

Little country, what now?

bergsicht



CHAPTER 1

Misguided expectations

The last six months have certainly been eventful but there has been one striking omission: we have awaited in vain the resounding thud that would herald the ejection from their cosy office chairs of pretty much every editor of note on every media outlet, from radio stations to television channels to the majority of print newspapers and magazines. Each and every one of them has been party to a grotesque collective failure in their reporting of the two most significant changes to the global “big picture” this year: the Brexit referendum and the election of Donald Trump as the new US president. And, given the blanket nature of this failure, anyone who ever entertained the idea that modern information and communications technology would bring us more, rather than less, variety, should take a quiet moment to wonder if the all-too-easily accomplished manoeuvre of “copy-and-paste” might just have largely eliminated independent human thought.

The media – and thus those writing and speaking through them – are of course entitled to their own opinions. One might quite legitimately have opposed Brexit and the person of Donald Trump and fervently hoped that the outcome of referendum and election

alike would chime with one’s own wishes; the Brexiteers and Donald Trump surrogates certainly did everything they could to foment partisan divisions. However, when the wish is father to all thought and any reflection on the actual facts is banished – indeed, if wishful thinking is so pervasive that didactic techniques are deployed in an attempt to prohibit third parties (both explicitly and – especially – implicitly) from thinking for themselves, the undertaking miscarries in the truest sense, conveying only disinformation. There was not an article nor a report on the television or the radio that could resist a little Brexit-baiting or Trump-bashing; not a single contribution that did not lay into populism, and hardly any genuine analysis of the reasons – at times clumsily expressed, but on closer inspection, potentially understandable, nonetheless – that led many cultivated and intelligent people to come out in favour of leaving the European Union (EU) or upending the American political establishment. The media seemingly chose to forget that, while democracy can function as no more than a reliable crutch for a narcissistic coterie of power, it also permits of the opposing and perhaps undesired outcome – with all its imponderables and risks.

What’s more, in neither case did the organs responsible for conveying information and forming opinions on the financial markets make a significantly better fist of it. Carried along by the media pack, dazzled by responses to the opinion polls’ leading questions, buoyed by the recent protracted spell of fair weather on the bond, equity and currency markets – all of which explain the widespread desire for an extrapolation of business as usual – the majority of analysts and market participants allowed themselves to be led up the garden path. On the very eve of the election, a representative of a respected bank took time out during a

presentation to assure us that, given Hillary Clinton's anticipated victory, they were significantly overweighting equities. Now, while that overweighting has since paid off, it was because of Trump, not Clinton. They were doubly misguided, but two "wrongs" can fortunately also make a "right" on the financial markets. We do not begrudge it him – nor yet ourselves.

Nonetheless, these strangely misguided expectations on the financial markets should almost give us more pause for thought than the blunders of the media. Financial theory suggests that expectations are formed *efficiently*, and so partisan media reporting or shoddy opinion polling ought to be met with scepticism. In both cases (Brexit and the election of Donald Trump), however, this was patently not the case. At our think tank, we have long since supplanted the theory of rational expectations with the "*rational beliefs*" approach developed at Stanford: as long as a large number of people believe in a certain direction of travel, so the theory goes, it is rational to believe the same, as you can make money by following the trend. This theory would at least explain why virtually all the analysts and market participants were barking up the wrong tree with Brexit and Trump. However, the theory also states that independent thought, which in some cases may be completely at odds with the mainstream over considerable periods of time, can pay off in the end – that is to say, when the "beliefs" are hauled back to reality by a shock to the system. This notion is what inspires us to gather our thoughts at regular intervals and present them to our readers.

To err is human, but the media and financial analysts made a mistake of preternatural proportions in failing to register the analytical implications of new technologies like the internet and Big Data for democratic decision-making. People have known about the momentum that can be generated on social media ever since Obama was elected US president; "public opinion", high-minded editorials and polls anticipating the politically correct result all seem to have melted into insignificance when faced with the directness and immediacy of messages on Twitter (or similar mass communication platforms) and the group dynamic they unleash.

The 22nd edition of *bergsicht* addresses the *brave new world* left in the wake of the Brexit referendum and Trump's election. To pre-empt any accusations of being overly theoretical, we shall conclude these remarks by applying our findings to Switzerland – a country close to our heart, but one that is clearly in want of strategic reorientation. We can but hope that this contribution to the debate comes in the nick of time.

CHAPTER 2

No bolt from the blue

Getting a handle on the world inevitably involves lumping events and developments under certain headings, but the buzzwords and concepts

employed to this end can prove slippery customers. "*Globalisation*" is thus only superficially a straightforward term, and its advocates and opponents freight it with quite different connotations: for some it betokens achieving prosperity through an unfettered global exchange of goods, capital and services; for others it represents an ill-starred penetration of high finance (and the multinational corporations it supports) into every nook and cranny, leaving no territory or culture untainted. Some regard it as brimming with opportunities, a farewell to dangerously parochial particularism and a step towards a communitarian world order in which externalities have largely been eliminated; others as a black hole for sovereignty, autonomy and individual responsibility. We aim to give normative assumptions a wide berth.

To our mind, globalisation denotes an economic, cultural and political megatrend towards a system in which territorial borders become increasingly insignificant or irrelevant. Logically, globalisation has flourished most – and continues unabated – in areas that are *per se* of a non-territorial nature, such as the internet and the management of Clouds, for example, and it is also no secret that borderless phenomena such as digital money are beginning to encroach upon activities and resources that are traditionally provided on a territorial basis, such as national currencies. The same is true of capital, which already has a long tradition of virtual existence and global reach, and has always been in competition with territorial notions of financing for business and states.

Things have of course been more difficult for globalisation wherever physical goods, or services to be performed by physically present human beings, are involved; anything that by its very nature is rooted to the spot cannot *a priori* move freely. However, economic arguments advocate the greatest possible degree of globalisation even where physical goods and services are concerned, as this allows *economies of scale* and the various comparative advantages to be exploited to best effect. Territorially anchored manufacturing methods have always had to compete with globalisation of this kind; either you take on your challengers and become more productive, or you hide behind import duties or non-tariff regulatory barriers. The drive for free trade – the unencumbered exchange of goods by means of bilateral agreements and multilateral alliances – and the minimum standards established by the World Trade Organization are on a collision course with the ever increasing levels of regulation caused in particular by the creation of single markets. As Beat Gygi recently observed (*Weltwoche*, 43/2016), there is a risk that the benefits of scrapping tariff barriers could eventually be cancelled out by the increased regulatory burden associated with large single markets and comprehensive free trade agreements such as the notorious TTIP. The image of "Fortress Europe" is not so wide of the mark; the much-vaunted single market with its four freedoms is anything but free. Or to put it another way, countertrends are never far away when people sense that globalisation is on the march.

This is incidentally also true in the virtual space of the internet and other electronic platforms, as well as for money (currencies and capital). In the case of the internet, it is notable how many states are attempting to impose on their own citizens various “protective” measures through censorship and other expedients with a view to territorialising and domesticating what is globally available. Much the same applies to monetary transactions, where the USA, for example, insists that every single bank transaction in its own currency makes a detour via US territory. There is an increasingly dense thicket of capital market legislation that, in addition to demanding transparency, will soon effectively require investors to obtain formal approval before buying a stake in a given entity.

In other words, the trend towards globalisation – the de-territorialisation of systems, processes and issues – has been running counter to the trend towards *renationalisation* for some time now. As the worst of the 2008/9 financial crisis tailed off, it soon became apparent that territorially specific forces were gathering strength. During the crisis, many systems and processes considered global had shown themselves to be insufficiently watertight and, in crisis mode at least, it was invariably the territory that ended up having to foot the bill: the Fed in the USA, the Bank of England in the UK, the European Central Bank (and its guarantor, Germany) for Europe. Desperate times call for desperate measures and require a capacity to carry things through to the bitter end. Where the crisis refused to roll over and die, thus creating a political problem, territorial systems gradually resorted to protectionist measures to shield and promote their own interests. We first drew attention to unmistakably nationalist tendencies in what was then Japan’s new economic policy in February 2014 (edition 5 of *bergsicht*, “Renationalising the World?”) and judged that things had taken a definitive and irrevocable step towards renationalisation after Russia’s cold annexation of the Crimean Peninsula (edition 6 of *bergsicht*, “Putin’s Deed”). Not that we had been hoping for this – on the contrary; but those who shut their eyes to this development and to its predictable consequences were guilty of the same sin that we must now lay at the door of the editors and financial analysts: of turning their desires into an illusory reality to be upheld and endorsed by all “right-thinking” folk.

CHAPTER 3

Man as a tribal animal

Globalisation in the sense of the de-territorialisation of systems, processes and issues was not sufficiently thought through; the absolute questions it throws up concerning crisis management, the application of force, the imposition of state ordinances – in short, questions of raw *power* – were never really

addressed. In the absence of an omniscient world superpower with its finger on every pulse, we suspect that global concepts will always be contingent on partnership in a more or less *cooperative mode*. If the game takes a non-cooperative turn, you have to be in a position to exert power, or at least make plausible threats. The UN functioned perfectly well as a global power platform for just as long as a single jurisdiction – at that time, the USA – was able to throw its weight around on the Security Council. Before and after this brief window of opportunity during the 1990s this was not the case, and this body is now proving wholly dysfunctional in the face of the problems in Syria and other flashpoints. Our conclusion is that global power once again appears to be *divided*, and not only will this remain the case but the rifts will be further accentuated by the rise of China.

Other superordinated systems intended and designed for security in the widest sense have similarly proved their worth only partially or not at all. The Dublin Regulation has made a dog’s breakfast of the refugee situation in Europe, with obvious negative ramifications for the immigration question overall: the disincentive to abide by the “first country” registration rule prevents governments from distinguishing between refugees and migrants – there would have been scarcely any politically relevant migration problem with asylum-seekers alone, but, thanks to Dublin, the stupidest European treaty of them all, it has now shot to the top of member states’ agendas. While Schengen has made it easier to travel in Europe, the price has been a rise in overt and covert criminality and a total inability to fix systemic shortcomings within any useful timeframe, undermining trust in higher-level security-related endeavours. The result? People are looking to take back control.

Modern people in western-style societies – which, on the whole, function without friction – think and behave cooperatively 95% of the time. This was not the case for most of human evolution and, even today, in many regions of the world the threat of being dragged into a non-cooperative scenario is ever-present. The luxury of security can lead to misapprehensions about human nature. The fact is, as soon as human existence is imperilled, or fear of imminent danger sets in, basic instincts take over. “Take back control” was not just an ingenious slogan for the Brexit referendum campaign, it continues to resonate for people who, rightly or wrongly, have lost faith in the ability of an aloof and out-of-touch elite to solve their problems.

People who fear for their very existence look for familiarity and their own kind. “Diversity”, as the American political scientist Mark Lilla recently remarked (*Neue Zürcher Zeitung*, 26.11.2016), is in any case a problematic political goal, even and especially for the political left, which in lavishing attention on fringe groups has lost touch with its principal clientele. However, diversity falls particularly short as a political mantra in the context of fear. Now, one might quite justifiably accuse a whole host of politicians on all sides of having deliberately stoked such fears – of

adopting classic populist tactics. We have a different take on this. Populism's success must be seen in the context of a betrayal perpetrated by those that cultivate fanciful, poorly thought-through, crisis-ridden, fear-inducing systems even as they gloss over their failings, spinning tales of a utopia untroubled by non-cooperative modes and decrying criticism of any kind as right-wing populist agitation. Distrust of superordinated systems and the fear of uncontrollable developments have long since escalated beyond concerns about personal security and "losing one's country"; de-industrialisation that gobbles up jobs, mountains of debt that pile up hopelessly, expropriation of savers through interest rates that are too low or even negative – given such a litany of woes, it is all too easy to imagine joining the ranks of the "populists" who want to take back control. The fact that populist promises of salvation will one day prove to be hollow to the core does nothing to diminish their appeal; people are highly receptive to such notions in the current climate.

CHAPTER 4

Planless or pragmatic?

So the USA is to be governed by a populist from 20 January 2017 – a ghastly prospect for all communicant members of the church of superordinated systems. The claim to power unabashedly asserted not only by people like Putin and Erdoğan but also by the most senior representative of the most important country in the world cuts them to the quick, just as the forthright departure of the British from the EU has dealt a blow to the self-image of the integrationists. Many are now prophesying the Apocalypse; the first edition of the *Spiegel* after Donald Trump's election was headlined "The End of the World (as we know it)". From our vantage point beyond normativity and far removed from all and every article of faith, we shall reserve judgment and refrain from predicting triumph or disaster. Our motto in edition 1 of *bergsicht*, "we take nothing at face value and we would put nothing past anyone", is as applicable as ever.

Reality will of course catch up with even the likes of Donald Trump, indeed it already has. The *financial leeway* available to his highly indebted country is *narrow*; if growth of, let's say, at least 3% does not materialise in extremely short order, it will remain so. Higher growth might however also mean higher inflation and thus higher interest rates, which would soon make servicing sovereign debt an intolerable burden while enormously restricting his room for manoeuvre in fiscal matters. Breaking the trend towards ever greater regulation will be difficult even for a politician still full of vim and vigour; a whole administration, well-equipped and hard-bitten, will join the apparatus of regulation profiteers – from lawyers through accountants to consultancy firms of every ilk – in digging in their collective heels, and will always find dime-a-

dozen reasons for doing so. Even a new broom in the system will not find it so easy to sweep aside the shortcomings – high costs and dubious primary care/basic insurance – of American healthcare arrangements. The border with Mexico may be easier to control than the Mediterranean is proving for Europe, but is a wall really what the Americans want? And what about cost-sharing for allies in matters of security policy? Can this be accomplished without compromising key positions? For now, we do not anticipate some kind of re-hashed Monroe Doctrine, limiting the scope of US influence to the adjacent territory of the American subcontinent. Making America's industry great again? Partially conceivable, but only where, thanks to advances in productivity, comparative costs are not irretrievably higher; we do not expect to see blue jeans produced in the USA from domestically grown cotton any time soon. Protectionism of this kind would draw high inflation rates in its wake as surely as night follows day, and no American president could survive that. Given the plethora of problems inherited from previous incumbents, the danger of drift cannot be dismissed, but then a putative President Clinton would have been exposed to the selfsame dilemma; seen from this perspective, accusations that Donald Trump is a man without a plan are a little far-flung.

It thus appears probable that in Donald Trump, a hard-headed *pragmatist* is taking up the reins, one who simply does what seems "right" to him in a given situation. As far as can be currently judged, he has assembled a balanced and competent team, and the fact that harsh and seemingly irreconcilable former opponents (Romney!) were even under consideration speaks in his favour. That Trump has rowed back from rash campaign promises at an early stage indicates tactical skill, and that he is circumventing unavoidable conflicts of interest by giving up his company is a sign of the judicious influence of his advisory staff. For the moment, the financial markets have re-assessed the situation and are giving him the benefit of the doubt; will they now behave more rationally than before the election?

There may yet be a thawing of relations with Russia – so important for Europeans – under Trump's predictably pragmatic aegis, as two dubious personalities will be squaring up on an equal footing, rather than – as hitherto – a personage cast as morally superior facing off against a supposed monster. Donald Trump may also prove a more credible adversary to the Chinese ruler Xi Jinping (a man with many a dubious trick up his sleeve) as he will have a passing acquaintance with similar practices from his business career and is himself troubled by few scruples. Quite how well Donald Trump might get on with Frau Merkel we would not care to predict at this juncture, although here too, they will be obliged to come to some kind of arrangement, and so that is what they will do. It is highly unlikely that the end of the world is nigh, whatever the *Spiegel* might suggest.

The logic of rediscovered national interest in the USA bespeaks increased respect in the States for the national interests of other countries, and respect for a certain degree of reciprocity would be a truly new

turn in international relations. Russia, China and Turkey have already made their feelings abundantly clear on the subject and other countries or national alliances will have to get used to the rules of this new game in the future – self-abnegation for the good of some higher, supposedly better cause is not what is called for in the immediate future, but rather self-aware prosecution of one’s own interests. To anticipate our closing chapter: Swiss diplomats drilled in accommodative behaviour are currently ill-prepared for this “new normal”. A shake-up is thus required not only among editors but also in the ranks of the ambassadorial top brass!

CHAPTER 5

Failed state

Let us turn our attention to our own continent. In our first attempt to get to grips with the ramifications of the Brexit decision, we compared the UK’s departure from the EU with the schism of the Anglican Church in 1529 and on that basis predicted a “Counter-Reformation” – a hardening and deepening of positions on the EU side under the motto “now we really go for it”. With the benefit of hindsight, and after a good deal of research and reflection, we believe this outcome is highly unlikely, at least as far as the remaining EU-27 bloc as a whole is concerned. We regard the other two possibilities we outlined back then, i.e. the options to “muddle through” or to “retrench”, as more likely, however we would certainly not exclude a slide into chaotic conditions within the former scenario and we are deeply pessimistic – even in the event of territorial and/or political retrenchment – about the chances of being able to preserve stability. Why so?

In our opinion, any assessment of the EU’s prospects depends in large measure on the analytical lens through which one chooses to view it as an entity. The classic view is that of a melding of friendly nations to form a *new, sui generis whole*. It holds that the EU is a (*de facto* largely accomplished) attempt to lead sovereign states towards partial self-renunciation and to accommodate members within a superordinated system – a system to which, however, the status of *genuine statehood* cannot be ascribed because it lacks several essential elements. The EU ceased to qualify as a textbook “economic union” long ago. In crude terms, one might describe the project as an attempt to square a circle whose conspicuous flaws – democratic deficit and remoteness from the *demos*, peculiar three-part governance structure (Council, Commission and toothless Parliament), breathtakingly debt-driven financing of virtually every communal structure via guarantees from (over-indebted) member states, and so on – are offset by its vaulting ambitions of securing peace and stability in Europe and dispensing welfare and prosperity via the single market. The squaring of the EU circle in real life is impossible without such an overarching, reifying *credo*.

And this is precisely where the structure’s analytical Achilles heel is to be found: intrinsically deter-

mined compromise of these very objectives causes it to collapse under its own weight purely as a concept, and its real-world demise cannot then be far behind. Peace in Europe: thanks to its (intrinsically determined) inability to get to grips with the problems of immigration and internal migration, we are likely to see core European countries lurching towards political extremism. Public welfare: thanks to (intrinsically determined) distortions in fiscal policy and the impossibility of redressing imbalances in any other way than via politically motivated fiscal and transfer mechanisms, public well-being has suffered. The upshot? Shocking unemployment and stagnant growth – against a backdrop of untenably loose monetary policy from the European Central Bank.

A currency union can function only if the member states exhibit congruent economic cycles and similar structures; this has not been the case from the outset. The decision to extend membership to new countries in Eastern Europe confirmed what many had long suspected: the EU is more than just an economic union; it is a *political* union and, as such, it may alternatively be understood as an attempt at genuine – i.e. common or garden – *nation-building*, the creation of a European federal state. Much mention has been made of a breed of people to be called “Europeans” who are soon to replace the Germans, Italians, French, Hungarians and Greeks. The “national” borders of the EU were systematically being extended, in particular after the fall of the Berlin Wall under the banner of “Eastern enlargement”, until Russia provisionally put a stop to these efforts in Ukraine in 2015. Core responsibilities for safeguarding internal and external security were transferred to Brussels via the Schengen Agreement and the Dublin Regulation, and an absolute authority designed to enforce EU law was established in the European Court of Justice. Institutions with all the trappings of state power, in other words, were being installed.

The EU would thus (partially) meet Jellinek’s three criteria for statehood – population/territory/power. The introduction of the single currency, across a portion of the territory at least, was designed to lend the emerging state additional coherence; the various common stability and support mechanisms such as the EFSF, ESM and EFSI – reminiscent of top-down feudal empire-building – perform a similar function. However, the lack of an explicit constitution and the institutional weaknesses, most obviously the absence of its own armed forces, would militate against viewing the EU as a discrete state. And yet: England, which is undeniably a nation, has no written constitution either. And military matters in Europe have long been delegated to NATO and/or farmed out to the USA anyhow...

Conceived not as a structure *sui generis* but as a regular nation/country, the EU manages perfectly well without a *credo*. Domestic peace and the common weal are in any case part and parcel of the concept of statehood – and viewed as such, Europe the “ordinary country” cannot be vested with any superior morality by comparison with other ordinary countries like

Germany or Italy or France; Europhile rhetoric, as is currently trumpeted to excess in Germany (there is not a politically correct speech without a profession of faith in the “Union”...), would then be no more than perfectly ordinary nationalist rhetoric, perhaps with a compensatory sheen in the case of our neighbours to the north (love of country being a political no-no there). Viewing the EU as an attempt to construct a nation has the added and especial advantage that it is possible to speak of the failure of such nation-building entirely dispassionately without the complication of having to deal with a *sui generis* structure complete with *credo*.

As things stand now, it is clear that the attempt to construct a federal European state has failed; the pre-existing differences between the individual parts of Europe that imperil its coherence have only widened over the last few years. Germany appears to come away as the big winner in these developments, while major EU countries like Italy and France have ended up on the losing side. The departure of the UK will create an imbalance within the Union that will prove difficult to resolve. The prospect of finding solutions to the key challenges of safeguarding peace and public welfare seems ever more remote, while the spectre of the debt question lurks, ever-present, at the window. The survival chances of such a structure are slim. Perceiving fewer and fewer advantages in the collective, its components, the individual member states, will, for internal political reasons, be obliged to look to their own problems themselves, a development that, incidentally, has already taken on a healthy life of its own: Vienna unilaterally summoned its former vassal states from the Habsburg Empire to close the Balkan route and put a stop to the stream of migrants, while Chancellor Merkel ran considerable risks in bilaterally mediating a separate treaty of similar intent with Turkey, with no great support from the EU.

No doubt *new European phoenixes* will rise periodically from the ashes, swaddled in the politically correct terminology of “ongoing development” of the Union. But the geographically ambitious and institutionally integrated structure that was once envisioned is not long for this world. This may or may not be regrettable – that is not our concern here. We simply wish to assess the situation as objectively as possible. Our research suggests that we will face growing *instability* and a *proliferation of imponderables* in Europe over the years to come.

CHAPTER 6

The safety net

By contrast, NATO, the second important structure in Europe, is displaying remarkable resilience. A genuine example of a *sui generis structure*, created to ensure collective defence, NATO has weathered numerous internal and external crises, but thanks to a clear pecking order that concedes uncontested leader-

ship to the USA, its effectiveness in real theatres of war, the undisputed lack of any alternative for our continent and mounting security problems in recent times, it is proving to be the real *stabilising factor* in Europe. In any objective discussion about peace-keeping in the Old World, NATO would merit first mention rather than the EU. But the question now on everyone’s lips is whether this tried-and-tested model will come under threat as the new American president pivots towards a narrower, national policy stance. Donald Trump’s campaign rhetoric suggested it might. Since we have learnt of the appointments to his cabinet, however, the all-clear can be blown – for the moment at least. The new Secretary of State and James N. Mattis, his future colleague at the Department of Defense and an uncompromising military hardliner, will certainly not wish to jeopardise NATO’s successful position. And British politicians have been making encouraging noises, suggesting they might consider diverting to NATO some of the funds that would previously have been earmarked for the EU.

Conversely, in a Europe rattled by the break-up of familiar EU structures, NATO will take on a new stability-promoting role that goes beyond external security. Indeed, NATO could end up playing a decisive role in managing the European *migration* crisis. In the end, Europe has no other instrument with which to pre-emptively defend its “front line” where migrants are yet to board a boat or reach European territory – coastal North Africa. The last few years have demonstrated all too clearly that defence on the northern shores of the Mediterranean does not work, and the human tragedy it entails is unacceptable. Yielding to migratory pressure from Africa and elsewhere is not an option as failure to take control will further erode political stability in Europe. The Europe that is currently making snide jokes about Donald Trump’s Mexican wall will have to get used to the idea of extending the remit of its security forces to Africa and also admit to itself that nothing whatsoever will be achieved in this respect without NATO – and thus, the Americans.

This security policy priority in the *mare nostrum* is likely to be compounded by the need to keep complications elsewhere at bay. President Trump will thus wish to normalise the relationship between the USA and Russia with all speed, which is scarcely conceivable without allowing a certain *cordon sanitaire* in Ukraine and a *de facto* acknowledgment of the annexation of Crimea. The relationship with Erdoğan’s Turkey will likewise presumably be coloured by pragmatism, as Turkey’s stability is critical for Iran and the Middle East. The watchword is the same here: we may well deplore the imminent demise of politics ostensibly driven by morality and the shift towards *realpolitik* and power politics, but we may soon come to appreciate that honest/selfish/brutal *realpolitik* and power politics are not necessarily more dangerous than our wonted moralising/illusory variety. Time will tell.

