Brexit, the EU and Asia: The End of European Liberalism?

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Sunderland. Population: 275,000, less than 0.01 per cent of the UK's total. Main local employer: a Nissan factory, with 55 percent of its cars going to the rest of the EU. A previously little-known city in Northeast England made the headlines around the world on the night of June 23rd. For when it was announced that 61 per cent of local voters had decided to back the UK leaving the EU, the game was over. The pound fell by three per cent as an instant reaction to the announcement. British people wishing to remain in the EU knew they had lost the referendum. The real threat of Nissan having to shed thousands of jobs, or even close its Sunderland factory, to continue to sell its cars in the EU had not been enough to convince the local population of the merits of staying in the Union. Voters had decided that the uncertainty of the UK going it alone was preferable to the clear and direct economic benefits of being part of the biggest market in the world.

Why? Why did 52 per cent of UK voters follow from their counterparts in Sunderland and vote to leave the EU? After all, few countries have benefited from EU membership more than the UK. When it joined in 1973, the UK was known as "the sick man of Europe". Indeed, the British government had to go cap in hand to

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the IMF for a bailout in 1976. Little over 40 years later, the UK is one of the best-performing developed economies. Its job market is a magnet for hundreds of thousands of immigrants, whether from the rest of Europe or elsewhere. London is one of the few truly global cities. Britain's financial and business services, creative industries, fashion and higher education are world-leading. As of 2017 and in spite of the Global Financial Crisis, and borrowing from Prime Minister Harold MacMillan's oft-quoted 1957 speech, many in the UK have never had it so good.

However, the UK's aggregate success hides several important problems. The UK is one of the most unequal developed countries in the world. The successful and wealthy financier or lawyer living in Mayfair lives a completely different life from the laid-off factory worker from north England whose job has been outsourced. Social mobility is one of the lowest amongst developed nations.² In the UK, more than almost anywhere else in the West, your school determines your life prospects. Xenophobia and racism, expressed as anti-migration feeling, are still present across large swathes of the UK. Post-Brexit vote studies and surveys have shown that displeasure with allegedly high levels of immigration was one of the key reasons, if not the main one, why a majority of British voters wanted to leave the EU.³ In short, for many British people liberalism has not delivered. The free flow of capital and goods has resulted in recurrent economic crises and job losses. The free movement of people guaranteed by the EU has brought immigration and supposedly "unfair" competition for jobs. The decision to leave the EU is logical if you think that Brussels embodies liberalism, globalisation, migration and your own economic malaise.

The implications of this line of though go beyond the decision by the UK to leave the EU. Paradoxically, the British government has been a staunch proponent of the free flow of goods, services, capital and people across Europe. Since joining the EU, London had invariably sought economic liberalisation and deregulation, as well as the promotion of free trade. Prior to the Brexit vote, few EU member states were as open to trade agreements and investment treaties with third countries. Indeed, it could be said that

London had become the unofficial leader of a liberal wing pitched against a more statist bloc led by France. The vote to leave the EU showed that this enthusiasm for liberalism is not widely shared even within the UK. Similarly, many populist parties and movements across both Western and Central and Eastern Europe are seeking to retreat from the EU's liberal policies.⁵ They want more state interventionism in shaping the economy and society.

As a result, the world in general, and Asia in particular, should brace for a less liberal and more realist – in the International Relations sense – EU. For European political and business elites have started to realize that unfettered liberalism is far from universally popular within Europe. In order to avoid a new Brexit or even to remain in power, EU member states have to take into consideration the wishes of their own population. This means that free trade agreements, investment treaties, deeper cooperation and the relaxation of entry visa requirements are off the menu. Instead, economic protectionism and a tougher, less universalistic foreign policy are set to rule EU relations with the rest of the world in the coming years.

I. Brexit and Europe: Liberalism in Retreat?

The EU is considered to be both a by-product and a keen promoter of liberalism. Following the end of World War II, European powers took the decision to create a common market to foster peace. The basic idea was that countries with intertwined economies would not go to war. As the EU celebrates its 60th anniversary of free trade and peace, it can only be concluded that it has been delightfully successful in averting war through deeper economic integration. This success has led the EU to try to export its model to other regions. Brussels is a firm believer that liberal principles such as the free market, democracy, the rule of law or the protection of human rights are intertwined and beneficial to all individuals. Therefore, the EU has a duty to promote them within and beyond its borders.

