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BREXIT
THE REAL OUTCOME WAIT AND SEE

NATIONAL DAY SPECIAL: MALAWI | MONGOLIA | CANADA

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Publisher's Note

Welcome to the July edition of Diplomatist!

"I know the British people and they are not passengers - they are drivers."

- PM David Cameron

On 23rd June, a momentous decision was taken. The people of the United Kingdom have voted to leave the European Union. The Extraordinary and Plenipotentiary Diplomatist **Cover Story** is an extensive analysis on Brexit by experts from across the world.

India's ambitious NSG bid and International Arbitration on South China Sea take the **Global Centre Stage.**

Focus is on laying strong foundations for a better tomorrow by plugging leakages to ensure an efficient ecosystem for India's economic and social growth.

Spotlight is on PM Narendra Modi's visit to Switzerland and how Indians and the Swiss bond on shared vision of innovation and ideas, and relations between India and the US.

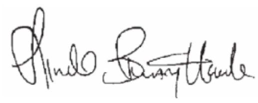
Industry explores visits by Apple and Microsoft heads, and the opportunities and aspirations they present for India.

PM Modi's mantra, Neighbourhood First, resonates in our **Visitor's Book** that sees Nepal's Deputy Prime Minister and Foreign Minister Kamal Thapa speaking about India-Nepal relations, while **Happenings** showcases interactive session on US Elections, Singapore business model, and India-Mexico bilateral relations.

A take on Indian diaspora, and the role it plays in Africa and India relations is highlighted in **Africa Diary.**

Our new offering **National Day Special** features Canada, Mongolia and Malawi.

Enjoy Reading!



Linda Brady Hawke
Publisher

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BREXIT: THE RISE OF NATIONALISM AND EXCEPTIONALISM

In the press conference ensuing the vote in favour of the departure of the United Kingdom (UK) from the European Union (EU) (known as Brexit), a reporter asked President of the European Commission Jean-Claude Juncker, who had just concluded a brief speech, if it was the beginning of the end of the EU.

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BREXIT: GOOD NEWS FOR INDIAN COMPANIES?

The days following Britain's vote to leave the European Union, a perceptible gloom settled over its capital. In Underground stations, over a beer after work, in sandwich shops at lunch, I could hear dismayed Londoners wonder how Brexit could be good news for anyone.

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THE EUROPEAN UNION AND BRITAIN: THE END OF THE ROAD

The result was a political earthquake and the aftershocks are still being felt. Britain's decision to leave the European Union after 43 years of membership took many by surprise but for those of us who have studied closely that relationship, the outcome was somewhat inevitable.

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INDIA SCALES SWISS ALPS SUCCESSFULLY

India and Switzerland have had cordial and friendly relations since India's independence. The relationship is based on shared values of democracy, multiculturalism and the rule of law.

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Indian PM Narendra Modi made his second official visit to Washington – and had his seventh meeting with US President Barack Obama – on June 7-8, amid an outpouring of mutual good will and media excitement.

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Evoking Ghalib's verses at Microsoft's 'Tech for Good, Ideas for India' event in India, the 48-year-old Indiaborn Satya Nadella said, "I interpret it diff erently each year. There is so much to it ... It also tells us that it is not just your dreams that need to be fulfi lled. It's also your ability to dream that is worth dying for".

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Apple CEO, Tim Cook's India tour started with an obeisance to Lord Ganesha in Mumbai's Siddhivinayak temple.

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In 2015, India and Singapore completed 50 years of bilateral relationship. Both countries have built strong and deep engagements in the fi eld of politics, economics, commerce, security, defence, space & technology, education and culture.

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'MEXICO IS ANOTHER INDIA, MEXICANS ARE SECOND INDIANS'

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This summer sees an unprecedented level of Indian diplomatic activities in Africa. First, from 30th May 2016 the Vice President of India Hamid Ansari undertook a fi ve-day visit to Morocco and Tunisia.

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Malawi is called the 'Switzerland of Africa'. With a geographically-rich landscape, the country probably has one of the most breathtaking sites in Africa.

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In the course of the past nearly 100 years, Mongolia has been marking her National Day – Naadam in July in which the audience is also a full-fl edged participant.

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O CANADA, OUR HOME AND NATIVE LAND

July 1st is Canada Day – Canada's national holiday. This is a day when Canadians across the country and around the world show their pride in their history, culture and achievements.

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INTERNATIONAL YOGA DAY: A GLOBAL PHENOMENON

International Yoga day was celebrated the world over, in diff erent terrains and climates, often in iconic locations, but with the same spirit: this is noteworthy.

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I sit in my garden with my little son. We are thinking of planting a tree in our backyard. He wants me to plant a jacaranda.

