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Article

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Article history: Received 11.10.2016, last revision 29. 12.2016; accepted 17. 03 2017; doi: 10.24984/cjssbe.2017.6.1.1

ECONOMIC IMPLICATIONS OF BREXIT: WINNERS AND LOSERS OF "EUROPEAN DIVORCE"

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Abstract

Our paper focuses on the economic implications of the first and unprecedented "European divorce", a situation when a European Union Member State has for the first time decided to leave the EU. The outcomes and the results of the so-called "Brexit" might be numerous and it might be difficult to assess them now, when the information is limited and the future scenarios are uncertain. However, it is already clear that Brexit is going to have a whole range of implications for the EU-Britain trade relations, labour markets, and international migration issues.
We are discussing the possible economic outcomes of Brexit and highlight both the pros and cons for the British and EU economies. Our results show that although the UK is going to lose some of its economic advantages in trading with the EU, the economic advantages, for instance, on the financial markets might overweight the negative outcomes for the British economy.

Keywords: international trade, international migration, international economics, United Kingdom, European Union

JEL Classification: F22, J61

Introduction

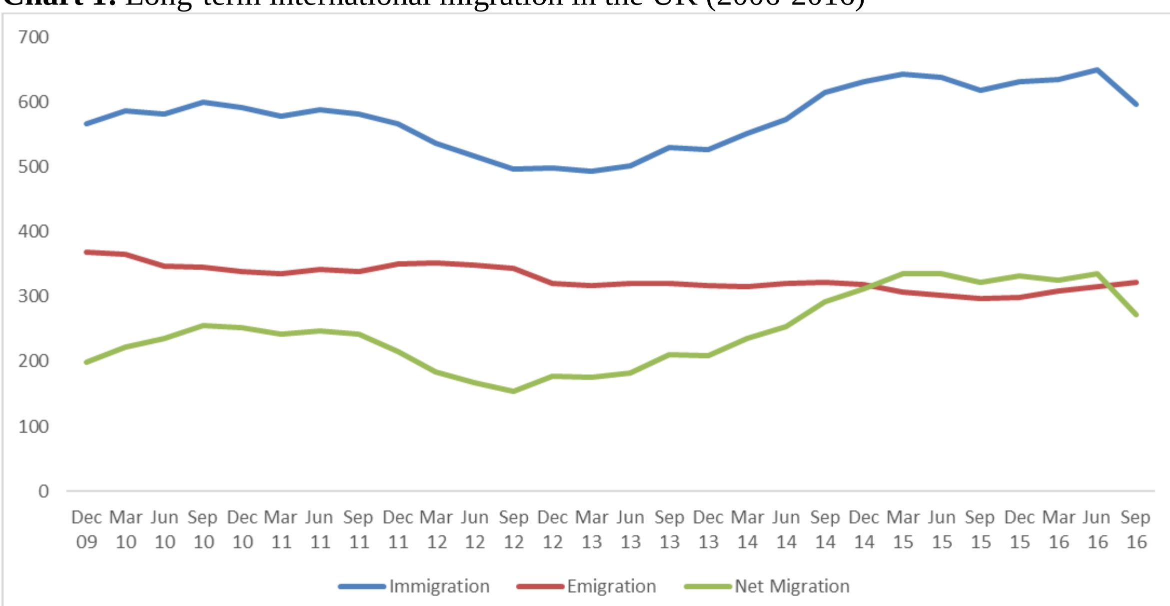
In June 2016, the citizens of United Kingdom (UK) voted for country to exit the European Union (EU). There have been many questions that have risen on the effects that will be felt in Britain and also the other members of the European Union. As at March 2019, Britain will finally leave the EU. The referendum that was meant to decide whether Britain was to remain a member of the European Union was conducted on June 23, 2016, where a majority of the people voted for Britain to exit the European Union. It is paramount to note that the countries that are members of the EU have a single market and laws that guide the member nations that are followed by all these nations. It, therefore, means that retain after leaving the EU will gain control over its markets and also have control over immigration. The following discussion will, therefore, explore and analyze the economic implications of Brexit on the European Union, the Euro currency and the EU as a single market (Kaufmann, 2016). It will also be paramount to categorically look at the financial problems of Greece and Italy and their implications that might cause trouble to the European currency.

Some of the main issue that were put forward by those people who ere I favor of Britain exiting the European Union were based on the need to protect and restore the country's identity and culture. Many argued that the member nations in the EU did not live and act on their own and therefore their culture and independence were affected. As such, there was a need to restore the integrity and pride of Britain as a nation and therefore the need to exit the EU. The laws governing the EU are supposed to be followed by all the member nations and some of these laws interfere with a country's independence, culture, and identity (Barrett et al. 2015). But as much as the highlighted advantages are true, the bigger question that arises is about the negative effects of Brexit. This is especially from the economic perspective.