The UK is considered to be both one of the birthplaces as well as the embodiment of these values. Indeed, since at least the prime

ministership of Margaret Thatcher successive British governments have keenly promoted liberalism and integration at the European level. Thatcher herself was a major driving force behind the launch of the common market in 1992. Prime Minister Tony Blair strongly supported expansion of the EU to post-Communist Central and Eastern Europe, to a large extent as a means to promote the benefits of the free market and individual freedoms to the whole of Europe. Prime Minister David Cameron was a strong advocate for free trade agreements with China and the US, among others. In the political economy literature, the UK is included among a host of Anglo-Saxon countries promoting a liberal laissez-faire economy. 8

Looking at the EU from outside, it would seem that these liberal values are widely shared. However, this is untrue. In the mid-2000s, voters in France and the Netherlands rejected a project that would have created a Constitution for Europe. Most EU member states imposed a seven-year moratorium on the free movement of Central and Eastern Europeans after their countries joined the EU. The Global Financial Crisis and subsequent Eurozone Sovereign Debt Crisis have led many Europeans to openly question liberalism, capitalism and globalisation. At the risk of oversimplifying, Brexit is nothing but further proof that many Europeans have serious misgivings about the direction of the EU and the liberal project in general. The UK is not an outlier in this regard. Brussels might promote liberal values abroad, but many of its own citizens reject or even fear them.

The implications of this process of openly questioning liberalism that culminated in the Brexit vote are both political and economic. Focusing on the former, nationalist and populist parties have become emboldened across Europe. Many of these had been around for at least two decades. Yet, they only started to regularly receive a large share of the vote and challenge traditional parties at the turn of the century. In the aftermath of the global and Eurozone crises, with Central and Eastern European migrants being portrayed as a threat to jobs and living standards by part of the Western European media, Islamic terrorism reappearing in Europe, and a flow of refugees coming to the continent through North Africa, these parties have become mainstream. Marine Le

Pen's National Front, Nigel Farage's UK Independence Party, Viktor Orban's Hungarian Civil Alliance or Geert Wilders' Party for Freedom all have something in common. They reject the federal, more liberal and integrated Europe that they think is coming and yearn for a supposedly simpler and better past, in which economic security and social homogeneity allegedly reigned.

Predictably, mainstream parties have toughened their rhetoric and actions against migrants and refugees. In Germany, Chancellor Angela Merkel at first welcomed Syrian refugees. As German public opinion began to have doubts about this policy, Merkel started to make clear that refugees who committed crimes would be immediately deported. Prime Minister Viktor Orban refused to accept a European agreement to distribute refugees across EU member states, arguing that Muslims could disrupt overwhelmingly Christian Hungary. Slovenia and Spain built fences to prevent non-European migrants and refugees from entering their territories. The clear anti-immigrant message of those who campaigned for Brexit is replicated across the EU. 11 Free movement of people, one of the tenets of liberalism and the EU, is anathema to many Europeans todays. The image of Europe being a modern fortress, with free movement inside its borders but increasing difficulties for those outside to enter, 12 is today matched by both political actions and the wishes of a majority of Europeans.

The economic implications of the UK's vote to leave the EU start with an open debate about the benefits of the four core freedoms of the EU. The free flow of goods, services, capital and people do not go unquestioned anymore. The common market is not under threat per se. It is one of the crowning achievements of post-World War II Europe. Even in the UK a majority of people want to retain access to it.¹³ But even firm believers in the European project now think that it might be necessary to introduce reforms to support the "losers" of globalisation and integration. Furthermore, the EU's motto of an "ever-closer union" is not as popular as it used to be. Talk about the benefits of a multi-speed Europe, whereby economic integration proceeds faster in some countries than others, has become more prevalent.¹⁴ The euro serves as a case in point. In theory, all EU member states

except for Denmark and the UK should adopt it. In practice, the adoption process has been slowed down for those countries that are yet to join.

