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Transcript

Britain and the EU: International Perspectives

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Robin Niblett:

Ladies and gentlemen, I'm Robin Niblett, director of Chatham House. A pleasure to welcome you here this evening for this members meeting: 'Britain and the EU: International Perspectives'.

Starting from the far side and working down towards me, we have Tim Summers, who is a senior consulting fellow for the Asia Programme at Chatham House, based in Hong Kong. He started his career in the FCO, was the British consul general in Chongqing through to 2007. He now teaches at the Chinese University of Hong Kong and also advises companies and investors on what's going on in China.

Vassi Naidoo, who is vice chairman for international markets and lead partner for Africa and India at Deloitte – I think his title indicates very clearly what it is that Vassi does – and is going to let us not just bring an Indian perspective on what's taking place here, but hopefully as well, Vassi if we can, some of your Africa perspectives as well, as this is such a growth potential area as well, internationally.

We then have Şevket Pamuk, who is the professor and chair in contemporary Turkish studies at LSE. Şevket is leading a very active Turkey research and academic programme at LSE, but he has taught at many universities, both in Turkey but also in the US: Princeton, Michigan Ann Arbor and Northwestern.

And then next to me, my colleague Xenia Dormandy, who is a senior fellow for the US International Role here at Chatham House, who brings the benefit – she can do this at meetings – of pulling out her US and her UK passport. And she and I were both at a joint Council on Foreign Relations–Chatham House meeting over the weekend in New York, where Xenia brought together a group of American and British experts, policy and former policy officials, to discuss the nature of that relationship. And Europe and the UK came up quite actively. So she'll be able to draw on that as well as her own experience in the US government, where she's worked in the State Department and also the National Security Council before coming to the UK and to Chatham House about two years ago.

Tim, let me start with you and get you to share some initial thoughts on whether this particular British debate on its position in Europe is striking any chords at all of anxiety, interest or otherwise in the circles that you move in, in China and via Hong Kong. I've spoken to Chinese in the past, who in my experiences can be quite good at separating out EU interests and country-specific interests. I'm wondering if they see this as an opportunity or a non-

event. Why don't you share your first five minutes or so with us so that we can be as disciplined as possible on time.

Tim Summers:

Thank you very much, Robin. Well, I think we're all really here because of the speech given by David Cameron in January. And on the day that he gave that speech, I was up in China. It certainly did make an impact. It was on the news; it was in the newspapers.

One meeting I had with a local government official – not someone from the Ministry of Foreign Affairs or anything, just a working level local government official – he turned to me afterwards and said, 'Oh by the way, I see that Britain is leaving the EU.' Well, not quite, but I think that first of all demonstrates that we have a lot to do in getting messages across in a place like China about Britain's relationship with the EU.

But it also demonstrates that there *is* an interest in China, at least among opinion formers and policy-makers, as to how Britain relates to the EU. This is a topic which people are interested in and which people are following.

I looked at a little bit of the media commentary around this speech, and I have to say that the rhetoric of that is actually pretty negative. The general sense in the Chinese media was that this was an indication of a big difficulty facing the UK in its relationship with Europe, that this was, if anything, an indication of further UK marginalization within Europe, of UK decline.

Interestingly, the financial crisis from 2008 was cited as a bit of a trigger for a change in UK perceptions, some of the analysis suggesting that actually this shifted the political centre of gravity within the European Union away from three-country – Germany, France, UK – dominance, towards the eurozone and France and particularly Germany. So the sense that this is not something good for the UK's relationship with the EU, pretty negative rhetoric.

The second point I'd like to make is: I think actually from Chinese perspectives, what matters most in this is the future of the European Union or the future of Europe itself. The UK's relationship to Europe is of course part of that, but the primary issue is what happens to the EU. And here in much Chinese comment over recent years, the EU has become almost synonymous with 'euro', 'debt', 'crisis' – those three words, or their equivalent in Chinese.

The EU is still an important partner for China. It's a very big trading partner. Although perhaps the relative importance of the EU to China has been declining over recent years as other emerging markets have seen their trade and investment volumes grow more rapidly with them than the EU. Other countries have perhaps had slightly less difficult political relationships at times than the EU has had with China.

This is still a very important part of the world for the Chinese, and so therefore the UK's relationship to the EU is an important part of that.

