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Benefits and Cost of Britain Surviving Brexit

Introduction

The Brexit referendum has brought out the ugly truth about globalisation right in front of the world. Though globalisation has undoubtedly helped to bring nations together, helping in the creation of new business opportunities and stronger ties, there has also been contradictory views on this issue lately. Globalisation has helped increasing trade, and in turn, the wellbeing of many a nation. It is debatable whether wellbeing of a nation is the same as the general welfare of the people of that nation. If a nation is unable to provide the necessary growth in the income and standard of living of the people or increase employment opportunities, it is quite likely that its citizens are not going to be very happy with the policies it makes.

The same is starkly visible in Britain, which has been witnessing a steady decline in jobs and a slower economic growth in recent years. People have directed their anger towards globalisation since declining income and employment opportunities are being attributed to the rise in globalisation. Globalisation malaise, not immigration, is the reason why the United Kingdom has chosen to leave the European Union. Although the 'leave campaign' was built on the optimism that Britain will be free to open up to the rest of the world, the main force behind people deciding to leave the EU was anger towards globalisation, immigration, social libertism and even feminism. The United Kingdom (UK) in a historic turn of events decided to quit the European Union, of which it had been a vital part since 1973 when it had still been known as the

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European Economic Committee (EEC). A nation-wide referendum, held on 23 July 2016 resulted in a majority of the votes for 'Leaving the EU' with an astounding voting margin of 52 per cent to 48 per cent.

The referendum results reveal a paradoxical dichotomy that the citizens of Britain are facing: first, as consumers, and then, as job seekers. Increased growth of imports reduced the inflation rate, which in turn increased the disposable income with the citizens. This, however was discriminating towards the local producers who were losing their business and eventually this led to a reduction in jobs in the economy. The decrease in jobs has baffled the policy makers who are clueless on how to deal with the situation. Many efforts by the government as well as private parties by investment in job skill development has been unable to produce any noticeable solution to the problem.

The consequence is that the Meritocratic self advancement principle which was highly advocated for globalisation has fallen apart. The global scenario is thus witnessing strong opinions against globalisation, immigration and the likes of it. The rise and victory of the US Republican nominee, Donald Trump is an outcome of the situation. Trump's authoritarian approach and strong statements against immigration is a major concern in the global political scenario. On the other hand, David Cameroon, the outgoing Prime Minister of UK wasn't able to keep Britain in the folds of the EU despite his efforts. He emphasized on a broader role for the state so that people could feel more economic freedom while their basic human needs were met. He argued the benefits of staying in the EU like job facilities, childcare, schools, apprenticeship and other policies outweighed against the downside. To his dismay, the arguments weren't accepted by the majority of citizens of the UK.

A Brief History

The EEC was created after the World War II to foster economic development in the war torn region as well as to create harmony between the European nations and avoid possible wars. The name was later changed to European Union which currently has 28 members. The European Union provided a 'single market' for easy trade as well as free movement of people across the member countries. A single currency – the Euro was also created for easy transaction which is presently used by 19 of the member countries. The European Union with its own parliament looked after various policies, including those concerning climate, environment and health, external relations and security, justice and migration.

Membership in the European Union has been a long debated topic in the UK. A referendum had been held in 1975 to ascertain whether the UK should stay in the EU just two years after UK joined the European Economic Community (European Union). Post Brexit, UK will no longer be a member of the Union. Post Brexit the European Union will comprise Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden.

European Union and Britain

The main benefits provided to Britain for staying in the EU was the access to a single market that allowed easy trade and abolished the border barriers and duties across EU nations. Also, a single currency – the Euro – allowed easy and hassle free transaction among the European nations. Other than trade, the European Union also looks after various policy issues like external relations, justice, climate, environment and health, security and migration etc. among the member countries.

Staying in the EU also meant that Britain would have to pay a membership fee of £15bn gross or £6.883 billion net. Britain would also have to share any issue of crisis occurring within the EU with other countries, but unspoken, the burden lay mainly on Britain, Germany, France and other developed countries. Many crises in recent years in the European Union has however made Britain rethink about its membership with the EU. The Euro crisis, Grexit, pressure towards austerity and the rise in immigration due to the policy of free movement in the EU used strong reactions against staying with the European Union.

