The Effects of Great Britain's Exit from the European Union

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Abstract

The exit of the UK from the European Union established by the referendum of 23.06.2016 will produce important changes in the further development of the European Union. The impact of the British vote was felt immediately on all the financial markets of the world by lowering the European banking stock market transactions and index, as well as depreciating the pound sterling. Depending on the conditions in which the UK will exit, Member States will adopt optimal strategies to ensure a harmonious evolution based on beneficial treaty for all members of the Union. Experts' views differ on future developments in bilateral relations between the European Union and the UK. The withdrawal of the United Kingdom from the European Union directly influences the economic development of Romania, which will force our country to take all the necessary measures in the current economic conjuncture in order to anchor in the international trade relations.

Key words: referendum, free movement, free trade, customs union, international trade
J.E.L. Classification: E42, E44, E52, F38, F43.

1. Introduction

Great Britain's exit from the European Union was established by the referendum held on 23.06.2016. 51.89% of the British public voted for Brexit. The output of the European Union will take two years from the time of invoking Article 50 of the Treaty of Lisbon by the British government.The commencement of the proceedings held in March, and total withdrawal will be completed in March 2019. After learning the result, international financial markets and economic policy enforcement authorities were surprised. The negative reaction of financial markets was reflected in the fact that on June 24, 2016 investors in international markets have lost about $ 2 trillion, this day being considered "the darkest" in the history of financial transactions. "Most negative record" was registered on June 27, the day when financial transactions fell by 3 trillion. Since June 29, the financial markets have begun to recover, and the pound started to rise. In response to the referendum, the Scottish Government announced a possible referendum to exit the state of Britain's membership.

2.The effects of BREXIT

According to the analysis of Transilvania Bank, British Treasury has acknowledged that it has not prepared an action plan for the hypothesis concerning Great Britain's exit from the European Union. It shows that the depreciation of sterling against the dollar reached a low recorded in June 1985 and the European banking stock index fell by over 20% compared with the decline of 7% in the US. Regarding international capital flows, there is migration to low-risk instruments such as treasury bills. There is also a rapid reduction in interest rates on sovereign bonds. Brexit negative effects are felt most strongly in the British economy. Subsequently referendum, real estate investment funds have suspended operations. Declining investments in the UK contributes to the deterioration of international trade, particularly in relation to the Member States of the European Union, given that Britain also faces a political crisis. Given the adverse circumstances, the British government postponed invoking Article 50 of the Treaty of Lisbon. National leaders said during the summit that took place on June 29, 2016 that British access to the single market is subject to free movement. Non-acceptance of the conditions required by the European Union members leads to economic isolation of Britain.

After the referendum, the British realized the consequences that Britain's exit can produce among the Member States. If the minimum political unity cannot be taken into account, economic unity is decisive regarding the European Union. A strong state out of gear can produce only a negative effect, firstly on that state and other states which joined the EU treaties. UK output can cause a precedent for other Member States, in which case it will produce structural changes, which entails significant changes to the treaties and hence to the economic strategies.

3. Possible consequences of Britain's outflow from the European Union

Great Britain's exit from the EU can lead to:
a) remaining in a Free Trade Area;
b) remaining in a customs union;
c) bilateral renegotiation of the free trade area treaties with the Member States.

Regarding our country, the strongest negative effect could be felt by the Romanians working in the UK. According to data from the Office of National Statistics, in 2013 there were 136,000 Romanian residents in the UK. It is possible that in the future they do not have the labor and social welfare. However, through a bilateral agreement, it can be legislated to maintain these rights.The announced cancellation of free movement has the immediate effect of the prohibition to grant the right to work in the UK for the Romanian citizens. A more favorable circumstance would be their receiving on British territory provided they have an amount of money that could allow them to live on.

A damage to Romania would also be that our country would receive less money than today, given the fact that Britain is one of the main contributors, assigning in 2015 to the EU budget a sum amounting to 8.4 billion. euro net. Budget cuts of this contribution would allocate a smaller amount to the Romanian state and thus reduce its costs. This can be remedied only by boosting the economically developed states' contribution to the EU budget.

It should be noted that in the future Romanian students that leave to study in the UK will not benefit from reduced tuition fees.The UK output among EU Member States may generate termination of FTAs agreements and common regulations between the Romanian and British governments.

4. The BREXIT effect on Romania

In 2015 the value of exports to the UK was 2.3 mild.euro, which represented 4.4% of total Romanian exports, the UK is the fifth destination in this respect after Germany, Italy, France and Hungary. The value of imports from Britain in 2015 was 1.5 mild.euro, ie 2.5% of Romania's imports, the British state is ranked 14th in the hierarchy of our country's imports. Britain's outflow from the Member States has an effect on English and Romanian facilities granted to investors within partner states, where no agreements will be negotiated under the new circumstances. 2014 UK investments in Romania were 1.5 mild.euro, representing 2.5% of foreign investments in Romania, according to the report of the National Bank of Romania. Britain was located in the reference year in 10th place in terms of foreign investors.

