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MAPPING THE POTENTIAL IMPACT OF BREXIT ON BRITAIN AND INDIA

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Abstract

Britain's decision to move out of the European Union came at a time when the global economy is not in great shape and growth predictions for 2016 had been marked down. 'Brexit' has contributed to the weakness, fragility and uncertainty and has disturbed markets. Even though Britain will remain a full member of EU for at least two more years but divorce negotiations with the European Commission will start under Article 50 of the Lisbon Treaty soon. Given the uncertainty with the Brexit process, it should be considered not as an event but as a process that will eventually unfold. Question to be addressed is how these developments are likely to impact the Indian economy and how life would be after Brexit for Britain. The present study is an attempt to highlight the impact of Brexit on Britain and Indian Economy with a short description of life after Brexit. It is concluded that this referendum will have geopolitical implications and will affect the relation of the rest of the world with Europe. In India, while Brexit is expected to cause a slowing of growth, economic prospects remain relatively sanguine due to the impact of local factors like a strong monsoon, the impact of pay hikes and higher public capex.

Keywords: Brexit, European Union, Uncertainty, trade, Indian Economy, FDI

INTRODUCTION

In a historic event, Britain voted to leave the European Union, a decision that has left the world's fifth-biggest economy facing deep uncertainty about its growth prospects and its attractiveness to investors, and could hurt other economies in Europe and beyond. Analyzing the concerns over Brexit impact on India, the government expressed confidence that the economy will not suffer from any long-term impact of Britain's decision to leave EU and that it is prepared for all eventualities. The new agreement with the EU has paved the way for the upcoming referendum in the UK about EU membership**.** The agreement focuses on four areas: economic governance, competiveness, sovereignty, and social benefits and free movement of people. Since 1973, when the UK joined the EU, UK GDP per capita doubled, increasing more than in other non-EU English speaking countries over the same period, including in the United States (US). **(Refer Fig.1)** Various economic indicators have suggested that the global influence and bargaining power of the UK is greater when combined with other European economies (Figure 2). EU has the largest proportion of

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world GDP and trade, followed by the US and China. However, after the withdrawal of the UK, the EU share would be less than those of the US and China for GDP, and behind US for trade. The UK's portion of world GDP is broadly comparable to that of Canada and Australia combined, whereas trade is similar to their average. **(Refer Fig.2)** In India, while Brexit is expected to cause a slowing of growth, economic prospects remain relatively sanguine due to the impact of local factors like a strong monsoon, the impact of pay hikes and higher public capex. It is predicted that Brexit will mean India's GDP will now grow at 7.3 per cent this year, down from the 7.6 per cent predicted earlier. Despite being a ludicrous proposition, countries across the world must address the contingency of a Brexit. If it does happen, it will have wide-ranging repercussions on every country that is remotely connected with the global financial market. Present study is an attempt to majorly identify the consequence of this global phenomenon on Indian economy and life after Brexit for Britain.

OBJECTIVES

a) To analyse the impact of Brexit on Britain and to highlight life for Britain after Brexit.

b) To identify the options available for Britain after Brexit.

b) To study the impact of Brexit on Indian Economy.

c) To offer policy recommendations and suggestions for implementation.

WHAT DOES BREXIT MEANS?

Brexit is the term coined for Britain's referendum to exit the European union. David Cameron announced the date after he secured a deal with other European leaders at a crunch summit in February. British, Irish and Commonwealth citizens (except citizens of Gibraltor) who live in the UK, along with Britons who have lived abroad for less than 15 years, were able to vote. The Government decided to hold the vote before the start of the summer migration crisis, which could stir up more Eurosceptic feeling among the British public. Core 2015 election pledge by the Conservative party was to hold a referendum on the UK's European Union (EU) membership by the end of 2017. This referendum on a so-called

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Brexit (Britain's exit) also is an option to discuss: (i) reducing the involvement of and improving economic governance for non-eurozone countries (e.g. no contribution to euro-bailouts and the banking union); (ii) improving competitiveness (in particular reducing current regulatory burden); (iii) increasing national sovereignty (instead of further European integration); and (iv) allowing more national control on the immigration policy. An effective exit from the UK is far from brief: the Lisbon Treaty, which the UK is a signatory of, allows exit negotiations to last for a full two years. During this period, the UK would continue to function as an EU member. **(Refer Fig.3)**

LIFE AFTER BREXIT

First few months: uncertainty and market volatility: The uncertainty about the economic costs of the decision to leave the EU would lead to a huge sell-off in UK assets and a major depreciation in pound. A full-year basis of projections assume that vote for Brexit would mean that the value of the pound against euro and US dollar in 2016 would be 14-15% lower than in 2015. Beyond the currency markets, financial conditions would tighten, with bond yields and lending rates increasing to reflect the additional risk premium associated with UK borrowers. It would be expected that the average yield on ten-year government bonds to be 0.6 percentage points higher than non-Brexit baseline forecast in the third and fourth quarters of 2016. Meanwhile, the economic impact of the post-referendum spike in uncertainty would begin to be realized with consumer confidence slumping and companies delaying investment and hiring decisions, compounding the impact on domestic demand in the second half of 2016.

