International Journal of Science and Research (IJSR)
ISSN: 2319-7064
Research Gate Impact Factor (2018): 0.28 | SJIF (2018): 7.426

Impact of BREXIT on British and Bangladesh Economy

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Abstract: ***BREXIT will come into implementation very soon. There are diverse impacts of this departure of UK from EU on the British economy as well as the economy of other member countries of EU and obviously over world economy. The paper focuses on the economic impact of BREXIT on British economy as well as Bangladesh economy.***

Keywords: BREXIT, Britain, Bangladesh, Economic impact**.**

1. Introduction

"The period of the disintegration of the European Union has begun. And the first vessel to have departed is Britain"

-Nurettin Canikli, Deputy Prime Minister, Turkey

The departure of Britain from European Union (EU) was most probably the most talked issue all-over the world last three years. And this incident of UK's departure from European Union is termed, popularly and in short, as BREXIT. The EU referendum was announced in February of 2016 and held on 23rd June 2016. 52% of the voter taking part in the referendum had a 'Yes' vote in favor of leaving EU. The BREXIT will come into implementation very soon. There are diverse impacts of this departure of UK from EU on the British economy as well as the economy of other member countries of EU and obviously over world economy. In this paper the author has tried to focus on the impact of BREXIT on British economy as well as the economy of our country.

2. Impact of BREXIT on British economy

"It's scary, and I've never seen anything like it; a lot of people were caught out, and many investors will lose a lot of money", the statement, given by James Butterfill at ETF Securities in London to Bloomberg News, gives us a glimpse of the intensity of BREXIT over British economy.
Among the negative impacts of BREXIT on British economy the most important one is that decreasing valuation of pounds can cause inflation to the British economy. The bank of England has a legal obligation to keep the inflation rate as close to 2 percent a year as possible. A large number of studies have predicted that Britain has to be prepared for a higher interest rate. So, inflation would climb higher and may stay well above the Bank's target for longer without action. Higher interest rate will hurt the investors badly. Motivation will grow among the investors to do business or invest capital outside the Britain. The household will also suffer as the wages will not be able to keep pace with higher inflation. This will affect the economy and may lead to recession The International Monetary Fund (IMF) expects that international trade and investment globally will shrink in response to the political uncertainty of an exit, especially one that may throw Britain into a sharp recession.

The British cities are supposed to be adversely affected by higher trade costs between Britain and EU where economic outputs of the cities may fall by 1.2% under a soft BREXIT and by 2.3% under hard BREXIT. Moreover, cities with large shares of employment in private sector knowledge-intensive services may fall under great threat of being severely affected due to increased trade costs.

One of the primary effects of BREXIT will be the cancellation of the trade deals. After BREXIT, Britain will lose around 750 international arrangements. It is seen from the analysis of the EU treaty database, there are 759 separate EU bilateral agreements with potential relevance to Britain. These treaties include trade in nuclear goods, customs, fisheries, trade, transport and regulatory co-operation in areas such as antitrust or financial services. Also Britain can now use this situation to negotiate better, more ambitious deals with their trading partners.

Roberto Azevedo, chief of World Trade Organization, said in an interview published by the Financial Times that leaving the European Union would cost British consumers 9 billion pounds in annual additional import tariffs. As an EU member, the UK and their companies could sell their goods freely to customers anywhere else in the EU without those customers having to pay additional taxes to import those goods. Also consumers and companies could import from elsewhere in the EU without tariffs. The EU also has agreements allowing free trade with countries such as Norway, Switzerland, South Africa and South Korea. But after the Brexit, the cost of importing goods and raw materials will increase affecting UK customers to pay higher price.

The share market faced an immediate downturn after the BREXIT vote but recovered lately. Demand for government bonds in Britain and elsewhere rose after the vote which resulted into severely falling yields.
The tourism industry of Britain may be adversely affected due to BREXIT as earlier tourists from other EU countries could easily visit Britain because of the single Visa facility in EU member countries.

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There is also a positive impact of this currency depreciation on British economy. Because of the depreciating British pound, British export would be more competitive in world market. Besides, Britain would be able to avoid the illegal entrance of refugees from various parts of the world which was one of the main reasons to initiate BREXIT.

3. Impact of BREXIT on Bangladesh Economy

Bangladesh is a developing country withering between Take-off and Maturity level of economic growth. The country has shifted from a traditional subsistence agricultural economy to a modern manufacturing based economy where Ready Made Garments (RMG) industry consists of almost 14% of its GDP alone and contributes to more than 80% of total export earning of the country. EU is the largest export market of Bangladesh; it accounts around 55% of global RMG exports of Bangladesh. EU is the best market for Bangladesh because of duty free and quota free access for all products (except from arms) in EU market under GSP facility. On the other hand, UK is the third largest export destination for Bangladesh where it accounts for around 12% of global RMG. So they play an important role in maintaining a good health of Bangladesh economy.