EU economic integration and labor market

For a long time, member nations of the EU have been able to conduct their trade freely without barriers and tariffs. These are some of the characteristics of a union formed in many parts of the world. As such, there is free movement of goods and people from one country to the other when the barriers are removed, and it is easier and much cheaper to import and export goods and products from one country to the other. Brexit will certainly have its implications towards free trade. Some of the effects that will be witnessed by Britain exit from EU is that there will be tariffs and barriers and therefore Britain and the other member nations of the EU will be affected altogether by these trade barriers and tariffs.

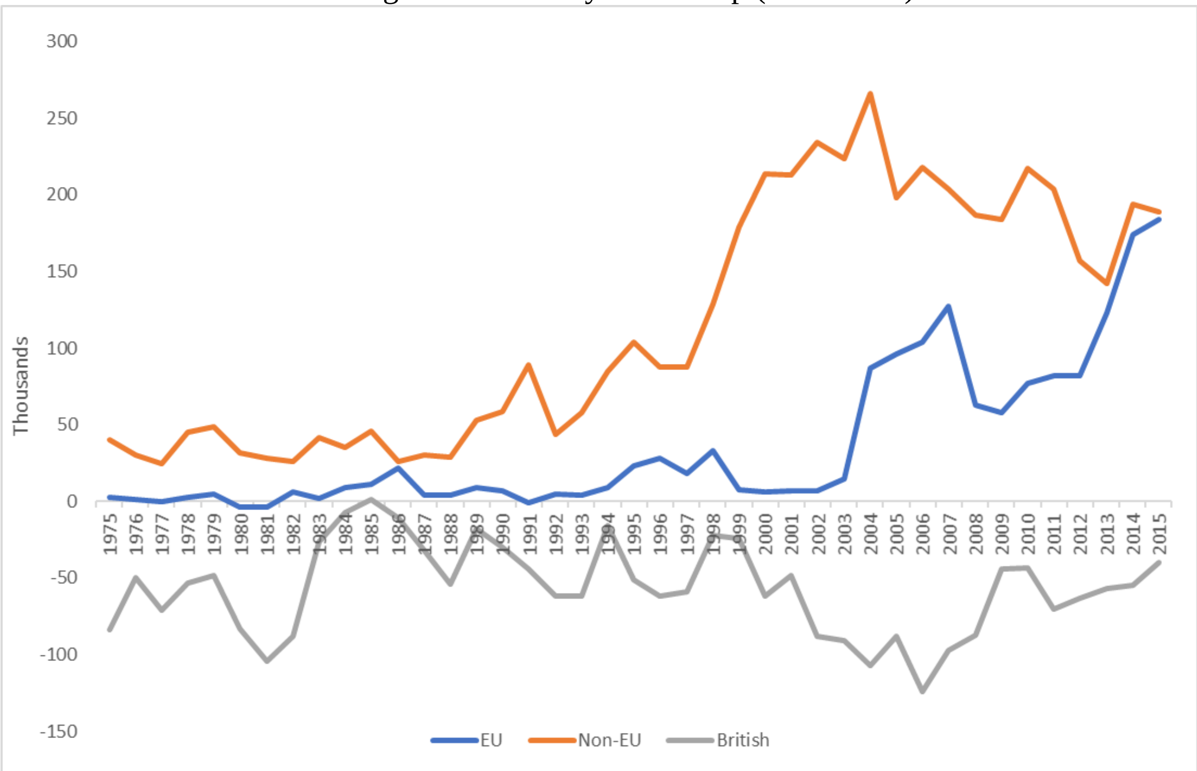
Chart 1: Long-term international migration in the UK (2006-2016)



Source: Office for National Statistics (2016)

It will, therefore, become much expensive for any other EU nation to do business with the UK. It is paramount highlighting that Britain is among the ten very powerful nations in the world and this means it plays a significant role as a member of the EU. As much as the Britain benefits, the other member nations of the European Union also benefits from the economic ties that are there. Brexit will, therefore, have adverse effects on both retain and the other EU member nations. The United Kingdom, for instance, imports German cars and it is worth noting that this is without tariffs. Such trade will be affected by Brexit. Importing these cars will certainly be more expensive and therefore more costs incurred in the process.