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BREXIT THE VERDICT

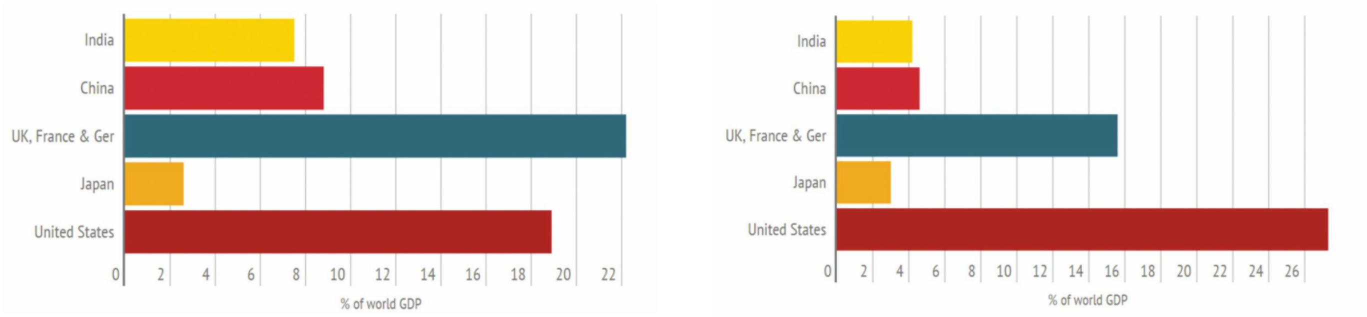
BY **DR PIOTR MAREK JAWORSKI**

In 1945, the European Great 30 Year Suicidal War of the 20th century finally ended. In the previous 30 years, Europe unsuccessfully had tried to commit suicide during World War I, and then finally had succeeded during the World War II. The continent was razed to the ground and Britain was bankrupt. The best illustration of this could be seen in Figure 1, which shows the share of the world GDP in 1913, just before the World War I and in 1950, five years after it. In 1913, Europe represented here by UK, France and Germany produced 22.3 percent of the global GDP. In 1950, including 5 year reconstruction, it constituted only 15.6 percent. At the same period, the USA increased its share from 18.9 percent to 27.3 percent.

political integration. They believed in their trade links with the British Empire and were much more interested in the revival of the world trade. Their attitude was best described by the father of the Marshall Plan himself pointing out that they would like to benefit fully from European Programme but at the same time maintain the position of not being the fully European Country.

While Britain was strongly opposing European Integration, German and French fathers of Europe had different vision. Through the joint control of their coal and steel production, they wanted to prevent any new war in Europe. This Franco-German understanding finally lead to the creation of the European Economic Community in 1957 composed of 6

Figure 1. Share of world GDP in 1913 and 1950.



Source: https://infogr.am/Share-of-world-GDP-throughout-history based on Madison Project Data.

The tragedy of Europe is even more visible if we compare the GDP per capita. According to the same data from Madison Project, the GDP per capita in Europe during the World War I dropped by almost 15 percent and during the World War II by almost 18 percent resulting in only 4.75 percent increase over the period of 1913-1945. At the same time, the USA GDP per capita increased by 5.43 percent and 62.44 percent over both wars respectively amounting in 1945 to more than 212 percent of its 1913 level.

This was not the only one war in the history of Europe. She was plunged by conflicts resulting from countries' rivalries over centuries: 30 years without a war seems to be extremely long period for the old continent and everyone was painstakingly aware of that. As Ian Kershaw in his To Hell and Back, Europe 1914-1949 writes Americans, as the answer to this problem, tried to force Europe to integrate politically and economically constructing new Western Europe in the image of the USA using Marshall Plan. However, the European countries were driven by their own interests and unable to compromise with British 'being seriously sick' according to US diplomat George Kennan.

In particular, the British saw only disadvantages in European Customs Union recognising it as a first step of

members - France, Germany, Italy and Benelux countries. Since then it has expanded now to 28 countries somewhere between full economic and political union bringing phenomenal economic growth, political stability and the most important more than 70 years of unprecedented peace in Europe.

British answer was creation of Economic Free Trade Area in 1960. It was aimed only at free trade and being such did not even provided for customs union. The failure of this project was clear when the UK together with Ireland and Denmark left it joining the European Economic Community in 1973. It had attempted it starting from 1963 with its application to join realising that the hopes for the trade with former empire countries together with free trade within EFTA had not brought strong economic growth and economic independence. However, at that time French President Charles de Gaulle was strongly opposing UK's EEC membership; we might say that he was close to say that it could happen only after his dead body. He died in 1970.