At the same time, and given the ascendance of nationalist and populist alternatives among large swathes of the electorate, mainstream parties have had to react. In order to respond to the electorate's concerns about economic decline, politicians across EU member states now denounce the excesses of capitalism that led to the global and Eurozone crises. Up to ten countries are discussing the introduction of a financial transaction tax in the hope of controlling speculative financial flows, even if progress has been slow. Meanwhile, promises to protect domestic industries are becoming commonplace. The possibility that PSA might buy Opel and Vauxhall has prompted the German and British governments to seek reassurances that no factories will be closed. This illustrates how European politicians, in common with their counterparts in many other parts of the world, cannot bear liberalism in practice.

The UK had been one of the stalwarts seeking to maintain economic liberalism both within Europe and in the EU's relations with third countries. As it starts the process of leaving the bloc, it is very likely that we will see the acceleration of a trend already very visible within the EU. This trend is a lack of enthusiasm and even contestation of trade and investment treaties. The clearest example has been the botched Transatlantic Trade and Investment Partnership – or TTIP – negotiation process. From the onset, multiple groups across the EU were opposed and demonstrated against the TTIP. Farmers wary of US genetically modified foods, campaigners fearful of American-style healthcare privatisation, and privacy advocates concerned about the monitoring of people's online activities were amongst the many groups forcing Brussels to significantly slow down the agreement's negotiation process. At the time of writing, TTIP can be considered to be dead. Even if it is revived, strong opposition to the agreement will not disappear. Other potential and even existing agreements are now under scrutiny. Brussels, long considered and self-portrayed as a trade superpower, is now wary of free trade and investment.

II. EUROPE AND ASIA POST-BREXIT: TOWARDS A REALIST RELATIONSHIP?

With liberalism in retreat across Europe as exemplified by and now following from the Brexit vote, relations between the EU on the one hand and China and Asia on the other are poised to change. Asian countries should not expect Brussels to continue to support free trade and investment, a relatively benign visa regime, and unfettered support for openness. None of these are vote winners in Europe currently, a situation that is unlikely to change for the foreseeable future. No European politician running for president can openly embrace the free flow of trade, investment and people. Not too differently, businesses across the EU cannot overtly support liberal ideas unless they are willing to suffer a backlash. This is especially true with regards to Asia, since many Europeans consider that the outsourcing of manufacturing and some services to this continent has been a key factor in the perceived decline in jobs and living standards across the continent.¹⁸

Arguably, the backlash against liberalism will be most clearly felt in the economic relationship between Europe and Asia. As part of the Global Europe Strategy published by the Commission in 2006, the EU launched a plan to negotiate bilateral free trade agreements with key partners in the region. 19 Blair and Cameron were strong supporters of this strategy, which can be considered mildly successful. By the start of 2017, Brussels had an agreement in place with South Korea, had signed agreements with Singapore and Vietnam, and had fairly advanced negotiations with countries such as Japan, Malaysia and Thailand. Considering that the EU is the largest economy in the world, these agreements and negotiations, unsurprisingly, tilt very favourably towards Brussels. A case in point is the EU-South Korea FTA. The trade deficit that the EU had with the East Asian country became a surplus upon the agreement entering into force.²⁰ German cars, Italian suits and British boutique financial firms, long a rarity in the streets of Seoul, are spreading. South Korean carmakers and TV producers have of course benefited from easier access to the EU market. But European firms have benefited more.

In spite of the clear advantages that free trade has brought to companies and consumers in the EU, Brussels is abandoning liberalism in favour of realism when it comes to trade with Asia. This means that the EU wants agreements with clear and immediate benefits for itself, while limiting its concessions to the other party. Moreover, Brussels is unafraid to make further requests even after an agreement has been signed. The EU-South Korea FTA, again, serves as an excellent case in point. Even though the Commission publicly acknowledges that the agreement has been very beneficial to the EU, with exports to South Korea increasing by 55 per cent in the five years since its implementation, Brussels is already asking to make amendments. Most notably, the EU wants European exports from logistical hubs in Asia to be covered by the FTA.²¹ This would allow European companies manufacturing in lowcost locations across the region to export to South Korea under the terms of the bilateral FTA, thus allowing them to reduce labour and transportation costs. In other words, European companies would gain a significant advantage that the EU would not need to reciprocate, given that South Korean companies such as Samsung, Hyundai or LG already have facilities in countries such as Czech Republic, Poland or Slovakia.

