A study on impact of BREXIT on UK Business

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Keywords
Foreign direct investment, FDI, Brexit, labor market

Abstract

Foreign direct investment (FDI) raises national productivity and therefore output and wages. Multinational firms bring in better technological and managerial know-how, which directly raises output in their operations. The main objective of this study is to measure the impact of the British exist from the European Union on foreign direct investment and its impact on UK business. The expectation generates problems on labor markets, and the England policies should create a more flexible labor market and a stronger orientation towards other countries outside the Europe.

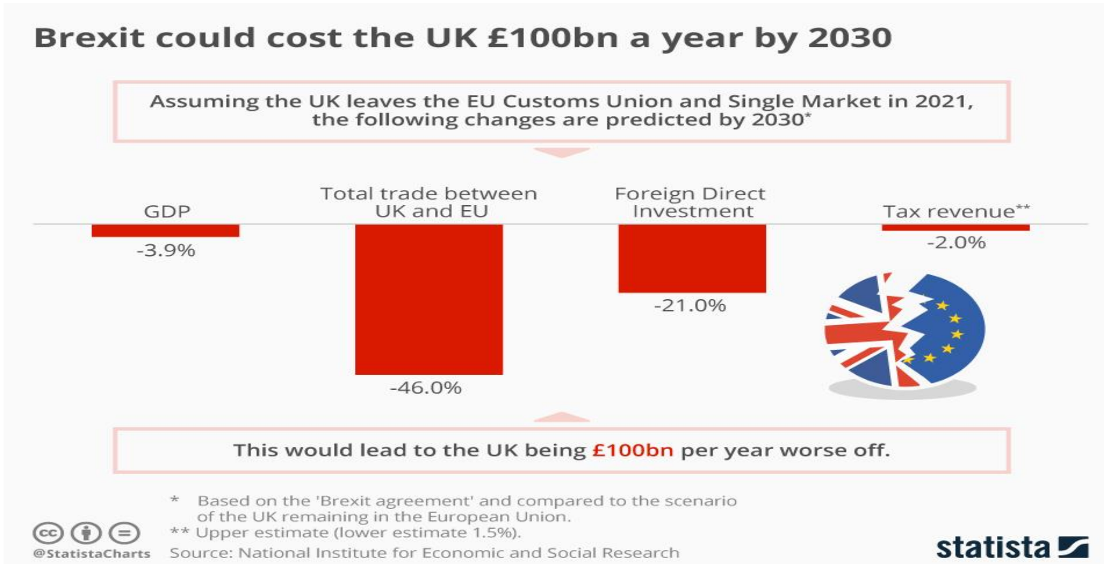
Introduction

In June of 2016, voters in the United Kingdom decided to leave the European Union, a decision popularly known as Brexit. FDI also stimulates domestic firms to improve for example, through stronger supply chains and tougher competition. In the European Union half of the turnover over £1 trillion, is from the United Kingdom other members of the Part of the European Union. UK's attractiveness for foreign investors is that it brings easy access to the EU's Single Market. The dissolution means that multinational firms of the United Kingdom and European Union no longer enjoy free movement of capital across each other's borders as their subsidiaries will be subject to more stringent regulations and higher production costs.

The United Kingdom increases international lending, which finances the production of others both domestically and abroad, and inward FDI rises. U.K. consumption falls and leisure rises, implying a negligible impact on welfare. In the European Union, declines in investment and production are modest, but the welfare of E.U. citizens is significantly lower. Finally, if, during the transition, the United Kingdom reduces current restrictions on other major foreign investors, such as the United States and Japan, U.K. inward FDI and welfare both rise significantly. Brexit, higher trade costs with the EU would be likely to depress FDI. •Our new empirical analysis looks at bilateral FDI flows between 34 OECD countries (including the UK) over the last three decades. Controlling for many other factors, the baseline estimate is that EU membership has raised FDI by about 28%.

We estimate the impact of these capital restrictions on foreign investment, production, and welfare—in the United Kingdom, European Union, and other nations that hosted E.U. If the European Union remains open, its citizens enjoy a modest gain from the increased U. K. investment since it can be causelessly deployed in subsidiaries throughout Europe. If instead we assume that the European Union imposes the same restrictions on U.K. FDI, then E.U. firms invest more in their own R&D, benefiting the United Kingdom. With costs higher on both U.K. and E.U. FDI, we predict a significant fall in foreign investment and production by U.K. firms.

The positive effect of EU membership on FDI is robust, ranging between 14% and 38% under different statistical assumptions. The size of these effects is also consistent with comparisons between UK FDI flows and a set of matched control countries. •Striking a comprehensive trade deal – for example, joining Switzerland in the European Free Trade Association – would not significantly reduce the negative effects of Brexit on FDI, according to the data. Assessing the impact of lower FDI on income is complex.

