Vol. 1, Issue 1: April-September 2018
Online ISSN : 2581- 6632

BREXIT – The Way Forward

Namrata Acharya* Mishu Tripathi**

ABSTRACT

In this research paper, we intend to study what exactly is Brexit, and the possible impact of the situation wherein the United Kingdom (UK) withdraws its membership of the European Union (EU). The paper intends to focus primarily on the economic consequences of UK decision on companies and business, through example of Indian and foreign companies. It provides a description of the UK' history with the EU and the possible frameworks for their future relationships in the end. The paper also discusses the possible future relationship based on UK and EU preferences, evaluate the consequences for the UK.

Keyword Brexit, European Union (EU), UK

INTRODUCTION

Brexit is an abbreviation for "British exit," which refers to the June 23, 2016, referendum whereby British citizens voted to exit the European Union. The term Brexit may have first been used in reference to a possible UK withdrawal from the EU by Peter Wilding in a Euractiv blog post on 15 May 2012. It is a word that has become used as a shorthand way of saying the UK leaving the EU - merging the words **Br**itain and **exit** to get **Brexit**, in a same way as a possible Greek exit from the euro was dubbed Grexit in the past. Brexit is the withdrawal of the United Kingdom (UK) from the European Union (EU). In the June 2016 referendum, 52% voted to leave the EU, leading into a complex separation process implying political and economic changes for the UK and other countries. The timetable for withdrawal has not yet been firmly established.

Withdrawal from the European Union has been a right under Article 50 of the Treaty on European Union of EU member states since 2007. The details of the process for the UK's withdrawal are uncertain under EU law – Article 50, which now governs the withdrawal, has never been used before. Unless extensions are agreed, the timing for leaving under the article is two years from when Britain gives official notice, but this official notice was not given immediately following the referendum in June 2016. The assumption is that during the two-year window new agreements will be negotiated, but there is no requirement that there be new agreements.

Withdrawal has been the goal of various individuals, advocacy groups, and political parties since the UK joined the European Economic Community (EEC), the predecessor of the EU, in 1973, though continued membership of the EEC was approved in a 1975 referendum by 67% of voters.

** Assistant Professor, Aditya Institute of Management Studies and Research*
*** Assistant Professor, Thakur Institute of Management Studies and Research*

United Kingdom European Union membership referendum, 2016		
Choice	**Votes**	**%**
Leave	**17,410,742**	**51.89**
Remain	16,141,241	48.11
Valid votes	33,551,983	99.92
Invalid or blank votes	25,359	0.08
Total votes	**33,577,342**	**100.00**
Registered voters and turnout	46,500,001	72.21

Table-1

History of Brexit

In 1975, the United Kingdom held a referendum on whether the UK should remain in the EEC. All of the major political parties and mainstream press supported continuing membership of the European Economic Community (EEC). However, there were significant splits within the ruling Labour party, the membership of which had voted 2:1 in favour of withdrawal at a one-day party conference on 26 April 1975. Since the cabinet was split between strongly pro-European and strongly anti-European ministers, Harold Wilson suspended the constitutional convention of Cabinet collective responsibility and allowed ministers to publicly campaign on either side. Seven of the twenty-three members of the cabinet opposed EEC membership.

On 5 June 1975, the electorate were asked to vote yes or no on the question: "Do you think the UK should stay in the European Community (Common Market)?" Every administrative county in the UK had a majority of "Yes", except the Shetland Islands and the Outer Hebrides. In line with the outcome of the vote, 67% in favour of staying in, the United Kingdom remained a member of the EEC.

Arguments For and Against BREXIT; according to the main campaign

IN	ARGUMENTS ON	OUT
Britain avoids exporter tariffs and red tape, important as 45% of British exports go to the EU. As a member, Britain can obtain better trade terms because of the EU's size.		Britain will negotiate a new EU relationship without being bound by EU law. It can secure trade deals with other important countries such as China, India and America.

Britain pays the EU £340 a year per household, compared with an estimate £3,000 yearly benefit of membership. In or Out, payment is needed to access the single market.		Britain can stop sending £350m, equivalent to half England's school budget, to Brussel's every week. This money can be spent on scientific research and new industries.
Most EU regulation collapses 28 national standards into 1 European standard reducing red tape and benefiting business. In, Britain can fight for better regulation.		Leaving will return control over areas like employment law and health and safety, measures that a recent business for Britain poll found businesses favoured.
Leaving doesn't mean reduced immigration. Countries that trade with EU from outside have higher rates of immigration, including from EU countries, than Britain.		Britain can change the "expensive and out – of - control" system that offers an open door to the EU and blocks non – EU immigrants who could contribute to the UK.
At international summits, Britain is represented twice – by the foreign secretary and the EU high representative. Co-operation has helped fight Ebola and piracy of Africa.		Britain has little influence within the EU. From outside, it can retake seats on international institutions and be a stronger influence for free trade and co-operation.
Source : Economist.com		

Table-2

Impact of Brexit

Brexit may have many -fold impacts on the economy and markets worldwide. Leaving the European Union is a significant step for any member state, which would have social, cultural, political and economic implications.

