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BREXIT - A First Look on Global Workforce Mobility and Economic Impact

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Abstract

BREXIT is official now. Britain is in the throes of conflict. There is no definitive picture of what is going to happen? Serious questions arise in the backdrop of this concerning employees and their rights to work and live in the UK and how employee mobility policies need to be changed and made adaptable to benefit employees whose livelihood depends on their jobs in the UK. All changes have a positive and negative side to them but what is important is that one should take them in stride and try to reap beneficial outcomes. Strategic plans need to be formulated and an action plan must be put in place because the outcomes here seem to be unclear at present without an iota of knowledge of how the future will actually unfold. With no concrete outcomes visible, inevitably this will result in a knock-on effect for firms in UK.

The Brexit Aftermath - Aftershocks, Resignations, Recriminations, Rediscoveries and what more? All that can be done now is to wait and watch what happens next?

Keywords: *Global Mobility, Employee and Corporate Relocation, Immigration, Taxes, Brexit.*

Britain's exit – 'Brexit' in reality is likely to take not less than two years from now to complete, so changes in UK will be minimum and business will be done as usual. Most people will continue to travel within and out of the country as is done. There may be no change on the international stage especially, short term, thereby allowing ample time for firms to review and rev up their relocation policies well ahead of any potential impact that is expected to come. Simply put - for now, 'Brexit' has had no immediate impact on global mobility and mobility providers focus should remain on continuing to do what is best – meeting the needs of employees all over the world which ever part of the globe they may be living and working.

Now that the dust has settled down a little, the reassurances from the Bank of England's Governor,

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Mark Carney that they have already started to engage in "extensive contingency planning" that will help the economy navigate any uncertainty as the process of dismemberment unfolds for Britain. Any separation comes with a price, so also with the UK. Ahead of the UK's EU referendum which saw 51.9% of voters' i.e. more than 17 million people chose to leave the European Union in a historic decision with immigration changes looming large which may occur in the near future. Labour mobility industry leaders have begun giving some serious thought to what the international landscape might look like for its firms and the relocation of employees because of the "Leave the EU" decision.

The EU referendum date was set for 23 June 2016 and BREXIT is thus official now. Britain is in the key stages of campaigning, public debate and mass speculation about the future of the UK and its relationship with Europe. Serious questions arise in the backdrop of this about employee rights ; how it will affect the availability of talent ; will businesses be able to move quickly to their point of decision making ; how the mobility policies need to be adapted and finally how all of this, will affect the globe? These are the questions that need to be answered.

The Great Divide

Pro-Brexit advocates believe that leaving the European Union is required to protect and perhaps restore UK's identity: its culture, independence and most importantly its vital place in the world. This often is expressed by opposing immigration and discouraging people who want to come down to settle in the UK.

"Remain in EU" supporters state that staying with the union is better for the British economy and will pave way for prosperity in the long run and any concerns about migration and related issues far outweigh the economic consequences of leaving the union.

The debate has also cut along UK's deep class divide. Citizens with less money and low wages and education support leaving the union. **Robert Tombs,** a historian at the University of Cambridge, said this stems from a sense of abandonment among the poor and working-class Britons. Brexit has become a stage for exhibiting anti-establishment and anti-elite feelings directed at the leaders of the mainstream "British political parties" as much as towards Europe. Interestingly, neither the pro nor the anti-side is defending the European Union as a meaningful or admirable institution. In part, this speaks of British views that the rest of Europe is somehow totally alien.

Shadow of Uncertainty - The U.K. vote to leave the European Union has sent shock waves around the world and taken both the U.K. and the EU into wholly uncharted territory. This leaves global mobility professionals, especially those of you with employees or business in the U.K. and other European countries, wondering what lies ahead. There is no precedent for what has happened: the U.K. is the first country ever to exit the Union. So how will the U.K. withdrawal from the EU play out and what will be the consequences.

Brexit Consequences -

Volatility

The U.K. is entering a period of political, economic and quite possibly social volatility. The prime minister has resigned, and a new leader is unlikely to be in place before October – this leaves the ruling Conservative party leaderless. The main opposition Labour party leadership is also under siege. The day after the referendum result, Moody's cut the U.K.'s credit rating from stable to negative.

Disengagement

It will take at least two years for the U.K. to negotiate its disengagement fully from the EU. The disengagement will be negotiated with the remaining 27 EU members and ultimately approved by a majority of them as well as both the U.K. and European Parliaments. Until these negotiations are completed, the U.K. is required to abide by all existing EU treaties and laws.

Legal Entanglement

The process will require working through approximately 80,000 pages of current laws that bind the U.K. to the EU. Both must agree on how to resolve EU budget issues, the division of assets and set out the future rights of EU nationals in the U.K. and vice versa.

Laws

In the area of tax law, many U.K. laws are bound to

EU laws and specifically incorporate what is known as EU fundamental freedom principles. Once EU directives relating to corporate taxation no longer apply in the U.K., a U.K. company with subsidiaries in EU member states would need to rely on the U.K.'s extensive network of double tax treaties to prevent effective double-taxation on intra-group dividend, interest and royalties.

Rights

Until the U.K.'s disengagement has been negotiated, EU citizens already residing in the U.K. prior to the referendum will not lose the right to live and work in the U.K. Similarly, U.K. citizens living and working in EU countries prior to the referendum will not lose their right to live or work there. This is especially important to note for any of your employees currently in this situation.