Brexit effect may promote a negative attitude regarding the accession treaties of free trade between the EU and the US. The European Commission studies show that non-adherence to the Transatlantic Trade and Investment Partnership (TTIP) would have negative consequences in terms of economic growth, creating jobs, lowering prices and encouraging small and medium enterprises. In this respect it should be noted that the study elaborated by Lucian Cernat, Chief Economist at DG Trade Commission shows that our country can benefit from an annual growth of 0.25% and an annual increase of 0.25% and an increase of the bilateral trade of 35% if TTIP is signed.

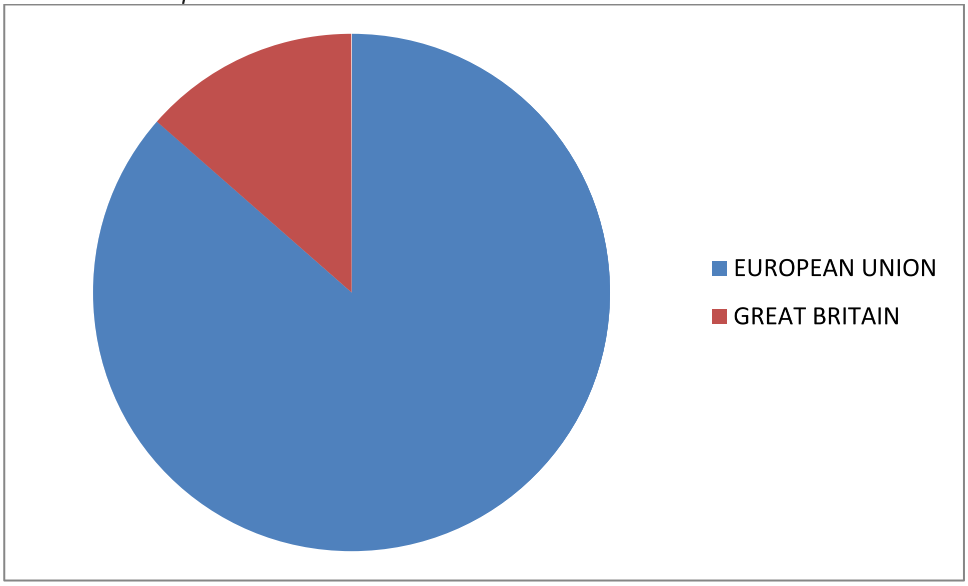
Although, as I stated above, the share of trade with Britain in Romania's foreign trade is not located at the highest rates, the exit of this strongly economically developed state creates a climate of instability and prospects for other states' exit from the European Union. It should be noted that 27 Member States may join the new treaties, given the current economic circumstances, creating strategies for a strong and stable union.

The number of people from other EU countries employed in the UK fell significantly, the factor that caused this effect being the vote on the state's exit from the European Union.The result of the vote had as first consequence the depreciation of the pound sterling. The number of people in EU countries employed in the UK fell by 19,000 in the fourth quarter of 2016, reaching 2.24 million. British employers are unhappy that they cannot find employees with appropriate training for vacancies and predict that in the future this problem will worsen.

According to The Guardian and ABC, taken by Agerpres, the British Parliament authorized the government chief, Theresa May, triggering the exit from the European Union. It was also rejected amendment proposing to protect the rights of EU citizens resident in the UK. Brexit effect will be felt both in the EU and worldwide.

In this respect, it should be noted that the share of total UK GDP was at the end of the third quarter of 2016 of 15.65%.

