctions, energy policy, and defense policy in Europe. With a crumbling European union (and the Russia-hawkish United Kingdom outside of it), it becomes much easier for Moscow to get sanctions reduced. and also work on individual bilateral relations with Italy (on energy), France (on defense), and others.

In China, officials I spoke with in Beijing and Tianjin this weekend take the opposite view--which explains why Putin and China president Xi Jinping didn't openly discuss Brexit during their summit this weekend (an otherwise notable omission). While China generally dislikes multilateralism in their backyard (in the south china sea), they have a longer view elsewhere. China doesn't want a weak Europe, both because of the hit to trade relations and of the ensuing difficulties in coordinating security relations, institutional arrangements, and world order-related questions. Overall the Chinese increasingly want to see both a strong united states and a strong Europe — given the perils implied in the alternatives. in many ways, Beijing is coming to the same conclusions as the Americans (albeit from a position of growing global influence, unlike the united states). And that's not to mention the narrower china concerns about unleashing a bunch of secessionist movements in Europe and elsewhere that could serve as an unwelcome model on the mainland. In short: Beijing would much rather have seen Britain in.

I actually don't see much impact for elections in the United States. Donald Trump was coincidentally in Scotland (opening a new hotel/golf course) at the time of events, he had previously supported Brexit, and reiterated his support at the margins of his trip. But he's not running a policy campaign, and "America first" really isn't about how allies choose to run (or not run) their local affairs. Much like president Obama's trip and exhortations to the united kingdom to vote remain had no impact on the Brexit vote... as the brits were single-mindedly focused on their domestic considerations. That's really where I think the American presidential campaign is for November.

## Global macro

And then there's the global impact. Structurally, Brexit gets you more g-zero. The transatlantic relationship has been the most important in the world in the postwar order. Now at its weakest, and with the coming crises across Europe, it will start to unravel.

To put the implications in the broadest political risk perspective, the present world order was created after world war II: Bretton Woods (the IMF, United Nations, and the rest). US-led values, markets, priorities, and alliances were all set then. In other words, the alignment of globalization and Americanization. A key feature of the g-zero is that globalization is continuing, but Americanization is not. This is also the most important macro takeaway from Brexit. In that context, what have been the events that ultimately have had the greatest potential impact on the continuation of that order?

The biggest, by a large order of magnitude, was the Cuban missile crisis. Essentially a one in three chance that the US-led order would not just be changed but obliterated (along with any other prospect of order). So that's the obvious number one. But what came next?

I'd say there were three. In ascending order of importance: 1) the American reaction to 9/11 in terms of the failed wars in Iraq and Afghanistan (not to be confused with 9/11 itself, which was a massive shock to the United States but itself had much less knock-on macro political risk attached to it). 2) the 2008 global financial crisis. And 3) Brexit.

Brexit first? Yes, I'd argue Brexit will ultimately be the biggest of these risks. In part because the US-led system is weaker now than it was in either 9/11 or September 2008... meaning there's much less American willingness to provide leadership, resilience in alliances; or willingness to play a benign or even passive role on the part of frenemies and antagonists. But also precisely because Brexit isn't Grexit: it risks being much more of a tipping point for Europe, as well as the transatlantic relationship (again, by far the most important in determining global economic, diplomatic and security architecture in the postwar order).

America's reaction to 9/11 couldn't have had that impact. It went just about as badly as imaginable (in terms of diplomatic fallout, economic cost, and geopolitical impact and outcome). And yet ultimately it still only stressed, didn't break, any core relationships.

The 2008 financial crisis had greater potential downside: especially as pertained to China's reaction in 2009 — with Beijing starting to seriously mistrust the American economic and political model of leadership, and accordingly jump-starting alternative global standards and governance architectures faster than it would have otherwise. Serious mismanagement by the Americans — either the Bush or Obama administrations — could have plausibly broken the US-led global order for good. But while massive, the crisis hit very quickly and accordingly it was easier to mobilize effective international reactions.

Brexit implications are going to take far longer to play out (at this point, the timeline is looking like Jan 1 2019 for the formal split; the broader crises for the European Union as a whole will last far longer). And they'll be occurring in the context of a much weaker and more vulnerable system. A global order that's much more non-polar in nature. Accordingly, it will take less mismanagement to see the wheels finally come off on the Americanization vs. globalization argument.

So that's the context. It's surely salad days to be a political scientist. Little comfort, true. But there's always existential optimism. It's good for all of us to be here.