

KEN FIREMAN: I'm Ken Fireman, the Managing Editor for SAGE Business Researcher, and I'm speaking with Charles Wallace, who has written our report on the European Union and its many challenges. Thank you for joining us, Charles.

CHARLES WALLACE: Thank you for having me, Ken,

KEN FIREMAN: At the top of the list of challenges for the EU, clearly is Brexit, the impending departure of Great Britain from the union. Is it possible at this point to say who will be the biggest losers from Brexit and who, if anyone, will benefit from it?

CHARLES WALLACE: Without knowing the terms of the divorce, it's a little hard to say who wins or loses the most.

Perhaps like in most divorces, everyone loses to some extent. Well, the British economy has been treading water since the Brexit vote in 2016 with economic growth far behind the rest of Europe, the United States and even Japan. Companies are just not willing to make investments in this uncertain environment.

I suppose initially, cities like Dublin and Frankfurt will benefit from the transfer of financial services firms from London, Europe's traditional center of finance. But that's pretty small potatoes compared with the disruption that Brexit may cause the companies all over the continent, which depend on global supply chains and the smooth flow of products back and forth across the English Channel.

KEN FIREMAN: Now you mentioned that we don't know the terms of the divorce, so to speak, just yet. There seems to be a robust debate going on within the British government over what's been called hard Brexit and soft Brexit. What's the difference between the two and who are the main proponents?

CHARLES WALLACE: The politicians who campaigned the hardest for the Brexit referendum. People like former foreign secretary Boris Johnson want to see a clean break with the European Union. Under this hard Brexit scenario, Britain imposes its own rules for everything from immigration to trade, much as the United States does.

The problem with that approach, according to politicians who prefer a softer Brexit, is that Britain's economy is deeply intertwined with Europe's and a hard Brexit risks companies simply

closing up shop in Britain and moving elsewhere. They prefer a soft Brexit option, similar to what Norway and Switzerland enjoy. Norway is part of the European Economic Area, so its goods can enter the EU countries without paying tariffs or border checks. Switzerland remains part of the EU single market, so it allows EU citizens to live and work there without obtaining special permission.

So a soft Brexit approach might be a mixture of those two countries with British goods moving freely to Europe without tariffs, but Britain is stopping inward migration from EU states.

KEN FIREMAN: And the current Prime Minister, Theresa May, has come down more on the soft Brexit side, is that right?

CHARLES WALLACE: Yes. In fact, I think she sees that as the only possible way to get the European Union to agree to these terms.

KEN FIREMAN: Now, your report raises the possibility that we get to next March 29, which is the deadline for British withdrawal, and there has been no deal worked out. What happens then?

CHARLES WALLACE: This is the worst-case scenario that businesses fear the most. Britain has already invoked Article 50 of the European charter, so it leaves the EU in March next year no matter what happens. But without a deal, chaos is likely to ensue. Goods arriving in France from Britain, for example, would be subject to customs checks in ports like Calais. Instead of simply driving off, trucks would have to be unloaded and their goods transferred to customs warehouses, just like goods arriving from other countries with which the EU has no trade arrangements.

Since Britain imports most of its food from Europe, there is fear that there could be food shortages in Britain. And the British government even said it was thinking of setting up electricity generators on barges in the Irish Sea in case Ireland cuts the British province of Northern Ireland's electricity supplies. It sounds pretty drastic.

KEN FIREMAN: It certainly does. Now as if the EU didn't have enough problems dealing with Brexit, it's become embroiled in a trade dispute with the Trump administration. It seemed that tensions eased a bit last month when the head of the EU visited the White House. Is this trade truce going to hold, do you think?

CHARLES WALLACE: It could, possibly. The visit was very well timed by the European Commission's president, Jean-Claude Juncker, because he came at a moment when President Trump was feeling a lot of heat from Midwestern farm interests who were alarmed by China's moves to block imports

of American farm products. The EU offered to completely replace China as a buyer of American soybeans, but never explained exactly how they had the power to make such an offer. They also agreed to buy large amounts of American natural gas.

Those two steps seem to have helped sell President Trump on the compromise deal. The problem now is that the proposed deal is a lot like the Transatlantic Trade and Investment Partnership that President Obama negotiated with the Europeans. But the deal fell apart in part because the Europeans were not prepared to change their stringent food safety rules on things like hormones in beef and milk and chlorine on chicken. And I see no signs that they are ready to give up those concerns now. So we could be in for more disappointment.

Remember, President Trump didn't lift the tariffs he placed on European steel imports, and he still might put duties on European car imports. So this may be only the first act.

KEN FIREMAN: OK. One of the issues, one of the stresses that your report outlines is migration and refugee movement into Europe from other parts of the world, principally Africa. How badly wounded is German Chancellor Angela Merkel over this migration issue, and can she recover from the political setbacks she suffered over it?

CHARLES WALLACE: I think Angela Merkel is fatally wounded by this. It was her personal decision to allow more than one million refugees from Syria, Afghanistan, and Africa into the country two years ago. And while that was a magnanimous humanitarian gesture, it gave life to a far right anti-immigrant movement in Germany that has stunned the political establishment with its strength.

What's more surprising is the far right is gathering strength even in areas such as Bavaria, which Merkel's conservatives have ruled for half a century, where there are actually very few immigrants. It's not limited to Germany either. Recent elections in Austria and Italy have put populist anti-immigrant politicians in power for the first time.

The only other European leader who seems like Merkel to be willing to stand up for the liberal order is France's Emmanuel Macron, who talks frequently about the rule of law and human rights. He ran as an outsider in France to get things done. And that succeeded with French voters who were fed up with the status quo. But Macron has met increasing resistance to his economic reforms from unions at state run companies like the railroads. In many minds in France, he is no longer the outsider.

KEN FIREMAN: What's the most surprising thing you learned in the course of researching this report?

CHARLES

You know, when I started researching Brexit, I was puzzled by British Prime Minister David Cameron's decision to call the Brexit referendum in 2016. It seemed like a tragic mistake. But as I dug into the history, I was surprised that Britain had actually held a similar referendum in 1975, but the results were obviously much different. In those days, politicians on both sides broke ranks with their leaders to support or oppose membership, just like now. And it was a breach of party loyalty usually not tolerated in the British parliamentary system.

WALLACE:

But the difference, I think, was that Labor Prime Minister Harold Wilson who had just won an election, went to Brussels and negotiated special terms for Britain's membership right before the referendum. And that made British voters feel that they had gotten a good deal from Brussels. While Cameron's approach was to warn of disaster if Brexit were approved, and voters just didn't support that downbeat approach.

In the end, 67% of Britons voted for Wilson's membership referendum in what was then the Common Market, as opposed to the tiny minority that voted to leave in 2016.

KEN FIREMAN:

Well, I've been speaking with Charles Wallace, who has written a report for SAGE Business Researcher on the future of the European Union. Thank you very much, Charles.

CHARLES

Thank you.

WALLACE: