



# Raymond A. Mason School of Business

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## EPISODE 49: DEBORAH HEWITT – THE RAMIFICATIONS OF BREXIT

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### Ken White

From the College of William & Mary in Williamsburg, Virginia. This is Leadership & Business. The weekly podcast that brings you the latest and best thinking from today's business leaders from across the world. We share the strategies, tactics, and information that can make you a more effective leader, communicator, and professional. I'm your host Ken White. Thanks for listening. It's been the topic of discussion in political and economic circles around the world for the past several months. Then a few weeks ago, it came to a head when British citizens cast their votes, and Brexit became a reality. Great Britain's exit from the European Union, the 28-nation economic and political alliance. Well, since the vote, the British prime minister resigned. Stock prices were affected, and people in Europe and around the world wonder about the effects Brexit will have on business, the economy, and Britain's social identity. To get the answers to those questions, we invited Deborah Hewitt, Clinical Professor of Economics and Finance at the College of William & Mary, to join us on the podcast. Before teaching, Hewitt spent much of her career abroad. Today, in addition to teaching at the Raymond A. Mason School of Business, she leads global immersion experiences for executive MBA students. She's written a number of academic and business articles on international trade and business, and she joins us on the podcast to discuss Brexit and what it means to the United States, Great Britain, and Europe. Here's our conversation with Professor Deborah Hewitt.

### Ken White

Deborah, thank you for joining us. Just a couple of weeks ago, you and your colleague Dr. Bud Robeson met with a number of our executive MBA students and hot topics and this came up and it was really fun just to listen to that conversation, and I thought, wow, we've got to have you on for the podcast. So thanks for taking the time to join us.

### Deborah Hewitt

Absolutely my pleasure.

### Ken White

Yeah. So Great Britain leaving the EU. What were the reasons what started all of this in the first place?

Deborah Hewitt

You know, there's really two reasons, and I think you can get down to fundamental human self-preservation as the most basic reason. We could put it in economic terms of, one being migration. Because of being a member of the EU, there are four principles there all having to do with free flow of goods free flow of capital, and one of them is free flow of people. So once you're in the EU, you can go anywhere, you can work anywhere. And because of its strong economy, Great Britain was one of the major recipients of migrants.

Ken White

Right.

Deborah Hewitt

Approximately two hundred thousand a year.

Ken White

Wow.

Deborah Hewitt

And so, in a country that size. So people, of course, were concerned about not just their jobs but that's key.

Ken White

Sure.

Deborah Hewitt

Is my job going to be taken? What is it going to do to our culture? Because people were coming from all over the place and so, that was really a key reason. Concern over what that was doing to the country. And another one is that you know Great Britain has remained a little on the outside of the EU although they're a member of that trade block.

Ken White

Right.

Deborah Hewitt

They've kept their own currency. They are pretty independent. They've got that channel between them in England and they like that. And so I think as economics and the whole European debt thing have developed since the Great Recession and the payments that the wealthier countries are having to make with Germany and France to pay off Greek and Spanish debt and that. They just finally said you know, we just really don't want to be a part of this. It's not in our best interest.

Ken White

Were you surprised by the outcome?

Deborah Hewitt

Well, gee, I think you have to say everybody was surprised, but it's always interesting looking back, isn't it? You say, why were we surprised? Because even leading up to it, the polls were suggesting something like a 60/40, and really, if you think of probabilities, that's pretty close. You know it wasn't like 90/10 or something probability of passing. So it was 60/40, and so really, we shouldn't have been as surprised as, of course, polls are always off.

Ken White

Sure.

Deborah Hewitt

And we shouldn't have been that surprised, but yes, I think everyone in the world was.

Ken White

What will the effect on this have on the United States and the United States economy?

Deborah Hewitt

Truth is very little. It's not something that is going to rock our boat. I looked into the size of our trading relationship with Great Britain, and you know you can always put things. Either way, you want to which side you want to support, right? So, on the one hand, it is true that they are our fifth largest trading partner but they only represent 4 percent of our exports.