Impact of Brexit on UK market is analysed as below –

1. Gross Domestic Product (GDP) growth of UK - The Centre for Economic Performance at the London School of Economics estimates that the United Kingdom leaving the European Union and joining the European Free Trade Association will reduce British GDP by at least 2.2% in its optimistic scenario, and between 6.3% and 9.5% in its pessimistic one. The Confederation of British Industry estimates that the

net benefit to the United Kingdom stemming from European Union membership is somewhere in the region of 4 to 5% of Britain's GDP, or between £62bn and £78bn per year. The National Institute of Economic and Social Research estimated that withdrawal from the European Union would permanently lower the British economy's level of output by 2.25% below what it would otherwise have been.

2. Immigration – Most migrants from the European Union come to the United Kingdom to work. The annual net migration from the European Union has significantly risen from 100,000 people per annum reaching 183,000 in March 2015, boosting the workforce by around 0.5% a year in 2015. This supports the economy's ability to grow without pushing up wage growth and inflation, and thereby managing a lower interest rates for longer period. As post Brexit, it is estimated that Britain is not likely to not agree to the free movement of labour with the European Union, there is a possibility for a policy change to restrict the number of low skilled workers entering UK. This change would be directed towards attracting more highly skilled workers (including the ones from outside the European Union). Incase of this change, low-wage sectors heavily dependent on migrant labour, such as agriculture, might find it difficult to find labour whereas other sectors with a shortage of highly skilled labour, would see attraction of best talent.

3. Trade and the manufacturing industry - UK enjoys a significant portion of trade links with the EU, with an official trade statistics portraying the EU as a destination of about half of all British goods exports. The share is a little lower if services exports are included too but is still a sizeable 45%. The total exports account for 30.5% of British output, this means that the value of all goods and services exports to the EU are equal to 14% of the overall UK economy. The trading links are bigger if we include the more than 60 countries that the UK trades freely with because they have a free trade agreement with the EU. The manufacturing sector of UK is greatly dependent on exporting, but growth in the services share of the economy has left manufacturing accounting for an ever smaller share of the economy. There is a probability that impacts of Brexit on trade would not be that significant. It is possible that Brexit would benefit the external sector in the long run, if UK could negotiate its own trading arrangements. In the scenario where Britain does not remain in the single market, exporters would face additional costs in selling into the European Union. These would include extra costs of clearing customs and the administrative costs of complying with the European Union's rules of origin. They might also face other non-tariff barriers, such as quotas or product compliance norms to meet European standards levied on UK companies.
   These factors would be an inconvenience but not a major barrier to trade as many countries, such as the United States, manage to export successfully to the European Union despite facing these barriers. The United Kingdom would also look at new trade deals thereby opening up to the fast growing markets outside Europe and improve the competitiveness of Britain's manufacturing industry. The exports of goods might support to rebalance the economy reliance on trade.

4. Financial services - Financial services would be the most affected sector immediately after a European Union exit compared to the other sectors of the economy. Though United Kingdom financial services sector would probably be hurt in the short term, but it would definitely not mean collapse of the major sector. UK would enjoy competitive advantage in the longer run as it would negotiate trade deals with emerging markets that could pay dividends for the financial services sector in the long run.

5. Regulation, innovation and productivity – Amid Brexit, there could be fall in the foreign direct investment into Britain which could be damaging for the country’s productivity outlook. Also a change in the immigration policy would allow the United Kingdom to choose employees on the basis of their skills rather than place of origin, which will allow it access to higher skilled, more productive workers. The UK exit to European Union is likely to have a limited impact on Britain’s productivity. Brexit regulations would save Britain financial position as the United Kingdom would choose to implement regulations to save the market. It would also need to implement the European Union’s regulations to continue to export easily to the single market. The dearth in regulations might give a small boost to productivity but could be beneficial to the economy in the long run.