Similarly, implementation of the FTAs with Singapore and Vietnam has been delayed because of Brexit. In the case of Singapore, the European Court of Justice has to rule whether the agreement can be approved by the European institutions only or if member states have to ratify it as well. Without the UK as part of the EU, the European Parliament will probably tilt more heavily towards protectionism and some member states might become less willing to support the FTA.²² In the case of Vietnam, the European Parliament has already accused the Commission of failing to properly scrutinise alleged human rights abuses in the Southeast Asian country.²³ This suggests that the agreement will have a hard time being ratified by the European Parliament. Among other reasons, British MEPs and officials will not be there to press for its ratification.

Asian countries seeking to negotiate less ambitious yet still important investment treaties with the EU should also expect Brussels to drive a hard bargain. Following the entry into force of the Lisbon Treaty in 2009, bilateral investment treaties became a competence of the Commission. Currently, EU member states have over 1,200 bilateral treaties. The Commission's objective is for these to be replaced by EU-wide treaties. As one of the largest destinations and points of origin for EU investment, the UK pushed for the Commission to expedite the process of negotiating bilateral investment treaties. As 2016 drew to a close, however, the EU had yet to sign a single one. With protectionism becoming more prevalent across Europe following the Brexit vote, any bilateral investment treaty signed with an Asian country is likely to be beneficial for the largest economy – the EU.

Negotiations for an investment treaty between the EU and China serve as an example. Beijing was the first partner with which Brussels sought to negotiate a bilateral agreement following the entry into force of the Lisbon Treaty. However, negotiations dating back to 2014 have yielded limited progress. The starting position from the EU is clear: Brussels wants to create what it calls "a level-playing field". This is code word for China opening up to European investors and liberalising its investment rules to the same degree that the EU is open to Chinese investors.²⁴ While this position might seem logical and even desirable, there is one fundamental problem for Beijing. Since the EU is more open to foreign direct investment from China than vice versa, creating a level playing field would necessarily mean Beijing implementing reforms on areas such as visa rules, investor protections or investor-state dispute settlement.

If the Xi Jinping government wants to implement these and other reforms, then a bilateral investment treaty with the EU would be very positive. But if this is not the case, then the Chinese government would be forced to introduce reforms that otherwise it would not be willing to implement in order to reach an agreement with the EU. If Brussels is willing to forgo an agreement with China unless its conditions are met, less powerful Asian countries with smaller economies stand no chance of signing an investment treaty with the EU unless they are willing to make significant concessions.

In fact, both the EU and its member states already engage in protectionist practices when it comes to foreign direct investment

from Asian countries. They do not hesitate to scrutinise and block potential investments that are deemed suspicious or contrary to their interests. Recently, the Commission launched an investigation into a high-speed railway project that would link Belgrade with Budapest. Part of President Xi Jinping's Belt and Road Initiative, the project was awarded to a consortium including two Chinese state-owned companies. The Commission argued that the project could have breached EU procurement legislation. Regardless of the merits of the EU's probe, it is undeniable that investments from countries such as China or India are seen less favourably than those from developed countries. In the case of China, investment decisions are often portrayed as government-driven attempts to influence the policy of EU member states.

In spite of the EU's move towards realism to the detriment of liberalism in its post-Brexit vote economic relationship with Asia, there is one way in which Asian countries might be able to make Brussels more willing to negotiate agreements and treaties. This would entail playing the UK against the EU. Asian governments could use the prospect of an FTA with the UK as a means to force the EU to make concessions and sign an agreement more quickly than it usually does. The stalled EU-Japan FTA, for example, has been revived thanks to the UK's vote to leave the EU.26 Concurrently, Asian companies are likely to relocate their activities from the UK to other European countries. The UK is a gateway for many Asian companies to enter the EU market. Since Prime Minister Theresa May has made clear that the UK will be leaving the single market, Asian companies will have to move to remain within the EU. This could be used by Asian governments as a bargaining chip to obtain more favourable conditions from Brussels in any trade or investment agreement negotiation.