Chart 2: Net international migration in UK by citizenship (1975-2016)



Source: Office for National Statistics (2016)

As member nations of the EU, there is free movement of people from one country to the other.it is worth highlighting that Britain hugely relies on the immigrants from other European nations for its workforce. The immigration rules will change as a result of Brexit. There will be no free movement of the immigrants from member nations of the EU to Britain. As such, the workforce that is needed in Britain will ultimately be affected. It, therefore, means that Britain will have a problem in the coming years due to the lack of workforce in the industries and all sectors that involve the use of immigrants as laborers. The UK is one is consistently the largest recipient of foreign direct investment in the European Union according to UNCTAD data. The statistics state that the UK has investments estimated to be fifty-six billion dollars per year. These investments will fall as they will be directed to other EU nations and therefore in this regard, the UK will be the one to suffer the consequences.

Implications of Brexit: who is a winner?

Brexit will have major implications on the currency used by the member nations of the EU, the Euro. Being a member of the EU, the Euro strengthened as the sterling pound used by Britain

brought in the balance. As the ties will be broken between the UK and other European Union nations, other currencies such as the dollar and yen will strengthen as compared to the euro.
Banking and insurance are among the prominent sectors in London, the capital of England. London also serves as one of the best destination that trade is immense in the whole of Europe. Brexit will, therefore, have an effect as it will make all those sectors that rely on London to be affected regarding the banking and insurance. For instance, France which is a member nation of the EU has its capital in Paris, and there were many trading activities between London and Paris. As highlighted earlier, Britain exports a lot of its products to the EU nations. For instance, in the year 2014, the exact figures that the Bureau of Statistics gave is that Britain exported ten percent of its products to Germany, 6.9% in Switzerland, 6.2% to Netherland and about 12% to the United States.
These figures have several meanings that can be obtained from here. It means that the free trading zone of the EU enjoyed by Britain will no longer be there and this is the reason why Britain had many of its products being exported to the EU nations. The EU nations will also feel the effects as they will no longer enjoy the products that they import from Britain (Economics, 2016). It is worth noting that as much as Britain exported majority of its products to the member nations of the EU, other nations that are not members of the EU plays a significant role in trading and economic activities with Britain. As observed in the statistics highlighted above, the US is one of the nations that enjoy good trading activities with the UK and therefore it is by far an imperative trading partner with the UK. This means that if the economic and trade relations are restricted in the European zone, it will tend to work out positively with other nations such as the US and China (Bernanke, 2016). These nations will increase their trading ties with the UK, and the effects will be felt by the European Union members.
In the European Union, London as a city played a significant role as it was the heart of the EU. After the Brexit, other major cities in the EU will, therefore, replace London as the major city that will take over as the trade city. These cities include Frankfurt, Paris, and Amsterdam. There will be a shift of the major trading activities from London to these cities (Economics, 2016). As much as London will still be a trading hub, it will certainly lose its grip that it had before as the core of trade for the EU. These cities and the respective nation that they present will, therefore, be boosted economically. In the EU laws regarding trade, it is stipulated that a nation shall not involve itself with other nations that are not members of the union (Bernanke, 2016). This is on trade and other critical aspects. As such, this kind of rules makes it very difficult for a nation such as Scotland or Wales to get involved with other nations that are outside European zone (Pisani et al., 2016). It is this kind of restrictions that the UK will be free from and therefore it will have the freedom of relating with whoever it wishes. This will certainly be of great benefit to the nation as it will once again be open to all other nations of the world.

Conclusions and discussions

All in all, it appears that there are winners and losers to be found in the post-Brexit Europe (and world for that matter). There are clearly pros and cons for the Brexit and its consequences on the UK and the EU markets. The free movement of labor is also likely to suffer and to be hampered. Britain will face various consequences as the ones suffered by Greece when it went against the laws of the EU and finally left the EU. Greece suffered dire consequences as its trading activities were affected in a great way. For instance, in 2010, Greece was the largest producer of cotton in the European zone and exported this cotton to many nations and its economy was boosted (Bernanke, 2016). When it went against the laws of the EU, its trade was affected, and therefore the economy also affected. Today Greece is continuing to suffer as a result of its exit from the EU. Britain may suffer in future as the same way Greece is struggling economically today.

From the above discussion, it is evident that there will be dire consequences as a result of Brexit especially economically. As much as Britain may enjoy some good fruits as there will be an open trade with any nation of the world outside the European zone, it will be significant to note that there will be dire consequences regarding the EU, the Euro currency and the EU single market at large. Britain played a significant role and therefore it is a setback for the EU to have Britain withdraw from the union. The EU single market will be affected, and the Euro as a currency will be destabilized as other currencies such as the US dollar, and the sterling pound will be stronger as compared to Euro.

Therefore, economic implications of Brexit might be quite vast and not always beneficial for all parties involved. Pros and cons should be weighted and considered before the whole procedure is set up in motion, although it seems that there is no way back anyways.

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