

The Economic Effect of Brexit on Businesses in the UK

Introduction

In June 2016, the British citizens participated in a referendum with regard to leaving the European Union (EU). The vote proved to be a close call, but eventually, the public decided to leave the EU. This decision has had major political, economic, and financial consequences for the UK. Firstly, the vote was held amidst political turbulence in the country. The results of the vote made the political scene even more complicated. Secondly, businesses in the UK had to brace themselves for economic and financial consequences. Leaving the EU would mean that companies would have to work in an environment of uncertainty and higher risks. It would also mean that businesses would have to comply with new regulations and deal with the issue of market access (Arnorsson and Zoega, 2018). This essay aims to evaluate the economic effect of Brexit on UK businesses.

Economic Effects of Brexit on UK Businesses

Business leaders in the UK have begun to develop strategies that would help them in negating the harmful effects of Brexit. One prime example of this is the construction industry. The industry is facing a highly challenging operating environment. This particular industry is among the most vulnerable in the UK. At present, the construction companies operating in the UK are already facing challenges with regard to their supply chains. The cost of raw materials and labour has been on the rise. At present, about 30% of the individuals employed in the industry come from the EU (Malik et al., 2019). In the near future, it may become much harder for such workers to obtain work permits in the UK. Similarly, the raw materials that are used in the construction of buildings are becoming more expensive. Once Brexit takes place, such raw materials are likely to become even costlier. This is because various materials are sourced from EU countries, and the import of these materials may become more expensive. Finally, the UK businesses that are operating within the construction industry are already being left out of EU infrastructure projects. This is having an adverse impact on their ability to generate revenues and grow (Malik et al., 2019).

A similar situation has been witnessed in the financial services industry. For a number of decades, London has been considered a hub for financial services (Wright et al., 2016). However, this position is already under threat. Companies such as Barclays, HSBC, and Royal Bank of Scotland have already initiated relocation plans. These companies are wary of the economic conditions that will prevail in the UK after Brexit. According to estimates, the UK's largest financial services firms have already committed over £1.3 billion worth of relocation funds. In addition, these firms are investing over £2.6 billion in order to build new headquarters outside of the UK (Financial Times, 2019). Major international banks operating in the UK have already announced over 1,500 job cuts. Overall, across industries, it is estimated that nearly £1 trillion worth of assets is being moved to mainland Europe (Hohlmeier and Fahrholz, 2018).

Another major concern for UK based manufacturing businesses is that a no-deal Brexit may have a significant negative impact on their operations (Coulter and Hancké, 2016). A no-deal Brexit would mean that companies may lose access to their major markets, they may need to deploy contingency plans, and they could also face prolonged uncertainty. Innovation is also likely to take a hit because of the more limited access to funding and weaker accessibility to mainland Europe. In addition to this, creative industries such as the UK film industry are also feeling the impact of Brexit. When Brexit happens, the collaboration opportunities for UK film-makers will decrease. This will also mean that artists from Europe might no longer be able to travel freely. This could result in multiple other knock-on effects such as lower viewership and decline in revenues (Bloomberg, 2018; Forbes, 2019).

Before the referendum, most researchers believed that the impact of Brexit on UK businesses would be moderate. This belief was based on the fact that the EU would remain a major trading partner of the UK despite the vote (Busch and Matthes, 2016). However, in recent years, this view has changed to an extent. A larger number of analysts and researchers now believe that the economic effect on UK businesses will be more significant mainly for two reasons. Firstly, the UK will have to renegotiate trade deals with almost all of its trade partners, including the developed world and the developing countries. Such negotiations could result in clauses that are not favourable for UK businesses. Secondly, the decision to leave the EU will almost certainly have a negative impact on the UK Gross Domestic Product (GDP). Leaving the EU may mean that domestic demand for goods and services will slow down, driving corporate profits down. Foreign Direct Investment (FDI) coming into the UK is also expected to decrease (Dhingra et al., 2016). This would mean that UK businesses affiliated with foreign companies are likely to face funding cuts. According to estimates, Brexit could lead to a 22% decline in FDI inflows into the UK (Gudgin et al., 2018).

The businesses engaged in exports are likely to be the worst-hit after Brexit. This is because such businesses will face uncertainty in terms of accessing overseas markets. Some of them may even have to cut down on their expenses in order to make sure that they are not making major losses. In addition to this, businesses will have to be more cautious in terms of making overseas investments. Up until the Brexit referendum, UK businesses were making large investments overseas that are now put under risk. UK businesses are now being much more cautious before they make substantial investments in their overseas operations (Nemeczek and Pitz, 2017). Furthermore, another economic effect on UK businesses will be in the form of change in regulations. The regulatory changes are likely to hurt exporters and importers. Businesses operating in the country are already preparing themselves for potential regulatory changes. It is almost certain that new trade regulations will require businesses to reformulate their strategies and alter their supply chain mechanisms (Tetlow and Stojanovic, 2018).

Businesses in the UK have enjoyed the benefits of having access to a single EU market for a long period of time. This is going to change in the near future. The new trade norms will depend on the type of trade deals negotiated between the two parties. Such negotiations will be critical in terms of determining the degree of impact on UK businesses (Hodge, 2017). Not having access to a single market could mean that businesses would need to rebuild their customer base. This could also mean that trade and capital flows will go down. At present, businesses in the UK are able to access financing from the EU. When the UK does eventually leave the EU, businesses would need to find alternative sources of financing that would allow them to grow their business. This may even result in higher borrowing costs and operating costs (RAND, 2019). Finally, because the EU

wants to make sure that no other states withdraws from the union, it will most likely implement tougher measures on UK businesses. This may result in limited growth opportunities for UK companies in the near future (Begg and Mushövel, 2016).

