

## Glimpses of Brexit and Forthcoming Eventualities

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### Abstract

Britain's 'Black Friday' is a past. With Brexit becoming official on 24th June, 2016, Great Britain was embroiled in conflict, campaigns, public debates and mass speculation about the future of the United Kingdom (UK) and its relationship with Europe.

This paper attempts to offer glimpses of Brexit with answers to several basic questions such as - What is Brexit and why did Britain leave the European Union? What are the consequences of Brexit and whether it is good or bad for India, which had strong trading ties with Britain considering the fact that it was a gateway to all of Europe?

A month thereafter since the referendum; interestingly, many Britons were in the process of seeking a second referendum or a redo on the voting exercise after going through an experience of what is termed the "buyer's remorse" due to the volatility and uncertainty at the global stock markets and the devaluing of the pound besides prompting several changes, majorly in the area of trade and employment.

Is a second referendum possible or should Britain just go forward and work hard to make Brexit a roaring success, as the Prime Minister, Ms. Theresa May said – Brexit is Brexit and we must respect people's decision.

**Keywords:** *Brexit; Brexiteers; Black Friday; Trade Impact; Uncertainty; Regrexit.*

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### The European Union

The European Union or EU as it is often referred to, is a benign partnership in the economic and political arenas constituting 28 countries of Europe. The union came into existence to basically build and foster economic co-operation. The good thought behind this was that

countries with strong trade relations are generally amiable and less likely to be hostile thereby, avoiding going to war with one another ensuring global peace and prosperity in the long run. EU from then on, has become one entity or one market with free movement of raw material, finished goods, labour, technology etc.,

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giving the feel that all the member states belonged to one nation. The common currency to use came to be known as the euro and was used by 19 member countries of the Union. It was ensured that all members had a common set of rules to follow covering a wide range of areas such as transport and communication, consumer and human rights and business as well as the ecological environment. It was interesting to note that it even included simple and mundane things such as payment of mobile phone charges etc.

### **The Meaning of Brexit**

A term used as a short form of stating that United Kingdom (UK) is making an exit from the European Union (EU). It is the coming together of the two terms, *Britain* and *Exit* to get "Brexit" which literally means, Britain is severing all ties from the EU to attain a separate status as an individual nation.

### **Britain's Desire to Leave the European Union**

U.K. is fast approaching a vote out on its membership of the 28-country European Union after almost four decades of being a part of it. UK like France and Germany has also been a net contributor to the union and its well-being. Why then does Britain desire to leave the union?

Free trade and Globalization are said to benefit both the manufacturer and consumer by removal of all barriers to trade and movement of goods; labour; investments etc. and unify regulations and trade globally besides providing a wide choice for consumers. But then, this benefits only a few and made the lives of almost everyone else more expensive and complex and often, less secure with people who make rules less accountable and very often burden one nation for everything, at the expense of all others. Britain, it seems thought it was always at the receiving end taking up all the burden without much payback and hence considered it better to sever ties with the union than be a part of it.

### **Vote for Leave the European Union**

This was a referendum wherein almost everyone of voting age participated (23rd June, 2016) to arrive at a decision for UK to leave the EU. The referendum turnout was 71.8%, with 30 million plus people franchising their voting rights. The Leave EU vote clearly won with

a majority of 52% as against 48% voting to stay with EU.

### **The UK Voting Pattern**

England's vote for exit from the union was 53.4% as against 46.6%, so also the vote of Wales with Leave EU getting a majority of 52.5% while Stay with the Union was pegged at 47.5%. It is interesting to note that both Scotland and Northern Ireland backed the Stay with EU group. (62% as against 38%) and (55.8% as against 44.2%) respectively. All people who supported Stay with the EU termed the day as "*Black Friday*", as the results of the final vote was announced on a Friday with Britain finally breaking free from the EU.

### **Post Brexit**

Theresa May had come out in full support for Britain to remain with the Union. But since she became Prime Minister and after David Cameron, her fellow campaigner, had to give up office stated that she respects the decision of the citizens and their vote. She also added that she would now work towards making Brexit a success by extending full cooperation.

### **The Treaty of Lisbon**

This Treaty, formerly known as the "*Reform Treaty*" is an international agreement to bring the required amendments to the two treaties that underlie the constitutional basis for the formation of the EU. On 13th December, 2007 the signatures of all the members of the union was attested and the treaty came to be enforced on 1st December, 2009.

