Brexit: Benefits, Opportunities And Risks

The European Union (EU) is an economic and political union that currently have 28 countries as members. Despite being official in 1993, the union actually began in the 1950s where the European Coal and Steel Community tried to ensure economic and political unity between European countries. The purpose of this union is to promote peace, prevent discrimination and break down trade barriers among other things. However, on 23rd June 2016, a referendum was held to decide whether the United Kingdom (UK) should leave or stay in the EU. The results were that the people who voted to leave the union won and thus began the issue of “Brexit”. One of the problems is the uncertainty of what happens after Brexit in a political and economic aspect. “For the United Kingdom, leaving the EU will mean withdrawing from the EU’s supranational political institutions and will lead to the erection of new barriers to the exchange of goods, services, and people with the remaining 27 member states. More broadly, Brexit raises questions about the future stability of the EU and the extent to which further globalization is inevitable” (Sampson, 2017). As a result of these changes, it is interesting to see how multi-national companies would react given the opportunities and risks that come with these changes.

Opportunities/Benefits:

According to The Economic Times, “Red tape is a derisive term for excessive regulation or rigid conformity to formal rules that is considered redundant or bureaucratic and hinders or prevents action or decision-making. It is usually applied to government, but can also be applied to other organisations like corporations.” This brings us to the first opportunity or benefit of Brexit, which is reduced red tape. Regulations and policies set by the EU often costs companies a lot which could hinder productivity of companies. From the following example, it can be seen that the previous statement is true. “ANOTHER week, another EU regulation: number 1169/2011, to be exact, concerning 'food information for consumers'. Like much that comes out of Brussels, it sounds innocuous, but has already had far-reaching and costly consequences. The new rules, which came into force on December 13th, specify font sizes on food labels, require details on allergens in prepared food and a lot more. They may improve safety, but they have forced producers to rejig their manufacturing processes once again” (The Economist, 2016). Alongside having reduced costs from not having to follow policies set by the union, reduced red tape means companies can be more efficient and productive in their production. Therefore, post-Brexit, companies can expect to cut down costs and use the money to invest in the long-run. For example, training, research and development, and also in capital.

Leaving the EU does not only mean the UK forfeit the union’s benefit, but it also means they do not have to continue doing what hindered them before. An example of this is the membership fee. In 2017, the total amount UK has contributed towards the EU budget is about £13 billion. Leaving EU would mean that amount of money could be used elsewhere to improve welfare of the country. One way the money can be used is by giving it as an incentive to companies that do well. This could probably make them more competitive thus encouraging innovation and creativity. Productivity and efficiency will also increase as a result. The money earned by the companies can be used to improve infrastructure of its company or fund their research and development. It is clear that not paying the EU membership fee not only enables the government to improve the country’s welfare, but also favours multi-national companies.

Risks:

The companies that should be very concerned with Brexit are the ones where their industry is highly regulated. This means that industries which should have stricter rules about their production or services. As a member of the European Union, these rules are somewhat more lenient in terms of trading and using the services with other members of the union. However, with the United Kingdom opting to leave the union, these companies should prepare for more barriers to trade and higher difficulty to provide their services.

One of the “losing” industries are pharmaceutical companies. As a result of higher regulations, these companies will have reduced access to European markets and thus making their volume of sales pale in comparison to when they were still in the union. Because of the new regulations, changes in supply chain may occur alongside possible customs duties, both of which, will increase the costs of production. To add to the increase in costs, “pharmaceutical companies (as a minimum) may need to set up a base in both the UK and the EU to test and release batches ; for some this could involve moving their EU headquarters from the UK. There will be an additional level of licensure and of regulatory requirements. These will add to pharmaceutical companies’ cost base, increasing the cost of producing pharmaceuticals” (Lorgelly, 2018). The Economist also mentioned another problem, “Some companies based outside Britain are looking at ways to avoid passing their products through the country, in order to sidestep the costs and delays they might encounter should Britain leave the EU's single market and customs union. Many drugs sold in continental Europe are primarily made in Ireland and then sent through Britain, where they are packed, tested, given marketing authorisation and released. Tommy Fanning, head of biopharmaceuticals at IDA Ireland, which promotes foreign investment in the country, believes that this 'bridge' to Europe could collapse if no deal is struck” (The Economist, 2017). Furthermore, Brexit will not only make these multi-national companies suffer, consumers will feel the effect of it as well in terms of increased healthcare costs.

Stricter immigration policies is seen as a major benefit for the people voting in favour of Brexit. This is because they will have more opportunity as a result of decreased competition for work. However, for multi-national companies that require a huge amount of labour, the situation does not really benefit them. This is mainly due to the fact that migrants come to the UK for work and they are often more educated and higher skilled than the people in the UK who are also looking for work. “High levels of immigration have helped to offset the impact of an ageing population and ensured that the UK has enjoyed stronger labour supply growth than many of its peers. With migrants typically being better educated than their UK-born counterparts, the quality of the stock of labour has also improved, and migrants have been found to have a net positive fiscal impact” (Economic Outlook, 2016). In addition, the competition for jobs actually promotes the local job-seekers to be more creative and innovative. They are also encouraged to get higher education or go for training just so they can compete with the migrants. Therefore, it is clear that Brexit will hurt companies in terms of productivity and quality of labour.

Conclusion:

As a conclusion, the UK’s decision to leave the EU has multiple political and economic arguments for and against it. Two arguments for each side has been presented in this essay. The benefits or opportunities presented are reduced red tape that results in the cut of unnecessary costs and also not having to pay for EU membership fee. This creates a big

opportunity for the UK to use the money elsewhere. The risks presented are that highly-regulated companies will suffer as a result of not being able to freely access the European market. This is due to stricter regulations imposed in those kinds of industry between members and non-members or the union. Another big risk is stricter immigration policies will arguably lower quality of labour for multi-national companies. With these arguments, it can be concluded that the risks of Brexit out-weighs the possible opportunities of this situation, which is mainly due to the amount of uncertainty that this situation presents. This statement is in line with the conclusion that Sampson drew, “Overall, the research literature displays a broad consensus that in the long run Brexit will make the United Kingdom poorer because it will create new barriers to trade, foreign direct investment, and immigration. However, there is substantial uncertainty over how large the effect will be, with plausible estimates of the cost ranging between 1 and 10 percent of the UK’s income per capita. European Union countries are also likely to suffer from reduced trade, but in percentage terms their losses are expected to be much smaller” (Sampson, 2017).