Global Scientific JOURNALS

GSJ: Volume 9, Issue 8, August 2021, Online: ISSN 2320-9186
www.globalscientificjournal.com

BREXIT Impact on Pakistan

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Abstract:

This paper aims to evaluate the short run and long run impact of Brexit on Pakistan. As Both the Uk and the EU are the strong trading partners of Pakistan.This paper concluded that impact of Brexit on Pakistan will be in the form of Short and long run.In the short run due to depreciation of euro and pounds as a result of political uncertainty will cause the Pakistani exports relatively expensive in the international market. Therefore, the main export contribution sectors will be affected, these sectors are textile, wearing apparels, agricultural products , light manufacturing and lather industry etc. Besides, worker remittances will be toppled because of the devaluation of the UK currency. But, in the long run FDI will be upsurged because as a result of Brexit now Britain cannot sell their products in EU countries without tariffs so, it might be possible, to maintain UK products competitive in EU market they will use GSP plus status of countries like Pakistan therefore, it will enhance its FDI in Pakistan. In addition, Pakistan would lose a stalwart supporter in the EU Parliament that will be difficult for Pakistan to maintain the GSP plus after its expiry date.This paper recommends the Pakistani government to revisit its trade relation with UK(like EU GSP plus) as well as EU to maintain EU GSP plus status to curtail the adverse effect of Brexit.

keywords : UK, EU, remittances. ,FDI, Brexit, GSP plus status.

Introduction:

The word Brexit means the exit of Britain from 28 nations (European Union). As the UK decided the historical referendum the Pakistan stock Market plunged over 1400 points. The level of Pakistani exports including textile, Auto sector, etc declined as the UK exited from 28 nation**s(The ExpressTribune, 2016)**. In this project we used a secondary method i.e we collected information from articles, case studies, etc. The European Union is the largest trading partner of Pakistan so due to political uncertainty in Europe, the depreciation of Europe and pounds caused the Pakistani exports relatively expensive causing the demands to drop(**The ExpressTribune, 2016 , Ahmed, Alam**).Many sectors could be affected due to Brexit such as,

The textile sector contributed 8.5%to the country's GDP and employed about **15 million people.** So due to political uncertainty as a result of Brexit, the currency of the UK and Europe declined which affected the demand for textile in UK and Europe because of the depreciation of Currency in the UK and Europe. During the fiscal year 2015-2016 the total Pakistan textile exports were 11.6 dollars billion and During the first eleven months (Jul-May) textile exports share to the UK was 1.2 billion dollars. Source (**Dawn news. Ahmed)**

Pakistan trade with the EU plays a vital role to nurture Pakistan's economy. In 2016 ,Pakistan had a trade surplus of $2.14billion also, EU is the third largest import pattern to Pakistan. Besides, Pakistan had a total export of $6.92 billion to the EU and was the largest export partner in 2016 **(The Pakistan Business Council).**

Over 10%of Pakistan's total exports to the EU come from the leather sector. So the political upheaval might create uncertainty with the exports of leather. As a consequence of Brexit the depreciation of its currency against the dollar, the Japanese yen. A stronger yen will badly affect the auto company. Because we buy some of their auto parts from Japan. **(The News 2018)**

Worker remittances due to sterling loss of its value against dollars etc. our foreign remittances also start to reduce. Some of the **1.2 million** Pakistani living in the UK. Some of the experts believe that fall of the Sterling will prompt more migrant workers to leave Britain and fewer to move there.
Some of the experts say that due to the transfer of the European industries and the impediment of the migrants from European countries in the UK the job opportunities for Pakistani doctors, IT professionals, nurses, etc would expect to increase. Because Pakistani products and commodities have been popular in the UK.

GSP (Generalized System of Preferences Plus status to Pakistan) : European union praised GSP status to Pakistan in December 2013 for the next 10 years. As a result of this GSP, it helped Pakistani exports to surpass over $1 billion per year from Jan 2014. Uk was the biggest supporter under this GSP, so after Brexit Pakistani exports are worried whether they will get some benefits or windfalls from Britain. (The Express Tribune, 2016). In 2013, the EU total imports from Pakistan was $6.90 billion which was increased to $8.08 billion in 2016 and $8.2 billion in 2019 .The main factor behind the increase in the EU import level from Pakistan was the GSP plus status **(The Pakistan Business Council**).

