Brexit: What Happens Next? Cameron Resigns, Will Other Countries Leave the EU?

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Britain has voted to leave the European Union. In a referendum held on Thursday (June 23), close to 52 per cent of Britons favored leaving the EU. The referendum results reveal that the arguments put forward by Brexiters found greater resonance with the sentiments of ordinary people than the ones put forward by pro-European camps, the establishment and world leaders.

Before the polls closed, the UK's political establishment was expecting that overwhelming voters would vote to stay in the EU. In the same vein, most media analysts and market observers were predicting a win for Remain camp. Even Nigel Farage, leader of far right-wing UK Independent Party (UKIP) and a staunch supporter of the Leave campaign, had hinted on Thursday that his campaign has apparently lost the vote. But the outcome of referendum has proved them all wrong.

At the domestic political front, this vote has boosted the morale of the UKIP which has been calling for greater immigration control and restoring power to Parliament. However, the vote for Leave campaign should not be viewed as an outright victory for UKIP and other far right-wing groups because a large number of voters sympathetic to Conservative and Labour parties also voted in favor of exiting the EU.

The results have already shaken up the political establishment. David Cameron has decided to step down by October and major changes in the leadership of Labour and other parties are expected in the coming weeks.

This vote is expected to trigger a wide range of far-reaching social, economic and geo-political ramifications at the domestic, European and international levels. Many of these effects would be long-term and are yet to be fully comprehended. Even though the Leave vote was largely influenced by the immigration issue but other important concerns have not been given adequate attention.

Of course, a lot would depend on the next moves by the UK government to negotiate and facilitate the withdrawal from the EU by invoking Article 50 of the Lisbon Treaty. In terms of UK's future relationship with the EU, various options are on the table. For instance, the UK can opt for a model of semi-attached relationship with the EU, similar to the one enjoyed by Norway. The Nordic country enjoys access to the EU's common market (through its membership of the European Economic Area) but it has no say over EU rules. The UK could also emulate the Switzerland model of a slightly loose relationship with the EU. The UK could also put forward a new kind of relationship with the EU provided its proposal gets the support of member-states of EU.

Nevertheless, the fact remains that it would take considerable time for the UK to establish new relationships and rules for travel of people as well as trade of goods and services across borders. At the minimum, one year of political and economic uncertainty is expected. If handled badly, the uncertainty caused by a political crisis could soon turn into a major financial and economic crisis. Even though most British banks are currently in a stronger position than in 2007 when the global financial crisis erupted but the UK banking industry is still not out of the woods. Many banking reforms are still undergoing and investment banks could face fallout due to higher market and economic volatility as this process unfolds.

On Friday morning, the British Pound hits 30-years low and FTSE fell over 8 percent within minutes of financial markets opening. It is apparent that the statement issued by Mark Carney, Governor of Bank of England, promising swift policy action to tackle any disruptions had no impact on the market volatility.

This vote will have significant ramifications on the UK's agenda for trade and investment integration with the rest of the world. Through the membership of the EU, the UK has been promoting greater cross-border trade and investment flows in the past. Particularly in the areas of financial services, the UK has been seeking greater market access for its banking industry. From now on, the UK will have to pursue this agenda on its own. This may have both positive and negative outcomes. Besides, the fate of a mega free trade initiative, Transatlantic Trade and Investment Partnership (TTIP), hangs in balance with Brexit.

Similarly, the EU (minus the UK) would have much less bargaining power to negotiate bilateral trade and investment protection agreements. The EU is currently engaged with a wide range of bilateral trade and investment agreements with a number of countries including India. With the change in power relations, the EU may not be able to push for higher levels of commitments in trade in industrial goods and agricultural products, services and investment liberalisation, geographical indications and government procurement under the proposed India-EU free trade agreement (FTA). This may also work in favor of other developing countries which are seeking similar trade and investment agreements with the EU.

It is obvious that the UK referendum will encourage right-wing political parties and groups in France, Italy, the Netherlands, Hungary and other European countries to call for similar referenda. Already the larger EU project towards greater economic integration has been facing a crisis with its flawed monetary union and single currency experiment.

In addition, there are serious geo-political ramifications related to the future role of the UK (and the EU) in the management of international economy and politics, which are yet to properly analyzed and understood.

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