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Brexit

Brexit and the making of a global crisis

Britain's exit from the EU threatens to undermine the globalised economy it fought to create



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by: **Gideon Rachman**

Brexit was a British decision, but a global shock. The most powerful effects will be felt at the centre of the storm — in [Britain itself](http://next.ft.com/content/1e8270co-393f-11e6-9a05-82a9b15a8ee7) (<http://next.ft.com/content/1e8270co-393f-11e6-9a05-82a9b15a8ee7>). But Europe and the wider world will also be profoundly shaken by the [UK's vote](http://www.ft.com/eu-referendum) (<http://www.ft.com/eu-referendum>).

For Britain, the shocks were felt immediately. In the space of a single day, the UK had renounced its [most important international relationship](http://next.ft.com/content/foc4f432-371d-11e6-9a05-82a9b15a8ee7) (<http://next.ft.com/content/foc4f432-371d-11e6-9a05-82a9b15a8ee7>), lost a prime minister (<http://next.ft.com/content/4b0222f0-317c-11e6-bda0-04585c31b153>), seen the value of sterling collapse and revived the [prospect of the imminent break-up](http://next.ft.com/content/06a90f8c-39c0-11e6-a780-b418ed7b6126f) (<http://next.ft.com/content/06a90f8c-39c0-11e6-a780-b418ed7b6126f>) of the country. It is now clear that the Brexit vote threatens to split not just

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Britain's decision is, in some ways, simply the culmination of an unhappy and unsettled relationship [between the UK and the EU \(http://next.ft.com/content/a7461e66-2e3b-11e6-a18d-a96ab29e3c95\)](http://next.ft.com/content/a7461e66-2e3b-11e6-a18d-a96ab29e3c95) that stretches back many years. The British have never been comfortable with the idea of “political union” in Europe and previous disputes over the EU have ended the careers of other UK prime ministers, most notably Margaret Thatcher's in 1990. But the Brexit vote is also part of a more recent and more international phenomenon: a populist backlash in western politics against globalisation and mainstream politics that has seen the rise of [Donald Trump \(http://next.ft.com/content/e30bb90c-1dd2-11e6-a7bc-ee846770ec15\)](http://next.ft.com/content/e30bb90c-1dd2-11e6-a7bc-ee846770ec15) in the US and far-right politicians in Europe, such as the National Front's Marine Le Pen in France.

Brexit also represents a profound shock for an EU that is already in deep trouble. In recent years, the EU has been bitterly divided — first by the euro crisis and then by a migration crisis. Britain's decision to leave is a further blow to the [confidence and coherence of the bloc \(http://next.ft.com/content/b1a2d66e-3715-11e6-9a05-82a9b15a8ee7\)](http://next.ft.com/content/b1a2d66e-3715-11e6-9a05-82a9b15a8ee7). The full-scale disintegration of the EU is now a real possibility. The populist, anti-establishment and anti-EU forces that have won the day in Britain are also gaining ground in other EU countries. In France and the Netherlands, far-right parties are riding high in the polls and are already pressing for their own referendums on the EU.

Introspective turn

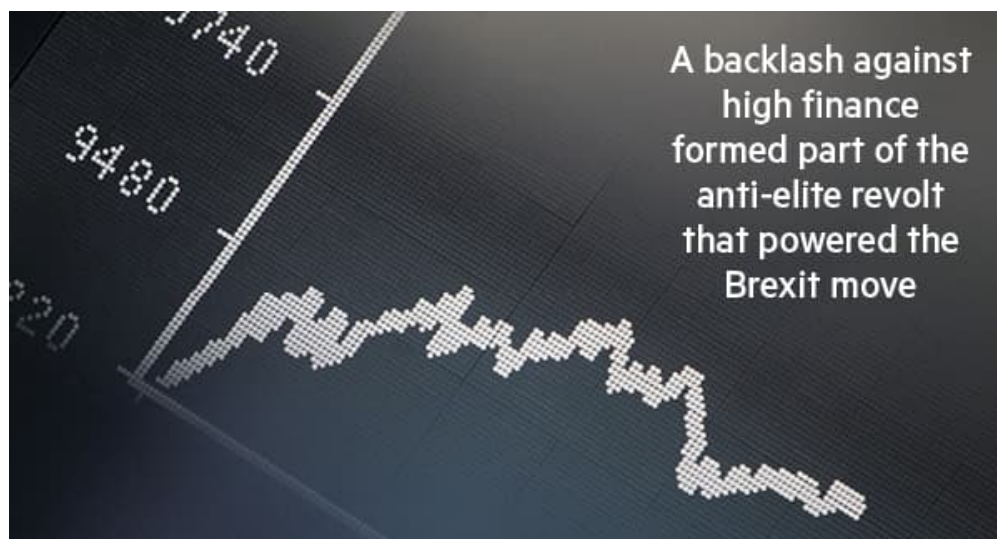
A crisis within Britain and the EU also represents a wider threat to the global economy and the broader international political system. The dangerous introspection of the EU — a marked feature of international politics since the euro crisis began in 2009 — is now likely to intensify and that will have global political implications.