2017-18: second-round hitting the domestic economy: While UK-EU negotiations would be hammered out in 2017-18, the economy would be experiencing the deepening second-round effects. The previous year's depreciation in the pound would begin to show up in rising import costs. The extent to which this would pass through consumer price inflation in 2017-18 might be limited by companies' resistance to increase prices in a weak demand environment; therefore inflation is expected to shoot by 2%. As a result, however, profit margins would be squeezed, leading to job cuts. With hiring decisions also deferred, it is anticipated that the unemployment rate would climb in 2017, increasing at 6% in 2018. This reflects about a 230,000 increase in the

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number of unemployed people compared with 2015, and is around 380,000 more than baseline forecast for 2018.

If the thought process is correct that UK government would seek to conclude negotiations with the EU swiftly, a deal would be likely to take shape by the end of 2018. It is assumed that the UK would gain restrictions on free movement of labour and smaller contributions to the EU budget while retaining access to the EU's market for goods, but face new and prohibitive barriers of service trade. If it is assumed that the UK's new relationship with the EU would come into force in 2019, then from this point of view the economic story would become less about uncertainty and more about the reality of the new UK-EU relationship. By this point domestic demand might be starting to recover from its lower base. However, the combined effect of restrictions on migration and the likely relocation of firms (particularly in the services sector) would mean that the UK's labour force would decline in 2019, exacerbating existing problems with weak productivity. Loss of access to the single market for services would also lead to a sharp decline in services exports. In 2015 almost 40% of UK services exports went to EU. The likely loss of the majority of the export revenue would produce a heavy drag on real GDP from the external sector in 2019. By the end of our five-year forecast period in 2020 the UK's economic environment would probably have been stabilized.

FINANCE: FIRMS FEAR OF LOSS OF EU MARKET

London has for decades been one of two global financial hubs, along with. New York. A Brexit has put position at risk, almost certainly depriving UK-based financial firms of their passport to conduct business anywhere in the EU. London, unlike New York, does not enjoy a domestic financial hinterland. Although domestic financial markets are highly developed, their size is limited by the UK's economic output of £1.9trn (US$2.7trn, about 3.9% of world GDP) and a population of about 64m (around 0.9% of the global total). Instead, London and other centres of financial business in the UK have turned to international, and especially European, activities. The industry has managed to dominate sophisticated, high-value activities such as trading foreign exchange and financial derivatives, managing alternative assets or writing cross border insurance contracts.

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RETAIL: CONSUMER UNCERTAINTY WILL DEPRESS SALES

As the economic outlook outlines, leaving the EU can cause an economic shock by creating a period of uncertainty. Consumers will retrench and consolidate income and expenditure as they watch and wait on the outcome of negotiation. The value of sterling will fall which, at the very least, means that prices will rise in line with the cost of imports. For retailers there will be further shocks. The supply chains and agreements that have evolved on an even playing field with partners in the EU will need to be revisited as the goal posts begin to move. Regulatory requirements of safety, quality and consumer protection that are currently consistent across member states will diverge. Rather than cutting red tape Brexit could make the situation even more complex for retailers seeking to offer comparable services across countries. There are an also mutually beneficial scheme that says that opting out of the EU will bring an end to British Retailers and put suppliers at a competitive disadvantage. Opting out of the Common Agricultural Policy could affect agricultural supply chains for British Farmers. A Brexit will also impact on involvement in the single digital economy, which has particular ramifications for the UK's highly developed e-commerce sector which would enjoy a comparative advantage on an even playing field. All of these will add to the cost and complexity of doing business which will either be passed onto consumers or borne by retailers who may have to shed jobs or fall victim themselves. **(Refer Fig.4)** There may be some silver linings for the retail industry. With Brexit, there will be a switch to a pro Leave cabinet, which will dedicate itself to making an economic success of secession. This would see a focus on business and investment friendly policies with incentives that could be of benefit especially to those retailers who are less exposed to partners or operations across the channel.