6. Foreign investment – May be for a smaller period the United Kingdom may see a weaker foreign direct investment inflows, but as the economy would negotiate new relationship, Britain would be able to obtain favourable terms. In the World Bank’s Doing Business survey (which assesses countries according to the ease of doing business in them), Britain ranks highly in areas such as attaining credit, dealing with construction permits and protecting minority investors. Also it has been more successful than other European Union countries in attracting inward foreign direct investment amid a strong political environment, good rule of law and English language speaking population. It is expected that Britain would remain a haven for foreign direct investment flows even if it was outside the European Union.

7. Public sector - UK government is could save a minimum of £10bn per year on its contributions to the EU budget if it leaves the bloc. The number could further increase if the either the British rebate was to be susceptible in the years ahead or Brexit was to could result into faster economic growth. Some economic disruption and migration could offset the number of the savings for the British Government. UK would also think of making some contributions to the Union if it wanted to preserve single market access. The United Kingdom may also sacrifice on customs duties income to strike new trade deals with countries outside Europe. Though it is still expected that Brexit would benefit the public finances, but not in huge numbers.

Consumption and the property market – A number of analysts have argues that leaving the European Union would damage property markets and the UK macro-economic, environment resulting in lower consumption. However, it is still debatable whether Brexit could have a modest negative impact on growth and job creation, though the overall market would be affected positively in the long run. The resultant effects of Brexit on consumption could be positive, though not likely to be large. It is certain that United Kingdom's economic prospects are good whether inside or outside the European Union, as the economy has moved ahead of the European Union. As it is certain that the British property market would be impacted negatively if the United Kingdom opts to leave the European Union. It is although expected that financial services sector role post Brexit would hold up the property market, expecting a significantly lower negative impacts at a macroeconomic level. Thus it is expected that the impact on the property market and on consumption in the economy will not be very significant.

OBJECTIVE

This research paper intends to investigate what is Brexit and the history behind EU and UK trade relations.To understand impact of Brexit on markets using few companies as examples.

RESEARCH METHODOLOGY

This research paper is an exploratory research, as it intends to study Brexit, its significance and current and future consequences. The data collected on the same is through secondary sources.

Impact of Brexit on Companies – Few examples
Brexit may have positive or negative impact on companies depending on the sectors which they belong too. A brief analysis of this scenario has been explained with the help of three companies of different sectors and based in different companies with businesses worldwide.

Company 1 - British American Tobacco (BAT)
British American Tobacco (BAT), headquartered in United Kingdom offer adult consumers a range of products, including: cigarettes and cigars, Fine Cut tobacco, Swedish-style snus and Next Generation Products in a number of markets. The company has a significant exposure of its revenue of more than 50% as per their interim results of FY2016 coming only from Western Europe and Eastern Europe. The countries under the two regions were the company has exposure is as under –

Western Europe		**Eastern Europe**
Germany	Denmark	Russia
Switzerland	Netherland	Ukraine
Italy	Belgium	Turkey
Romania	Spain	Kazakhstan
France	Poland	Algeria

Table-3

Looking at United Kingdom stand to leave the EU (Brexit), there are chances that UK would see change in ground breaking, game changing tobacco control issues currently in place, amid EU‘s Tobacco Products Directive. The European Court of Justice in May 2016 ruled that the contents of the TPD including standardization of packaging, future EU-wide banning of menthol cigarettes and regulations for electronic cigarettes, were lawful, dismissing the objections raised by any country or maker of e-cigarettes. The TPD also requires 65% graphic pack warnings, a delayed ban on menthol flavoring, minimum pack sizes, ingredients control, a ban on misleading labels, and e-cigarettes regulated as tobacco. The implementation of TDP by local countries, transposing the same into their respective local laws, poised a challenge of interpretation and local political agenda with different countries, which UK could seek relaxation incase it intends to negotiate new norms. Thus Brexit could mean the UK not implementing any of the TPD (other than plain packaging which is already law) with no specific legislation on menthol flavoring which would be good news for tobacco companies and vapour device manufacturers.
A possible effect of Brexit might be a bigger impact on the UK cigarette market, with expected hikes on cigarette pack prices. According to the Organisation for Economic Cooperation and Development (OECD), under World Trade Organisation rules, leaving the EU would mean tariffs of at least 70% being imposed on tobacco, meaning the average price of a packet of cigarettes might rise from £9.60 to £12.74. This situation would be positive for UK as the country may see a situation where more cigarette factories being opened (or reopened) in the country to supply the market indigenously. Another consequence might be the return to the market of snus in the UK. Sweden is the only EU country where (for reasons of tradition) oral tobacco is not banned. For years Sweden and Swedish Match, have complained of the injustice of banning snus, which would probably open up the snus market in the UK after it starts operating outside the EU. British American Tobacco is the world's second largest quoted tobacco group by global market share, with brands sold in more than 200 markets, which would definitely gain amid the United Kingdom exit of European Union.

