The University of Texas at Arlington

BREXIT

An Intensive Analysis

Jose Torres

Professor Seeger

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On June 23, 2016, the British people voted to exit the European Union (EU). Brexit is the result of a referendum, in which 51.9 per cent of voters voted to leave the EU (Colantone 2018). This decision was a result of multiple factors including voter demographics, the United Kingdom's (UK) history as a member of the union and need for economic development. Brexit was sparked by an increase in immigration, which working class people perceived as a threat to job security. In addition, a loss of national identity and perceived lack of national sovereignty caused by the EU (Kim 2016). In this research analysis paper, I will discuss the effects of Brexit on immigration, trade and manufacturing, financial services, productivity, regulation, and innovation, and foreign investments.

First, I will discuss the reason Brexit came to be. The UK has always had an awkward relationship with continental Europe. Due to its economic strength bolstered by the trade relationships with ex-colonies, the UK declined offers to join the European Steel and Coal Community when it was first founded. Later, the organization founded the European Community with an idea of a closer union. With time the economy of the UK declined and needed increased trade. After petitioning three times, their request was finally granted to join the EU. The decision to join the EU was for trade and not really aligned with the idea of a closer union. This can be seen in the decision of the UK to maintain its form of currency, among other things (Kim 2016). The decision to distance itself partially from the EU aligns with the views of older Brits, which is more focused on the culture of the UK (Crescenzi 2017). An analysis of the Brexit decision shows that typically lower educated people, older people, and people of lower economic status voted to leave the EU. In addition to this, data shows that younger people were less likely to vote than older people. Younger people are more European friendly compared to older people, this affected the results of the referendum in favour of leaving the EU (Crescenzi 2017). The exit process is expected to be finalized by March 2019, in the next couple of pages I will discuss the ramifications of such decision.

IMMIGRATION

The effects of Brexit on immigration are complex due to the regulations and methods for accepting migrant workers (Sumption 2017). Over the last couple of years, the population of the UK has had high growth, especially in major cities. High growth in population coupled with the UK's struggle with National Health Service caring for patients, shortages in affordable housing, and tabloid stories painting immigrants in a negative light have resulted in anti-immigration views from many Brits (Kokotovic 2017). The topic of immigration was the main point being debated between the Leavers and Remainers. This was further exacerbated by the lack of recognition of the contribution by the immigrant community in the UK. With an inherently negative view of immigration, political leaders were able to frame the issue in a broader perspective, attributing it to faults in social services, infrastructure, and national identity (Kim 2016). Brexit raises the question of how immigration should be handled. Since this was a major campaigning issue, it cannot be swept under the rug. The question of whether to base the immigration system on merit versus need is an important one. Industries like agriculture and food processing require high skilled labour within those industries. Immigrants often meet the demand that these industries have, so to address this concern political leaders have suggested creating a temporary worker program (Wadsworth 2018). The problem with this type of program is that temporary workers are unlikely to return if the benefits do not outweigh the costs. These programs are intended to meet labour demands but limit integration and assimilation into British culture. Additionally, due to many people migrating within EU borders the UK has many EU residents. This complicates matters further because one of the reasons why people voted to leave the EU was to stop the influx of immigrants and to maintain British culture (Wadsworth 2018). The UK cannot just make everyone go back to the EU to please their voter base because those people meet a labour demand and provide funding through taxes for vital programs. So, it is stuck in a dilemma of how to solve this issue. Over the past couple of years, the UK has been trying to solve these issues. One of the reasons why solving the problem is hard, is because the exit plan needs to be approved by the EU. This has other ramifications that delve into trade and manufacturing.

TRADE AND MANUFACTURING

The EU is an important organization that provides the UK with an advantage when negotiating trade agreements with other countries like the U.S., China, and Japan. The EU gives it a stronger negotiating power because it has the backing of many other countries with a considerable amount of purchasing power. Alternatively, the UK has a trade imbalance with countries like Ireland, Italy, and Poland (Păun, 2016). These countries import more UK products than export to it, this results in the UK not receiving much of a benefit from this partnership. There are a few exceptions to this, such as the strong trade relationships with France and the Netherlands (Păun, 2016). The trade imbalances seem to outweigh the trade strong trade relationships it has with other EU member countries. The decision to leave the EU gives the UK more control of its own market, which doesn't align as close with the EU idea of a closer union. The UK wants to make it easier for business to startup and develop. Additionally, the decision to leave the EU will give the UK greater control of the money that was originally being destined to fund EU priorities. With the decision to leave the EU many sectors faced drops in sales. One of the automakers that is receiving a greater blow than others due to Brexit is BMW. BMW was already struggling to catch up in terms of technological changes, addressing new competition, and adapting to changes in environmental regulations (Boston 2018). Brexit further exacerbated this issue because the UK is "Europe's second largest market by sales" (Boston 2018). Being the second largest market for Europe, the UK also serves as a major financial services hub.