Furthermore, as the UK leaves the biggest market in the world and its main trading partner – the rest of the EU – it will have to enter into new trade agreements with countries across the world. Considering that there will be a clear political and economic imperative for the May administration and future British governments to sign FTAs, Asian countries will find it easier to obtain concessions from the UK. Leaving aside the fact that a post-

Brexit UK will be less attractive as a trade and investment partner because it will be a smaller economy with hindered access to the single market, many in the pro-Brexit campaign promised a more open Britain. Governments across Asia should take advantage of this promise and a weakened UK to obtain better deals than they can get with a bigger, stronger EU.

III. Brexit and EU-Asia Political Relations: A Less Normative Europe?

The politics of EU-Asia relations are also poised to change following the UK's departure from the EU. Within European policy and academic circles, there is an ongoing debate regarding the nature of the EU's foreign policy. On the one hand, there is a group who believes that the EU is a normative power. This means that its foreign policy is driven by values and the common good, and based on liberal principles such as the rule of law and the promotion of democracy and human rights.²⁷ On the other hand, this conception is disputed by another group that believes that the EU is a normal power. In short, this entails that the EU behaves like any other actor, putting its interests first and using all available tools at its disposal.²⁸ Certainly, the reality of the foreign policy of the EU is more complex. It mixes normative and non-normative elements, as does the foreign policy of most countries. Nonetheless, the way the EU perceives itself and its foreign policy can determine the direction of its policy towards Asia.

With the UK about to leave the EU, this policy is likely to change in two ways. To begin with, many policy-makers and researchers across Europe see the EU as a model for regional integration for other regions to follow. In the case of Asia, the first-ever EU strategy towards the region – issued in 1994 – and subsequent documents have made clear that Brussels sees the EU's regional integration model as a template for ASEAN.²⁹ While it has always been debatable the extent to which the EU model can be applied in Southeast Asia, the UK's decision to leave the EU should put an end to any pretence that this is the case. If a regional organisation composed of countries with very similar political systems and at the

same stage of development cannot keep one of its most successful member states inside, it should not be a model to aspire to.

In fact, Brussels had already acknowledged that ASEAN will not become a Southeast Asian EU any time soon. For many years, and especially since the Global Financial Crisis, the EU's policy towards regional integration in ASEAN has been based on offering advice and providing technical support as requested.³⁰ The case of the ASEAN Economic Community or AEC launched in 2015 proves this point. The AEC is modelled on the EU's single market, and it incorporates the four fundamental freedoms of the EU in the form of the free flow of goods, services, capital and people. However, there are significant differences between the AEC and the single market. Most notably, ASEAN's common market does not come with a court to settle internal disputes, free movement of people is severely restricted to certain highly-specialised jobs, and there is no serious move to pursue political and monetary union. Post-Brexit vote, the EU is in no mood to push for ASEAN to become an EU lite.

This implies that the EU is becoming more respectful of the differences between itself and ASEAN. This applies to the second way in which EU policy towards Asia is likely to change. In short, Brussels is set to become less adamant in promoting values such as democracy, the rule of law and human rights in its relationship with Asian countries. In truth, London has never necessarily been first in line to defend these principles. The UK has generally been part of a group of member states more willing to promote free trade at their expense. And the EU itself has been slowly moving towards a realist, rather than values-driven, trade policy.³¹ But with the EU having to deal with Brexit, it is very likely that Brussels will have less soft power and time to put these principles at the forefront of its relations with Asia. For once, Asian countries are less likely to listen anyway. More importantly, however, many in the EU will find debates about the promotion of democracy and human rights overseas as an unwelcomed distraction from more pressing domestic issues.