UK businesses are already facing multiple hurdles due to the decision to leave the EU. There is widespread uncertainty with regard to migration and free movement of the labour force and capital. At present, UK companies rely on the inflow of labour from EU countries (Portes and Forte, 2017). However, once the Brexit materialises, this may not be a straightforward task. In fact, it is almost certain that labour force movements will be affected. According to a survey conducted by Decision Maker Panel, UK businesses have already reduced investments by 6%. Further, it is estimated that Brexit will reduce employee productivity by up to 0.5%. The survey also revealed that businesses in the UK are already anticipating lower sales and higher costs. It was also found that the costs of borrowing are likely to increase after Brexit. Overall, the decision to leave the EU has resulted in economic uncertainty for a majority of UK businesses (Harvard Business Review, 2019; Davies, 2016).

Conclusion

This essay aimed to analyse the main economic implications of Brexit for businesses in the UK. The analysis has shown that Brexit will result in multiple economic and financial challenges for UK businesses. These businesses are already facing regulatory hurdles and bracing themselves for higher borrowing costs. Once Brexit takes place, these businesses will face additional challenges in the form of labour shortages and reduced access to external markets. However, these effects will also to a large extent depend on the final deal between the UK and the EU, which would determine the terms on which the two entities separate.

References

- Amorsson, A. and Zoega, G. (2018) On the causes of Brexit, *European Journal of Political Economy*, 55, pp.301-323.
- Begg, I. and Mushövel, F. (2016) The economic impact of Brexit: jobs, growth and the public finances, available at <https://www.lse.ac.uk/europeanInstitute/LSE-Commission/Hearing-11---The-impact-of-Brexit-on-jobs-and-economic-growth-sumary.pdf> [accessed on 12 November 2019].
- Bloomberg (2018) How businesses are preparing for Brexit, deal or no deal, available at <https://www.bloomberg.com/graphics/brexit-impact-tracker/> [accessed on 12 November 2019].
- Busch, B. and Matthes, J. (2016) Brexit-the economic impact: A meta-analysis, available at <https://www.econstor.eu/bitstream/10419/157171/1/IW-Report-2016-10.pdf> [accessed on 12 November 2019].

Coulter, S. and Hancké, B. (2016) A bonfire of the regulations, or business as usual? The UK labour market and the political economy of Brexit, *The Political Quarterly*, 87(2), pp.148-156.

Davies, J. (2016) Are business school deans doomed? The global financial crisis, Brexit and all that, *Journal of Management Development*, 35(7), pp.901-915.

Dhingra, S., Ottaviano, G., Sampson, T. and Van Reenen, J. (2016) The impact of Brexit on foreign investment in the UK, available at http://cep.lse.ac.uk/pubs/download/brexit08_book.pdf#page=40 [accessed on 12 November 2019].

Financial Times (2019) Brexit bill for UK financial services reaches £4bn, available at <https://www.ft.com/content/c065cf54-9738-11e9-8cfb-30c211dcd229> [accessed on 12 November 2019].

Forbes (2019) The Brexit effect: How will small and medium-sized businesses cope?, available at <https://www.forbes.com/sites/biancamillercole/2019/01/17/the-brexit-effect-how-will-small-medium-businesses-cope/#6b4cf3737b2c> [accessed on 12 November 2019].

Gudgin, G., Coutts, K., Gibson, N. and Buchanan, J. (2018) The macro-economic impact of Brexit: using the CBR macro-economic model of the UK economy (UKMOD). *Journal of Self-Governance and Management Economics*, 6(2), pp.7-49.

Harvard Business Review (2019) Brexit is already affecting UK businesses – Here's how, available at <https://hbr.org/2019/03/brexit-is-already-affecting-uk-businesses-heres-how> [accessed on 12 November 2019].

Hodge, N. (2017) Preparing for Brexit, *Risk Management*, 64(6), pp.18-20.

Hohlmeier, M. and Fahrholz, C. (2018) The Impact of Brexit on Financial Markets—Taking Stock, *International Journal of Financial Studies*, 6(3), pp.65-67.

Malik, A., Adekoya, O.D., Ajonbadi, H.A. and Jimoh, I. (2019) Investigating the Potential Economic Impact of Brexit Decisions on Business Performance in the United Kingdom: A Case Study of the UK Construction Industry, *International Journal of Management, Accounting and Economics*, 6(4), pp.347-367.

Nemeczek, H. and Pitz, S. (2017) The Impact of Brexit on Cross-Border Business of UK Credit Institutions and Investment Firms with German Clients, available at https://www.law.ox.ac.uk/sites/files/oxlaw/nemeczek_pitz_-_the_impact_of_brexit_on_cross-border_business_of_uk_credit_institutions_and_investment_firms_with_german_clients.pdf [accessed on 12 November 2019].

Portes, J. and Forte, G. (2017) The economic impact of Brexit-induced reductions in migration, *Oxford Review of Economic Policy*, 33(1), pp.31-44.

RAND (2019) After Brexit, available at <https://www.rand.org/randeurope/research/projects/brexit-economic-implications.html> [accessed on 12 November 2019].

Tetlow, G. and Stojanovic, A. (2018) Understanding the economic impact of Brexit, available at <https://www.instituteforgovernment.org.uk/sites/default/files/publications/2018%20IfG%20%20Brexit%20impact%20%5Bfinal%20for%20web%5D.pdf> [accessed on 12 November 2019].

Wright, M., Wilson, N., Gilligan, J., Bacon, N. and Amess, K. (2016) Brexit, private equity and management, *British Journal of Management*, 27(4), pp.682-686.