Wider Implications of Brexit

What is the issue?

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- The singular issue of Brexit has consumed the United Kingdom for two and a half years.
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- In this backdrop, it is imperative to look at the changes that Brexit has triggered and is likely to trigger in UK and across the world.
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What are the implications of Brexit for UK?

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- The UK economy is already experiencing slow-moving structural change.
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- There is evidence of falling foreign investment in the UK.
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- This is, in turn, contributing to the economy’s disappointing level of investment overall.
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- Moreover, this trend is accentuating the challenges associated with weak productivity growth.
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- Also, companies with UK-based operations have begun to trigger their Brexit contingency plans after waiting and planning for long.
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- In addition to shifting investments out of the UK, firms will also start to relocate jobs.
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- The Brexit process thus highlights the risks associated with economic and political fragmentation.
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- It provides a preview of what awaits an increasingly fractured global economy if this continues.
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- Some of the global concerns now are less efficient economic interactions, less resilience, more complicated cross-border financial flows, and less agility.
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What global changes could this lead to?

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- In the above context, costly self-insurance will come to replace some of the current system’s pooled-insurance mechanisms.
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- It will be much harder to maintain global norms and standards.
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- Tax and regulatory arbitrage are likely to become increasingly common as well.
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- Economic policymaking will become a tool for addressing national security concerns.
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- How this approach will affect existing geopolitical and military arrangements remains to be seen.
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- There will also be a change in how countries seek to structure their economies.
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- In the past, Britain and other countries prided themselves as “small open economies”.
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- They believed they could leverage their domestic advantages through shrewd and efficient links with Europe and the rest of the world.
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- But now, being a large and relatively closed economy might start to seem more attractive.
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- For countries that do not have that option, such as smaller economies in East Asia, tightly knit regional blocs might provide an alternative.
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- With Brexit, the outlooks for growth and liquidity will likely become even more uncertain and divergent than they already are.
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Source: Financial Express

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