



PERSPECTIVES

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Brexit: Improving the UK's Negotiating Position

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EXECUTIVE SUMMARY: There is much logic in the British desire to leave the EU, but its approach to the Brexit negotiations needs to be far more sophisticated. There is a strong similarity between the Brexit deal and huge transnational corporate merger and acquisition negotiations. Given their far greater experience in complex financial negotiations and how to prepare for them, investment bankers could have a major advantage in assisting the politicians acting on behalf of the UK in the Brexit negotiations.

It is difficult to find a major negotiation process in the Western world as messy as Brexit. The British government seems desperately in need of a clear concept and corresponding strategy for how to take the country out of the EU. One can suggest many reasons for this failure, but far more important is finding a more sophisticated approach to negotiations.

The 2016 Brexit [referendum](#) gave those in favor of leaving the EU a very small majority (52% to 48%). Remainers in both the two major parties, Conservatives and Labour, have not given up hope of undoing the result. Among the best known Remainer activists are two former prime ministers, [Tony Blair](#) (Labour) and [John Major](#) (Conservative). They are promoting a [second referendum](#) aimed at undoing the first.

The Remainers' activism has been strengthened, as Conservative PM Theresa May lost much of her authority by calling an election in April 2017. At that time, the [polls forecast](#) that the Conservative party's majority would increase, possibly by well over 100 seats. Yet due to the skillful campaigning of Labour leader Jeremy Corbyn, an extreme leftist, and May's weak performance in the run-up to the election, the Conservatives [lost their majority](#). They are now dependent on the support of a small Northern Irish party, DUP.

Beyond that lies an even bigger problem. The government has no detailed blueprint for the desired result of separation from the EU.

There is much logic in the British desire to leave the EU. The decades-long period during which globalization was fashionable seems to be moving towards its close. More nations are recognizing the advantages of greater sovereignty. There is also a growing dislike of poorly performing supranational organizations. In many ways, this is an accurate representation of the EU.

The EU's decision-making leans heavily on a non-elected bureaucracy. The recent victory of populist parties in Italy is partly a reaction to the EU's failure to help the country alleviate the problems caused by the entry of hundreds of thousands of illegal immigrants. Similarly, the Greek financial crisis, which has now lasted more than eight years, was easy to forecast and should have been mitigated well before it erupted.

The euro, which is the currency of most EU countries, was misconceived from its beginning. It can only properly function with the fiscal and economic unity of the participating countries. Similarly, the elimination of border controls among those countries adhering to the Schengen agreement requires a strong guard at the outer borders of this zone. The Frontex Border and Coast Guard Agency, which should help individual countries control Schengen's outside borders, has been insufficiently financed.

There is additional logic behind Brexit. Berlin's position in the EU is increasingly dominant due to its economic strength. In the long run it would be unwise for the UK to have indirect German interference in many of its political and economic decisions.

All in all, possibly after some difficult initial years, a properly negotiated Brexit can be very beneficial for the UK both economically and politically.

What should the British government have done soon after the results of the referendum were known? It should have brought in as advisors organizations with deep expertise and long experience in complex major international negotiations. This can still be done, though much time has been lost.

There is a strong similarity between the Brexit deal and huge transnational corporate merger and acquisition negotiations. Those who specialize in such transactions are investment bankers.

Big corporate negotiations generally require the assistance of one or more investment banking groups. The UK still has a number of reputable institutions in this field, even if many are subsidiaries of foreign financial institutions. The advantages of these advisors in international negotiations over politicians go

far beyond the difference in experience. Politicians must make public statements in order to position themselves in the government, their party, and the public eye. Investment bankers, by contrast, understand that secrecy has great value in negotiations. They also work as one coherent team.

Investment bankers understand that the success of the UK talks with the EU will depend in part on the exploitation of the diverging interests of its 27 remaining member countries. There are countries and areas that have much to lose from a hard Brexit as they have large exports to the UK. Also, there are Eurosceptic parties in many EU member states. Investment bankers would have fewer scruples and more experience than politicians in how to play these actors against the EU.

In short: given their far greater experience in complex financial negotiations and how to prepare for them, as well as their natural secrecy, investment bankers have a major advantage in assisting the politicians who are acting on behalf of the UK.

A coherent, detailed scenario is also required. The only one that can be studied in full detail is the hard Brexit option; i.e., London leaving the EU without an agreement. That is not because it is desirable, but because it can be thought through entirely. To prepare a blueprint for this possibility, many economic actors – including all major British businesses and banks – would have to be interviewed. This would help in predicting what would happen to their businesses and to the overall UK economy if no agreement with the EU is reached.

Once such a base scenario exists, all European proposals can be compared to it. Offers that make the outcome for the UK worse than a hard Brexit should be rejected. Those that improve the situation should be considered. Compared to the current reality of much talk and even more confusion, that would be a big step forward. In any case, to accept a hard Brexit – should it come to that – without a detailed blueprint would be totally irresponsible.

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