AUTOMOTIVE: BREXIT IS WORRYING FOR CAR FIRMS

When Nissan signed a deal to build its car plant in Sunderland in 1984, Britain had only been a member of the EU for just over a decade. That plant is now the biggest in the UK, churning out around half a million vehicles a year, employing 6,700 people and supporting up to 27,000 other jobs. Yet around 80% of Sunderland's output goes for export, with rest of the EU being its biggest market. Will Sunderland carry on thriving after Brexit? The Brexit scenario is certainly worrying for many people in the UK automotive industry on a business level. Large companies, including original equipment manufacturers (OEMs), were particularly opposed to Brexit, with access to EU markets, skilled labour and the ability to influence EU regulations being the biggest reasons for staying in. Toyota, which has now been in the UK for over 50 years, was among those highlighting the risks of Brexit. Its two plants in Derbyshire and North Wales export nearly 90% of production and are fully integrated into its European supply chains. Like Nissan, Toyota came to the UK partly because it offered a stable base from which to operate in the wider European market.

HEALTHCARE: DOMESTIC AND FOREIGN DEMAND COULD SUFFER

With the government, the Bank of England and the IMF all emphasizing on the economic risks of Brexit, the pharma industry is becoming increasingly worried about the after effects. On the regulation side, Brexit would bring more uncertainty than benefits. The same is true for research funding. As noted by the Cambridge University academics, UK is (after Germany) the second-biggest beneficiary of EU funding for research, including into life sciences, and it is unclear whether the UK government would be able to fill that gap post-Brexit. The UK is also the EU's main destination for venture-capital funding in the industry. According to the UK BioIndustry Association (BIA), between 2005 and 2015 the UK's biotech sector raised £924m (US$1.3bn) via initial public offerings (IPOs) and US$2.4bn in venture capital. The industry therefore needs to be cautious about shaking investor confidence.

OPTIONS FOR UK AFTER EU

Neither the government nor the campaign to leave the EU has put forward clear picture for what comes after Brexit. In fact, the government has explicitly ruled out making contingency plans to cope with Brexit (Parker, 2015). To shed light on the possible aftermath of Brexit, this section deals with some of the options for the UK outside the EU and discusses the costs and benefits of each alternative. Formal procedures for leaving EU were started by the Lisbon Treaty, which came into force in 2009. The country would officially exit the EU on the date the withdrawal agreement came into effect or, if no agreement is

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reached, the country could leave two years after the date of notification. What matters, of course, is the content of withdrawal agreement. Infact, the UK government and the EU would need to make decisions in five main areas. First, what happens to the UK businesses and the two million UK citizens that are resident in the EU and to the EU businesses and the three million EU citizens that are resident in the UK?

Second, how would UK law change following withdrawal from the EU? Currently, in areas where the UK has ceded sovereignty to the EU, such as regulation of the Single Market, UK law is shaped by decisions made at the EU level. EU legal decisions enter UK law in two ways. EU directives require member states to adopt policies or change laws to achieve the outcome specified by the directive. By contrast, when the EU issues a regulation, it immediately becomes law in all member states. Thus, directives are enacted through changes to UK law, while regulations have legal force only because the UK is part of the EU.

Third, the UK government would need to decide what about any policy to adopt in areas that currently fall under the authority of the EU. Of particular importance would be the government's regional and agricultural policies since these are the biggest components of the EU budget. Less wealthy areas of the UK, such as Northern Ireland and Wales, receive significant funding from the EU's regional development programmes, which would cease following Brexit. Brexit would mean leaving the Common Agricultural Policy (CAP). The UK as a whole would benefit from this change (Philippidis and Hubbard, 2001), but unless the government introduced new agricultural subsidies, farmers would be among the big losers from Brexit.

Fourth, would there be a transition period after the UK exits the EU during which the UK's rights and obligations as an EU member are phased out or would the change happen abruptly? A transition period would allow workers and companies that do business with the EU time to adjust to changes in laws, regulations and market access resulting from Brexit.

Fifth and probably most importantly, a withdrawal agreement would need to determine the future of the UK's relationship with the EU. Would free trade between the UK and the EU continue? Would free labour mobility between the

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UK and the EU continue? And would UK companies continue to have the right to establish subsidiaries and do business in the EU?

Table below presents the options available for UK after Brexit. **(Refer Table No.1)** Without UK, the EU is the world's second largest exporter and the world's second largest importer behind the United States. This makes the EU a desirable trade partner and gives it an important voice in trade negotiations. Since UK is a much smaller market than EU, the country alone would have less bargaining power in international trade negotiations than the EU currently has. Whether benefits from greater autonomy in trade negotiations would outweigh the costs from reduced bargaining power is difficult to predict, but some insight on how UK may fare following Brexit can be gained by looking at the experience of Canada – another medium sized developed economy in close proximity to a much larger market. Reducing trade barriers between UK and rest of the world is a laudable aim and is likely to increase trade and raise UK income. But it is not an adequate replacement for EU membership. The best-known fact in international economics is that international trade and investment fall substantially with distance (Head and Mayer, 2014).

