

THE BREXIT DEAL: WHAT'S NEXT?



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Boris Johnson's avowal that he would effect Brexit by today had run its course to no avail but the prospect of a Brexit with a deal has been enhanced

As he pondered on the prospect of becoming king of Scotland, Macbeth, in the eponymous Shakespearian play, said: "Come what may, time and the hour runs through the roughest day."

Upon becoming the United Kingdom's prime minister in July, Boris Johnson's avowal that he would effect Brexit, come what may by Oct 31 had run its roughest course to no avail.

But at least, the prospect of Brexit with a deal has been considerably enhanced.

After three years of ponderous negotiations that claimed the scalp of Johnson's predecessor, the European Commission last month announced a Brexit deal that was "fair and balanced" for both parties.

A key initiative in the deal is the swapping of land-border controls at the Irish sea. And the UK has been given until Jan 31, 2020 to make its exit.

What then will the fallout be for the world, the UK and Malaysia come February 2020?

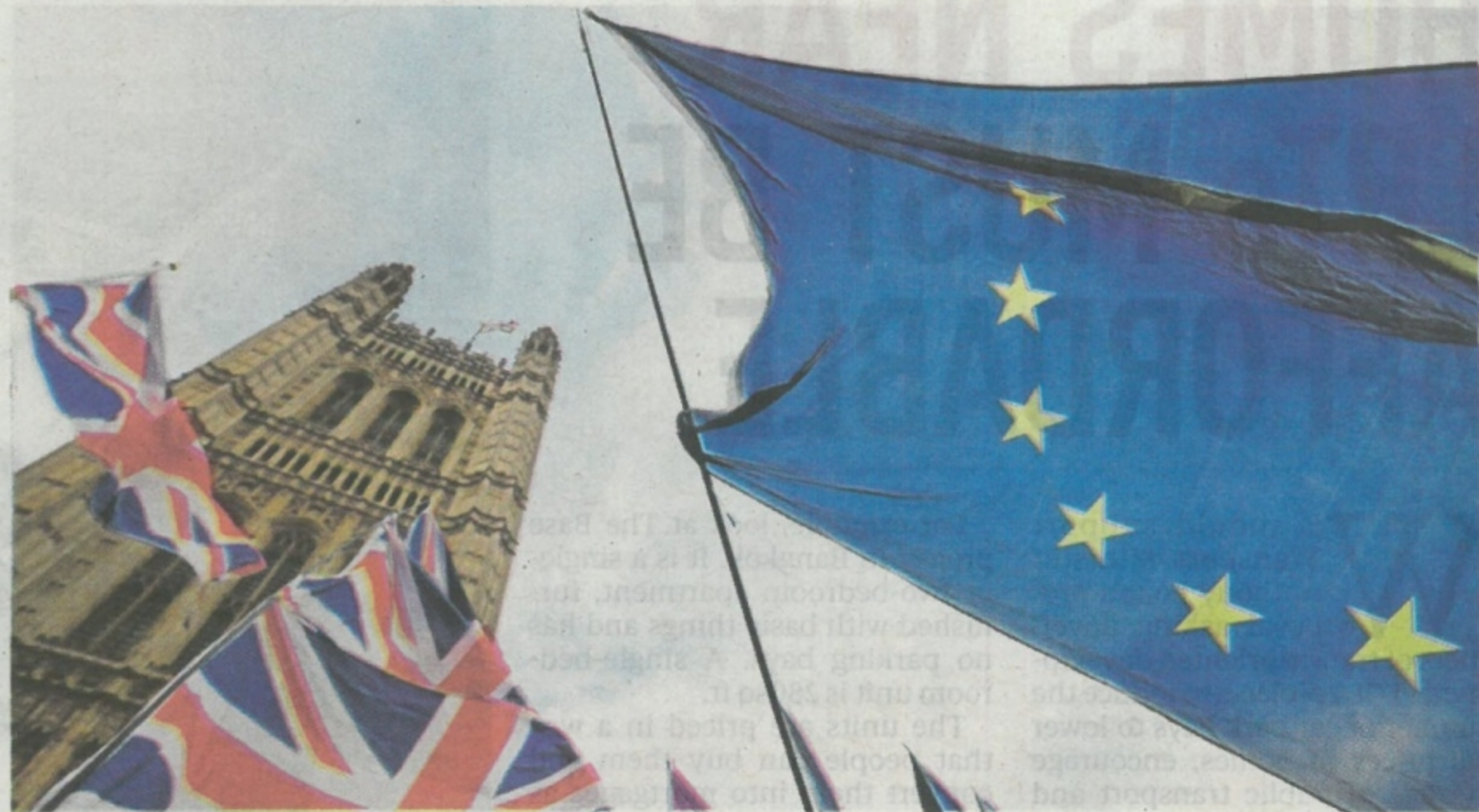
First the UK economy. The exit from the European Union's Customs Union will impact negatively on the UK economy.