I think therefore, my sense – and I don't think there's a clear statement of Chinese government policy at the moment – but my sense is that Chinese policy elites, Chinese opinion formers, would like the UK to stay in the EU. That the EU is seen as being stronger with the UK in it, there is little advantage from the Chinese perspective for the UK to be marginalized or to leave the European Union. Without the UK, the EU itself becomes a just slightly less important partner from a Chinese perspective.

That's all a little bit gloomy. I think the issues that are much more open are around the UK–China relationship itself, and here I would expect actually the Chinese to take a pretty pragmatic approach, whatever the UK decides its future relationship with the EU will be. As Robin alluded to, the Chinese government is pretty adept at mixing its diplomacy with the EU as a bloc with its diplomacy with EU member states as individual member states.

Whatever happens, the China–UK relationship will remain an important part of that picture. I think actually the future trajectory here will be rather issue-dependent, and probably rather policy-dependent on the UK side as well, if the UK is to – certainly if it is to leave the EU, but even as it renegotiates its relationship, there may be new policy questions which come up, which hitherto have sort of been subsumed within the UK's relationship with the EU.

So on trade policy, for example. Or maybe the arms embargo towards China, which is an EU policy – the UK has had to go along with EU policy there. So some new areas will open up. This could create opportunities; it could create vulnerabilities. I would expect, for example on the arms embargo, that the Chinese would seek to take advantage of any UK renegotiation of its relationship with the EU to seek advantage on particular issues.

When it comes to something like investment – very topical at the moment – or the internationalization of the RMB, some of these issues are more related to the UK's relationship with the EU than others. Some investment in the UK from China is definitely related to the ability to access the single market through the UK. But I don't think we can say that is true of all investment from

China, and some of the discussions I think the government here has been having with the Chinese may give some examples of that.

So when it comes to the nuts and bolts in the future, I think the Chinese will take a fairly pragmatic approach. There will be a little bit of issue-by-issue selection, but back to my earlier point, the rhetoric on this is pretty negative. I think they see this as an example of UK decline rather than as an opportunity.

Robin Niblett:

Thank you, very much. We'll definitely want to come back to some of these points. As you said, this contrast between the Chinese focus on the EU as a bloc that – I think, if I hear you saying it right – is quite useful for them to have as a collective, and the pragmatism of their ability if they need to then work around this and do it on a bilateral basis, with opportunities and vulnerabilities for the UK.

Vassi, let me come to you now. It's rather intriguing; here we are, that speech by Prime Minister David Cameron, followed then by this high profile visit to India with lots of business leaders and so on. Quite interesting symbol, I suppose, of this search that the UK has at the moment to recapture aspects of a more international perspective. How do you see this question? And how do you think it's seen within India, and if you wish as well, within African communities?

Vassi Naidoo:

Thanks, Robin. I'll also build on a platform that Tim has given me in terms of starting off by referring to the prime minister's visit. He referred to the speech and I'll refer to the visit to India, as you rightly say.

I think the visit in February 2013 focused on the key business priorities and business perspectives that they're looking for from an India–UK perspective. Prime Minister Cameron spoke about this special relationship with the UK, based on the future. And he challenged the business leaders that were there, in addition to some of the politicians – both Indian and UK politicians – to look at ways of overcoming these barriers that we might have in order to grow this trade between our two countries as a challenge.

I think in terms of trade, the prime minister spoke about the reducing trade with our [the UK's] traditional partners, particularly Europe and the US, and

the need for us to look at new trading partners, largely coming from the East and I guess you could refer to China and to India from that perspective.

And he went on to say, in trading with the East – and I guess including FDI with the East – we need to look at the significant strengths that the UK can bring. And the strengths in the UK are certainly in the knowledge and technology-intensive capability that we have, and the ability of us to leverage this capability with our Indian colleagues, for example, in order to create an ecosystem that generates benefits for all, not just us in the UK but also for people in India.

In his opening comments, he also spoke specifically about the UK being used as a gateway to Europe, which is what he left the group with. So what then would be some observations that I would make with regards to the UK as a gateway to the EU?