IMPACT ON INDIA

Brexit was hands down the biggest global macroeconomic event in June. The verdict of Britain exiting the European Union (EU) has taken the world by surprise and jolted the markets across the globe. That is proved in the recent rebound the Indian stock markets showed post referendum results. There has been a shift to safe options like gold, Japanese yen and US treasury for the investors. According to the market analyst Indian economy could suffer significant knock on effect in the short term with the United Kingdom voting for exiting the European Union (EU). In India, while Brexit is expected to cause a slow growth, economic prospects remain relatively sanguine due to the effect of local factors like a strong monsoon, the impact of pay hikes and higher public capex. In order to study the impact, it’s important to highlight the India –UK connection. India is the third largest source of FDI to UK in terms of numbers of projects, with 122 projects encompassing inward investment in the last financial year, an increase of 65 percent from the previous year leading to the

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creation of 7,730 jobs and protection of 1,620 jobs. According to the consultancy firm, key sectors attracting Indian investment include healthcare, agritech, food, and drink. "There are an estimated 800 Indian owned businesses in UK, including companies like Tata Motors, with more than 110,000 employees. Further, UK is India's largest G20 investor. Britain ranks 12th in terms of India's bilateral trade with individual countries. It is also among seven in 25 top countries with which India enjoys a trade surplus. India invests more in UK than in the rest of Europe together, emerging as the UK's third largest FDI investor. Access to European markets is therefore a key driver for Indian companies coming to the UK. Impact could be studied as mentioned below:

1. Uncertainty following Brexit: The biggest drawback Brexit is that the future course of action is not yet mapped out. There is no sound plan regarding Britain's future relationship with the EU or any other specific country within the EU. Will they continue to have access to the European markets? Will trade barriers increase if they leave? Are there any agreements with the Union regarding the movement of goods, capital and labour? These are some of the important questions that are left unanswered by those advocating for Britain to leave the EU. And it is precisely the uncertainty over these questions that are causing instability in the financial markets across the world.

2. Investment: India is presently the second biggest source of FDI (Foreign Direct Investment) for Britain because of its historic and cultural ties with the UK that India shares along with the fact that the UK proved to be a gateway into the rest of Europe. Indian companies that would set up their factories in the UK could sell their products to rest of Europe under the European free market system. Britain leaving the EU will leave Britain as lesser attractive destination for Indian FDI as before. Having said that, Britain would not want to lose out on capital coming in from India. Thus, one can expect Britain to try extra hard to attract Indian companies to invest there by providing much bigger incentives in terms of tax breaks, lesser regulation and other financial incentives. Further, if Britain is leaving the EU due to the latter's complex bureaucratic regulatory structure; Indian companies can expect a deregulated and free market in Britain.

3. The Commonwealth: With Britain cutting off ties with the EU, it will be

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desperately looking for a new trading partners and a source of capital and labour. There have already been many proponents of the Leave Campaign that suggest that the UK should look towards the Commonwealth to forge new alliances. Britain will need a steady inflow of talented labour, and India fits the bill perfectly due to its English-speaking population.

4. Ties with European Union: With or without a Brexit, it would be in Europe's interest to develop India as a strong trade and strategic partner. Europe needs to counterbalance United States and China geopolitically and would also need to hedge against a slowing China for its economic interests. For this, Europe would be looking at the fastest-growing major economy in the world and would need to quickly resolve the pending trade issues with India for developing a lasting relationship. Thus, even though Britain stands to suffer from leaving the European Union in terms of reduced trade and a sustained drop in its GDP, the net effect can turn out to be positive for India. Further the impact of Brexit on Indian Economy can be divided as:

THE GOOD IMPACT

Travel to the UK to get cheaper*:* One thing that has Indians cheering is the fact that their travel plans to the UK got cheaper. On the news of the final Brexit result, the British Pound slumped 8% to the Indian rupee in a single trading session, closing the day with 1 pound at 91.36 rupees. This means, less rupees can buy more pounds now. On the other side, as the pound loses value, Britain may rein in their travel plans until there is more clarity and stability in the sterling. Britain is also expected to promote its tourism sector. Tourist visas may get cheaper and tour operators and hotels may announce attractive packages.

Cheaper to study in UK*:* Brexit may have made life easier for students who are looking forward to go to UK for studies. The pound is at 31-year low against the dollar and slumped 8% to the rupee which will help them save on school and tuition fees, living expenses, and more. Overseas education consultants are expected to cash in on the opportunity.