For the US, the EU represents the second wing of the west and a crucial pillar of the liberal international order. If that pillar begins to wobble and crack, the west as a whole will find it harder to act cohesively. The EU has already found it very hard to fashion a united and effective response to Russia's annexation of Crimea. Maintaining European unity will be even more difficult in the post-Brexit era.

Europe has also been absent as an effective actor in the Middle East even as it has found itself destabilised by the fallout from the violence and political turmoil gripping the Arab world. The fear of jihadist terrorism following the [twin attacks on Paris last year \(http://next.ft.com/content/93d1c37a-8ba8-11e5-a549-b89a1dfede9b\)](http://next.ft.com/content/93d1c37a-8ba8-11e5-a549-b89a1dfede9b) has helped to raise political and social tensions in Europe and may even have contributed to a British desire to put some distance between the UK and continental Europe.

Britain's decision and its impact on Europe also has profound implications for the global economy. The world has barely recovered from the financial crisis of 2008 and there will now be fears of a renewed recession in the EU, which is taken collectively, the world's

The British vote is also likely to be interpreted as part of a wider backlash by those in the west who feel they have been left behind by globalisation. They are demanding restrictions on immigration and are increasingly suspicious of free trade. A Brexit settlement is likely to curtail free movement of labour between the EU and the UK and lead to the possible reimposition of tariffs as Britain exits the single market. Any such moves will be carefully watched around the world as a potential harbinger of a broader backlash against globalisation.



The UK government has consistently been a voice for liberal economics within Europe; without Britain at the table, the EU is much more likely to move towards protectionism. Any potential increase in such pressures in Europe will be monitored by the largest Asian economies, including China and Japan, whose manufacturing industries need easy access to EU markets. It is telling that one of the few international politicians to welcome Britain's Brexit vote was Mr Trump — the all-but-anointed Republican candidate for the US presidency — who is a vocal advocate of protectionism.

Mr Trump, who happened to be visiting Scotland on Friday, took the opportunity to hail the result and draw an explicit parallel with his own political campaigns in the US. He argued that Britons want to “have a country again”, adding, “it is happening in the United States”.

Like the Brexit campaign, Mr Trump and some of the far-right in Europe are capitalising on rage against the elite, resurgent nationalism and a deep suspicion of high finance.

The financial aspects of globalisation are also now potentially under threat. The City of London's role as a hub for [global finance](http://next.ft.com/content/63ccf8dc-39f6-11e6-9a05-82a9b15a8ee7) (<http://next.ft.com/content/63ccf8dc-39f6-11e6-9a05-82a9b15a8ee7>) is now in question, given the importance of access to the EU single market to many institutions based in London. Before the financial crisis of 2008 the interests of the City might have weighed heavily with the electorate. But an outcry against high finance formed part of the anti-elite revolt that powered the Brexit move.

Political turmoil

Each of these elements of instability — the British, the European, the global — will interact with each other over the coming months in unpredictable ways. That will make it extremely difficult for businesses and politicians to plan for the future.

After a political shock like this, Britain desperately needs a period of stability in which to catch its breath and plan carefully for the future. But the reality is that Britain looks set for political, social and economic turmoil.

The resignation of David Cameron as prime minister has fired the starting gun for a leadership contest within the ruling Conservative party that will consume the next three months of British politics. Mr Cameron had said a referendum would finally settle his party's decades-old argument over Europe. But far from healing the rifts within the Tory party, the referendum has burst them wide open.