The most immediate and serious economic consequence of BREXIT is the depreciation of Pounds against Euro as well as other foreign currencies. As statistics shows, British pound fell by around 8% against US Dollars and around 10% against Euro. The effect of this depreciation has a spurious effect over other economic indicators like export and remittance earning, GDP, etc. The major impacts of BREXIT on Bangladesh economy can be in terms of export earning, remittance earning, increasing cost of borrowing, foreign direct investment (FDI), migration of workers, and foreign development assistance.

The depreciation of British pound, if continued, may cause British economy to enter recession, badly affecting the rest of the world including Bangladesh as businesses and investors are very likely to move their money out of the British economy.

The devaluation of pound could hurt Bangladesh export to UK. The pound fell more than 10 percent that is the lowest value since 1985 due to BREXIT. Low pound rates will make imports expensive to the Great Britain, meaning that we are in trouble, as we have billion dollar exports with the British. Besides, more than 11% of our foreign income comes through remittance. But a depressed pound will result in low remittance sent by our people living in the Britain.

As we have seen in the earlier section that decreasing valuation of pounds can cause inflation to the UK economy which will in turn invoke the bank of England to raise interest rates, making pounds more attractive than before so that the inflation rate is kept as close to 2 percent a year as possible. This will result into increase in cost of borrowing. As a borrower, this measure, if adopted, will not be favorable for Bangladesh.

Every year a good number of Bangladeshi students go to UK for education purpose. The cost of studying in UK is very high. Also after the implementation of BREXIT officially in 2019, immigration law will be very strict. So students from our country will face more hardship to study and manage scholarships in UK.

Despite of the above adverse effects of BREXIT on Bangladesh economy, there's also a potential side of BREXIT for us as we can import from Britain at a much cheaper price than before which may help us in securing a positive trade balance.

4. What British Government Should Do

British government has a role to play in favor of Bangladesh so that it can avoid the adverse impacts of BREXIT on its economy. The British government can form new bi-lateral trade agreements with Bangladesh to avoid the trade related complexities. The British government can increase the amount of foreign aid so that Bangladesh economy can recover soon from the economic loss incurred due to British currency depreciation. Besides, the British government can provide more assistance on establishing capability building institutions and programs to build up a strong work force rather than creating an aid dependent economy The British government can also arrange for more scholarships for students from less developed and developing countries like Bangladesh so that they don't have to bear the burden of increased education costs after BREXIT. The British government can facilitate legal migration procedures from Bangladesh which will simultaneously help to prohibit illegal migration as well as ensure job opportunities for potential workers.

5. What Bangladesh Government Should Do

The main threat of BREXIT poses upon the RMG sector of Bangladesh, the main export sector and backbone of our economy. So to avoid the adverse effects of BREXIT, first of all we need to concentrate on export diversification, both in terms of product diversification and market diversification as our export basket is highly concentrated in RMG products and our export market is also mainly depended on UK. Besides, Bangladesh government can utilize the situation of undervalued British currency effectively by increasing the volume of imports from Britain as it would be now cheaper than before to import British goods and the British would be also more willing to increase their export earnings. To avoid the fall in remittance earning due to BREXIT Bangladesh government should closely monitor the migration procedures of Bangladeshi migrant workers and eliminate all kind of illegal immigration attempts with strict hand. Then the British government would be more willing to accommodate our migrant workers if they migrate through legal procedures and hence our remittance earning would not be much affected. To attract more and more FDI from Britain there's no better way than to improve our infrastructure and our investment climate.

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6. Conclusion

Although the paper focuses on the economic impacts of BREXIT over Britain and Bangladesh, it must be mentioned that the BREXIT is a result more of Nationalist feeling of the British people rather than economic and political factors. The British have always considered them as an elite nation and the uninterrupted foreign entrance from other EU countries as well as the entrance of refugees from all-over the world due to EU membership gave them a feeling of discomfort which is reflected through their welcoming approach to BREXIT referendum. However, there hasn't been any major long lasting impact of BREXIT neither over British economy nor over Bangladesh economy yet. We have to wait until the implementation of BREXIT, that is when it will come into action formally, to see whether the predictions of the economists and other experts worldwide prove to be matched with the reality or not.

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