Brexit Uncertainties Haunts U.K.

What is the issue?

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- Brexit has opened up a Pandora’s Box for the future of U.K.
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- With economic pressures mounting and the deadline approaching fast, this article tries to summarise the multiple issues revolving around Brexit.
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What are the broader implications for U.K. on leaving the EU?

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- On leaving EU, U.K. will be excluded from the EU space project Galileo, and lose access to the crucial EU global positioning system (GPS).
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- It will lose EU funding for scientific research and the U.S. under Trump is likely to drive a very hard bargain for rights for British airlines.
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- Britain will also lose its place as a leading country in the EU’s customs union and will have to painfully negotiate partnerships to gain new markets.
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- A recession in the near future is also likely due to Brexit as real estate and businesses within the U.K. will lose value.
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What is the current economic scenario within U.K?

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- Britain’s growth rate has been abysmal, and investment is stagnant with much EU business having cut their investment plans after the Brexit vote.
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- Mortgage approvals are less than 25% of the pre-2016 levels and an expected interest rate rise has been deferred amidst talk of possible recession.
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- Over the past year, inward investment has dropped by $181 billion, outward investment has risen by $120 billion.
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- Real income has fallen by 10% as employers resort to low-paid, low-skilled casual work and services sector has become dependent on low-end EU labour.
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- More importantly, if visas are required for these EU-labourers after Brexit, the outcome will be even more devastating for the U.K. economy.
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- The only bright sign is that high-tech companies that threatened to leave Britain have not yet shown signs of doing so.
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- Also, there is little consensus even within the ruling Conservative Party on what kind of a post-Brexit deal would be ideal with the EU.
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What are the varied relationships that countries have with the EU?

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- **Single Market -** Being part of the single market is one step short of full membership, as except the partial political union, all other aspects are covered.
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- Norway is part of the European single market although it is not EU member, as it has done the following:
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- Eliminated tariffs, quotas and taxes on trade
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- Accepted the jurisdiction “European Court of Justice”
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- Allowing free movement of goods, services, capital and people
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- Makes payments towards the EU’s budget

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- While those soft-peddling Brexit would want to remain within the European Single Market, such an arrangement isn't even being considered seriously.
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- **Customs Union -** Turkey is not an EU member and is outside the European Single Market but it is part of the "European Customs Union".
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- Notably, unlike a Single Market, a customs union does not cover food, agriculture or services, but encompasses other trade aspects within it.
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- Some politicians vouch for a Turkey like relationship for U.K. with EU in future, as it would help in resolving the challenging "**Irish Question**".
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- But others have opposed this as being part of the Customs Union would mean that U.K. can't negotiate trade agreements with other countries.
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What is the U.K. government's proposal in the post-Brexit scenario?

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- "Free Trade Area" is one where there are no tariffs (or quotas) on specified goods and services from one country entering another.
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- For now, all EU members are part of an integrated market (two levels above 'free trade zones'), and EU has "Free Trade Agreements" with some blocks.
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- **Challenge -** Leaving the EU without a proper deal will cut off U.K. from the single market and Customs Union and impose barriers to trade with Europe.
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- To offset this loss in market access, U.K. has to move swiftly to establish "Free Trade Arrangements" with other counties.
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- But negotiations to establish such arrangements can take years, thereby proving a nightmare for U.K. officials.
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- **Alternative -** To minimise the impact of loosing markets, the May government is considering a toned down "customs partnership arrangement".
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- This hybrid model, unlike a full "customs union membership", envisions duel tariffs depending on the destination of the good under consideration.
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- Under this, U.K. proposes to collect E.U. mandated tariff (on EU's behalf) for goods destined to EU via U.K.
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- This model moots a separate set of tariffs for goods destined for U.K.'s local markets, which is likely to be lower than those for EU markets.
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How are the proposals being perceived?

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- The hybrid customs model has been criticised by hard line members who prefer a clean break with the EU with minimal market relations.
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- Also, the various envisioned models are currently very complex are lack clarity.
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- More importantly, the EU might not agree to the complex U.K. proposals, which in any case would not be ready by the 2020 Brexit deadline.
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- While the EU will be looking to seal a deal as early as October 2019, U.K. is hinging its hopes for extending the deadline due to possible mutual losses.
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- Nonetheless, the prevalent political uncertainty regarding Brexit and the stability of the "May government "will affect U.K. more than the EU.
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Source: The Hindu

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