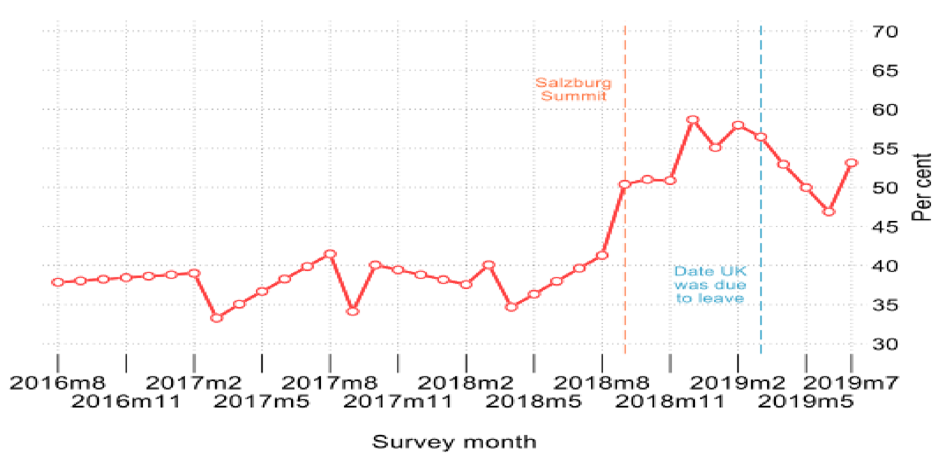


We use existing macroeconomic estimates of how FDI affects growth combined with a very conservative estimate of the impact of Brexit – a 22% fall in FDI over the next decade. We calculate that a Brexit-induced fall in FDI could cause a 3.4% decline in real income – about £2,200 of GDP per household. The income losses due to lower FDI are larger than our estimates of static losses due to lower trade of 1.3% to 2.6%. •Estimates of the impact of Brexit on the UK's car industry imply that UK production would fall by 181,000 cars (12%) and prices would rise by 2.5%. Even if the UK manages a comprehensive trade deal and keeps tariffs at zero, production would fall by 36,000 cars. The UK's financial services industry is the largest recipient of FDI. Restrictions on 'single passport' privileges following Brexit, would lead to big cuts in activity. Furthermore, the UK would be unable to challenge EU regulations at the European Court of Justice.

Impact of Brexit on Businesses in the UK

In a historic referendum on June 23rd, 2016, Britain voted to leave the European Union. After which, the pound fell to its lowest since 1985, immediately after the result was declared. The UK is considered one of the best countries to start a business, but that could change due to the unknown effects Brexit could bring. There are Brexit campaigners who have optimistic predictions for Britain and its businesses. But there are still many sceptics who predict that this has been a big mistake for Britain, and that it will be seriously impacted by multiple factors.

Costs of Brexit to UK Businesses



Exogenous inputs: TFPS, populations, profit tax rates

Economy	TFP	Population	Tax Rate
United Kingdom (UK)	100	100	26
European Union (EU)	83	698	23
Norway (NO)	175	8	28
Switzerland (CH)	163	13	21
United States (US)	117	493	40
Canada (CA)	117	54	28
Australia (AU)	115	35	30
New Zealand (NZ)	117	7	29
South Africa (ZA)	53	82	35
Japan (JP)	100	202	40
Korea (KR)	96	79	23
China (CN)	37	2136	21
India (IN)	21	1972	33

After Brexit, the UK has great potential to have a vibrant agricultural market that is beneficial for consumers. It is vital we promote a greater reliance on markets in the industry and reduce protectionism, but we must also be realistic about the impact of these changes on UK farmers. A gradual approach, coupled with direct payments that are more targeted to actual farmers – and not simply large landowners as is currently the case – would be a good starting point.The benefits of free trade are well established in all branches of economics and, contrary to popular belief, the opportunity for cheaper food imports benefit more than just consumers. Expounding free trade in the farming industry is essential in the long run to ensure that producers receive accurate price signals regarding what to produce. If they do not receive that information, then sooner or later they will have to adjust, and it will be more painful.

More controversial perhaps, is regulatory protectionism. The approach under current EU rules here may be less well known, but it is no less damaging. Protectionist rules, with no sound scientific basis, keep out affordable imports that could otherwise benefit the poorest in society. A classic example here is the much maligned 'chlorinated chicken'. As our paper makes clear, US poultry is in fact significantly safer than poultry reared and produced in the EU. Pathogen Reduction Treatments (which rarely include chlorine) are used to remove harmful bugs and parasites and have been found to be both safe and effective by the EU's own regulator in 2014 and 2019.

