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**BREXIT AND ITS ECONOMIC CONSEQUENCES: THEORETICAL HYPOTHESES AND PRACTICAL EVIDENCES. DO THE SUGGESTED SCENARIO DEVELOPMENTS OF MANY ECONOMIC PRACTITIONERS EQUATE PRESENT STATISTIC DATA AVAILABLE?**

*In the present day political and economical spheres none has expected Brexit – British exit from the EU – in practice to take place. Although democracy as a political regime presupposes different ways of expressing voters volition – referendum is considered to be one of the most effective tools – the scientists along with the educated elite strongly rely on people's rationality in these mechanisms. Therefore, the British referendum on the issue whether to stay or leave the block of “federal Europe” has been taken by many as a way to just underpin people's desire to remain. Numerous public polls subsequently conducted before the actual referendum of June 23, 2016 represented the folk's willingness to stay in. Thus, the obtained results of 51,9% Brexit votes overweighting that of 48,1% to remain appeared unexpected not only for the half of the British population willing to stay in, but also for the officials seating in Brussels and the whole world at large.*

*From this perspective, this article aims at summarizing main scenarios executed shortly before and after the Brexit with regard to further economic developments. In the main focus, economics of the post-Brexit UK, the EU and main world actors is expected to be discussed. The main goal thereafter is to see if the direct correlations between the hypothetical assumptions, suggested by the field professionals, have partially started to take place on the basis of the statistic data analysis available so far.*

**Keywords:** Brexit, economic prosperity, recession, inward investment, pound fall, market reaction, trading relationship, single market, foreign direct investment, business, export, import, migration.

In the article's first part, the possible future economic developments within the post-Brexit UK is going to be presented. First of all, this will include the accounting of the foreseen losses and benefits. The second part will dwell on the future scenario of the UK–EU relationships with a specific focus on a trade deal Britain can negotiate with the block. The article's third part will be concentrating on the country's probable further trading relations with such major market powers as the USA and/or China, on the one hand, and Brexit adverse effects in the sub-Saharan Africa (SSA), on the other hand. All throughout the article, a critical overview of the statistic data and primary sources available will be provided with an aim of either to prove or refute the economic developments envisaged.

### **The Post-Brexit UK with All the Deriving Economical Consequences**

Some schools of thought suggest the UK's remaining as much prospering country out of the block as it was in, while others point out to the fact of some inevitable costs to be paid. This part of the article examines the potential benefits and losses, which the British economy is expected to face from both short-term and long-term perspectives.

According to *The Economist*, weekly news magazine, an economical recession in Britain seems very likely<sup>1</sup>. Some of the associated losses to leave the block are going to be rigorously outnumbered by the advantages. First and foremost, upon the decision made the UK succeed in cutting down costs on regulation and budgetary transfers. It must refund all or part of the £13bn a year it transfers to the EU budget. It must refund all or part of the £13bn a year it transfers to the EU budget.

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<sup>1</sup> “Why Brexit Is Grim News for the World Economy,” in *The Economist*, accessed November 19, 2016, <http://www.economist.com/news/finance-and-economics/21701292-uncertainty-abounds-expect-global-chilling-effect-investment-why-brexit>

This sum obviously exceeds the offset of about £7bn the EU used to pay Britain back.<sup>2</sup> Secondly, Britain gains a unique possibility of freer trade outside the EU. From now on, being absolutely independent from the Brussels' restrictions, the country can negotiate any trade agreements it desires. Some of them are going to be discussed in the following part of this article.

As for economic damages, there is a bunch of them to recollect. In the first place, the UK loses its free access to the single market, which is a causal factor for many other costs to be paid. One of them is a negative exchange rate in relation to dollar. The EX, a currency and foreign exchange rate website, provides a comprehensive chart on the way Britain's economy reacts to the Brexit-vote.

*Rate exchange of pound in relation to dollar for the time period from June till the present day*



Source: XE Currency Charts <http://www.xe.com/currencycharts>

The graphic curve tumbles down starting from June, 24 and keeps on falling down. From this perspective, the assumptions of the UK's national currency to collapse and pound's further inflation seem to be valid. Further on, migration of workers is predicted to happen. An already limited supply of skilled labour is believed to reduce further. Primarily, a shortage in the pool of skills being together tied with inferior EU access for business and financial services might lead to the rise of costs for businesses to conduct operations and thus numerous companies will be

2 Giles, Chris, "What Are the Economic Consequences of Brexit?" in *The Economic Times*, accessed November 19, 2016. <https://www.ft.com/content/70d0bfd8-d1b3-11e5-831d-09f7778e7377>

forced to change their headquarters in search for a more favorable business climate. The domino effect of economic damages does seem to cease even at this point. As long as major business corporations arrive at the decision to move, the outflow of money from the UK is going to be another consequence. Finally, the long-term investments will be frozen.

Surely, the above provided list of probable advantages and disadvantages can be extended, but the initial goal was to restrict to economic consequences only and strive to recall those of them most frequently addressed by the field practitioners.

It is assumed that future trade relationships between the two actors being legislatively tied since the Britain's entry in 1974 is quite dependent on the formal announcement of the country's exit from the block. According to the Article 50 of the Lisbon Treaty, "The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification [...]"<sup>3</sup>. In other words, the actual exit can be triggered as soon as either the UK's parliament votes for it, or in two years since expressing the will to withdraw. This presupposes that any negotiations, including trade ones, conducted by Mrs May, the UK's prime-minister, are rough drafts of informal meetings unavailable for publicity yet. However, a scenario of prospective trade relations between two actors is still possible to compose on the basis of the trading rules existing in the field.

Four main goals of the Single Market are a free movement of people, goods, services, and capital. This is, however, a faulty assumption to conclude that Brexit can exclude only one of the total four constituents, which is an inflow of migrants especially accelerated by the refugee crisis in Europe. Getting out of the Union means cutting down all the privileges available earlier and construction of new trade relations.

Some of the economic scientists question the likelihood of the current trade

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3 Article 50 of the Lisbon Treaty in *Analysis of Development Cooperation*, accessed November 21, 2016, <http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-European-union-and-comments/title-6-final-provisions/137-article-50.html>

agreement the UK has with the EU and the countries with which the EU has separate agreements to be timely replaced. It is quite possible that the country will have to revert to the World Trade Organization's (WTO) General Trade Law. In this view, the trade with the EU and other countries would initially be conducted on the bases of Most Favorable Nation (MFN) status. Falling out of the category of the exceptional rule for preferential treatment as a member of a regional free trade area (Single Market), the reduce by 8% in exports is foreseen initially<sup>4</sup>. Even though signing of a new EU–UK free trade agreement can be successfully negotiated by the end of 2018, an overall export decline is calculated to remain relatively big, namely 6.5% with regard to the current situation<sup>5</sup>. This statistic data drives to a conclusion that the offset in the event of a new FTA between the UK and the EU 27 would still be only partial.

Finally, it is essential to consider the possibility of a prospective EU–UK FTA to be highly politicized and thus bringing a deterioration of adverse market effects. Although at some point diverse regulatory regimes may not deviate that much, this might be exactly a starting point for the EU politicians to speculate and postpone signing a beneficial trading deal with the secessionist UK.

### **Major Market Powers: UK–USA Perspective**

In the event of Brexit, a huge debate evolves around the issue who might be the main winners, if any, and losers in terms of economic gains and damages on the world's arena. Most economy pundits are unanimous on viewing Britain's economy as a looming one in Europe. This, however, is about to change in the light of the Brexit-vote to leave the EU. Economists are especially concerned with the state of world's market and possible interchange in power balancing therefore. In the global sense where American economy is perceived as sluggish and China's mountainous debts restrict the country from significant growth, London with the majority of

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4 Kierzenkowski R. Rafal Kierzenkowski, Nigel Pain, Elena Rusticelli, Sanne Zwart, "OECD economic policy papers: The Economic Consequences of Brexit: A Taxing Decision," in *OECD Publishing*, 2016.

5 Ibid.

European banks, business centers, and the EU supplying institutions being situated there believed to be a reliable actor to deal with in Europe.

Others economists, however, claim that Britain's wealth accounts for not more than 3.9% of the world's total output, thus pointing out to the country's inability to make significant changes in the global economic weather in the way America or China can<sup>6</sup>. From this viewpoint, it is of a great interest to consider possible ways of the future trade negotiations with the USA and China.

Although the priority is believed to be given to a new EU–UK FTA rather than that with the other countries, there is certainly an intention to have looser trade negotiations with such a country as the USA. No doubts, the post-Brexit UK will strive to foster trade with its Atlantic partner as soon as a formal exit from the block is in place. Although officially no negotiations can be conducted, the USA has already expressed its willingness to support the UK. In the *United Kingdom Trade Continuity Act* issued by the Congress one week after the Brexit-vote, it is said that “both the United States and the United Kingdom [are interested] to preserve and expand the special relationship between the countries.”<sup>7</sup> Moreover, in accordance with the Act, the USA reassures its readiness “to comply with terms of the commercial agreements between the United States and the European Union that govern commerce between the United States and the United Kingdom [...] as if the United Kingdom were still a member of the European Union.”<sup>8</sup> In a long run, this presupposes that the trade relationship between the two countries should remain intact also upon the UK's formal exit from the EU.

In the event of Brexit, the USA continues being a great supporter of the UK, which can easily be perceive from the *United Kingdom Trade Continuity Act* briefly presented above. One can assume that trading ties between the “old” partners will

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6 “Why Brexit Is Grim News for the World Economy,” in *The Economist*, accessed November 19, 2016, <http://www.economist.com/news/finance-and-economics/21701292-uncertainty-abounds-expect-global-chilling-effect-investment-why-brexit>

7 “The *United Kingdom Trade Continuity Act*,” in *114<sup>th</sup> Congress, 2<sup>nd</sup> Session*, accessed November 22, 2016, <https://www.congress.gov/114/bills/s3123/BILLS-114s3123is.pdf>

8 “China Analysis Special Issue: China and Brexit What's in it for us?” in *European Council on Foreign Relations*, 2016.

be only strengthened in a form of a new beneficial trade deal between the two once the UK triggers Article 50 of the Lisbon Treaty.

### **UK–China Perspective**

Interdependency might be the most suitable concept applied to the characterized prospective of the UK – China relations. It is anticipated that the UK's regaining of its own economic independence might be equally useful for both market players. From the UK's perspective, immediately after the formal exit from the EU, new trading partners will be of a great importance for the country to stabilize its own economy. Like in the case with the USA, Britain will aim at the negotiation the new trade agreement with Asia's strongest economic actor. In such a way, it will be able not only to secure economic stability on the world's arena, but also fulfill one of the Brexit campaign program points, which is “forward towards looser trade”.

As for China, it will be as longer interested in helping the UK to stabilize the country's economy as the latter has something to offer in return, and there is a lot to offer. Firstly, Britain as a self-sufficient member within the World Trade Organization and an independent voice from the protectionist-minded EU can be the main drive in granting China a Market Economy Status (MES). Secondly, the British being out of the block can play in hand with China's interest to lift the arms embargo being imposed by the USA and the EU in 1989. Generally, it is believed that China is going to benefit from the “divided Europe”, where it signs separate trade agreements with both the UK and the EU<sup>9</sup>.

### **UK–Sub-Saharan Africa: Direct Effects of Brexit**

Surprisingly enough, but the British vote to leave the EU can also have its adverse effects as far as in the Sub-Saharan African continent. An interplay of direct investments, import-export relations and tourism is decisive here. Many economists

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<sup>9</sup> . “China Analysis Special Issue: China and Brexit What's in it for us?” in *European Council on Foreign Relations*, 2016.

are concerned with risks the economy of the South Africa is going to face in the event of Brexit. As long as the latter remains the largest recipient of the British foreign direct investment in the whole Africa, accounting for not less as 30% of total UK investment in Africa in 2014, the British exit from the block is going to be bumpy for the South Africa as much as for Britain itself<sup>10</sup>. *Finweek*, a South African weekly business magazine, reports that “mining and quarrying and financial services were the main recipient sectors, accounting for 54% and 34% of total UK foreign direct investment into Africa in 2014, respectively.”<sup>11</sup> Interestingly, how Brexit may negatively impact trading area, tourism, and direct investments in a number of other Sub-Saharan African countries, namely in Kenya and Mauritius. It is reported that in 2015 Mauritius exported 14% of its goods to the UK and the UK residents represented 11% of all tourists to Mauritius<sup>12</sup>.

### **Statistic Data Availability**

It would be of a great scientific interest to check out and critically assess some of the statistic data available so far before drawing some conclusions. Non-surprisingly that recent Gross Domestic Product (GDP) indexes as well as stock market rates have been attempted to access as economy main indicators. Unfortunately, by going to the *Eurostat*, the European Commission main statistic platform, the UK's third GDP quarterly report have not been provided yet. The same concerns the South Africa, which enables to trace some real economic effects in the event of the British exit from the block. However, a positive tendency can be derived from the UK's stock market where the present day indicators have been completely recovered in comparison to the abrupt drop on the day following the British referendum. This gives an optimistic thought of Britain's soon recovery from Brexit.

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10 . Smith, Carin, “Why SA Is Most Exposed to Brexit Impact — Moody's,” in *Fin24/Finweek*, accessed November 19, 2016, <http://www.fin24.com/Economy/why-sa-is-most-exposed-to-brex-it-impact-moody-s-20160708>

11 . Ibid.

12 . Ibid.





Source: London Stock Exchange <http://www.londonstockexchange.com>

## Conclusion

As much as the world was expecting the results of the British referendum on June, 23, 2016 the more it now tries to envisage possible scenarios with regard to further economic developments, including both gains and damages for all parties involved. The UK's capital London, being the main vein of the European economy, now sheds a lot of uncertainty on the way economic climate might look like in the event of Brexit. On the basis of the above presented discussion, the following conclusions can be driven:

- The British economy is expected to experience a number of losses not being outweighed by the associated benefits. This include pound inflation, workers migration, smaller pool of skills, inferior EU access for businesses and general outflow of money from the UK as a consequence of effects enumerated earlier.
- The UK will not succeed in curtaining free movement of people exclusively.
- Current trade agreement the UK has with the EU and the countries with which the EU has separate agreements are predicted not to be replaced in time. Therefore, the UK will have to revert to the Most Favorable Nation (MFN) status, which is estimated to lead to the drop in export by 8%.
- The USA is believed to remain a reliable Atlantic partner for the UK, whose

serious intentions to be so have been legislatively passed in the Congress as the *United Kingdom Trade Continuity Act* shortly after the Brexit-vote.

- Development of the UK–China negotiations might be of a great interest for both actors, which makes signing of a new trade agreement likely.
- Dependence on foreign direct investment from the UK might be alarming for countries of Sub-Saharan Africa.

The present day positive indicators of the UK's stock market give little optimism about the country's ability not to fall in a recession.

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**БРЕКЗИТ ТА ЙОГО ЕКОНОМІЧНІ НАСЛІДКИ: ТЕОРЕТИЧНІ ГІПОТЕЗИ І ПРАКТИЧНІ ДОКАЗИ. ЧИ ПРОПОНОВАНІ СЦЕНАРІЇ РОЗВИТКУ ДЕЯКИХ ЕКОНОМІЧНИХ ДІЯЧІВ РЕАЛІЗУЮТЬСЯ ЗА ДОСТУПНИМИ СУЧАСНИМИ СТАТИСТИЧНИМИ ДАНИМИ?**

*Ані економічні, ані політичні кола не очікували на Брекзит – вихід Великої Британії з ЄС. Хоча демократія як політичний режим передбачає різні механізми волевиявлення виборців – референдум вважається одним з найефективнішим інструментом – вчені та освічена еліта всерйоз покладаються на людську раціональність в реалізації цих механізмів. Отже, британський референдум з питання, чи залишатися у «федеративній Європі» був сприйнятий багатьма лиш як шлях підтримання бажання громадян залишитися в ЄС. Численні публічні опитування, що проводилися до референдуму 23 червня 2016 р. демонстрували бажання народу залишитися.*

*Ось чому отриманий результат у 51,9% голосів на користь виходу проти 48,1% на користь збереження виявився несподіваним не тільки для половини британського населення, що прагнула залишитися в ЄС, але і для офіційних осіб в Брюсселі та в світі.*

*З цієї точки зору, ця стаття спрямована на узагальнення головних сценаріїв, що виконуються незадовго до і після Брекзиту щодо подальших економічних подій. В центрі уваги – економічний розвиток Британії після її виходу з ЄС, Євросоюзу та основних світових гравців. Після цього основною метою є виявлення прямих кореляцій між гіпотетичними припущеннями, здійсненими польовими фахівцями, та їх частковою практичною реалізацією в світлі аналізу доступних статистичних даних.*

**Ключові слова:** Брекзит, економічне процвітання, рецесія, внутрішні інвестиції, падіння фунту, реакція ринку, торгівельні відносини, єдиний ринок, прямі зовнішні інвестиції, бізнес, експорт, імпорт, міграція.

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