Implications Of Free Trade: Post Brexit

In this essay I will be discussing the costs and benefits of free trade and any implications the UK would face due to leaving The European Union. Trade is when there is an exchange in goods or services (buying or selling) between consumers, firms and other entities. (Collinsdictionary, 2019) International trade is the exchange of goods and services and the imports and exports between countries. (Market Business News, 2019). Free trade is a policy which allows the open movement of goods between nations without any economic barriers, limitations, tariffs and quotas. This policy allows the expansion of markets through consumers purchasing goods such as raw materials. (Longley, 2018) Consumers choose to import goods from other countries as it may work out cheaper or another factor being that the product is of better quality. (Market Business News, 2019). Trading blocs are a form of ‘economic integration’, this is when a group of countries cannot import from countries that are non-members usually due to a mutual agreement formed. (Economicsonline, n.d.)

In June 2016, following on from a life changing referendum, the UK decided to leave the EU. The shocking news bought havoc into the economy resulting in an immediate fall of the pound sterling making it 16% lower than its dollar, the night before the referendum. (Dhingra et al, 2017)

The two main possibilities that need to be taken under consideration when discussing potential implications to free trade would be whether the UK will opt for a hard or soft Brexit. A soft Brexit would mean that the UK would be a part of the European Union’s single market by becoming a member of the European Economic Area, European Customs Union or both. The Non-EU EEA members accept all four freedoms including freedom of movement which may be beneficial for businesses that trade with other countries in the EU. A hard Brexit would be the opposite of a soft Brexit mean that the UK has no relationship the single market and only trade through the World Trade Organisation and follow their rules. Tariffs could be imposed on trade between UK and EU in this case which may not be beneficial to businesses that trade with companies based in Europe and may cause economical damage. One way in which a hard Brexit would be beneficial would be that there would be an increase in employment opportunities due to change in migration laws following on from Brexit. (Menon, A. and Fowler, B. 2016) The WTO would cost UK businesses 65.5 billion pounds a year which would have an impact on the country’s GDP. Small, new and developing businesses will be affected by this cost as it would potentially lower the country’s GDP by around 5% to 9% and they may struggle to survive especially in an industry with high competition. (The Guardian,2016)

The EU is UK’s largest export market. Since 1999 UK exports have fallen massively from ‘55% to only 45% in 2014’. This shows that the UK largely relies on EU countries for many products e.g. raw materials. Trading for businesses would be hugely affected due to Brexit in many ways. One of the main impacts on businesses would be that lower levels of trade and investment are expected. Following on from Brexit the UK could see themselves facing challenges such as ‘an increase in tariffs and/or non-trade barriers’ this would affect businesses, in particular those that import goods from outside of UK as there would be restrictions on the EU market causing trade barriers. These trade barriers would have an impact on foreign direct investment because those restrictions could decrease the return on investment. (PWC,2016)

Another potential impact of a UK withdrawal from the EU on businesses would be a reduction in fiscal contributions. Every year the UK contributes to the EU budget ('an average annual gross contribution of £16.8 billion'), The UK also receive funding from the EU for things such as Research and development and the Agriculture policy. If the UK was to leave the EU, depending on the deal that is agreed on, the financial contribution could potentially decrease as they would no longer be required to make a 'budgetary contribution'. This would affect businesses because the government would then have more money to contribute to the economy i.e. give out more grants to new start-up businesses. (PWC,2016)

Depending on the type of deal agreed, Rules and Regulations in relation to trade are bound to change. Regulations are put into place to tackle failures in the market. A few examples of market failures would be monopoly power which would enable a firm to 'charge a price higher than its marginal cost' (Jan,2019), provision of public goods or externalities which are the consequences of economic activities based on the actions of unrelated third parties. (Helbling, 2010) Although the UK will be reducing the redundancy costs, the savings from them may be inadequate once the limited benefits are lost. The reduction in regulation would have an impact on businesses as they would need to be aware of any new trading rules and regulations that would apply to them.

Brexit could lead to an increase in uncertainty within businesses as the UK is unable to predict the kind of relationship, they will have with other countries post Brexit. There would be also uncertainty over the unpredictable exchange rate, the pound may fall to be significantly weaker and this uncertainty could lead to low business confidence. Hays (UK's largest recruitment company) stated trading had slowed down due to damaged confidence amongst business clients. (Farrell, 2019) On the other hand, others argue that the UK would become more prosperous outside of the EU mainly because Britain may be able to sign their own free trade agreements without having to go through Brussels first. (Coffey, 2018)

One of the four fundamental freedoms which allow EU citizens to move freely in each EU company is free movement of labour. The reduction in migration into the UK Is a potential economic impact post Brexit. In the UK 'individuals born in other EU member states account for 6% of employment'. This shows that businesses would be affected by Brexit as restrictions could be placed on immigration causing employment issues especially in the lower skilled labour sector e.g. agriculture and food services. (PWC,2016)

In conclusion, I think that free trade will be impacted greatly depending on what deal is formed between Britain and the EU. It is very important for businesses to be a part of the single market at the least as free trade is a huge part of the UK economy. As stated, the EU is UK's largest export market and in order to cause the least amount of inconvenience to businesses and to maintain a strong economy it would be important to get an appropriate free trade deal from the EU. In order to maintain a good relationship with other members of the EU, the UK could propose a flexible deal which benefits both parties. An example of what could be suggested would be a no tariff deal, where both the EU as well as the UK can trade freely without the complications of new rules and regulations. The UK could try and go ahead with a soft Brexit in order to do this. This will be beneficial for businesses as they could continue to trade as usual and keep their business costs low and invest more into the economy. On the other hand, if the UK wanted to go ahead with a hard Brexit, there may be a potential increase in employment in the UK and this may be beneficial for businesses as they would be able to hire better skilled workers.