Britain has to invoke an agreement called the **Article 50 of the Lisbon Treaty** which gives both the EU and UK a duration of two years to come to an agreement regarding the conditions of severance. According to prime minister, Ms. May, the Brexit kick-off process will not begin immediately and may take some time so, things will remain blur and uncertain as to the type of deal Britain is going to seek from EU on several important issues, especially those concerning trade and immigration.

### **The Three Brexiteers**

The entire responsibility for Brexit will come under a new Government Department, led by veteran

Conservative MP and Leave Union Campaigner **David Davis**, ably assisted by Former Defence Secretary, **Liam Fox**, as the new International Trade Minister and **Boris Johnson**, as the Foreign Secretary. The three men, dubbed as the Three Brexiteers will play a pivotal role in all negotiations and forging new international agreements with EU, although the final decision will be made by Prime Minister Ms. May.

The government had no emergency plan before the referendum, hence hiring skilled negotiators to manage the complex negotiations with the union was given high priority. A withdrawal from the EU with Britain getting the best deal possible is what everyone is looking forward to under the leadership of Ms. May.

### **Duration for Britain to Leave the EU**

Once Article 50 has been triggered, the duration for the negotiations and step by step withdrawal may take about two years for the formal severance of relationship. It is expected that things will begin to take shape by December end, 2018. How Brexit will pan out is the big question as Article 50 (2009) is put to action for the very first time. But, the fact remains that exit terms will need a nod from all 27 member parliaments, which may take time as all issues need to be debated before any decision is arrived at by the member states. However, till then, the EU laws will remain intact in the UK as of now and it shall continue to stand by all the EU treaties but may not involve itself in any of the decision-making processes.

### **Value of the Pound Post Brexit**

The Pound Sterling has lost value against the dollar since Brexit. The pound had always held its value for a long time. Now, the British pound worth around \$1.32, has inched down to its lowest value observed since 1985. The value against the euro has also come down. For much of 2015, the pound had a value between €1.35 - €1.45. The year 2016 saw the pound sterling weaken against the euro dropping in value following Brexit to about €1.20. It is premature to state anything as of now, regarding its impact on the weakening of the economy.

### **Dramatic Drop in UK Economy after Brexit**

A "dramatic deterioration" was visible in economic activity immediately after Brexit. The two important

sectors of manufacturing and service saw a fall in output and orders, but exports increased, driven by the weak pound sterling. The survey of 650 services companies as sample constituents was done from across several industries like transport, business services, computing and hospitality to name a few.

### **Current Status & Aftermath of Britain's "Black Friday"**

Jonathan Portes, of the National Institute of Economic and Social Research in the U.K has said that - "To actually define who has the right to stay and who does not will be a really a difficult task, both legally and administratively ". The Leave Union campaigners had reassured much before the referendum, that all Europeans in UK could continue to stay back, but experts opined other-wise saying - "Everyone here can stay" is a good beginning to soothe frayed nerves, but definitely not a law that one could administer. So, is an application mandatory to obtain a Permanent Residence Card (PRC) to stay and work in the UK, if not, is one taking a huge risk with their future? This was a pertinent question on the minds of most European employees working in UK.

British employers issued a warning that Brexit may prompt hiring freezes and job losses. They said they would plan to freeze recruitment and 5% were expected to fire staff. Nearly two-thirds of firms polled stated that the outcome of the referendum could be hugely negative for business. It was clear that one in every five respondents of the polls conducted was considering moving at least a few of their operations outside UK, if not all. A case in example was that of *HSBC* which wanted to move its operations to Paris while *Rolls Royce* also planned to move operations to some other European destination; so also, *JP Morgan* and *BMW* who were seriously thinking of a move out to some other European destination. In fact most global players in business had serious thoughts on the issue of conducting business operations in UK, post Brexit as almost all aspects of business seemed unclear.

### **Status of EU Citizens Living in UK**

The British government denied giving guarantee or even provide any security to EU nationals currently living in the UK. The status of residence and employment was

uncertain. UK was clear that without a reciprocal pledge from all EU members with regard to British Nationals living all across the continent, it cannot make any decision on the said issue. The negotiations on Brexit was very likely to impact the right to residence for both British and European nationals.

### **Status of UK Citizens Working in the EU**

As of now an "Equivalent Retaliation" strategy seems to be in place for both the UK and the Union regarding the status of its citizens. It is quite obvious that the deal struck between UK and the EU will decide the status of UK citizens overall. However, if the UK government imposes restrictions on work permits for Europeans, then all the other countries could be reciprocating by asking Britons to apply for fresh visas to stay and work in their respective locations in Europe.