The country's next leader is likely to be a Leave campaigner, most probably Boris Johnson, the former mayor of London. But a new prime minister will be trying to pull together a government and handle an incredibly complex negotiation with the EU, against the background of a party at war with itself and the economic shock unleashed by his party's push for Brexit.

These problems will be all the more difficult because of the deep social and regional divisions in Britain, revealed by the referendum. Nicola Sturgeon, Scotland's first minister, has already said that it is "highly likely" that Scotland will stage a second independence referendum. Unlike England, Scotland clearly voted to stay inside the EU, so it now seems much more likely that the country will indeed opt to break away. The referendum also revealed a deep divide between London and much of the rest of England, with the capital voting heavily for Remain. Given London's importance to the UK economy, this too will be a source of tension.

A stark divide has also emerged between younger and older voters, with the strongly pro-Remain under-25s being outvoted by anti-European retirees. That will only heighten the sense of generational injustice for a cohort of young people, who are struggling with insecure jobs, low wages, high house prices and rising student debt.

The problems of the next British government will be compounded by the fact that the Brexit campaign deliberately left the question of what "Leave" actually means ambiguous. The Leavers sought to give the impression that Britain will continue to enjoy full access to the EU single market and control immigration from Europe by withdrawing from free movement of people between EU states.



But that combination of options is unlikely to be on offer from the EU. So the formation of a coherent British negotiating position will be very difficult — and will involve controversial choices.

Senior civil servants worry that the sheer complexity of the task of disentangling Britain from the EU will consume the machinery of government and may even require the formation of a whole new ministry. Staffing that ministry with good, committed people will be difficult given that most senior UK civil servants were not believers in Brexit (to put it mildly) and will be horrified and depressed by the task facing them.

The problems of negotiating a new deal with Europe will be exacerbated by the crisis within the union itself. A confident and successful EU might strike a swift and generous divorce settlement with Britain. In reality, however, the EU and its component governments know that anti-EU populism is on the rise across the continent, fuelled by the migration, austerity policies and long years of stagnation in countries such as Italy and Spain.

Protecting the institution

The governments of Germany and France now fear for the very survival of a “European project” that they have spent 60 years building. They also know that if Britain makes an obvious success of Brexit, that will fuel demands in other countries for an exit from the EU.

It is therefore in the interests of the EU as an institution that Britain should be seen to suffer as a consequence of its choice to “leave Europe”. One senior German diplomat says that he would prefer the markets to administer the lesson — and the collapse in the pound and the London stock market may serve that purpose.

But other countries, perhaps led by France, may be tempted to go further and to “teach” Britain in the negotiations by imposing punitive terms. Such a strategy, however, also has

Governments beyond the EU — in Washington, Moscow, Beijing and elsewhere — will be watching events unfold with a degree of trepidation. Britain is still a global power with a seat as a permanent member of the UN Security Council, which may now come into question. It is also an important player in Nato, due to meet in Warsaw next month. The UK's first reaction may be to try to increase its visible commitment to the security alliance as a way of combating the idea that the country is retreating into isolationism.

However, if the British economy now goes into recession as a lower pound fails to compensate for plunging investment, UK defence spending is certain to come under renewed pressure.



Brexit also sends an image of weakness and division inside the western alliance, something that will be welcome in Moscow and deeply unwelcome in Washington. President Barack Obama was sufficiently concerned by the prospect of Brexit to make a special visit to the UK in April to plead for a Remain vote — an appeal that ultimately proved futile.

As for China and Japan, they are likely to watch events in Britain with a mixture of bafflement and concern. Both countries have sought to use the UK as a base for operations within the EU.

Major Japanese companies such as Toyota and Nissan have built large car plants in the UK, but will now fear for access to the EU market. President Xi Jinping of China has also sought to build a special relationship with David Cameron's Britain, as part of China's "going out" economic strategy.

In their different ways, the Americans, the Japanese and Chinese have sought to build a special relationship with Britain. But the Brexit vote has burnt that bridge. For more than 40 years, the British have been active participants in the building of a liberal world order, built around a globalised economy.

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