Jobs*:* It is said that Indian immigrants will be better poised to get jobs in UK. It is said that Brexit can be a plus point for India as labour comes at a lower cost unlike from the EU. Businesses in UK preferred locals first

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and then Europeans as it was a part of the EU. However, now, Indian workers, along with other Commonwealth countries like Pakistan, Bangladesh, are in line to get preference as it costs less to employ them.

Real Estate*:* This is a good time for Indian investors and businessmen to buy property in the UK. UK, especially London has been one of the favorite destinations for Indians (and the Chinese) to buy property. With Brexit, property prices are set to fall along with the advantage of a stronger rupee against the pound.

THE BAD IMPACT

Markets: Indian equity markets slumped 1000 points in a trading session, wiping out over Rs 4 lakh crore of investors' wealth in a day after UK's decision to leave EU. Uncertainty in the short- and medium- term is likely to persist as Britain works out how the Brexit decision will pan out. Global equity markets are expected to remain volatile, the impact of which, will be seen in India. Assocham has said that Brexit will result in strong ripples in the Indian markets requiring a contingency plan by the government and the Reserve Bank of India.

Indian companies*:*Indian companies based in the UK are ready for reevaluating their businesses in the country as Britain voted to break away from the EU. This includes Tata Sons, Bharti Airtel, Motherson Sumi, Apollo Tyres, Tech Mahindra, pharmaceutical companies, and several others.

Trade: The India-UK bilateral trade is worth over $14 billion. After Brexit, new trade policies from the UK and its negotiation for new trade relations with the EU will affect the trade it does with India and the rest of the world. A slowdown in the British economy as a result of Brexit will also hit India-UK trade.

INDIAN IT – BOON OR BANE?

The impact on IT sector doesn’t appear to swing other way decisively. On one hand, as IT industry body Nasscom has noted in a statement, short-term volatility and currency swings are expected to have an effect on IT companies. The shares of Infosys, TCS and Tech Mahindra are all slightly down (~3-5%), mostly caused by the plunging pound. Another argument floating around is that the immigration-centric campaign of the ‘Leave’ faction will result in harsher visa regulations in the UK, causing lower free flow of Indian IT engineers from India to the UK. After US, UK is the second largest market for India-

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based BPO and IT service providers. One way of looking at the impact of Brexit is this. As a financial squeeze sets in, the drive to save costs will either result in greater automation of IT services or greater outsourcing of IT services. Even if visa regulations become a little harsher, there may be more outsourcing especially if financial turmoil continues

FINDINGS AND CONCLUSION

What will be the consequences of Brexit for India? The Brexit referendums are considered as the biggest geopolitical event of the year and have ramifications way beyond just UK leaving EU. Brexit can guarantee lower commodity and crude prices for a longer duration. After the crash of 2015, commodities have already entered the bull market on the back of a weakness in the dollar, stabilizing Chinese Economy and demand revival. CPI inflation has been showing spike since many months curtailing RBI's ability to continue with the downward spiral in policy rates to spur investment and growth.

Looking at Brexit from India's perspective, Brexit can weaken global growth and lead to a meaningful decline in commodity prices that can enhance the absolute and relative appeal of India.

The turmoil due to Brexit vote can cause the currency markets is expected to take a huge toll on the rupee, damaging export businesses and causing some of the overseas investors to pull out. RBI would be required to go on a firefighting mode to control the damage.

Listed below are some of the ways India may suffer:

Currency: Brexit adds pressures on the rupee. While the rupee has depreciated by a lower extent against the US dollar compared to other emerging market currencies that could well be owing to RBI's intervention to stem volatility. While on the positive side, Brexit has driven away fears of US Fed rate hike and could lead to lower commodity prices.

Equities: Clearly, the vote to exit EU came as a surprise, which explains the sharp drop in risk assets. Investors seem to be betting that Indian companies won't be affected much. In fact, some market experts point to the sharp drop in oil and other commodity prices and say that a number of companies will benefit as a result. Be that as it may, whenever investors get into a risk-off mode, Indian equities suffer.

Commodities: The recovery in commodity prices has hit a bump with Brexit. The immediate impact of Brexit has seen the US

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dollar appreciating and this usually sees commodities with strong links to financial markets weaken. Since money gravitates towards the appreciating dollar, commodities take a back seat. Government and central bankers in the EU may counter with measures to prevent the adverse effects of Brexit. The US Federal Reserve may do its role by postponing further rate hikes. These developments will further influence currency movements and, in turn, influence commodity prices. There is the effect on the real economy as well. The UK's exit raises concerns that its economy may weaken in turn affecting demand for commodities. The EU economy too may be affected. This region is one of the largest producers and consumers of several commodities.