### **EU Citizens Seeking Employment in UK**

Much depends on the decision of the UK government, introducing the system of work permits. Currently all non-EU citizens are given limited entry as skilled workers where shortages in terms of skills are anticipated. While all rights remain unchanged and intact as of now, Brexit officials have said that EU migrants coming to the UK with Brexit happening may be turned down if and when there is a trend indicating an upward surge in new arrivals to UK. A harsh message is there on the wall for all to see as restrictions may be introduced. UK also wants to watch the trend before committing on the stay and work permit for EU nationals".

The Union rules guarantee visa-free movement for all citizens across its 28 member states. With Brexit, free movement could come to a grinding halt, leaving passport holders of the Union in Britain in a dilemma. However, legal experts are of the opinion that things will not change instantly. While none envisage anyone having to leave before the two-year period," some changes are definitely expected.

### **Should Employee Opinions be Sought?**

Employee opinions can level the playing field between two opposing voices - inform the corporate view and help management explain it to wider stakeholders and interested parties in government and media. The very act of engaging employees once in a lifetime decision

can surely make them feel valued and involved. Firms should engage employees on Brexit much as they do on benefit plans, training programs, opportunities for advancement and work culture, using transparency to build an essential employee asset – *Trust*. They should compare responses across divisions / regions / teams replacing tedious interviews and interpretation with real time, automated and anonymous analytics. Giving employees a voice on a crucial matter as this, is a mark of respect and the most inclusive way to help a Board find a majority view with which to explain to wider audiences exactly where they stand.

### **Brexit - Vulnerable Sectors and Countries**

The Vulnerable sectors identified as of today are finance, transportation, Information Technology and the Mineral industry. However more sectors may come under the "trade bleak blanket" in the near future as everything seems hazy at present. Nations having notable trade ties with the UK are vulnerable and may experience serious economic impact. Some of the EU markets with very high volume of trade ties with UK are **Germany; Netherlands; France; Ireland and Belgium**. The largest trading partner in terms of volume is Germany, while Ireland is the most dependent on UK trade in terms of imports and exports.

Countries that may bear the maximum brunt of Brexit in order of vulnerability according to ***The Atradius economic research, 2015 are as follows -***

**1.) Ireland:** A small but open economy, Ireland hugely depends on UK for the 14% exports and 34% imports as cross-border transactions. However, Brexit may benefit Ireland with large inflow of FDI as foreign investors seek some access points to the Union.

**2.) Netherlands:** UK's second largest trading partner is Netherlands both in terms of volume and proportion of exports and imports. It has big investment ties with UK and is also a very popular destination for investors from the Dutch land and vice-versa.

**3.) Germany:** Talking of Germany, it is the largest trading partner in the EU in terms of volume. Brexit would eliminate no. of benefits for the German industry, more so in the popular automotive sector. Interestingly, Germany is also Union's largest economy with relatively

low dependence on UK trade, hence it exhibits the least economic vulnerability and may not be deeply impacted as such.

### **Economic Warnings about Brexit**

The pound fell against the dollar alongside a fall in the share prices that was observed, in the aftermath of Brexit. Britain also lost its top AAA credit rating, meaning the cost of government borrowing is now going to be higher in the coming days. However, a month after Brexit, share prices in the UK recovered which was a great solace for its economy. The UK economy has certainly withstood the aftermath shock of the Brexit vote. While, most data gathered was before the leave union gig, the intelligence gathered data since 23rd June vote shows no clear evidence of any sharp general slowdown in economic activity despite increased uncertainty.

### **Uncertainty following Brexit**

**1.} Drawback:** The major drawback of Brexit is that nothing, whatsoever is planned or mapped out about the future action post Brexit. With no sound plans in place. Britain's future relationship with the EU remains a big question mark. Will Britain be allowed easy access of to the European markets? Would trade barriers hinder trade relations? Will any agreements be forged with the EU regarding movement of goods, capital and labour? Key questions such as the above remain unanswered by those strongly advocating Brexit. Increased uncertainty in general are definitely spooking the financial markets across the globe. The Global financial market volatility is expected with pound depreciating against many of the major economies, including India which cannot remain immune to whatever is happening.

**2.} Investments:** India is the second biggest source of Foreign Direct Investment for Great Britain at present. The historic and cultural ties between the two nations has made UK a gateway for India to the rest of Europe. Indian companies with units in the UK could sell their products to all of Europe under the European free market system. UK may now lose its charm as a destination for Indian FDI like it was earlier. Having said that, Britain will certainly attempt to woo Indian companies to invest like earlier by providing big incentives like tax breaks, tax holidays, easy regulations, simple terms

and conditions and off course attractive financial incentives.