Ken White

Wow.

Deborah Hewitt

Because our major trading partners are our contiguous countries, Canada and Mexico, each of which is 20 percent, then we have China. So you see, even though they are the fifth largest is, only 4 percent of our exports.

Ken White

What about stock prices? What do you think?

Deborah Hewitt

Well, the biggest thing there is just uncertainty. Stocks don't like uncertainty. That's why you saw that major tank. One of the best buying opportunities of the summer, right?

Ken White

No doubt.

Deborah Hewitt

Because look, all of the markets now have rebounded very smartly, but it just shows back to your other question about, you know, was I surprised? It shows that everyone was surprised because that vote was not built into the markets, and that's why they tanked so severely once it went the other way. But of course, now it's come back as people have had a chance to just sort out what does this really mean.

Ken White

Right.

Deborah Hewitt

How strong an impact, but I'll say this. On the US, impacts will be minimal, but for Great Britain, the uncertainty is going to continue for a number of years. If they really stick with this. There are so many agreements that had previously fallen under just EU auspice that they now have to negotiate and work out independently. That it's going to really hurt them in terms of capital coming into the country. A number of companies have already said well we were going to build our headquarters there. But no, it's too risky now. So it will impact them for a number of years until they really get this sorted out.

Ken White

I mean, it's a big piece. I was reading in The New York Times not long ago there was a professor who said you know, in Great Britain, leaving is like Florida and California being lopped off the United States. It's a pretty, pretty big piece. So the other members of the EU, what's going through their minds at this point in time?

Deborah Hewitt

I think one of the things going through their mind, and really through the minds of many countries that are in trade blocks because there are numerous trade blocks around the world, is this going to start a trend. Who else might leave? Who else just like Quebec, right? You know who else is going to think they want to be off on their own? And that is a concern that we should all follow and analyze because globalization benefits everyone. Free trade benefits both sides. Now it's without question that certain parties may come out worse in a free trade deal.

Ken White

Sure.

Deborah Hewitt

But the countries as a whole benefit. That's been proven over many hundreds of years. So there are two ways this could go. Other trade blocks may start falling apart, and that would be that. It may be because this proves so upsetting that the lesson will be learned. Another trade block will say no, we don't want to mess with it. We better stay together and just work out our differences.

Ken White

Right.

Deborah Hewitt

That's my hope.

Ken White

We'll continue our discussion with Professor Deborah Hewitt in just a minute. Our podcast is brought to you by the Center for Corporate Education at the College of William & Mary's Raymond A. Mason School of Business. The Center for Corporate Education can help you get to the next level with its certificate in business management program coming up in late October. It's a five-day program for the professional who lacks an MBA or wants to improve on critical business and leadership skills. Each day is devoted to a topic, including communication, leadership, strategy, managerial accounting, and organizational effectiveness. For more information on the certificate in business management program, visit our website at [wmleadership.com](http://wmleadership.com). Now back to our conversation with Deborah Hewitt on the effects of Great Britain's exit from the European Union.

Ken White

The pound, what's it looking like? Where is it going?

Deborah Hewitt

Well, again, the pound is down pretty smartly. It was 10 or 12 percent last time I looked, and that is probably not going to change anytime soon because of the effect I mentioned, the uncertainty. Capital is not going to flow into a country where you don't even know what their trade deals are. They don't even have any a tariff schedule now. They don't even have one. So until things start happening, the pound is going to be weak.

Ken White

So the big word is unknown uncertainty, it seems like at this stage. What do you think is going to happen over the next months, year?

Deborah Hewitt

It's my experience that markets overreact, and I really agree with George Soros, who said the time to buy is when there's blood in the streets, and it can be figurative blood. It doesn't have to be literal blood. This was figurative blood, and it still is. I think their new prime minister has a good head on her shoulders and, of course, a woman with great leadership in times of crisis. And I think she can. She's already talking about steps she's going to take. And I think as that starts to happen, the uncertainty begins to subside, and things begin to normalize again. So but I do think we're looking at a couple of year workout to get here. It'll it'll resolve.