Company 2 - Newmont Mining Corporation
Newmont Mining Corporation, based in Greenwood Village, Colorado, USA, is a mining company, founded in 1916 by William Boyce Thompson as a diversified holding company, with active gold mines in Nevada, Indonesia, Australia, New Zealand, Ghana and Peru. Holdings include Santa Fe Gold, Battle Mountain Gold, Normandy Mining, Franco-Nevada Corp and Frontier Gold. Newmont is the only gold company in the Standard & Poor's 500 Index. This company is been identified by FactSheet , has the highest revenue exposure as it generates 64% of its revenue in the U.K., the highest figure among other companies on S&P 500.
Like majority of the companies have negative impacts from the Brexit. Newmont Mining (NEM), is among the few gainers under the new developments. Well, if we look at the individual companies with the largest exposure, we see Newmont Mining (NYSE: NEM) is No. 1, deriving a whopping 64% of its revenues from the United Kingdom. Brexit has a positive impact on the company. Bucking the trend of exposed companies' poor performance, the company's stock is leading the index, benefiting from its gold mining operations as

investors seek safe havens from the otherwise volatile markets. The company stock surged in 2016 as worries about a Brexit and other global economic turmoil has caused gold prices to skyrocket. As gold prices jumped 5% on the vote results, shares of Newmont leapt 8%, setting a new 52-week high. Thus while the outcome of the U.K.'s historical referendum roiled stock markets around the world and European stocks posted their worst daily drop in nearly eight years on Friday, gold benefited from its perceived safety in financial crises, making the outlook for gold miners to be strong.

Company 3 – Tata Motors

Tata Motors, a USD 42 billion organisation, is the India's largest automobile company. It is a leading global automobile manufacturer with a portfolio that covers a wide range of cars, sports vehicles, buses, trucks and defence vehicles. The company has built a strong global network of subsidiaries and associate companies, with seventy-six direct and indirect subsidiaries in India and abroad. Tata Motors, engaged in engineering and automotive solutions, is also expanding its international footprint, including Jaguar Land Rover in the UK and Tata Daewoo in South Korea.

Tata Motors which generates majority of its revenue from its British luxury car unit Jaguar Land Rover (JLR) could come under pressure if Britain decides to leave European Union after the June referendum. Jaguar Land Rover has been contributing more than 80 per cent of the company's total automotive revenue, which could be under pressure in the short term as JLR would witness issues of a fiscal deficit, lower UK growth and adequate manpower shortfall. The company had already raised concern of a significant loss in the revenues of its subsidiary Jaguar Land Rover, in the event of Britain's exit from the European Union. The company had estimated a revenue decrease of nearly $ 1.37 billion (1 billion pounds) pre-exit, though the company looks upon Britain to provide incentives to automakers to negate the impact of these levies, which would take some time to arise. Thus Brexit is one of the company or auto sector is the one which faces a major risk of loss of business amid Brexit.

CONCLUSION

Thus the research conducted intend to conclude that though Brexit may have a negative impact on few sectors, it would definitely benefit major sectors in UK in the long run. The economic consequences of UK decision on companies and business, could be managed by the United Kingdom, by negotiating the trade terms with EU going forward. The research also portrays that as UK and EU work on innovative strategies to benefit economy and finance, different players in the markets should look at innovative strategies to improve performance thereby driving them to business excellence like British American Tobacco, Newmont Mining and other similar players in the market.

REFERENCES

Woodford Investment Management LLP, The economic impact of 'Brexit', A paper discussing the United Kingdom's relationship with Europe and the impact of 'Brexit' on the British economy

Swati Dhingra, Gianmarco Ottaviano and Thomas Sampson, Should we stay or should we go? The economic consequences of leaving the EU (The London School of Economics and Political Science, London), 2015.

Confederation of British Industry, Our global future (Confederation of British Industry, London), 2013.

Nigel Pain and Garry Young, 'The macroeconomic impact of UK withdrawal from the EU', Economic Modelling, Vol. 21, 2004.

Gregor Irwin, Global Counsel, report on 'BREXIT: the impact on the UK and the EU', June 2015

Report published by Goldman Sachs Investment Research, Worldscope, Datastream

Company Website, Financial Results and Annual report of 'British American Tobacco'

Company Website, Financial Results and Annual report of 'Newmont Mining'

Company Website, Financial Results and Annual report of 'Tata Motors'