Issues within the European Union

Post the 2008 crisis, the performance of the European economy has been consistently poor. The inability of the EU to control the "Euro crisis" has led the international market to consider the EU in a bad light and as a source of turbulence rather than a promising market of tomorrow and the UK is no exception to this. Both UK and Greece are facing a fall in the real wages. Inequalities among the people have increased in both the countries. The richest 10 per cent accounts for 45 per cent of the wealth, whereas the poorest 50 per cent own less than 9 per cent of the total wealth. The average income of the top 1 per cent has reached £ 253,927.00. Of the £ 187bn that government spends on goods and services, the share of third party services (government outsourcing to private contractors) is almost 50 per cent (£93.5 bn). The general public has grown apprehensive towards these transactions. UK has been following the EU principle of social cohesion, giving budgetary support to

EU for shared responsibility towards the socioeconomic problems in the member economies.

After that came the question of accommodating Syrian refugees and the rising immigration issue. The immigration issue, especially, has been a major factor in the exit of Britain from the European Union. The free movement policy had led to a large number of immigration of cheap labour from the economically struggling countries who come to UK in search of jobs. This led to a sharp decline in British workers wages from 2008 to 2014, and those with lower wages were seen suffering the most. Many studies, however, disagree that the decrease in the wage of British workers is due to immigration; rather, it is attributed to the financial crisis of 2008.

Immigration Issue

Developed nations in the EU are also suffering from the rising immigration. European Union allows free movement across the member nations allowing visa and free entry to any member country. This has been cited as a problem in the UK as immigrants from economically struggling countries (Ireland, Poland, Romania, Italy, Lithuania, etc.) come to the UK in search of jobs and are willing to work for comparatively lower wages leading to scarcity of jobs for nationals.

Table 1: Latest Migration Statistics, Year Ending December 2015

	All Citizenships	*British*	*Non-British*	*EU*	*Non-EU*
Immigration	630,000	83,000	547,000	270,000	277,000
Emigration	297,000	123,000	174,000	85,000	89,000
Net Migration	333,000	-39,000	373,000	184,000	188,000

Source: migrationwatchuk.com

Immigration is also cited as a major causative issue for Britain's exit from the EU. EU's "free movement" policy which allows any EU citizen to go and live in any other EU country without a visa has led to a high level of immigration to Britain. The number of immigrants in the UK has doubled since 2012. The net migration to the UK as per December 2015 was about 3,33,000 out of which 1,84,000 were from EU. From the table, it can be seen that there is more than 50 per cent net immigration from the EU nations into Britain. It is a point of concern for the British policy makers because not only can the immigrants stay and work in the country, but are also entitled for the welfare schemes that the country provides for its original citizens.

Britain's economy provided higher job prospects and welfare schemes which attracted immigrants from lesser developed countries that not only added to population burden but also increased competition for the scarce resources. The country was also against the idea of "ever closer union" which it perceived as the creation of a "United States of Europe" thereby endangering the UK's sovereignty.

Table 2: Unemployment Rate of Majority of Nations under EU

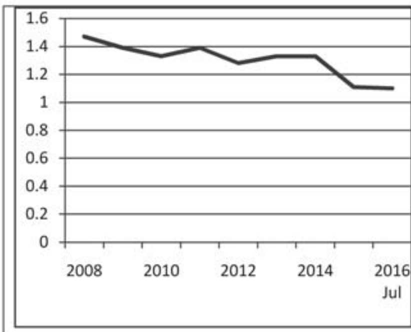
	Unemploy-ment Rate as per cent of labour force	*Long term Unemploy-ment Rate, 2014*	*Youth Unemploy ment Rate (15-24) Yrs*	*Annual CPI in per cent Yr-2014*	*Annual CPI in per cent Yr-2015*	*Growth of Head Income 2014*
Austria	5.7	27.2	10.6	1.6	0.9	0.59
Belgium	8.5	49.9	22.1	0.3	0.6	0.54
Denmark	6.4	25.2	10.8	0.8	0.6	1.35
France	10.5	44.2	24.7	0.9	0.5	1.13
Germany	4.9	44.3	7.3	1.5	0.2	1.50
Greece	26	73.5	49.8	-0.9	-1.7	-1.61
Ireland	10.3	59.2	20.9	0.5	-0.3	1.25
Italy	12.8	61.4	40.3	1.2	0.0	-0.02
Poland	8.3	36.2	20.8	1.0	0.9	2.22
Portugal	13.3	59.6	31.9	0.3	-0.5	-2.4e
Spain	23.7	52.8	48.4	1.4	-0.5	0.62
UK	5.7	35.7	14.6	2.6	0.0	0.72
USA	5.7	23	11.6	1.5	0.1	-1.20
Japan	3.5	37.6	5.6	0.4	0.8	-0.92

