Brexit: The Implications Of Free Trade For UK Businesses

In this essay, the implications of free trade for UK businesses as a result of the UK leaving the EU will be discussed. The UK has been a member of the European Union since 1973 taking part in its single market which allows businesses (the UK in our context), the transfer of goods and services without any economic or political barriers among its trade bloc (EU) consisting of 28 countries. It is supported by the fact that those countries have a common external tariff without any internal tariffs, and an organized set of laws to facilitate exchanges between them. (also applies for all other trade blocs such as ASEAN, NAFTA…). However, this may all change as at the 23/6/16, the United Kingdom voted to leave the European Union (Dhingra et al. 2016) suggesting that the UK might have to potentially switch to an International Trade approach in the future which is supervised by the WTO (World Trade Organisation). This move to the global market which encompasses the entire world may necessarily not have the same benefits as continuing to exchange in the free trade market (European Single Market) it currently operates in, which is the “the world’s largest single market” (European Union, n.d). This could impact the way UK businesses operate on their respective markets in the foreseeable future as uncertainty remains. There are many possible scenarios which give this uncertainty to UK businesses to a certain level of understanding. Although the main scenarios that are likely to happen are either a Soft Brexit in the most optimistic way which would come with a mutual agreement to remain in the single market or a Hard Brexit which would mean a clean separation with no deals involved whatsoever in the most pessimistic (Dhingra et al. 2016).

Free trade is important for UK businesses as it affects Foreign Direct Investment (FDI). The reason for this is because it allows businesses to access stronger supply chains and tougher competition (Dhingra et al. n.d) which will stimulate growth in those businesses allowing for more imports and exports overall. The implications of free trade for UK businesses as a result of leaving the EU would be a major loss in FDI due to many MNC’s locating elsewhere as many countries are using the UK as an access gate to the EU Single Market. 57% of the top Fortune 500 companies had their European headquarters based in the UK (Deloitte, 2019). The United Kingdom has been the top choice compared to all the other EU members due to its “excellent business, legal, regulatory and social environment” (Deloitte, 2019). The UK leaving the EU is proving to be bad for its FDI due to uncertainty because we still don’t know if it’s going to be a Hard (which would reduce FDI by a lot) or a Soft Brexit in which agreements would be made in order to remain part of the Single Market and allow FDI to carry on flowing into the UK. This puts UK businesses at a disadvantage due to the loss of competition and supply chains which would make those businesses either change their approach or go bankrupt. The businesses wouldn’t be able to get cheaper raw materials from abroad thereby not benefiting from the economies of scale that would save costs (i.e.: bulk buying) as imports and exports would become a lot more expensive which would alas not be profitable. Businesses would then have to increase their prices due to the costs of not being part of a free trade market in a Hard Brexit scenario. FDI raises national productivity which therefor increases output and wages (Dhingra et.al n.d) which allows for a better living standard and reduce poverty as corporations would take in much low-skill workforce as much as high-skilled ones. However, a potential benefit of leaving the EU for UK businesses could be access to the global market which composes of over 7+ billions potential customers for goods and services (Understanding Business, 2019). Businesses such as HSBC are moving out of the UK due to the uncertainty causing investors to

postpone their investment decision (Independent, 2019).

Free trade also allows the free movement of labour which is one of the fundamental freedoms of the EU (PWC, 2016), this allows UK businesses to profit from an abundancy in skilled workers as this will allow UK businesses to flourish and get the best person for the job as employers “do not consider nationality when hiring, but simply choose the best person for the job” (CIPD, 2019). As for semi or low skilled workers, there is are a lot of unfilled vacancies as employers “could not find domestic applicants to fill those vacancies” so the EU nationals are a great solution to fill those vacancies. However, there has been a “95% reduction in EU nationals joining UK workforces” (CIPD, 2019) from the first quarter of 2016 to the first quarter of 2018 which is around when Brexit was voted for. This has led to greater pressure on the recruitment sector with a shortage due to uncertainty and upcoming migration laws which will affect the way, current movement of labour in the UK is done. Under a Soft Brexit, it is estimated that there will be a -0.8% to -1% reduction in migration from 2020 to 2030 (PWC, 2016) particularly for low skilled migrants showing that is it forecasted to decrease over the years adding up to the pressure if this uncertainty remains. However, in the case of a Hard Brexit which would then lead to a WTO scenario, the figures are much higher as between 2020 and 2030 it is forecasted that there will be -1.3% to -1.6% reduction on migration. This will impact a lot of sectors, especially the ones which rely heavily on low skill labour such as factoring or agriculture. UK businesses would not be able to meet the criteria to match supply with demand due to this shortage which means that prices would go up in order to reduce demand. In contrast, domestic employees would be at less risk of losing their job due to increased imports or production skills to a low-wage global market (Understanding Business, 2019).

In Conclusion, it is believed in my opinion that there are more disadvantages than benefits on the implications of free trade for UK businesses as a result of leaving the EU. The reason for this are the many economical values and opportunities of free trade being brought in to the UK’s economy which would be a major opportunity cost if missed. It is thought that the UK has one of the largest export markets within the EU which means that it relies heavily on the outside market. Over the past 3 years, UK inward FDI brought in capital of $140 billion of capital (Deloitte, 2019) for its investment project which is more than France and Germany combined. Regardless of the scenarios, the forecast shows that the impact on the economy will be adverse as GDP in 2020 could be 3% - 5.5% lower than if we stayed in the EU (PWC, 2016). Therefor a careful approach should be taken in order to minimalize the impact of Brexit on UK businesses, one of which could be trying to expand on new markets to spread risks.