There are two areas of increasing importance in which NATO is ill-equipped to provide adequate solutions because civil coexistence and the economy as a whole are too closely involved: dealing with interna-

tional terrorism and the hazards of cyberspace. Militarisation (as the epitome of a non-cooperative *modus operandi*) of civil matters (the epitome of cooperative interaction) cannot provide a valid response to such challenges. The loss of freedom would be intolerable. We had a tiny foretaste of this on visits to the Eiffel Tower, the *Promenade des Anglais* and the EU institutions in Brussels this summer: deploying heavily armed soldiers in amongst the mini-skirts is not a long-term solution – and the effect is anyway likely to be nugatory. Both arenas, the war on terror and security in cyberspace, call for bilateral as well as supranational coordination. Bespoke, NATO-like structures designed to combat these specific dangers will have to be created in a changing Europe that is being forced to take the fears of its citizens seriously. Such constellations are known as *Zweckverbände* (special-purpose associations) at Swiss municipal level; perhaps FOCJs (“functional overlapping competing jurisdictions”) would be more appropriate in the context of an entire continent.

CHAPTER 7

Strategic action required

Slap bang in the middle of Europe – straddling the Alps, surrounded by world champion exporters and EU stabilisers Germany, charming though quirky, half-Balkanised Austria, economically torn and politically baffling Italy and the once-proud *grande nation* of France, a country devoid of any discernible clue about its future – there lies thrice-blessed Helvetia. A star pupil in many respects – one of the highest per capita GDPs in the world, low sovereign debt, a culture of direct democracy, lean structures, globally successful multinationals, broad ethnic mix, a successful education system, costly but high-quality healthcare infrastructure, comprehensive pension provision, a (still fairly) liberal employment market and so on and so on – Switzerland reels between challenges based on envy, covetousness of its undeniable success and the usual punitive digs that any teacher’s pet is occasionally heir to. This golden boy is not especially beloved, and can’t fathom why. Indeed, he flirts occasionally with deliberately casting off his comparative advantages – to express weary satiety with the surfeits of prosperity, perhaps, or even through naive recklessness, as he no longer really knows where prosperity comes from.

Years ago, when all the signs were pointing towards more integration and less particularism, we formulated four possible strategic paths a “star pupil” country might follow in order to survive, *viz*:

1. The “big brother” strategy. Switzerland’s implicit dependence on the USA and NATO during the Cold War was based on a mutually beneficial give and take: while one side afforded a place under the nuclear umbrella combined with a certain degree of conventional military protection, the other ensured stability at the heart of a Europe that at the time was not so definitively secured for the West. As the

USA’s “implicit junior partner”, Switzerland enjoyed substantial latitude, which it exploited to the full.

2. The “join them” strategy. Switzerland has always balked at joining the EU, admittedly with varying degrees of intensity and enthusiasm. It would mean a complete change to its previous way of life, at the cost of, for example, direct democracy, exceptionally strong civic rights, internal tax competition, its own currency and so on. Given the conspicuous disparities with its neighbours, a loss of prosperity would be inevitable. It is likely that Switzerland would rapidly become the largest net contributor within the EU alongside Germany. Increased transfer payments would doubtless mean higher taxes and more regulations for our country.
3. “Changing schools”. This often happens with unhappy star pupils – to great success – but is ultimately a non-starter for a landlocked country at the very heart of a continent. Switzerland’s foreign trade has been tilting strongly towards Asia over the last few years, certainly (in this respect, Helvetia is one of the most globalised nations in the world), and the virtualisation of commercial processes via the internet is offering ever more opportunities for cutting local ties, but realistically, we cannot escape the fact that we are rooted in Europe – and here we are destined to remain.
4. “Intelligent interdependence”. This strategy is all about a star pupil’s attempts to make use of his complementary advantages. This approach demands considerable investment of effort, however, as it involves constantly being at pains to give enough to all sides – without however giving them cause to band together and extort even more. The strategy thus requires the star pupil to relentlessly eliminate all unnecessary dependencies and accord top priority to projecting an image of invulnerability; as top of the class, you shouldn’t have to be grateful to those around you, and you mustn’t become their slave. If push comes to shove, you’re still best off falling back on strategy 1, the “big brother” strategy.