Ken White

From a leadership standpoint, what an interesting place to be in at this point, isn't it? Some opportunities are there. You can make history.

Deborah Hewitt

Yeah, I'll tell you this. Her stepping into that role reminds me of a quote from one of our MBA alumni, as a matter of fact, who was in a position in a company that was involved in putting security people in the Middle East at a very tough time and unfortunately a lot of members of his firm were caught in an ambush and he wound up being literally the last person standing and took over the firm. And I remember him saying to our students he was addressing our students, and he said you never know when you will be the last one standing. Be ready to lead at any time.

Ken White

Yeah.

Deborah Hewitt

And that's what has happened to Great Britain, and now she has emerged out of who was not really considered a candidate, but everyone else really sort of got knocked out.

Ken White

Absolutely.

Deborah Hewitt

And she was the last one standing.

Ken White

It is it's going to be so interesting to watch that as we move forward. What are some lessons? What are the business lessons that we can learn from Brexit?

Deborah Hewitt

This, to me, was the great scenario that got away. That's one of the things that we teach here is scenario analysis that. You need to be thinking about things that could happen even if they have a 5 percent likelihood. Have a plan. At least think about it. What is the impact going to be on my company if this does happen, and particularly what's valuable is what are some strategies I can take now that would protect me, you know, if this even seemingly unlikely scenario does come true. Well, this is the one that got away because, as we said, it was actually pretty likely. I mean, the polls were sort of 60/40. You know, but nobody had a plan. No one had a plan. So to me, that is one of the greatest business lessons here is look always be looking scanning the entire global environment for things that may not seem directly related to you, but because the global economy is so interrelated now, it's all related to you.

Ken White

Absolutely.

Deborah Hewitt

In one way or another, it could affect a supplier or a customer, or a competitor somebody. So be scanning and always look for what are some steps I can take now that will protect me. That's low cost if this thing happens.

Ken White

What are you? I'm going to ask you to look through your crystal ball what do you think will happen in terms of Great Britain. You mentioned the new leadership mentioned that it'll probably just work itself out, but anything specific you want to predict moving forward?

Deborah Hewitt

Well, I think it probably will be concluded, even after they work things out, that this was a mistake. Now, will the EU ever accept them back in? I don't know. They're playing pretty much hardball now, but I think it will it will show as a mistake because you can look at all kinds of indicators, and they actually benefited by being a member of that union. As I said, free trade benefits everyone, and I think that will become clear that it was a mistake. So that's going to be a tough lesson of history, but maybe it will benefit other countries and other trade unions.

Ken White

That's a big player to lose for the EU. What are they doing? What's the leadership of the EU doing to rebound and to think ahead?

Deborah Hewitt

Yeah, I think they're on again. They're playing hardball, and I think they need to because the last thing they've made it clear to Great Britain that they will not allow them to cherry-pick. Don't say you want free trade in goods and capital with us, but you don't want free flow of people. You know it's all or none. And I think they're smart to do that because otherwise, literally, every member could start renegotiating right. Well, we want this part of it and not that part of it. So I think they're doing the right thing. They're sticking with the basic charter as it stands, and you know, take it or leave it.

Ken White

That's our conversation with Deborah Hewitt. And that's our podcast for this week. Leadership & Business is brought to you by the Center for Corporate Education at the College of William & Mary's Raymond A. Mason School of Business. The Center for Corporate Education can help you and your organization get to the next level with business and leadership development programs that specifically fit your needs. If you're interested in learning more about the opportunities at the Center for Corporate Education for you or your organization, visit our website at [wmleadership.com](http://wmleadership.com). Thanks to our guest this week, Deborah Hewitt, and thanks to you for joining us. I'm Ken White. Until next time have a safe, happy, and productive week.