

Institute for Policy Reforms

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Brexit affects us all in many ways

The Institute for Policy Reforms today released a comprehensive fact sheet on the effects of UK's exit from the European Union. It analyzes its effects on the world economy and on Pakistan. The Fact Sheet states that Brexit vote also challenges the way economic policy has been run in recent decades.

Pakistan has already felt Brexit's effect. Soon after the vote, PSX lost about 1700 points. It is still about a thousand points below its pre-Brexit level. It is unlikely that foreign investment will return soon. The Fact Sheet states that Pakistan's exports will suffer a twofold blow. Consumer demand in Britain will dampen from lower growth. A cheaper pound will increase the value of foreign goods in UK. Pakistan's main concern is whether exports to UK will lose the duty concessions under EU's GSP plus, and if so, when. UK was a strong advocate for Pakistan's GSP plus case in Brussels. GoP must lobby with UK for its continuation. At over USD 1.5 Billion, UK has a share of over 7% in our total export.

Workers' remittance could also decline, especially if unemployment grows in UK. Remittance from UK is about 13% of total. FDI from UK will likely decline. They have fallen since 2007, in line with the overall trend of FDIs in Pakistan. Pakistan is one of the largest recipient of UK's overseas development assistance. Prolonged loss in economic growth could lead UK to reconsider its ODA level. This would affect assistance to Pakistan.

Above are the effects from loss of growth in the UK economy. A spillover to other economies will heighten the effect on Pakistan, as it would for the rest of the world.

An analysis of why UK voters opted out of EU holds a deeper lesson for everyone. Educated and skilled people voted to stay. Unskilled voted leave. The campaign broad brushed serious issues of immigration, globalization, and technology into nationalistic sound bites. There was no debate on the real issue of why some people cope better than others with open borders. The Fact Sheet states that recent policy worldwide has reduced investment in people. Economic exclusion has as much to do with policies at home as with openness. However, a consensus on market fundamentalism in recent decades has put this issue beyond debate. Warnings about EU exit

didn't affect the leave voters as their options had been closed off a long time ago. An uninformed debate placed the blame solely on the single market rather than on domestic policies.

Pakistan must heed this lesson. Economic policy in Pakistan has two objectives. It satisfies guidance from multilateral institutions or serves elite interest. The majority of people feel left out as they do not figure in government plans. Left out of economic mainstream, they have little stake in the present order. This is a recipe for instability.

Brexit's economic effects partly depend on the method for separation to be adopted by UK and EU. Both parties must try to quickly restore certainty in the markets. Under EU law, Britain will have little say on the terms of its departure. A majority vote of EU members will decide. An outline agreement that sets the contours of future EU-UK relations and the extent of their cooperation, would help restore market confidence. The Fact Sheet hopes that EU will retain close trade links with UK.

After initial volatility, markets have recovered somewhat. The Pound is 10% below its pre-Brexit level and the London Stock Exchange Index, FTSE, has recovered. Other effects on UK and world economy have yet to unfold. Investment decisions are on hold in UK, and partly in EU. In fact, foreign investors may be pulling out of UK. This may lead to loss of thousands of jobs. Lower economic growth in UK and EU could lead to an economic downturn. Experts forecast a 30% chance that the US will be in recession within a year. Access to capital for developing countries will squeeze as money moves to safe havens. Central banks have helped greatly in restoring order, but they are limited by already low interest rates.