
The Brexit issue and the models of economy and trade

Given the hawkish stance that the Parliament has taken, it requires no reason for a second referendum, as the Parliament is greater enough to take care of the Brexit issue. Having survived the no-confidence vote, the Britishes have urged forward the issue of facing an almost no-deal no-Brexit, which will also count as a matter of trade. Here is an excerpt.

The model of trades after the issue of Brexit or No-Brexit

Given the fact that on January 19/1/19, the British Government of Theresa Mary May, have actually won the no-confidence motion, after the Parliament had rejected the deal of Theresa May, it becomes impertinent to draw the red lines among the UK and the other EU nations, based on certain trade deals that England can trade for. Here are a few scenes that the British Parliament can afford to take. The cases are mentioned below.

1. **Backstop- Backstop** means the government proposal to keep Northern Ireland in the Custom's Union, and in the single European Market to prevent a hard border agreement with Ireland. The UK develops a technology and operates customs, excise and other controls as between the UK and the EU, without any evident border infrastructure, with a compliance with Section 10 of the European Union, and the prevention of new border agreements.
2. **Blindfold Brexit- Blindfold Brexit** is used to describe a scenario where the UK leaves the EU, for future trade deals, while the British negotiators try to sign off a future deal till 31 December, 2020, that the UK will effectively remain a member of EU, but with no voting rights.
3. **Canada Plus- This is a model** where the United Kingdom leaves the European Union and signs a free trade agreement. This would allow the UK to control its own trade policy with other non-EU countries as well, as it would entail rules of origin agreements to be reached for UK–EU trade. It is likely this would lead to trade being less "free" than joining the EFTA, and result in additional border controls being required, which is an issue of contention, particularly in Ireland.
4. **Chequers Plan- This model** is based out of the relationship in the future, where a trade deal is sanctioned off between the UK and the EU members only, where internal trade and deals, within the EU post no-Brexit, would actually mean exchanging tariffs among the member EU states, based on business strength and policies thereafter.
5. **Brexit with Divorce Bill- This model** is the common Brexit Model, where the UK leaves the EU section, and sign a divorce bill around 5-8 Billion Pounds, and set up independent trade deals and work on the business for the future.
6. **Managed No Deal- Managed no-deal Brexit or "managed no deal Brexit"** was increasingly used near the end of 2018, in respect of the complex series of political, legal and technical decisions needed if there is no withdrawal agreement treaty with the EU when the UK exits under the Article 50 withdrawal notice. The deal implies no-deal sanctioned or managed in favour of the UK, while the Brexit occurred.

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- 7. Norway Model-** This is a model where the United Kingdom leaves the European Union but becomes a member of the European Free Trade Association (EFTA) and the European Economic Area. This would allow the UK to remain in the single market but without having to be subjects to the Common Fisheries Policy, Common Agricultural Policy, and the European Court of Justice. The UK would be under to the EFTA court, have to transfer a large amount of EU law into UK law, and have little say on shaping EU rules (some of which the UK will be compelled to take on). The UK would also have to allow freedom of movement between the EU and UK, something that was seen as a key issue of contention in the referendum.
- 8. Remainers-** This is a collective term used for the people, who are in favour of remaining in the EU, while creating no deals within the EU. They are in favour of common borders and common laws, with no unilateralism or deals based in the EU.
- 9. Common Customs Union-** This model requires the UK to stay in the EU as a single market, and create a common pool of geographies, post Brexit or no-Brexit, and stay in course with lesser import and export liabilities within the EU, without Brexit.
- 10. No Brexit with Trading-** This ultimate model requires the UK to nullify Brexit, and yet take a stance to trade with partner members of the EU, while working on the trade deals with independent or EU members for better deals.

In Case the Brexit happens or happened

In case the Brexit happens, the consequences of unilateral trade liberalisation following Brexit in a modern trade model would have been consistent with the results. It allows for a perfect competition, but allow only for product differentiation. There is no perfect substitution between the products of any given industry and thus the cheapest source country of a product is not necessarily the best source country of all products in the industry. It also implies for varieties of the same product to be sourced from different countries as consistent with different consumer tastes. Under these assumptions, the UK trades simply under the WTO rules and unilaterally removes all import tariffs, the Brexit effect is equivalent to a 2.3% decline in UK income per capita. Brexit would reduce UK living standards even if the UK unilaterally sets all import tariffs to zero. What happens if the UK falls back on the general WTO rules and imposes the EU's current 'most-favoured nation' tariffs following Brexit? In this case, Brexit is equivalent to a 2.6% decline in UK income per capita, assuming that there are benefits from removing import tariffs, but these benefits are around 0.3 percentage points – much smaller than the costs of Brexit resulting from increased trade costs with the EU. In addition, the EU membership is trade creating, which means that it increases the UK's trade. By contrast, the EU membership is only trade-diverting and Brexit would lead to higher trade is a big assumption. Finally, we can conclude that the assumptions taken independently would not be beneficial for the Brexit, but otherwise. On similar lines,

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Chequer's Plan, Common Custom's Union and No-Brexit with a deal would be important cases and models to look after.