I think the first point I would want to deal with is the need to deal with the period of uncertainty that, sadly, the prime minister has left with us. What do I mean by that? I think it's been unfortunate that the prime minister has committed to having an EU referendum in 2017 if the current government was elected, because that creates this uncertainty. And the uncertainty causes businessmen to lose confidence and hence delay making business decisions that are going to generate the trade and indeed generate the job and the GDP growth rate that we're looking for in the UK.

So firstly, I think we need to overcome this period of uncertainty. And I don't know that we can do anything about that, as the prime minister has already made his choice on that. But I think there are some other benefits that the UK has in terms of being the gateway. Mr Ratan Tata spoke about this in India in February. He talked about welcoming and how open the UK was for the Tata Group coming here to do business with Jaguar Land Rover, Tetley Tea, TCS, you name them.

Our open economy is very attractive. Notwithstanding the current debate that's going around cross-border taxation and the need for equity, I think we have the lowest rate of tax in the European Union and that must be an attraction.

The UK is a very cosmopolitan society, embracing and welcoming, as I said earlier. I think from an India perspective, the businesses are largely family-driven or promoter-driven. I have no doubt in my mind, if you go around Mayfair and these kind of places, you will see that the Indian community sees this as an attractive, safe environment to do business, not only for themselves, but also for their families to live.

The last point I would make in the interest of time around the gateway into the European Union is the old aspect of London being an international financial centre (IFC). Being part of the UK gives businesses that are seeking to go into the European Union a fantastic platform to work in because using the UK as a gateway into the EU will have a double impact in terms of increasing trade for these international companies, but also in the ability to attract and deploy FDI through the UK.

And Robin, to your point earlier, we've already seen evidence of this by some of the South African companies post-the transition from the apartheid government to the ANC, companies like Anglo American, SABMiller, Old Mutual, that have really used London as an IFC in order to grow their businesses and create really global giants in their various sectors. So, that's the kind of proposition I would put forward in terms of EU as a gateway.

Just to articulate a few benefits – I've already mentioned this, but I think it's worth re-emphasizing – and that is the double impact aspect of FDI and trade, which we shouldn't lose sight of. I think this is particularly important in the context of what you said earlier, Robin, and that is post-the 2008 financial crisis, we are seeing the UK migrating to an export-led economy. I think it bodes well for us to have the UK in the EU so that we could leverage this export economy that we're trying to develop.

I think there's another benefit of using the UK brand and the quality and the products that it has as an attractive way to access the European Union. Yet, I will just cite the fantastic job done by the Tata Group in terms of Jaguar Land Rover and Tetley Tea – household names in the UK – and the success of those brands leveraged in the European Union and in China as a fantastic brand eminence for the UK.

And I guess I would say that, if we don't do this, we're certainly going to see a new found level of competitive activity coming from countries like France, the Netherlands and Germany, just to mention a few. It was interesting that our visit to India was preceded [by] a visit by Prime Minister [François] Hollande from France, I think three or four days before.

I guess, in a nutshell, what I would say just by a way of conclusion, I certainly support the view that the UK should be part of the EU because I think it is going to support our export-led economy. When I sit here and I have a six-month-old granddaughter called Stella, at least I can say to her I tried, in terms of articulating a view. Because I think if we don't do this, what would we tell our grandchildren and for some of the younger audience, what would you tell their children?

Robin Niblett:

Thank you very much. And thanks for that note at the end. I think the point you made at the end is powerful. You also though made some points earlier on, which we might want to come back to – and this is the case I think made by some who think the UK would do okay outside the EU – which there are certain unique features here. You mentioned earlier the favourable tax environment, the cosmopolitan nature and the kind of business-friendly climate. And the debate that's out there is whether countries feel they can access those things and being outside the EU somehow would somehow make those even more robust and compensate for some of the potential negatives in the other way.

I know where you stand on it. I think you laid out a very balanced kind of presentation here; I just want to draw that point to it. If I turn to you now quickly; as an intro comment, probably like you, I've been struck by some recent conversations I've had with Turkish people and some visitors here to London who are really intrigued by what the UK is up to: is there some parallelism here? Maybe we can find some sort of Turkish–UK joint future? It's an interesting concept; let's just say that for the moment. But let's hear your views of how you think this is perceived from the Turkish side.

Şevket Pamuk:

Robin, I want to make four brief comments, but my main message is not very different from the earlier two in that, from the Turkish perspective, UK inside the EU is a more valuable ally. I'm going to emphasize more the foreign policy and security cooperation in contrast to the economic partnership because while trade and investment flows have been growing, they could have been much stronger.