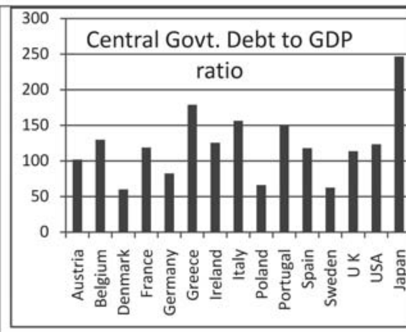
Source: https://data.oecd.org

It has however been argued that immigrants have provided the UK with a much needed highly skilled workforce for the economic development of the nation as the country itself is unable to fulfill most of its manpower requirements. In many case studies, it was found out that skilled and young immigrants are net additions to the exchequer. (Wadsworth, Dhingra, Ottaviano and Reenen, 2016). But one can see an interesting picture emerging as the growth in a household or househead income remains stagnant or only 0.72 per cent. Though national unemployment is less incomes fail to rise. Demand led income growth is also poor. Consumer price index or retail inflation is zero. Absence of demand pull factors, with a higher net immigration may sound good for limiting coprote expenditure but public at large is definitely dis-illusioned. Long-term unemployment rate is 35.7 per cent. If it persists, there will be a shift in the structural balance of the economy. This comprises of all age groups of the labour class and so it will definitely affect the direction of referendum.

The European Debt Crisis and Plunging Euro

In the wake of the Great Recession in around 2008, several Euro Zone countries (Portugal, Ireland, Greece, Spain and Cyprus) were facing government structural deficits and high debt levels. The crisis was controlled to an extent by financial guarantees from other European countries and the International Monetary Fund (IMF). It has however led to a decrease in confidence for trade and commerce in the Eurozone as well as a decline in the value of the Euro.



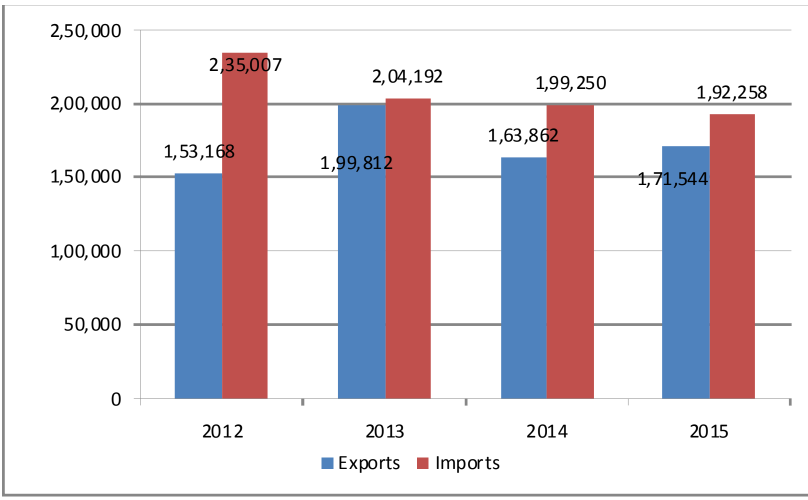


Average Annual Performance of Euro vs Dollar Average Exchange rate €/ $	Central Government Debt to GDP ration is more than 123 per cent for UK.
Source: http://in.investing.com/	Source: https://stats.oecd.org