A recession is a clear possibility. The Organisation for Economic Cooperation and Development (OECD), a mostly rich-country club, has predicted that the UK will grow at a measly rate of under one per cent in 2020.

Already investments and businesses have started to migrate from the UK to the EU to avoid new cross-border regulations.

As part of the Brexit deal, the UK had been absolved from the requirement of regulatory alignment with the EU.

That will enable the UK to put up trade barriers against its largest trading partner. Delays at



The UK's exit from the European Union's Customs Union will impact its economy negatively but on a positive side, Malaysia would be free to negotiate a bilateral trade and investment agreement with the UK.
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borders and a loss of free access to each other's markets can disrupt cross-border supply chains.

World Trade Organisation-tariffs will become applicable to the UK's trade with the EU. That will further reduce the UK's output, causing greater unemployment and lower tax revenues.

One estimate predicted Britain's trade declining by about 13 per cent and the British people poorer by six per cent, or £2,000 a year, over the next 10 years.

The impending recession in the UK may dent a fragile world economy, which is expected to grow by only 2.7 per cent next year.

The UK recession will be especially felt by the EU which absorbed roughly half of UK's total exports and whose exports comprise about half of UK's imports.

Furthermore, the EU's economy is shaky given the instability in global trade on account of trade spats and the ensuing softening of the global economy.

The OECD has estimated that combined, all these factors will dampen the EU's growth rate to about one per cent next year.

As Brexit dampens world growth and the UK's, Malaysian exports will almost certainly feel some heat.

Malaysia may witness a further drop in its exports to the UK which has been steadily declining over the years. It stands today at a miniscule 0.2 per cent of

Malaysia's total exports.

And given the EU's equally diminished trade position with Malaysia — trade with the EU is only 10 per cent of our total world trade — the EU's economic downturn might only have a tiny impact on Malaysia's exports.

Analysts reckon the British pound to lose around 10 per cent of its value upon Brexit. It would mean an equivalent appreciation of the ringgit against the pound.

It will thus cause our exports to become less competitive in the UK market, unless exporters can increase their quality and efficiency to absorb the currency loss.

On the flip side, the pound's slide will make property investments in the UK more attractive. The student property market will be especially irresistible as education in the UK remains the preferred choice among Malaysians.

The UK is home to some 2,500 Malaysian students.

Outbound tourism to the UK may rise with a cheaper pound. That would negatively impact on our services account in our balance of payments.

And as financial markets are integrated, Brexit will roil not only the European financial market but also that of the world.

Market volatility would be even greater if there had been no deal at all.

Notwithstanding, we are blessed with ample liquidity. We should be able to weather the storm.

These impacts are largely short-term. Trade and investments and markets have a great capacity to adapt to changes over the long-term.

On the positive side too, Malaysia would be free to negotiate a bilateral trade and investment agreement with the UK.

More worryingly, Brexit threatens the very foundation of the union.

Half of Scotland, which in the 2016 Brexit referendum had largely voted to remain in the EU, wants to be out of Britain, preferring to be part of the EU. So do 40 per cent of the Welsh.

Given our long association and tremendous goodwill, we want a strong and united Britain.

A strong Britain will be good for the world economy, too.

It will make for an attractive export destination.

And a strong Britain will burish its cherished institutions.

As Macbeth mused: "One way or other, what's going to happen is going to happen. If fate wants me to be king, perhaps fate will just make it happen."

The writer is a professor at the Putra Business School

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