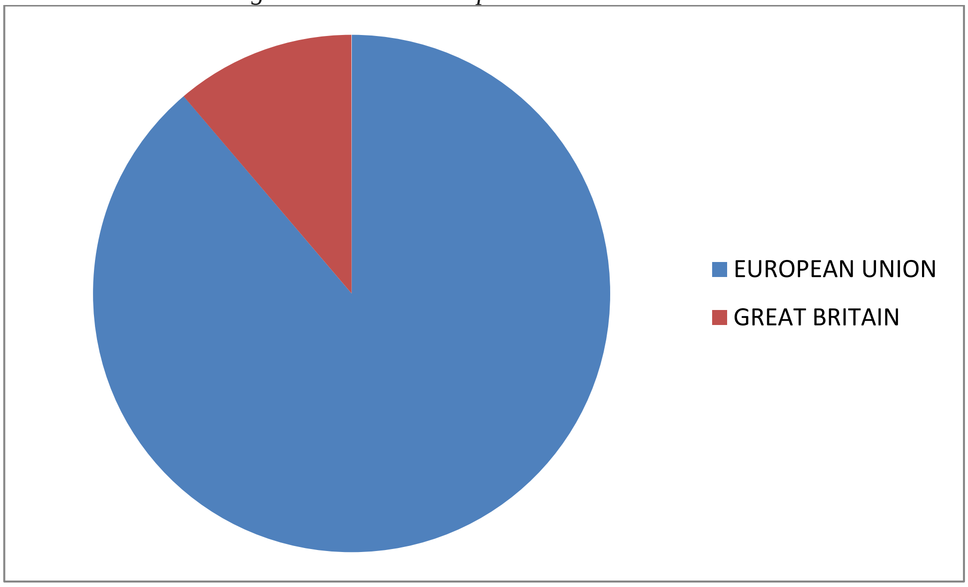
Figure no. 1. The share of UK GDP



Source: http://ec.europa.eu/eurostat

In terms of share in total goods and services imports was 12.65% in 2015.

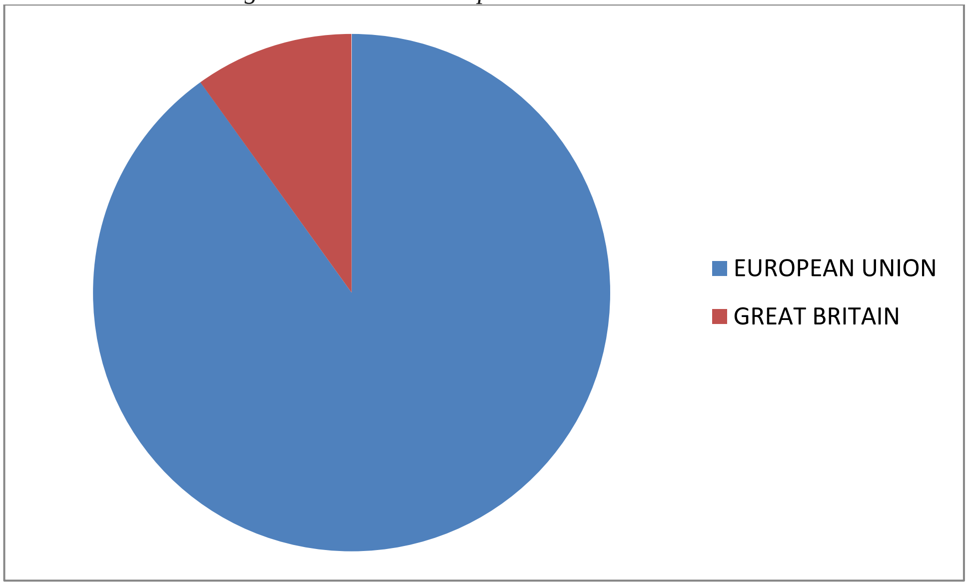
Figure no. 2. The share in total goods and service imports



Source: http://ec.europa.eu/eurostat

Share in total goods and services exports was 11.02% in 2015.

Figure no. 3.The share in total goods and services exports



Source: http://ec.europa.eu/eurostat

In the third quarter of 2016 business and consumers have increased spending and GDP in Britain rose by 0.5% in the period from July to September. According to data from the National Statistics Office, in the third quarter of 2016 household spending increased by 0.7% and investment companies increased by 0.9% compared to the second quarter. During the reported period exports increased by 0.7% and imports decreased by 1.5%.

According to forecasts, the UK GDP will grow by 1.4% in 2017 and in 2018 the growth will be by 1.7%. Regarding the public sector debt, this is projected at 90.2% of GDP between 2017-2018 compared to that expected in the month of March, 2016.

5. Conclusions

According to The Guardian and ABC publications and taken over by Agerpres, the British Parliament authorised the Chief governor,Theresa May, to trigger the process of exit from the European Union.The amendment that proposed the protection of the EU citizens' rights that reside in Great Britain was rejected as well.

Michel Barnier, Brexit Head Negociator of the European Commission, presented the view of the European Union on negotiations with Britain on the exit of this state from the Union. An important part of the negotiations will be to protect the rights of citizens of member states of Britain, taking into account the full payment incurred by the British government until the date of the referendum. Chief - negotiator stressed that the exit of the UK of the European Union will create difficulties in the implementation of EU programs financed from the Community budget. Experts estimate that the amount that the EU will request from the UK as financial commitments will be of 55-60 billion. Regarding the future negotiations it is specified that Member States will give preferential access to components approved by the UK market. In this context, the essential condition is that Member States have a voice. It mentions that Britain's leaving without signing an agreement would have serious consequences for all states.

In conclusion, we can say that if after Brexit in the European Union there will remain an area of free trade, free movement will not be impeded, residents will be given the same rights and persons on study in the UK shall enjoy the same facilities, the bilateral relations between EU countries and the UK will not degrade. Otherwise, international trade relations between the two entities will run on more onerous terms than today and the trade volume will decrease substantially.

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