Figure 1: Performance of Euro and Debt Position

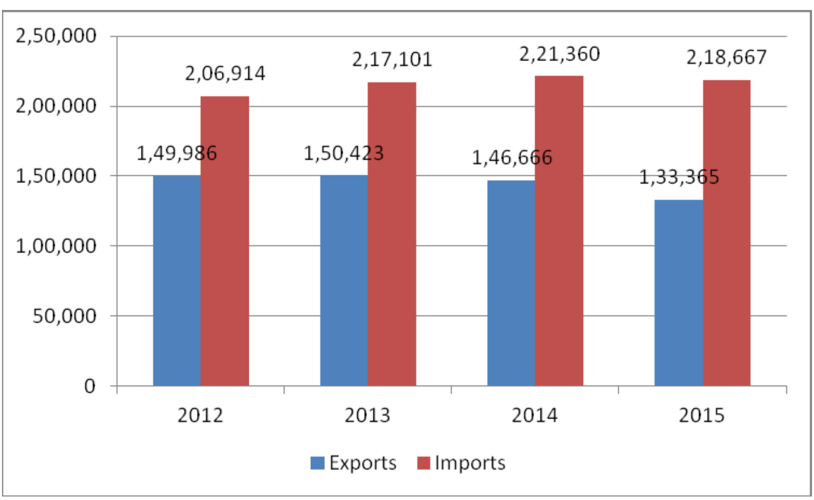
It is believed that the Brexit movement gained more support during the European debt crisis. The economic condition of the European Union was compared to an unsalvagable sinking ship and the unfair burden on the developed economies to bail out the countries in crisis was pointed out. In two years time between 2014 to 2016, the Euro had fallen nearly 20% against the dollar. The severity of the problem and the likely continuance of the scenario with an ever ballooning debt can be judged from the present capacity of debt servicing ability and present investments leading to employment, income and ultimately revenue augmenting tax net. With more large scale immigration, this effort is further compromised as one has to shift a part of the resources for welfare schemes for the refugees. This leads to a drain not only on public finance but also on public utilities. There both compete and as a fall out, anger is the primary emotion amongst the natives. Infact this is probably the reason many Mayors have expressed displeasures against the State principle of accommodating more and more refugees on a humanitarian ground. There are social issues as well as religious issues as the struggle for identity continues in the second phase of assimilations of the immigrants.

Economic issues aggravate political solutions too. The following table reflects why Britain may not find European Union as alluring as it advocated historically. Many British people believe that Britain is being held back by the EU, which has imposed a lot of rules and regulations that are hampering the



Source: https://www.uktradeinfo.com

Figure 2: Trade with Non-EU Countries (in £ millions)

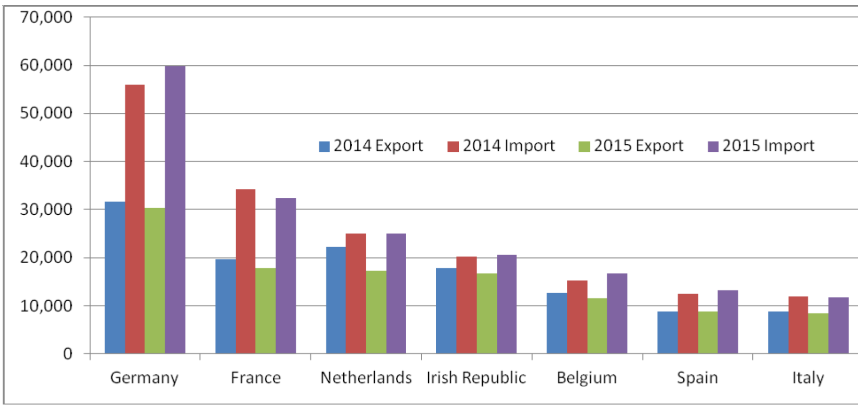


Source: https://www.uktradeinfo.com

Figure 3: Trade with EU Countries (in £ millions)

growth of business and commerce. Although EU allows free and easy trade with the member nations, trading with non EU countries comes with lots of regulations and taxes which restrains the British firms' ability to expand to other nations. Also, the hefty membership fees charged by the EU while providing very little returns is another big issue in the country.