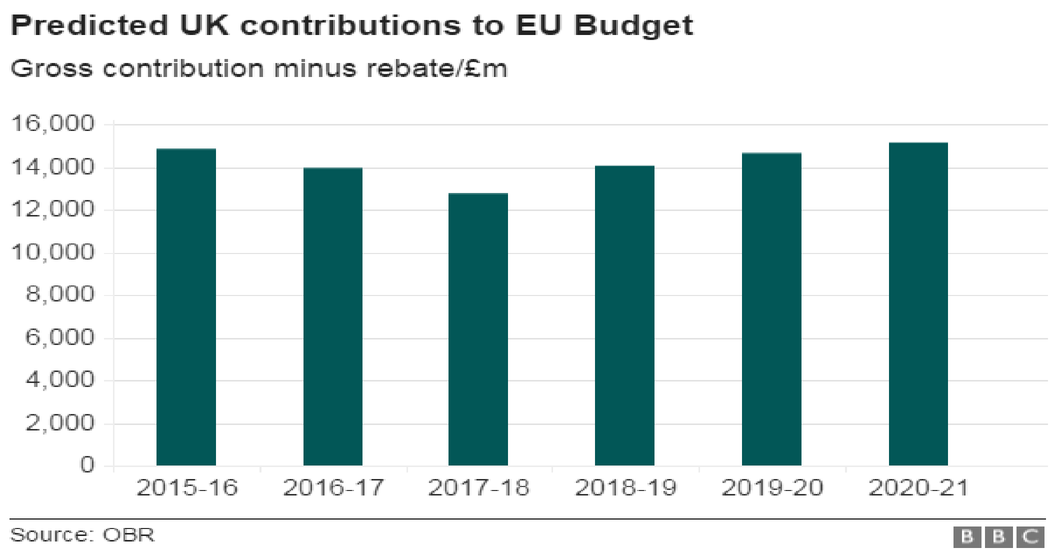
When the EU introduced a ban on battery cages for egg production, the result was not an increase in free range eggs, but the use of 'enriched cages' only slightly larger than the previous ones. Enforcement was also patchy, with both Italy and Greece referred to Court of Justice of the European Union for failing to comply. In contrast, US producers are increasingly switching to free-range production due to consumer pressure. McDonalds is going cage free in the US, and more than 60 other large food companies have pledged the same over the next decade.

Outside the EU, the UK should bear in mind that it is consumers who gain from reduced barriers to imports, and who are ultimately responsible for raising production standards. And the benefits of smarter regulation do not end there. The aggressive EU application of the precautionary principle prevents UK farmers from adopting innovations that could transform agriculture. Regulations banning genome-edited crops and GMOs risk seeing UK farmers left behind by more efficient global producers, and all of society paying a higher environmental cost. New crop strains, banned in the EU, have seen pesticide use in non-EU countries decline by over 35% in the last quarter century. Yields are up over 20%. The result of this transition is that more food can be grown using less land (a boon for conservation and the environment) and fewer harmful pesticides.

When the UK leaves the EU, we should look to lowering our tariff and non-tariff barriers and reforming our regulatory environment to allow farmers to innovate. Globally, the agricultural industry is changing, and we can no longer ignore or try to divert from this direction of travel.

UK contribution to the EU Budget

According to a 2019 analysis, the UK contributed £13 billion to the European Union budget. The net contribution amounted to around £8.5 billion each year. The decision to leave the EU can save the UK government from having to contribute every year. Different studies show different contribution figures. The chart below shows the predictions of the UK's contribution to the EU in the coming years.



Source: OBR & BBC

Benefits of Brexit to UK Businesses

Free to make trade agreements

Now that the UK has voted to leave the EU, it can make **business deals with countries around the world**, from scratch. Countries like China and Australia are already moving to make trade deals with the UK after Brexit. The UK is exploring multibillion-pound free trade deals with **China**. While China would benefit from having greater access to the UK's manufactured goods and investment, Brexit will further reduce barriers to the UK's service industries like banking and insurance, along with other UK goods.

Lesser regulations and obligations

Voting to leave the EU will give the UK the option of **not having to comply with EU regulations**. The UK will no longer be obliged to pay billions of pounds towards EU membership cost. As Britain had been a major contributor, it can spend all that money on its own growth.

Conclusion

There have been many arguments saying the UK has been burdened with regulations from the EU, costing them millions of pounds each week. From a business perspective, the UK will be free to trade and negotiate with other countries globally, on its own terms. There will also be numerous **employment prospects** from outside the EU.

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