To begin with the bilateral relationship, UK and Turkey have been close allies inside NATO for more than 60 years now. They have had very close cooperation, most recently, for example, in the Middle East, in Afghanistan. Just to cite an example, Turkey's Foreign Minister [Ahmet] Davutoğlu will be in London tomorrow to talk about these issues, so this kind of cooperation is ongoing.

My other three brief points relate to Turkey's perception of UK inside the EU. Over the last two decades, the key goal for Turkey has been membership in the EU. As you know, Turkey's candidacy seemed to be going well early on, but the accession negotiations are now stalled. The UK has been one of the strongest supporters inside the EU of Turkey's EU membership.

A UK outside the EU would mean that Turkey will have lost an important ally that supported its EU membership. I think that's a very important point for Turkey because I think Turkey – despite all the talk about whether Turkey is turning east – remains committed to EU membership. If I may be a little more specific, it appears that the eurozone crisis is forcing the EU more and more into a two-tiered structure made up of the eurozone countries at the core and the non-eurozone members as a second tier.

Turkish foreign policy-makers have realistically recognized that it is only within this second tier that Turkey can hope to have a place, if it is ever accepted as an EU member. So, Turkish policy-makers very much hope that the UK will be part of this second tier in the future and, in fact, it will lead this second tier of EU members.

Turkey also feels that it can find itself a better place inside the EU, or it can eventually become a member of the EU, and its contributions to the EU will be strongest only if the EU eventually abandons its current concerns with internal matters, its current inward-looking posture, and sets its sights more strongly beyond its own borders and the EU begins to play a more active role in global affairs, in the Middle East, in Asia and in the Islamic world.

Turkey feels that it can contribute to that kind of EU a lot more. And it could be its membership in that kind of EU would be much easier. However, if the UK leaves the EU, the EU will have lost an effective member for such a role beyond its own borders. That is also another reason, a related reason, why UK's membership inside the EU is very important for Turkey.

In short, Turkey's policy-makers and public very much appreciate the value of UK as an ally, over the last 60 years at least. They feel that the UK inside the EU will be a more valuable, possibly a much more valuable, ally for them than a UK outside the EU.

Robin Niblett:

Thank you very much. I think some very interesting points. That point of NATO being another parallel space in which, obviously, Turkey is a full member and where that connectivity potentially with the EU would be lost, obviously, if the UK was out. Your point about enlargement, we may want to come back to this later on, because I do feel the UK is still playing on a somewhat historical support for Turkish enlargement which, if put to the British people today, might take a slightly different turn.

But still, the strategic interest, I think, has remained where it is and makes it very important. But I think your comments about 'Turkey can only hope to have a place in the second tier and needs the UK in there to lead it' is a really interesting and targeted point we may want to come back to.

Xenia, over to you: the US. I think we heard actually a spectrum of views when we were in the US the other day as to whether it was critical or not. There is the official line which we heard when Assistant Secretary of State Phil Gordon was here. But I think there are other views as well. How do you see it?

Xenia Dormandy:

Thanks. And a lot of what's been said resonates very much with a US perspective as well. To some extent, I'm going to try and channel some of the conversations that we had this weekend and that I had previously on this topic. For a US perspective, I would say that the US–UK relationship has three legs. It's like a stool with three legs. One leg is the assets the UK brings to the table. This is military assets. This is intelligence assets. This is diplomatic assets. That is extraordinarily useful to the US.

The second leg is a little bit more intangible. It's about – as one American ambassador once told me, 'The most useful meetings I have in a country are the lunches I have once a week with the British ambassador. Because in those lunches, you get a private, off-the-record opinion that is different from all the messages that you're hearing through the State Department, through your own officials, so you're getting a different perspective on a problem.'

You know, the American government has a tendency to hear certain things because people want things of the American government. The British government hears something different. So it's this intangible alternate perception on issues that is extraordinarily useful and makes up the second leg of what the US finds so useful about its relationship with the UK.