UK is having trade surplus with non European economies. With major European partners it has trade defict to the amount of 60 per cent total exports to this region. We have shared data for 2014 and 2015 for this purpose.

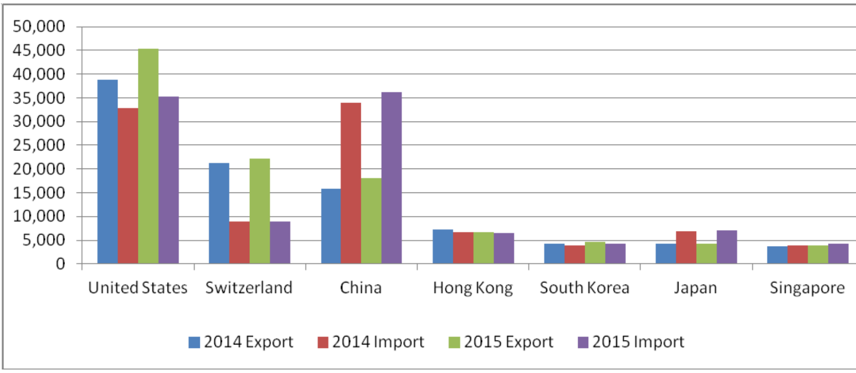


They constitute 75.69 per cent of UK exports to EU and 81.45 per cent of imports from EU area, and the deficit is around 60 per cent (2014-15).

Figure 4: UK Performance with Respect to Top 7 Exporters in EU Area

UK appears proptinate trade partner in exports and imports with its major trading partners. The trade gap is higher with China but UK enjoys the benefit of capital investment there. UK may gain more by devising independent strategy to gain more from trade with Non-EU area and commonwealth economies. For the struggling EU economies export buoyancy may be lacking for UK in this period. The reorganisation and restructuring of government departments, making them more flexible and responsive, and gain from pension reforms for long-term sustainability of public finances have limitations in terms of finance and their negative effect on the EU economy. This definitely put restriction on potential exports of UK to EU.

Owing to controlled access to credit (together with an initial sharp increase in lending rates) and with supply-side reforms in the service sectors, only Baltic economies could attempt to rebalance their economies with relative ease. Now they are visible as successful in an upward growth movement. The services sector makes up for 74.7 per cent of GDP in the European Union. Debt is rising and at the same time GDP growth rate is slow for some economies. This is putting negative effect on the currency.



(Soudi arab and Qatar not taken). UK is having tade surplus with these economies in 2014 and 2015.

Figure 5: UK Performance with Respect to Top 7 Exporters in Non-EU Area

Reasons for UK to Stay

The main advantage for the UK to be in the EU is the ease of trading with other EU countries. The EU's single market policy allows three major benefits to the member nations. Firstly, it eliminates tariffs on goods. Secondly, companies can sell goods or services to other member states. Third, it allows export-import between member countries without having to comply with 28 different rule books of various countries.

Britain-EU export and import in the month of May 2016 was £11.4 billion and £18.6 billion respectively. The major import-export partners were Germany, Netherlands, France, Ireland- countries which are economically sound and close in proximity as well.

Britain's status with the European Union countries may get damaged by leaving as Britain enjoyed a healthy trade relationship with most of the EU countries. Also Britain has a much louder say as a member of a 28 country group rather than going solo.

Impact of Brexit on UK

Following the decision to leave European union, major stock markets across the world were in turmoil, especially, the London stock market, which suffered steep losses at the opening, but recovered to finish down 199 points or minus 3.1 per cent. Bank stocks suffered the maximum brunt of the decision,followed by housebuilders who also suffered huge losses.

It is speculated that trade between Britain and the countries of the European Union will also fall as a result of the exit. The free trade policy with the rest of the Europe under European Union will no longer be applicable and hence UK will have to reestablish trade relationship with the rest of the EU countries from scratch again.

It is also argued that the major share of the companies in the UK will become less attractive to foreign investors thereby reducing share values. In the longer run, however the share prices will supposedly rise as the companies start to make profits. Impact on the mix of export- import will be a mixed affair as exporters will gain more, (attributed to the weaker pound values in the international market) while the importers will see an initial slump in their profits.