Top export destinations for Pakistan are Germany, the Netherlands, Spain , Italy and Belgium and the products exported to the EU includes articles of leather, rice , sports goods(football), surgical goods, plastics, machinery , carpets, pharmaceuticals, minerals etc(**Dawn news, 2021**). But Pakistan exports to Netherland, Germany etc have been surpassed in 2021 as in case of Netherland exports to that country from Pakistan soared to 21 % $ 1.04 billion in 2021 against 0.86 billion over last year. But, Pakistan exports to France are negligible as during this period France relation with Pakistan was unpleasant when Tehreek e labbaik Pakistan decreed and threaten France ambassador to go way from Pakistan over the blasphemy**(The dawn news, 2021**)

Britain was one the robust supporters of Pakistan in the European parliament on the issues like Kashmir, GSP as several countries like France, Germany which were against the GSP status to Pakistan. In 2016 EU Also threatened Pakistan to impose sanctions on Pakistan for human right violation. Recently French member of the European Parliament has called for real financial and trade sanctions against Islamabad due to security threats.

Literature Review:

1. UK's Development for work and Pensions, According to Research by UK development for work and Pensions suggests higher unemployment in the UK will prompt fewer people to move to the UK and more people move to leave. So at least **1.2 million Pakistanis live** in the UK where they are doing jobs and they are sending remittances. So as a result of the low currency of the UK they cannot save or send the maximum amount to their families so they will leave the job which causes high unemployment and loss of remittances in Pakistan.

2. Financial time since the Brexit vote (down 14.6 against the dollar) means those remittances are worthless to people back home who receive them. So fall in the currency will result

- **A decline in currency value causes a decline in savings**
- **They predict higher unemployment (people start to move away)**

3.London Schools of Economics and Political science (Sept 2018) In this research, they found a shrinkage of the working-age population and highly skilled labor shortage especially in hospitals and universities as a result of decreasing number of immigrants from the EU states which will ultimately decrease the productivity in the UK. A large highly skilled labor shortage is expected in academia and health services.

So best opportunities for Pakistanis doctors, nurses, IT professionals e, etc. to be employed in the UK.

4.The Islamabad chamber of small traders (ICST) report says Brexit will reduce remittances and exports but improve foreign investment in Pakistan. The UK is the third-largest investor in Pakistan after China and UAE.

5.The Pakistan Business Council (March 2018)according to this report the fall and instability in the value of the pound have meant that not only imports from Pakistan become expensive in the UK market but also the rupee value of remittances from the UK has plunged Remittances make up a huge proportion of Pakistan GDP. Almost 20% of all remittances in Pakistan come from the UK.

Pakistan also depends on grants, the UK contributes over 60%of the grant received by Pakistan. A result of further pound depreciation to the rupee could result in a drop in total grants received by Pakistan.

It is reported about 2.2 million EU nations were part of the UK labor market. Of the 701000, non-UK nationals that worked in Public administrations, health, education sectors, 30% were EU nations. So Brexit could open more opportunities for more Pakistanis to be able to go there to work.

6. A review of the impact on future of UK outside Europe (In 2017, Syed Ali, Sardar Ahmed)

Brexit can vastly negatively impact a developing country's Economy. This could cause a potential reduction in exports, remittances and employment of these countries.

The UK spends **0.7%** of its GDP on international aid purposes. So to stimulate economic stability, the government might consider a substantial reduction in aid spending that might be caused by health, education issues in developing countries.

7. A critical Analysis by Muhammad Sakhwat Hussain According to this as a result of Brexit a medium and long-term effect could be in Britain as a survey of economists in 2018 found that ranged between GDP losses of 1.2 to 4.5% for the UK with a decline of per capita income. They found that businesses would have a high and increasing level of uncertainty during this process that will impact investment decisions as investors become pessimists.

8. The EU-Pakistan Relationship:looking beyond the trading partnership(14-5-2015, Ana-Ballesteros-Peiro): Although EU is anticipated as a robust economic player but, it has wane political power over Pakistan.The EU therefore aims to change that aspect by using its aid donor and development as its main tool to nurture democracy and institution building. The area of cooperation are development, trade, humanitarian, sectoral cooperation on energy, migration and climate change. The challenges for both partners are to know each other and build up natural trust to maintain a long term relationship.

9**. Economic implication of Brexit for Pakistan:(Amir khan, Hussain**):Pakistan's trading relationship with the UK was governed by EU single market and regulation. The EU has granted Pakistan the GSP plus status which helps Pakistan goods to reach the EU market without tariffs.But, with Brexit Pakistan exports with UK will topple by 48 %. Therefore, the government should revisit its trade relation with the UK to get access like EU GSP plus status.