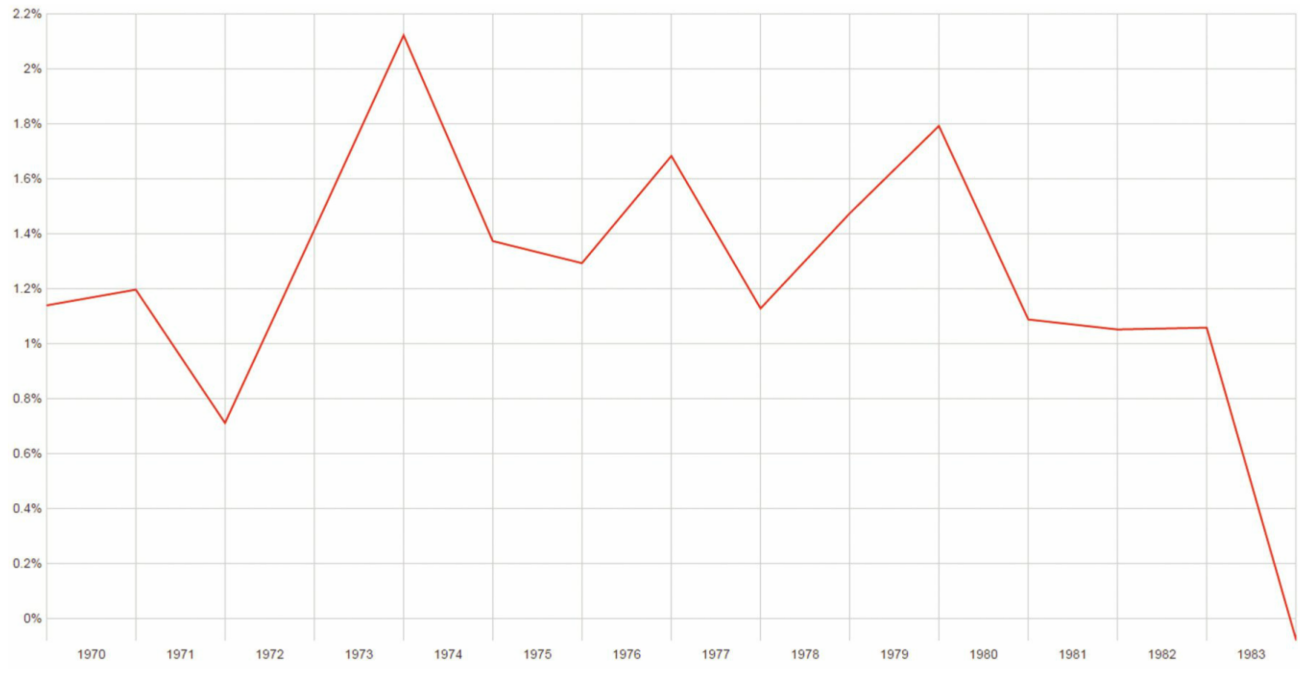
The subsequent British attitude to the EEC was always mixed. On the one hand, it enjoyed economic benefits usually asking for more as in the 1980s when the UK got the rebate in her membership fees. On the other, there was always strong opposition to any closer political integration. Still the rest of the members usually compromised allowing Britain, for example not to join Schengen and the Euro Zone. Still it was never enough and finally the UK voted to leave last month. The arguments are strikingly similar to the ones originating from 1945; the UK economy is the fifth in the world and can do better on its own, Brussels only limits political interests of the UK, for example in immigration, which is useless and harmful for the country not even mentioning the Euro project. As just after the war, the UK would like to benefit fully from Europe but at the same time be completely free in her policy. It seems, however, that these arguments will prove to be as false as in 1945 with policy of pick and mix not allowed by the European Union.

If we start from the most mentioned argument concerning the world trade, we should analyse two perspectives here: the UK - New EU 27 trade and the trade with the rest of the world. Starting with the latter, the first important fact to acknowledge is that the European Union acts as one subject in any trade negotiations. This means that her negotiation power is comparatively high. The UK with economy still large, but amounting to only little over a fifth of the New EU 27, would be in much more disadvantaged position. It is hard to imagine that it would get the same concessions as the old or new EU in all trade negotiations necessary now after the divorce with Europe. And there will be many of the new trade agreements that the UK would need to conclude; as not being the EU member she will leave all existing and negotiated ones. This includes free trade agreements now in power concluded with South Korea in 2011, Peru, Colombia and Central America in 2013. Also the ones awaiting ratification, with Singapore, Canada, Moldova and Georgia, will be affected not counting the negotiated ones with the USA, Japan, Malaysia, Vietnam, Thailand, India and MERCOSUR countries.