Bonds: Bonds have remained resistant to the carnage unleashed by Brexit on equity and currency markets. Indeed, 10-year government security yields have gone down by half a basis point. The market is likely to take a more sanguine view of Brexit because of various reasons. One, it has opened up the prospects of more monetary accommodation in India and the rest of the world. Two, slower global growth will feed into lower commodity prices and help keep inflation down in India, another factor helping RBI cut rates. Of course, the uncertainty over a new RBI chief and the sustained fall in the rupee will weigh on sentiment. But then, foreign fund flows don't matter all that much for Indian bonds and, on balance, bond market experts don't see any significant foreign investor inflows or outflows from bonds.

Companies: Currency volatility will straightaway hurt revenue and profits for some who are doing business with the UK and Europe. Analysts may have gauged some of this already. But then the big picture that is more material in the longer run is that Britain's exit may affect easy access and movement of goods across unified Europe. The actual impact depends on what kind of a trade agreement is drawn up for replacing the existing free market access. Reports say that EU trade agreements with other nations will cease to apply to Britain, which will have to be renegotiated with each country in its own capacity.

The direct impact on rest of the EU would also be significant. The export, supply chain, investment and policy interests of many large corporate would be adversely affected, but perhaps the single biggest impact will be on cost of raising finance in Europe which is likely to increase.

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Brexit would have a wider political impact on the EU, both by disrupting internal political situations and because of the risk of political contagion if the 'proof of concept' of leaving the EU encourages disintegrative forces in other member states. Europe would also lose esteem and influence around the world. Indian businesses and financial institutions are hedging their bets. Brexit may actually strengthen India's position. This referendum will have geopolitical implications and will affect the relation of the rest of the world with Europe. Such an exit brings up a lot of uncertainty within Europe; it definitely opens up opportunities for India.

At present, there is no consensus within the government or the public over what should follow Brexit. Following the Brexit vote and continued convulsions in Britain and Europe and separately in United States, it has become fashionable to talk about deglobalisation. Nevertheless each successive surge of globalization has left the world economy and system much more integrated. As such while the liberal trading order will be under interrogation in the coming years particularly the so called hyper globalization that has welded financial markets. In sum more than de globalization this was a contest between older and newer template of globalization and an attempt to tackle question of whose globalization and globalization on which terms. This reflects the fact that all of the alternatives to EU membership have their own drawbacks and would impose costs on the UK economy. To make an informed decision about the merits of Brexit, voters need to know as much as possible about what Brexit would mean.

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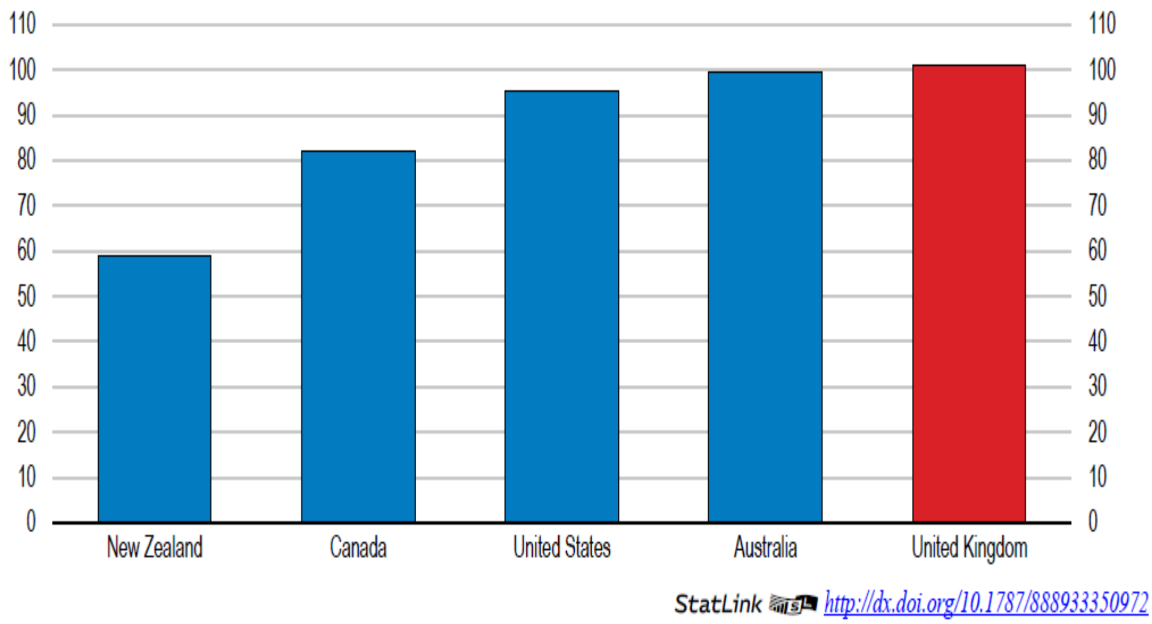
LIST OF FIGURES:

Figure.1

Figure 1. Since EU membership in 1973, UK living standards have risen more than in peers

Real GDP[1] per capita, percentage change between 1973 and 2014



Source: OECD (2016), OECD National Accounts Statistics (database), April.