RISK SCORES	UK	NON UK	UK HIGHER THAN NON UK?
Insufficient or unclear communication by government/regulators on proposed approach	6.8	5.5	Yes
Loss of passporting [ability to offer services in Euro-zone based on UK licence or vice versa]	6.3	4.7	Yes
Lack of sufficiently robust transitional agreement to cover period between leaving EU and finalising trade deals	6.3	5.3	Yes
Devaluation of the GBP	5.9	5.6	Yes
Increase in UK inflation	5.7	5.3	Yes
Devalued perception of the UK among investors	5.7	5.1	Yes
Increased costs for setting up new subsidiaries/offices within EU or UK	5.6	5	Yes
Changes in operating model, organisational structure and internal processes	5.2	4.7	Yes
Difficulty in servicing clients based in the UK or EU	5	4.6	Yes
Some areas of business permanently moving away from London to Eurozone (eg euro denominated clearing)	5	5.2	No
Access to infrastructure for UK financial service entities (eg TARGET2 payments system for euro area)	4.8	4.8	Yes
Loss of, or difficulty in hiring, skilled workforce	4.7	4.3	Yes
Difficulty in transfer of funds in and out of UK or EU	4.7	4.3	Yes
Impact on data storage / privacy laws	3.9	4.2	No
Moving headquarters away from London	3.8	4.1	No

Managing cross-border complexities with Britian- Questions that needs to be answered

There are a few questions that the UK needs to settle if Brexit does not happen. Here are a few macro scenes given for no-Brexit to happen. Given the fact that tyhe UL needs to increase trade, taking a shape of No-Brexit post January 29, 2019, there are certain facts that the UK needs to understand to make its business cross-border with running profits. A planned No-Brexit response would have actually created a few points of concern for the UK.

1. What parts of my business should go where?

- What and where are my EEA or European Economic Area and how do I consider serving them through then UK clients?
- Which entities will change post Brexit or No-Brexit?
- Is it necessary to consider client groups or grouping instead of Brexit?

2. What is the business model that I would like to achieve?

- Can I develop a viable business model for each business line post Brexit or No-Brexit in different jurisdictions?
- What could be the important changes based on front office in the UK clients?
- What cross-border norms will I pursue?
- What could be the regulatory impact of the EEA supervisors?

3. What is the requirement of the new business model?

- What could be the next business and current model under any case?
- Could I make an asset transfer?
- What are the new capacities that can be made?

- 4. How should I revise my financial model?**
 - How do I rebuild new business and operational models?
 - How can the new models build plans on capital and liquidity?
- 5. What are the external and internal models?**
 - How can I build confidence in the business and economic models?
 - Have I secured enough time to build with the tax authorities and regulators?
- 6. What is my implementation plan?**
 - How can I build contingency planning?
 - Have I budgeted correctly with sufficient resources?
- 7. How do I migrate to the financial solution?**
 - Can the transfer mechanism be at the right cord?
 - Can the contracts be reviewed and sustained?
- 8. How do I build capability?**
 - What is the nature of the target state?
 - How can the new branches place with the host regulator?
 - Have the right infrastructure and policies been created?
- 9. How can the intergroup services be enhanced and strengthened?**
 - Have the intra-group services been augmented?
 - How to enhance the service managements?
 - How can governance and control be enhanced and created?
- 10. How should I manage execution risks?**
 - Can the governance program be effective?
 - Can we map relations?

In summary, Brexit may not be the ideal state, post the parliamentary discussions that the Parliament of Britain has actually discussed. There are certain trade negotiations that Britain can answer, once the Brexit deal does not happen in reality.

References used:

- 1. Brexit: Managing Cross-Border Complexity by E&Y, UK by partners of E&Y, UK**
- 2. Brexit Impact by Financial Services by ACCA, UK**