10. The impact of Brexit on UK-Firm(Bloom,Philip,chen, Paul, Mizen, samitanka and Thwaites)the National Bureau of Economics , 2019 sept.: This research concluded that three impact could be happened following the corollary of Brexit

1. The UK decision to leave the EU has generated a long lasting increase in uncertainty.

2. It is calculated to have generally dipped in investment by about 11 percent.

3. It is anticipated that this effect will have toppled UK productivity by 2% to 5 %.

Methodology :

The study used a secondary method to analyse the potential impact of Brexit on Pakistan. Datas are collected with the help of articles, case studies and research papers.

Result and Conclusion :

As a result of Brexit short-run and long-run affect will be on Pakistan. They may be in the form of exports level decline mainly in textile, leather exports, etc, reducing remittances as a result of further depreciating of the pound, the unemployment level could be soared as a result of the low value of the UK currency but it would be the short run because over time it will overcome as their economy will become strong. As a result of Brexit, Pakistan would lose a stalwart supporter from the EU and it would be very difficult for Pakistan to maintain the GSP after its expiry date because of a lack of strong supporters. So the lack of GSP would cause our exports to the EU to become less competitive. Britain was also important for Pakistan in terms of global politics because they always favored Pakistan in issues like Kashmir issues etc. The long-term impact was in the form of economic and political sanctions on Pakistan by the European Union because Pakistan relations with the strong European countries are not good like the UK so both of the countries already threaten Pakistan to impose sanctions because of human rights violation and security threats. Because as a result of Brexit now Britain cannot sell their products in EU countries so that might be possible to maintain their products competitive in the EU market. They will use countries like Pakistan (GSP) so they will enhance its FDI in Pakistan.

Recommendations:

1. Pakistan will need a strong supporter in European Union after Brexit, therefore our relationship with France and Germany should be improved to maintain duty-free access granted by European Union GSP plus Scheme.

2. **Should New investment opportunities for the UK in Pakistan:**
Rather than spending funds for educational development in Pakistan. It could encourage UK Universities and Schools to set up offshore campuses in Pakistan like British University in Dubai, Heriot-Watt University, and London Business School in UAE can be replicated in Pakistan.

3. **Investment Opportunities:**
After Brexit the UK will move towards isolation. This will open opportunities for new industries for products like machine pieces and the automobile industry, pharmaceuticals, etc. So Pakistan should avail this opportunity to invest in the UK.

4. **Scholarships Schemes:**
Scholarship Schemes are a great example of Britain's Investment in Pakistan's future. So in top Universities like Oxford University, Scholarships should be increased, this will help Pakistan to ameliorate human capital.

5. A Coalition Training Program between Pakistan and UK should Increase to produce skillful laborers which help the UK to fill the gap of European Union skillful laborers and will help Pakistan to reduce unemployment in Pakistan.

6. After Brexit UK products might face high tariffs hence they will become less competitive in the European market. So there should be an opportunity for the UK to invest in Pakistan and export indirectly to European Union.

7. The UK can also play an important key role in the development of CPEC because after Brexit UK wants to invest in developing countries, especially Gulf countries so Gwadar could provide an easy way to gulf countries.

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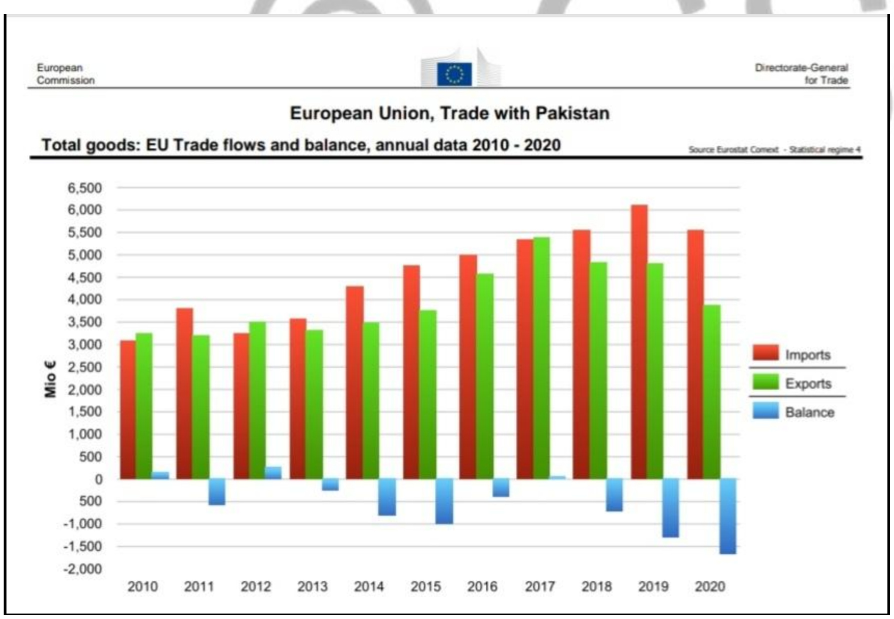
Appendix:



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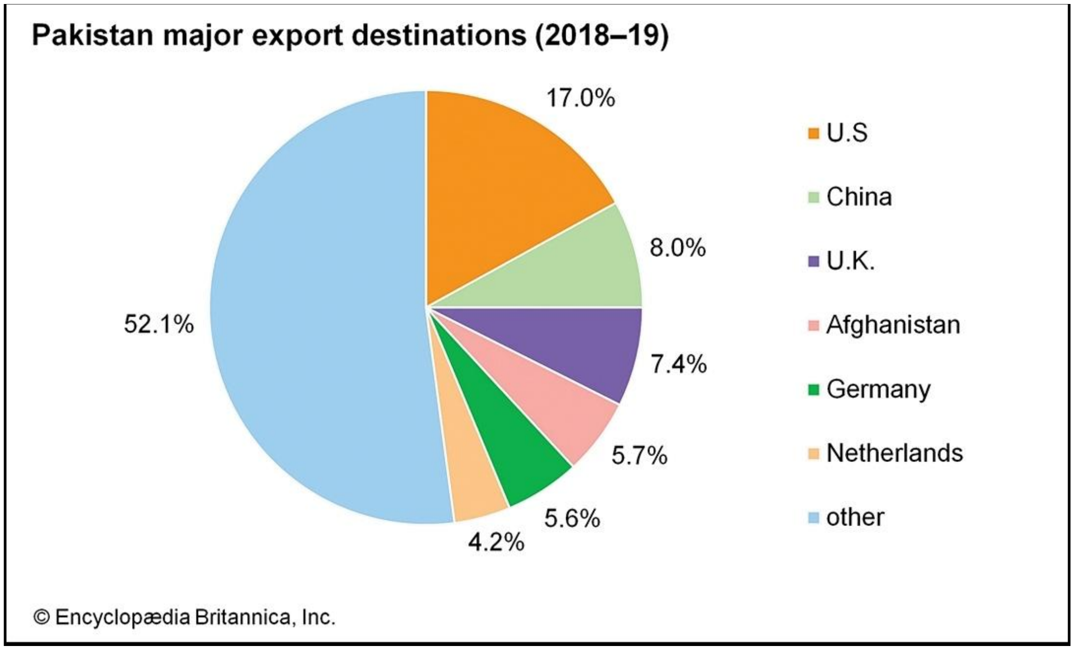

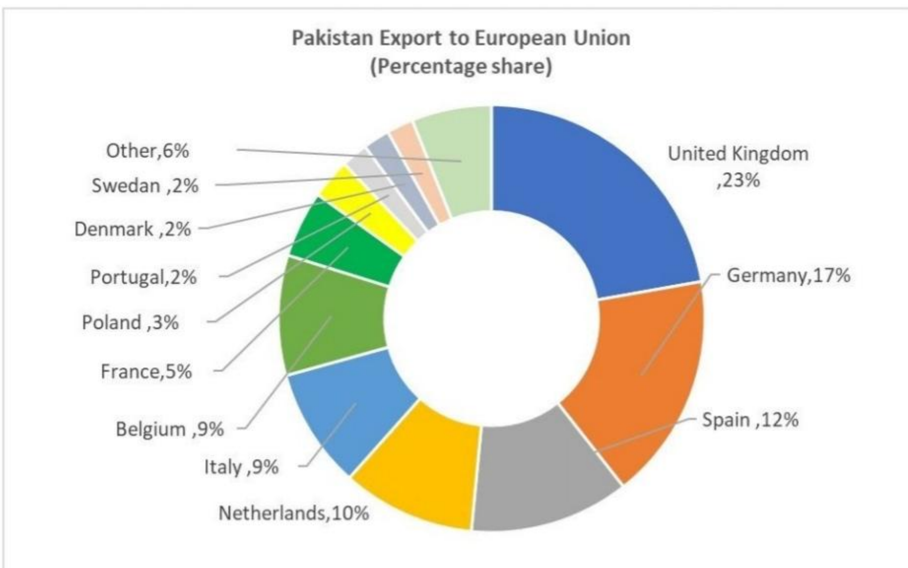

Figure 1

Pakistan Exports to the European Union (Percentage Share) in 2018 Source: Based on data extracted from WITS