FINANCIAL SERVICES

With London being the financial capital of the EU, Brexit poses great challenges (Banking After Brexit: Who Will Be the New London? 2018). EU countries have "passporting rights," which gives them access to sell their financial services to any of the member countries without having to ask for permission from each country (Banking After Brexit: Who Will Be the New London? 2018). Leaving the EU means that the UK will have to renegotiate "passporting rights." The uncertainty caused by Brexit has led many financial institutions to begin moving their locations to other cities inside the EU. London served as a unified financial hub, with many of the large banks and financial services working in the same city. The decision by companies to move to other EU member cities will result in a decentralized system, which will reduce the efficiency of financial services (Banking After Brexit: Who Will Be the New London? 2018). To solve this issue there have been proposals of a ‘soft' Brexit in which the UK remains a member of the European Economic Area. This is similar to the status of other countries that are not fully integrated into the EU (Armour 2017). The requirement of the EEA to maintain free movement of goods, people, services, and capital would go against the reason Brexit was voted for, to reduce immigration. Additionally, the UK would not be able to participate in the rulemaking process, but as a benefit, the rules don't apply automatically. Rules passed by the EU would have to be approved by the UK government, which would give the UK government more control. A disadvantage is that the UK will have no say on policies that may affect it negatively indirectly.

PRODUCTIVITY, REGULATION, AND INNOVATION

Brexit has the potential of affecting productivity, regulation, and innovation negatively. The EU reduced trade barriers and allowed the UK to increase its productivity. Additionally, ‘passporting rights' expanded the market opportunities for the financial sector to all of the EU. If no trade agreement is made with the EU, the UK is set to lose a large portion of market share and as a result, its productivity will drop dramatically. On the other hand, the regulations that the EU imposes on member countries can at sometimes lower productivity (Chang 2018). Leaving the EU will allow the UK to set its own regulations and will play a role in offsetting the loss of market share from some sectors of the EU economy. Innovation is another factor in which the UK benefited by being a member of the EU. The EU gave it access to a lot more human capital that was not subjected to having to go through hindering immigration processes. This helped speed up the process of idea sharing and consequently made innovation easier and faster. Brexit threatens innovation by limiting the free flow of people. The protections around intellectual property also impact innovation (Wadsworth 2018). Brexit will not affect any current laws on intellectual property, because the UK is governed by intellectual property agreements imposed by the World Trade Organization (WTO) (Kingston 2016). Brexit gives the UK an opportunity to expand intellectual property laws, by adding more protections for those areas that the WTO fails to cover. Strengthening intellectual property protections will make the UK more appealing for companies, potentially attracting foreign investment.

FOREIGN INVESTMENTS

Brexit means a potential reduction in Foreign Direct Investment (FDI). An Oxford Economics analysis suggests that FDI helps by lowering interest rates, raising wages for workers, and increasing productivity. The vulnerability of FDI can be seen in the financial, manufacturing, and agricultural sector. Many financial institutions have decided to leave to other countries to remain within the Eurozone (Banking After Brexit: Who Will Be the New London? 2018). Additionally, Airbus is moving from England and BMW is struggling to maintain high sales. The agricultural sector needs human capital and the uncertainty of Brexit makes the agricultural sector vulnerable (Brexit Challenges for the Agri-Food Sector 2018). The two things that might make the UK more appealing to investors are: (1) the business-friendly economic environment and (2) the deregulated labour market compared to other countries, like France (Beck 2016). These factors make the UK more appealing to investors because it makes it easier to operate. Also, the potential refinement of intellectual property law will make research and innovation more appealing in the UK, due to the increase in protections to inventions and other intellectual property. The effect of Brexit on FDI is uncertain, but over time the laws and business-friendly environment will help stimulate investment (Driffield 2019). This investment will help offset the potential short term loss in FDI and GDP.

CONCLUSION

In conclusion, Brexit has many implications for the British economy. The decision to leave the EU will impact the British economy by causing uncertainty in terms of the financial sector, manufacturing, and human capital (Kokotovic 2017). In the financial sector, many large financial services have plans to move their offices to other European countries. Manufacturing firms are seeing sales decrease as one of the largest trading members is preparing to leave. Companies are also struggling to determine how the immigration status of EU workers in the UK will impact their need for human capital. Britain's long-term economic outlook seems to show a drop in economic output. The financial capital of Europe is being severely limited on its importance for the European economy. Additionally, the level of productivity will have to recover since some corporations will be moving their operations outside of the country. The regions that will be most impacted by Brexit are the major metropolitan cities like London. These cities have many European workers and are home to major financial institutions. Brexit will have many ramifications and the implications of this decision will be seen on March 2019 and after.

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