One of the effects of this change is that the EU will deal with Asia as it is, rather than how it would like it to be. To recover from the blow to its reputation resultant from the Brexit vote, the EU has to be seen as an important diplomatic power in the region.³² This will not be easy if it becomes embroiled in discussions about supposedly universal values. Brussels is unlikely to make this error, even if member states such as Denmark and the Netherlands, as well as EU institutions such as the European Parliament would probably like for values to be an important driver of EU policy towards Asia. This can be seen in the internal tensions in Europe regarding the EU's policy towards Myanmar. The bilateral human rights dialogue launched in 2014 was a concession to member states and institutions wary of the EU moving too fast in restoring diplomatic and economic relations with the Southeast Asian country, in the aftermath of the reform process in which the military junta controlling Myanmar has embarked. The dialogue has not been a dent on the blossoming economic relationship between European companies and Myanmar. Similarly to other human rights dialogues between the EU and ASEAN member states, these are elite-driven processes that serve more to appease some EU member states rather than being central to Brussels' policy towards the region.³³

Ultimately, the shift away from a normative power policy towards Asia is underpinned by Brexit but is part of a trend dating back to at least the mid- to late-2000s. Following from the Global Financial Crisis and the entry into force of the Lisbon Treaty, Europeans with deep knowledge about Asia started to populate different institutions. The European External Action Service has a growing number of officials with deep knowledge of the history, culture and current reality of countries across Asia. The Commission and European Parliament also do. Member states such as France, Germany or Poland have very good diplomats and experts that know the Asian continent very well. Real expertise has brought a more realistic and less value-driven policy. With the Brexit vote, this shift will strengthen.

VI. A CHANGED EUROPE, A CHANGED EU-ASIA RELATIONSHIP

The Brexit vote has brought with it a retreat from liberalism across Europe. In truth, this retreat was also a cause for this vote to

begin with. There are many Sunderlands in the European continent. That is, cities and entire regions that have never fully recovered from the deindustrialisation process that globalisation, privatisation and other liberal – or neoliberal – forces affecting Europe since the 1980s has brought. The Global Financial Crisis and subsequent Eurozone Sovereign Debt Crisis woke up a dormant discontent among many different groups in Europe. As banks were bailed out, many Europeans started to openly question an economic model whereby those losing their factory or mining jobs receive little help, while bankers responsible for these twin crises do not suffer from them. Coupled with misgivings towards supposedly uncontrolled migration, many in Europe feel that the current system does not work for them. Brexit is a consequence of this feeling.

In the aftermath of the UK's decision to leave the EU, political and economic elites have started to listen. The election of Donald Trump as president of the US might have sent shockwaves around the world. In the case of Europe, the Brexit vote of June 2016 had the same effect. Protectionism and a departure from liberal orthodoxy are set to dominate European politics and economic policy-making in the coming years. Politicians are responding to the concerns of their voters, as should happen in a democracy. Therefore, the will of the people is driving a move away from liberalism across the EU.

In terms of the relationship between the EU and Asia, this move towards nationalism and protectionism has clear negative consequences for economic relations. Brussels will continue to pursue FTAs and bilateral investment treaties. But it will drive a harder bargain, seeking to maximise its own benefits while limiting potential losses. And it will not hesitate to walk away from the negotiation table if necessary. If Asian countries want to gain access to the biggest market in the world, they will have to agree to more concessions than they would have in the past. With the US unwilling to promote free trade under Trump, as seen by Washington's withdrawal from the Trans-Pacific Partnership agreement, Asian countries might have to look at less beneficial agreements with the EU as their best bet to promote free trade with the greatest economic powers.

On the political and diplomatic front, however, Asian countries are likely to welcome a less interventionist and more respectful EU. Normative values will be less of a priority for an EU more focused on regaining its prestige. The EU will present itself not as a model to be replicated, but as a partner to be trusted and have a dialogue among equals with. This might displease some constituencies within Europe that believe in the EU as a shining light for less integrated and developed regions. But it should be welcomed by Asian countries that have long complained that the West, including the EU, does not understand that each country is different.

Ultimately, the decision by British voters to leave the EU is already having and will continue to have an effect on EU-Asia relations. It cannot be otherwise, considering both the reasons behind and the reverberations of this decision across Europe and beyond. A less liberal and more nationalistic and protectionist EU is a reality. China and the rest of Asia will have to get used to this, and adapt their policies accordingly. Whether a less liberal Europe fundamentally changes the EU-Asia relationship in the long run is yet to be seen. It might be that once Brexit and other crises are over the EU renews its love affair with liberalism. Nevertheless, in the meantime we can expect some frictions as Brussels seeks to extract maximum economic benefit from its relationship with Asian countries. These frictions, however, will come together with more political and diplomatic cooperation as the EU implements a less normative policy towards Asia.

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