



Impact of Brexit

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This article is based on **“What Brexit means for the EU and its partners”** which was published in The Hindu on 04/02/2020. It talks about Brexit and the impact it will have on the European Union, the United Kingdom and the other international players.

The United Kingdom (U.K.) **finally left the European Union (EU)** on 31st January 2020. It was a long-awaited historical move which will bring an important change in the policies and politics of the remaining 27 **European Union** members states and the U.K. mainly. It becomes important to see how this will shift the policymaking process and what are the ways in which nations are going to tackle it.

Well-planned Exit

- Despite being a huge move, the final exiting process **did not create turmoil**. The credit goes to the **Withdrawal Agreement** that was negotiated between the EU and the U.K., earlier in 2019.
- **Withdrawal Agreement:**
 - Under this, a **transition period of 11 months** has finalised **until December 2020. However, it might get delayed until 2022 or 2023.**
 - During this period, the **U.K. will continue to participate** in the EU’s **Customs Union** and in the **Single Market**.
 - The U.K. will **apply EU law** even if it is no longer a Member State and will also **continue to abide by the international agreements** of the EU.
 - The transition period makes sure that there is not a sudden shock but a degree of continuity and allows both parties to secure an orderly Brexit, minimising disruption for the citizens, businesses, public administrations, as well as for the international partners.

Impact on the U.K. and the EU

- By leaving the EU, the U.K. **automatically, mechanically, legally**, leaves hundreds of **international agreements concluded by or on behalf of the EU**, to the benefit of its Member States, on topics as different as trade, aviation, fisheries or civil nuclear cooperation.
- However, **with just 11 months to negotiate**, there are only chances of very basic and minimal deals covering trade, fisheries and security.
 - In that case, **at the end of 2020**, differing aspirations for the trade talks might raise the prospect of a **new no-deal scenario**.
 - In the absence of a deal, the earlier accord on citizens' rights, money and the **Irish border** will remain intact.
- Both of them will have to be ready for the economic shift in trading on **World Trade Organization (WTO)** terms.
- The **first priority is the trade deal to ensure the tariff and quota-free flow of goods** between the EU and U.K.

However, the EU will only agree to zero tariffs and zero quotas if the U.K. pledges zero dumping – that is, not lowering social and environmental standards to outcompete the EU.
- Negotiations will clash over the **EU's refusal to bring services into the trade deal**.
- The **EU seeks to link goods trade to maintaining the status quo on access to British waters** which is considered to be a matter of concern for the U.K., so it might give rise to clashes.
- Even the **non-trade subjects will be full of political troubles** because the EU Member States will have to change their policies according to the new deals and the regulations.

Impact on India

- India has had strong historical ties with the U.K. and currently, it is one of India's most important trading partners. In the last four years alone, the number of Indian companies investing in the U.K. has quadrupled.
- Similarly, the **U.K. is one of the largest investors in India**, among the G20 countries. Hence, it is important to see how India and the U.K. can manoeuvre through Brexit and enter into new trade agreements that are mutually beneficial to both economies.
- Brexit will directly **impact not only the Indian stock market** but the global market in totality, including the emerging markets in the world. This is because of the **high volatility in the pound**.
- Both the U.K. and EU account for 23.7% of Rupee's **effective exchange rate**. With Brexit, **foreign portfolio investments will outflow** and will **lead to the weakening of the rupee**.

- India's businesses based in the U.K. will be hampered as **till now they had border-free access to the rest of Europe.**

The investors are concerned as India invests more in the United Kingdom than the rest of Europe combined.

Real Effective Exchange Rate

- It is the weighted average of a country's currency in relation to an index or basket of other major currencies. The weights are determined by comparing the relative trade balance of a country's currency against each country within the index.
- This exchange rate is used to determine an individual country's currency value relative to the other major currencies in the index.

Foreign Portfolio Investments

- These stands for those investors who invest for a shorter-term in a company as compared to Foreign Direct Investors (FDI).
- These generally participate through the stock markets and gets in and out of a particular stock at much faster frequencies.

Impact on the World

- Brexit will weaken the EU economically and politically. The **U.K. was the EU's second-biggest economy (after Germany)** a major net budget contributor, key military force and **one of the bloc's two nuclear powers (another one is France)** and permanent **UN security council members.**
- The U.K.'s departure has **distracted attention** from a number of other big and urgent problems, including the **climate crisis.**
- In the longer term of **balancing of global powers,** a smaller Europe can be a weaker Europe in the face of an **ambitious China** and an **increasingly protectionist US.**

Suggestions

- The EU and the U.K. are **bound by history, geography, culture, shared values and a strong belief in rules-based multilateralism** which will be reflected in its future partnership as well.
- The EU and the U.K. will have to focus on building a new partnership. The process will start as soon as the **27 Member States will approve the negotiating mandate, proposed by the European Commission.**

The mandate sets out terms and ambitions for achieving the closest possible partnership between the EU and the U.K.

- Both of them will have to **work together**, beyond these historical and trade links, on **security and defence areas** in which the U.K. has experiences and assets. These will be used the best as part of a common effort to tackle the **global challenges and changes such as climate change, cybercrime, terrorism, inequality** etc.

These challenges **require collective responses** and the more the U.K. is able to cooperate with the EU and other partners around the world, the greater are the chances of addressing these challenges effectively.

- The EU and the U.K. need to **consult each other and cooperate bilaterally** while working with the regional and global institutions such as the **United Nations**, the **World Trade Organization**, the **North Atlantic Treaty Organization (NATO)** and the **G20**.
- The EU will need to be **significantly tougher**, with a **centralised foreign policy and stronger rules** ensuring European companies can compete with **overseas rivals like China and the US**. Brexit makes that imperative even more urgent.

The EU's core idea is that the member nations are stronger together and pooling the resources and initiatives is the best way of achieving common goals. Even if the U.K. has moved out of it, it will continue to move forward as 27. Meanwhile, other nations of the world will have to accommodate themselves according to the shifting balance of power and politics.

Drishti Mains Question

Brexit has brought a significant change in world politics.
Analyse.