**3.} EU Partnership:** India must build trade partnership with other EU nations to access the huge EU market. As aforementioned, Brexit has caused India to lose its easy route to Europe. This may compel India to bridge gaps and forge new ties with other countries of the EU, which could augur well in the long run. India is already trying to establish trade negotiations with Netherlands, France, Germany and a few other European nations, albeit in a small way. India's top FDI destination at present is the Netherlands and the ties with it may get stronger and more stable as well as established in the future.

**4.} Commonwealth:** After severing ties with the EU, fresh trading partners and a new source for capital and labour may need to be identified by UK which could look towards the Commonwealth countries. Here, it may to strengthen the existing alliances in addition to forge new ones. Britain will need talented / skilled labour, and India could be the perfect destination with its English-speaking population for this. With migration from mainland Europe drying up no sooner than later, Britain will surely look towards India and accommodate migration from it as well as other Asian countries, which will surely suit Indian interests.

**5.} Overseas Study -** Britain is a highly popular destinations for most foreign students wanting to pursue education abroad. With Brexit, UK universities will no longer oblige only European students with scholarships and may favour non - EU citizens, thereby, freeing up slots as well as education funds for Asian and Indian students and scholars. More Indians will thus, be able to travel to the UK for pursuing higher studies and gain knowledge in some of UK's best universities and education centres.

**6.} Ties with EU:** India as a strategic partner for UK in terms of trade may soon be a reality as Brexit will help accelerate the process. Europe needs to counterbalance United States of America and China geopolitically and would need to hedge against a slowing down China for its economic interests. Precisely for this very reason, Europe would be looking at the fastest-growing major economy in the world and would need to quickly resolve

all pending trade issues with India in order to develop a stable and lasting relationship.

**7.) Employment** - With Brexit, governance surrounding employment and job opportunities are likely to face uncertainty for several weeks, months or even a few years. Some EU regulations are to be untangled from the web to arrive at a feasible option. Hints are already floating in the press that on leaving the Union, the UK may become a member of the European Economic Area (EEA). Interestingly, both Norway and Iceland are already a part of the EEA and with UK following suit, it may mean benefit for all concerned, besides reducing hassles for citizens seeking employment.

**8.) European Economic Area** - If UK does join the EEA as being suggested by many, members of EEA have rules allowing employees to apply to their home state for a social security exemption certificate, known as the Portable A1. This will allow employees coming to the UK to continue to pay social security in their home state rather than UK NICs. Likewise when UK employees go to an EEA country with a Portable A1 certificate they will be able to continue to pay UK NICs instead of the local social security. This in general could benefit all the citizens.

### **Regrexit: Britons Clamour for a Brexit Vote Rejig - Could that have happened?**

Majority of Britons who voted for Brexit experienced some uneasiness in the wake of the consequences and run down observed in the economic activity of Britain, post Brexit. Some however continued to suggest that Britain will be able to absorb the aftershock, calling it a temporary phase which will settle down with time. The vote to leave union had some profound changes with Wall Street suffering its worst pounding in the last 10 months or also sending the pound to a three-decade low against the dollar. Interestingly, more than 1.5 million people had signed a petition on the House of Commons website seeking to have the vote re-run less than 24 hours after the voting results had come out, clearly airing their disapproval of Brexit. Interestingly nearly 60 percent of Londoners wanted to remain in the EU as against only 40% wanting to leave.

### **Conclusion**

Brexit is Brexit and that's it. Britain is all set and ready

to take on the responsibility to confront the bleak or bright future because of Brexit. The pros and cons of Brexit have focused largely on two major issues – **Economy and Immigration**. It is impossible to state whether or not what happened is for the good or bad thus providing scope for ample speculation.

The value of the pound slipped leading to strong reverberations throughout the global markets. In fact the pound saw its lowest value against the dollar in more than 3 decades. Despite all this, many Leave union campaigners believe that a silver lining will soon emerge from within the dark clouds and these are only temporary setbacks for Britain.

Many of the Brexit supporters firmly believe that there is more to gain than lose for UK with the Brexit decision. Majority of Britons think that the Britain's economic prospects have always been good whether inside or outside the Union and there is no need to really worry about the consequences of Brexit.

Britain wants to make Brexit, a success in the face of all odds, now that it has come out of the European Union. However, a number of changes are expected with many older agreements getting replaced by new ones. While most issues remain unclear, the world watches with bated breath the uncertainties and eventualities thrown up because of the bold step taken by UK to Leave the EU.

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