The British pound suffered its largest one day fall on 24 June 2016 as seen in the figure after the news about Britain exiting the European Union. The fall in Pound Sterling has incited various speculations for the near future, including slower economic growth, reduction in wage growth and reduced employment prospects.

Source: xe.com

Figure 6: Pound vs. Dollar Figure

bullionvault.com

Figure 7: Gold Prices

Impact of Brexit on the World

The news about UK leaving the EU was not taken very seriously by most of the investors across the world, resulting in a volatility in the markets all over. Investor sentiment was primarily towards avoiding equity and instead were opting for commodities like gold as a result of which, the value of gold was considerably appreciated during this period. Also, safe havens like the Japanese Yen were preferred by the investors, thereby considerably appreciating the value of the Yen.

Source: Yahoo Finance

Figure 8: Dow Jones

Source: CNN Money

Figure 9: Nikkei

Impact on European Union

Exit of Great Britain from EU will have many macro-economical as well as geo-political impacts on it. Firstly, the European union will lose an influential member, thereby shifting the balance of power towards a few other powerful countries. This will make it harder to block illiberal measures in the EU. Post-Brexit, there will be a tussle of power between Germany and France primarily, which will lead to changes in the political dynamics of the region. London is currently considered as the financial capital of EU as it is the venue of the headquarters of most of the companies operating in the EU. Post-Brexit, these companies will find it hard to control their businesses in the EU and therefore trade can be disrupted for a short period of time. Also, without the UK, EU will lose its status as an important trading hub and will become a less attractive destination as compared to the USA, Japan and many emerging nations. Countries like the Netherlands, Ireland and Cyprus, who have strong trade and financial links with the UK will be most exposed to the aftermaths of Brexit. Spain and France have a substantial direct investment in the UK, which will be a major concern for these countries. Other countries will be closely monitoring the impact of the British exit on the EU budget and their residents in UK. Countries like Greece and France, which are also not too fond of the European Union, may follow suit, thereby jeopardizing the very existence of the EU.

Impact on Advanced Economies

The impact on Advanced economies out of the European union is still not clear enough at the moment. Countries like America who have companies and investors in direct trade with the European countries will likely face credit risk. Also a weak Euro will increase the price of American products and thereby reduce the demands. Japan, a major manufacturing country has many manufacturing units set up in the UK from where it operates across the EU. Brexit will severely hamper the present trade conditions in the EU and the Japanese companies will have to seriously rethink on their trade policies in the region. Brexit will also complicate the ongoing talks between Japan and the EU about an economic partnership agreement. Australia, too has been trying to hold preliminary talks with the EU for some time now, regarding free trading. This process too may be put on hold because of Brexit. Also, Australia would now probably need to have separate talks with Britain and EU as two different entities. Specific markets such as the wine markets may be affected but no other major effect is predicted for the Australian economy due to Brexit.

Impact on Emerging Market Economies

Emerging economies are the ones currently driving most of the world's growth. The emerging markets now account for about 58 per cent of the global output. China is currently a $10.98 trillion economy and the world's second largest economy and is growing at a rate of 7 per cent. India is currently the fastest growing global economy with a growth rate of 8 per cent as per the 2016 data.

Although UK is not a major trading partner with countries like India and China, they nevertheless will feel the impact of Brexit. China, which is mainly an export oriented country is currently facing decrease in growth, acounting to a low global demand. Brexit will only make things worse for China as the demands will further decrease in the UK and the EU countries which could have been good options for China as their future markets.

The same does not hold true in case of India, as the total FDI equity share of the UK in India is a mere 8 per cent. The impact till now has been seen only in the equity market which was down for a short time and has risen again to the normal value. Brexit can however be seen as a positive move for India as it will develop a better trade relationship with the UK as well as allow for more jobs to the Indian diaspora living in Britain.

Geo-politically, however, Brexit can be seen as a Godsend to China considering its wariness of the threat of a strong Europe, which could join hands with the United States and form a strategic alliance against the Beijing dominance. Also, the Chinese propagandists, portraying this event as a dysfunction of democracy can use this point to their advantage.