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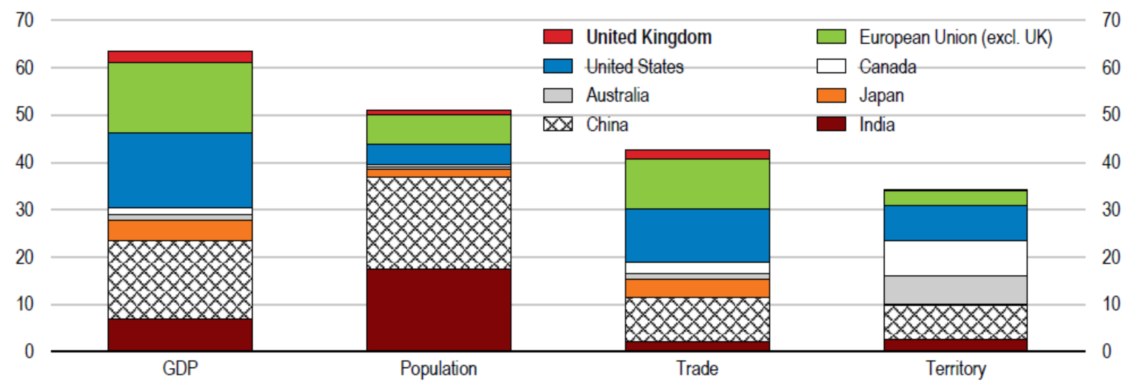
Figure.2

Figure 2. Global economic power of the United Kingdom is greater through the European Union

Percentage share of world total[1]



StatLink http://dx.doi.org/10.1787/888933350988

1. Data for GDP adjusted for purchasing power parity (PPP) refer to 2014. Data for population refer to 2013. Population figures for Canada and the European Union refers to 2012. Data for trade (i.e. sum of exports and imports of goods and services) refer to 2014. Trade data for the United Kingdom and the European Union exclude intra-EU trade. Data for territory refer to 2015.

Source: IMF (2015), *World Economic Outlook Database*, October 2015, International Monetary Fund; OECD (2016), *OECD Population Statistics* (database), April; and World Bank (2016), *World Development Indicators* (database), April.

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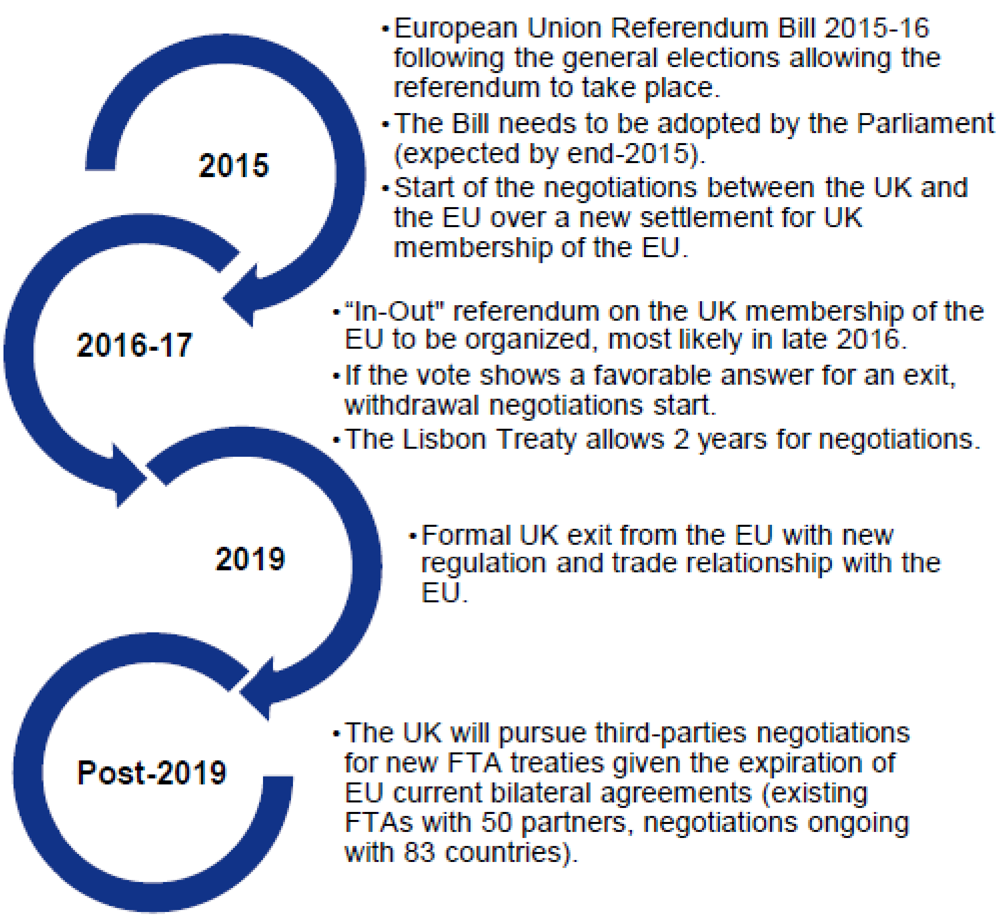
Figure 3: Timeline for a Brexit referendum



