

The Economic Implications of “BREXIT” on Bangladesh Economy

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I. Introduction

- “BREXIT” is the term used to describe the United Kingdom (UK)’s withdrawal of membership from the European Union (EU)
- This study aims to identify
 - the short term observed impacts of BREXIT
 - the possible implications these might have on the
 - UK economy
 - EU economy
 - Global Economy
- The ultimate motive of this study is to find the final implications on the Bangladesh Economy.

I. Introduction (contd.)

- The EU referendum was announced in February 2016
- The EU referendum was held on 23 June 2016
- Decision: “Leave” won by 52% to 48%.
- The decision of the UK electorate to “leave” the EU reflects both economic and non-economic factors.
- This study focuses on the economic factors only.
- The process will begin with the invocation of Article 50 of the Lisbon Treaty.
 - Once invoked it will take at least 2 years to finish the whole process
 - Article 50 will not be triggered any time sooner than 2017.
- The terms and conditions of the withdrawal process is yet to be decided.

II. Purpose of the study

- The exit of the UK from the EU will infuse further volatility in global trade, investment and growth scenario.
- The study of the implications is imperative in building preparedness in the long run.
- Why is this study important for Bangladesh?
 - The EU is the largest export market for Bangladesh
 - UK is the second largest Bangladesh-bound investor and the third largest export destination for Bangladesh
 - EU accounts for 55% and UK accounts for 12% of Global RMG export of Bangladesh.

II. Purpose of the study (contd.)

- Both the UK and the EU are important players for Bangladesh economy.
- The information provided and findings of this study will
 - ✓ help initiate discussions on necessary reforms in the relevant existing policies.
 - ✓ help attain policy-readiness
 - ✓ set the grounds for focused bilateral interactions with the UK and the EU.
 - ✓ assist in formulating precautionary measures in the face of changing global economic scenario.
 - ✓ help understand Bangladesh's feasible stance as a member of the Commonwealth of Nations.

III. Methodology

- This study will be based on secondary literatures mostly.
- Research outputs from entities like International Monetary Fund (IMF), World Bank (WB), Capital Economics, London based think-tank National Institute of Economic and Social Research etc. will be consulted.
- Meta-analyses may be conducted to obtain empirical support.

IV. Short-term visible impacts

- The most immediate impact of Brexit was the devaluation of the Great Britain Pound (GBP).
 - GBP fell by 8 percent against USD on 24 June 2016.
 - GBP fell by more than 10 % against the Euro since the vote.
- As a result, UK exports have gained competitiveness.
- Share market:
 - The FTSE 100 experienced a downturn immediately after the vote, but recovered lately
 - FTSE 250 fell as well and is still below pre-Brexit vote level
- Demand for government bonds in the UK and elsewhere has risen since the referendum – as a result yields have fallen severely.

V. Long-run Implications

- Long-run implications in the following aspects of the economy will be studied:
 - Trade
 - Investment
 - Productivity and Income
 - Labour Market
 - Public Finances

VI. Implications for Bangladesh Economy

The implications for Bangladesh Economy will be analysed with respect to the following dimensions:

- Trade
- Foreign Direct Investment
- Remittance
- Foreign Aid
- Migration

VI. Implications for Bangladesh Economy (contd.)

□ Trade

- Why is the EU the best market for Bangladesh?
 - Duty-free market access for all products under Generalised Preference System (GSP).
 - More recent benefit: Duty-free, Quota-free market Access for all-products-except-arms to the EU market under the Everything-but-Arms Initiative (EU-EBA).
 - One-stage Rules of Origin
- Bangladesh runs the risk of losing these benefits in the UK market.
- Export growth potential of Bangladesh may get undermined to a large extent due to subdued demand in the concerned markets.
- Weaker currencies in the UK and the EU zones imply reduced buying power and thus lower prospects of exports.
- Exporters' earnings will lose value in currency exchange.

VI. Implications for Bangladesh Economy (contd.)

❑ Foreign Direct Investment

- The uncertainty and volatility in UK market is likely to have adverse impact on its investment bound to Bangladesh economy.

❑ Remittance

- Devaluation of GBP will have immediate impact on Bangladesh's remittance.
- Migrant workers and non-resident Bangladeshis may postpone sending remittance to Bangladesh until GBP revives.

❑ Foreign Aid

- The flow of grants from both the UK and the EU is likely to be affected based on their respective economic states.
- Official Development Assistance (ODA)

❑ Migration

VII. Challenge

- All the estimates available are based on potential scenarios, since nothing is concretely known about the process of withdrawal.

Thank you!