The European aspect of trade might also be difficult to deal with. Until new trade agreements with the EU get negotiated, the trade relations between the EU and the UK might be hampered by tariff and non-tariff barriers. If we assume that the UK trade relations with the EU would be similar to the ones with the US, than the average tariff on the UK products sent to the EU would be about 2.1 percent and UK's on the EU products about 2.8 percent. However, these are average values and in some areas duties are much higher. Furthermore, there are many non-tariff trade barriers not existent today such as quotas or certificates. Coupling this with additional transaction costs, this is very likely to decrease the export of the UK to the EU considerably. Resulting loss in the national product will be even higher as the multiplier effect must be included in the calculations. If this effect is to be outweighed by increase in the trade with the rest of the world is doubtful.

The other very important part of the economic relations with the world is Foreign Direct Investments (FDIs). As we

Figure 2. Foreign Direct Investment, net inflows (% of GDP) 1970 and 1983.



Data Source: World Bank

can see in Figure 2, after the UK joined the EEC in 1974, they increased from average of 1 percent to 1.5 percent of her national product. It seems that we can expect similar but reversed effect on leaving: it will depend on the above mentioned trade agreements but as we concluded above, they are likely not be as beneficial as the current ones, this means a drop in investment adversely affecting the national product even further.

On the side of costs, we should also add enormous transaction costs of negotiations with the New EU of 27 in different areas. It is true that this would formally include only two sides, the UK and the EU, but the latter will represent different interests of its 27 members. Some of them would be strongly interested in an access to the British goods market, others to the labour market or fishing zones. But any of them could hamper the negotiations if their interests are not defended. The end result, achieved after long negotiations, might be comparable to the situation of Norway in the best case: She must obey almost all EU rules and regulations including immigration, pay as much as she were a member but does not have any influence on the EU decisions. Furthermore, her conditions were set up to encourage her to join, which would not be of any consideration in the British case.

The UK counts on its financial services. The City in London generates 10 percent of the national product and is a source of 12 percent tax revenues. Its relatively high share is a result of the role in intermediation between the EU and the US and Asia. It is believed by the leave side that after the divorce, it would be free to set its own rules which would make current players to stay. This freedom could be doubted as above mentioned negotiations would not leave much space for it. Furthermore, banks and other financial institutions might feel safer by moving to other EU destinations or even to places such as Singapore or Taiwan. This might cut the industry by half as far as the share in the national product is concerned with great number layoffs. The treasured branch might end like the British auto industry. At the beginning of the 50s, when no one heard about Japanese or German cars, it was the world's largest exporter of motor vehicles with a share of 44 percent in 1951. Joining the EU in 1974, it enjoyed only a minor position with the share decreased to 9 percent only. The process started now with German financial supervisor ruling out a merger between Frankfurt and London stock exchanges.

All the economic aspects described above would translate to decrease in economic growth if not even recession, which might last even longer than the recent crises of 2008 with considerable decrease in living standards for the UK. However, this would also decrease the growth for the remaining EU countries leading even to a recession lasting for the same period. As an example, let us consider the case of Ireland Republic which might be the most affected EU country. The discontent there would also affect the Northern Ireland. The latter, split between Catholic Republicans and Unionist Protestants, voted in the referendum along the same sectarian lines. The recession there coupled with political changes could lead to renewal of pre-1994 hostilities.

The last prediction leads us back to the core goal of the European project: peace and stability through economic and political integration. The political and economic nationalism always present in the EU internal dealings would now be energised. In France, Holland and Czech Republic, there are strong postulates of referendums similar to the British. The nationalism catalysed by the last crises of 2008 might be even invigorated by the expected recession. It is worth to remind that such nationalism was one of the most important causes behind the beginning of World War I while the Great Depression led to World War II.

Figure 3. Allerheiligen-Hofkirche in 1913, 1945 and today

Source: Author's picture

I am just back from the Continental Europe after a tour of Germany, Austria and Poland. The places I visited, reminded me the European Great 30 Year Suicidal War of Twentieth Century: photos of residences, palaces and churches, before and after, cities razed to the ground and rebuild only in a shape reminding former glory like Allerheiligen-Hofkirche in the Munich's Residence. It took over 40 years for Europe to rebuild. It was another 20 years when Europe has regained a part of its former glory. The destruction of Continental Europe cannot be compared to the Blitz experienced by Britain that time. Maybe this is the reason why British people in the referendum voted as they did. Is the European (and World) peaceful interval over? ■

The writer is Programme Leader for Economics with Management Lecturer in Economics at The Business School Edinburgh Napier University, Scotland, United Kingdom