Source: Euler Hermes

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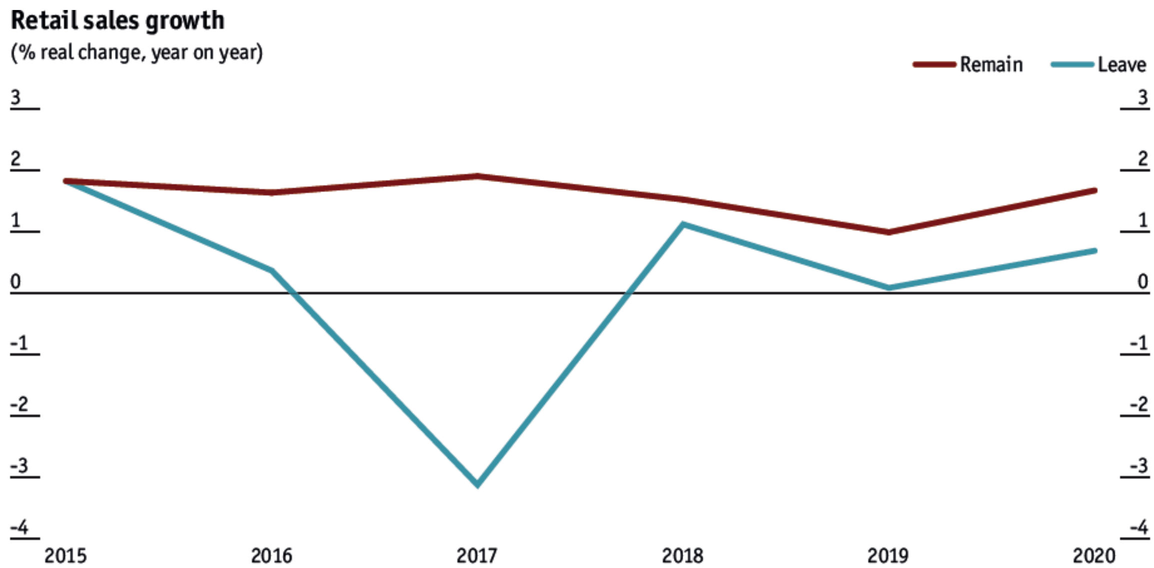
Figure.4 Retail sales Growth



Source: The Economist Intelligence Unit.

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Table 1: Options for the UK outside the EU

Model	**Pros**	**Cons**
EEA – the Norway model	Belong to the Single Market. Able to negotiate trade deals independently of the EU.	Required to implement Single Market policies, but have no representation in setting the rules of the Single Market. Must comply with rules of origin for exports to the EU and subject to EU anti-dumping measures. Must contribute to the EU budget.
Bilateral agreements – the Swiss model	Free trade in goods and free movement of people with the EU. Able to negotiate trade deals independently of the EU. A la carte approach permits opting out of EU programmes on a case-by-case basis.	Bilateral agreements require Switzerland to adopt EU rules, but Swiss have no representation in EU decision making. No agreement with the EU on trade in services. Pay a fee to participate in EU programmes, but contribution likely to be lower than if in EEA.

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EFTA	Free trade in goods with the EU. Able to negotiate trade deals independently of the EU. Not required to adopt EU economic policies and regulations. No obligation to contribute to the EU budget.	No freedom of movement of people with the EU. No right of access to EU markets for service providers. Goods exported to the EU must meet EU product standards.
WTO	Able to negotiate trade deals independently of the EU. Not required to adopt EU economic policies and regulations. No obligation to contribute to the EU budget.	Trade with EU subject to MFN tariffs and any nontariff barriers that comply with WTO agreements. No freedom of movement of people with the EU. No right of access to EU markets for service providers. Goods exported to the EU must meet EU product standards.