Geopolitical Issues

Various geopolitical issues have also arisen due to the Brexit. Theresa May has been sworn in as the new Prime Minister of UK following the resignation of David Cameroon, who was a supporter of the 'remain campaign' in the Brexit referendum. It would be especially hard for a new prime minister to steer a country, which has to renew its geopolitical and trade relations with the rest of the world basically from scratch, a difficult task as it is for the most seasoned of politicians.

A major point of concern here, is that unlike England and Wales who were in a clear majority for leaving the European Union, Scotland and Northern Ireland were in favor of remaining in the European Union. This had further created speculation on whether Scotland and Northern Island would like to continue in the European Union thereby disintegrating the United Kingdom as a whole.

Another obviously noticed fact is that Britain is considered the gateway of Europe because many companies from non EU countries first enter Britain as a means to enter the EU markets. Britain's image as the financial hub with a predictable legal system as well as the language made it the first choice for many companies to establish their businesses here. This status will however no longer remain as companies will have to look for alternate options to establish business with the rest of the EU countries.

What Lies Ahead for UK?

The UK's decision to leave the EU has created a major question on how it will manage to continue to trade, especially with the countries of the European Union. Majorly, there are five models that are available in the country.

The first option is to join the European Economic Area which is followed by Norway, Ireland and Liechtenstein. This means banks will be working normally but will require free movement of nationals to the UK.

The second option is to follow the Switzerland option. This will provide UK access to parts of EU market at a certain fee. This also requires free movement of nationals as well as providing of financial services to the European Union.

The third option is to follow the Canada option wherein the market will be only partially open to Britain. This will also allow UK the option of not allowing workers from the European Union.

The fourth option is to simply rely on the World Trade Organisation (WTO) and its rules and regulations.

The fifth option is to enter into bilateral agreements with some or all of the EU countries.

Conclusion

The exit of Britain is considered a major global economic event post the 2008 economic crisis and the repercussions of the same on various stakeholders is being minutely observed. The immediate effect of Brexit was quite alarming with large fluctuations over all the major markets all over the world. The currency and commodity market also showed fluctuations with obvious panic observed in the franctic buying and selling. The initial shocks have, however, stabilised as there have been major improvements in the economic data post-three months of the referendum. With positive data feedback for consumer confidence, employment ratio and Financial Times Stock Exchange (FTSE), the economic conditions of Britain seem to be quite good, now. The major concern is the rise in inflation and decrease in the value of the Pound due to low confidence in Britain's economic future. This has allowed Britain to remove the shackles of regulations it was bound by under the EU, finally allowing it to decide its own (possibly progressive) trade policies.

This has also created a prisoners dilemma (Stockholm Syndrome phenomenon) between Britain and the European Union which makes the relationship between the parties highly uncertain and on shaky future ground. The developing nations are looking forward to taking advantage of the situation and have expressed their interest in forging trade bonds with the United Kingdom. On the flipside, there has also been an increasing number of cases of racial attacks targeting the immigrants; the question of Greece following the steps of Britain, etc. which is showing a fall back towards the trend of Localism as against globalism.

The macro-economic effects or long term effects of Brexit on the world is uncertain as it will take time to publish and/or interpret it. The immediate aftermath of Brexit is evident in the form of volatile stock market and currencies in many countries across the world. The effect however is subsiding slowly as the market is gaining confidence. Countries which have had trade relations with Britain will be facing problems for some time and will be adopt a wait and watch attitude, closely monitoring the developments in the British economic and political scenarios. Another point to acknowledge is a growing protectionism. There are still many unanswered questions like what will be the implications of

Brexit on immigration, and the general attitude towards it, in both Great Britain as well as in the world? Will there be recession like conditions in the near future due to the Brexit? What will be the economic and geopolitical costs of Brexit for Britain and its stakeholders? It is still a little premature to answer all these questions; but the current situation has, however, pacified everyone concerned to a large extent and many are now pretty optimistic about the future. It goes without saying therefore that the global economic and geo-political scenario will not stay the same or in limbo in the coming decades.

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