Given the EU’s failure to form a federal state and the radical changes that are imminent, option 2, joining the EU, is now off the table, as is greater convergence. Not rocking the boat on existing agreements and giving the least possible cause for offence is presumably the only viable path, even if the domestic political fallout from such a course is potentially substantial, as the arduous process of implementing the popular initiative against mass immigration has demonstrated. “Intelligent interdependence”, option no. 4, is still the front-runner. You might also call it “cherry-picking and cherry-giving” an approach that is quite distinct from accession – or accession-inspired integration of the kind Swiss foreign policy has been pursuing to date. One of the major questions defying easy resolution is our country’s relative proximity to the EU’s only real asset, the single market. How much independence is Switzerland prepared to give up for free access? (The latter does not in fact

exist – we still have a long way to go on services.) If Switzerland wants more – indeed, if it wants to preserve its position over the long term – it will have to accept the EU’s institutional implications. Greater integration purely on the free trade front does not necessarily have to be worse, provided Switzerland gets to keep core elements such as direct democracy. In any case, the question needs to be resolved by the time the UK’s position on the European single market crystallises out in the course of Brexit negotiations.

Another question to be resolved is that of which *cherries* Switzerland might be in a position to *offer* to dispel any impression of asymmetry or favouritism. On the one hand, we should certainly pro-actively offer what our country has always provided for Europe: stability at the heart of the continent, infrastructure for easy passage through the Alps (now vastly improved thanks to significant investment), a cooperative spirit and an open wallet at every level and for every occasion. However, given the general shift towards pursuing national interests in the world, Switzerland could also go further and throw its qualities as a neutral party and platform back into the ring. Because of their proximity to civil interests, precisely the new threats we have outlined (e.g. terrorism, cyberspace) must be combated from a location far from the centres of power – just as the International Red Cross in the 20th century required a neutral base to enable it to carry out its duties to full effect. Thanks to “Geneva”, Switzerland enjoyed for many years a kind of inviolability, a quality to be rediscovered as a grand strategic project in a world that is reinventing itself.

One star pupil versus an entire class: given the inevitable asymmetry of Switzerland’s position vis-à-vis its partners, we find it hard to believe that this interdependence strategy alone can continue to cut the mustard – especially when the entire classroom is in upheaval; there are too many exposed flanks and opportunities for extortion on all sides. We fear that over the longer term, Switzerland is not going to be able to do without some degree of *protection* from a *big brother*. The logical partners are the USA and, closer to home, the UK, which are both outside the “class” (the EU) although the Union has a dependent relationship with both – especially so if NATO grasps the nettle of migration. Unfortunately, tossing out a few cherries is unlikely to be enough as far as Switzerland’s notional relationship with the big brothers of the USA or the UK is concerned; a more comprehensive relationship based on fair exchange would be required. Switzerland can once again bring stability at the heart of a fragile, even unstable, European continent to the table, but would likely have to go much further on migration (a potentially existential issue for Switzerland, too), and this may well include lending a hand both financially and physically. When it comes to weighing up the extent of cooperation, there are also questions of a purely military nature that would have to go further than the tender shoot that is “Partnership for Peace”; there are limits to what a small country, surrounded on all sides, can do when it comes to securing

its patches of space, airspace and cyberspace. “Free-riding” is bound to become problematic over the long term, and it is now high time we started exploring trade-offs, striking a judicious balance between the things we would be able and willing to offer, the areas in which cooperation seems necessary and the issues it would be better to steer clear of through delegation of duties.

The problem? Decades of misguided expectations – not just recently, in the matter of the latest referendum and election results, but more generally, with respect to the viability of European state-building, illusory wishful thinking and the inferiority complex common to so many star pupils – have largely hamstrung any strategic debate in this country. The twin meteor strikes of 23 June and 9 November 2016 are a wake-up call to make up for lost time.

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