The third leg is the UK and EU relationship. Partly, this is kind of entrée into the EU, but partly, and perhaps more importantly than this, is the belief in the United States that America and the UK have a similar set of values, we have a similar set of interests, and therefore, knowing the UK is in the EU, your interests are being represented. Your views are being represented. America doesn't need to be there and America doesn't need to worry about what happens within the EU and the conversations within the EU because they've got a friend on the inside that basically holds the same set of assumptions.

One of the other things that came out of some of the conversations I've had is what about – and I just want to kind of, a little footnote on this if I might – what about the UK, as you say, in the margins, if it were a tier two country, if the EU were to make this split? The general view in the US is, particularly on economic issues, frankly, if the UK is on the margins or the UK is out doesn't make much difference. If the UK is going to be in, it needs to be in. Back to this idea of the UK representing – not representing the US, but at least holding the same set of values and, therefore, pushing and pulling the EU in ways that are of interest to the United Kingdom and almost by definition also to the United States. So, a UK out of the EU is one leg of the stool gone. Well, stools don't balance terribly well on two legs. So, that would be one issue.

The other part of this is what it does to the EU. It creates a weaker EU. The UK out creates a weaker EU from the American perspective. It creates a more lethargic EU. Perhaps as importantly, the US sees the UK as a nation that can effect change, that can effect reform, that will push reform. And so there's a real sense of having the UK in the EU as a reformer, as a change maker, and that being extraordinarily valuable, and therefore, [with] the UK out, you lose that.

There's also a third reason why it's so important to the US, if you look at the perspective from the EU, rather than from the UK for one moment. In making the EU weaker, it makes this partner to the United States, the EU, which holds many of the same values, many of the same interests – democratization, rule of law, transparency, openness – this partner to the US is suddenly weaker. So, you've got a weaker partner trying to promote all of these interests. You've devalued the EU. So, it's not just that the UK, in some respects, becomes less helpful, if you will – if I'm looking at it from a purely egocentric point of view – less helpful to the US, but the EU is also less helpful to US interests.

Very briefly, specifically on the areas of bilateral engagement, was one of the things we were asked to mention. There are three levels – political, military and economic. Politically, in terms of – let's say the UK pulls out of the EU. Does it matter politically? No. It's not a huge issue except – and this is perhaps a little too operational but I think is important – the US holds bilaterals with the UK and then it holds bilaterals with the EU and then does it hold trilaterals with the UK and the EU and the US?

I mean, really, this diplomacy is tough enough without complicating matters. And so, the only real effect politically is it's one more step and it's a little bit more complicated.

Militarily, in terms of the bilateral US–UK relationship, it really doesn't matter. Because as my Turkish colleague said, the US cooperates militarily with the UK through NATO and there's no real change *vis-à-vis* NATO. Economically, is perhaps the most important area to think about bilaterally. If the UK and the US do manage to achieve over the next two years an FTA (free trade agreement) – what the Americans are calling TTIP (Transatlantic Trade and Investment Partnership), but I think here it's called an FTA – then suddenly, does America now need to negotiate a separate one with the UK because the UK is not part of it? And that really is important to Americans, and that is taken very seriously.

Let me close by quoting, with no attribution, quoting something that came from an American that we were chatting to, recently: 'If the UK isn't in the EU, then the UK becomes much more like Canada to us. A special relationship? Yes. But an influencer? Maybe not so much.'

Robin Niblett:

Nice provocative point to end on there. Canadians will say, 'What's wrong with that?' We might have some Canadians here.

But actually, just to go back to one earlier point you made, Xenia, which I thought was very interesting. We may want to tease this out in a minute in a conversation, but I do want to give a chance to people here to throw some questions in or comments. You said, 'Either it has to be in the first tier or it doesn't work.' Now, we many want to define what we mean by tiers.

My instinct is that if the first tier is the eurozone, well, then we're going to be in the second tier for as far forward as most of us can see. The question is whether the eurozone really does constitute completely the first tier, or whether there's enough business outside the eurozone space that maybe means, for example, the single market plus enlargement plus various other dimensions – energy, climate and things – are enough of the first tier.

Personally, I think it'll be up to the UK to make sure that the second tier doesn't look like a second tier. It's a parallel tier. But the fact – if the eurozone becomes the heart, then the US and others probably will have to get used to dealing with a UK that *is* in the second tier. But that's something for us to discuss. I mean, I don't think it's prefixed or arranged, but it's definitely a very interesting part of the debate.