Trade

Negotiations on new trading arrangements between the U.K. and EU can be conducted in parallel with the disengagement negotiations, but it is quite possible that these negotiations could drag on for years to come.

Beyond the key certainties that are listed above, everything else is speculation and left to imagination at this point of time. Much depends on the forth coming negotiations between the UK. and the EU. These are some of the major areas of concern to those concerned with global mobility, plus the informed opinion of what is expected to come regarding immigration. It is possible that those who have lived and worked in the UK for less than five years by the time disengagement is completed will need to reapply for work permits to continue living and working in the UK.

London City

The impact of potential European headquarters migration and transfer of operations outside the UK is greatest in the city of London and in the global financial services sector. Banks based in London are reported to have already begun looking at shifting operations outside of UK. Destinations like Frankfurt, Paris, Dublin and Amsterdam have been mentioned as excellent alternatives as banks consider moving staff from London to locations within the EU as a good move to begin with.

This potential impact is not confined to financial services. In the immediate aftermath of the referendum result, companies in the technology sector (Samsung for instance) are rumoured to be considering a move of their European headquarters out of the UK. Other tech sector companies such as LG Electronics and Acer are also looking at shifting operations. Acer CEO Jason Chen is on record as saying the U.K.'s departure from the EU will weaken demand in the European market due to lower consumer confidence and exchange rate fluctuations.

Finally, the U.K.'s Institute of Directors (IoD) surveyed 1,000 of its members in the immediate aftermath of the vote and found that 25% plan to freeze recruitment, with a further 5% planning to cut jobs. More than 60% of members surveyed said the vote was negative for their business.

A "Disunited Kingdom"

An abiding irony of the U.K. referendum is that the vote was meant to lay to rest a decades-long simmering political issue, yet the result very much projects an image of a "Disunited Kingdom." Voters in Scotland and London voted overwhelmingly to remain in the EU, and majorities in the metropolitan areas of Birmingham and Manchester as well as in Northern Ireland also voted in favour of staying in the EU.

On the other hand, the rest of England and Wales voted overwhelmingly in favour of leaving the EU. The geographic differences in the vote spell long-term political trouble. Scotland is already pressing for another referendum so that the Scottish people can decide if they want to be in the EU (not a single polling district in Scotland voted to leave the EU). And there are now strong voices in Northern Ireland in favour of uniting with the Republic of Ireland, which is a staunch EU member.

Political leaders in the UK, especially those who led the Leave EU campaign, should be equally troubled by the sharp generational divide on the issue of EU membership. Younger U.K. citizens (especially those under voting age) overwhelmingly support being part of the EU. Most polls of 16 and 17-year olds put support for UK membership in the EU at 75% or more. Among

18-24-year-olds who did vote in the referendum, 75% voted to remain in the EU. In the immediate aftermath of the referendum, there has been a tidal wave of outrage on social media from this group against the result to leave. Many expect further political and social volatility over the next few years in the U.K. over this matter

At this time, there are a great many more questions than there are answers about the consequences of the U.K.'s withdrawal from the EU. While it is certain that sweeping changes are coming, it will take time for the details to emerge. With so much open to speculation at this point, it is perhaps inevitable that such speculation runs from mild to wild. *Relocating and assigning employees in the U.K. and Europe will be the order of the day.*

Low skilled migrant workers shall be at the greatest risk

The United Kingdom's recent vote to separate from the European Union (EU) was a surprise move for many. While the impact Brexit (shortened from "British exit") will have on global mobility is still not entirely clear, there will be no immediate change as Britain embarks on the two-year process of cutting ties with the EU.

"We won't know for some time how this is really going to pan out, but at least we've got a decision," said Nick Jackson, head of global mobility at Lloyd's Register, in an article published by Forum for Expatriate Management. There will undoubtedly be more administration for with regard to immigration in particular, and it is expected that many will see some shift in the countries with businesses adapting to a new order.

What would Brexit mean for immigration?

Some of the coverage of our Brexit report has honed in on the conclusion that, in order for Britain to make the most of life outside the EU and reach either of our optimistic scenarios where UK GDP is 0.6% or 1.55% of GDP higher in 2030 post-Brexit, one of the many things Great Britain would need to do is maintain a "liberal policy for labour migration

Deloitte has provided insight on some possible outcomes:

- European nationals could be subject to new immigration rules and restrictions.
- Many trade agreements may need to be renegotiated.
- Scotland may push for a new referendum on its independence (in 2014); the country voted against gaining independence
- The UK could adopt a similar trade model to other European countries that are not a part of the EU.

Iceland, Liechtenstein and Norway are not part of the EU, but they are a part of the European Economic Area (EEA) and are allowed to access the single market, which permits free movement of goods, capital, services and people between EU member states. Switzerland belongs to neither to the EU or EEA, but has access to the single market. If Britain does stay in the EEA, it would be required to preserve free movement of labour so in that case, European immigration may experience only some moderate changes. Change in some form is inevitable, however. *Reports the Economist:* "Britain's next leader must explain to 17 million voters that the illusion they were promised all the EU's benefits with none of its obligations does not exist."

Economic Impact on UK in a Nutshell

The economic changes will certainly have widespread ramifications for UK. Businesses with locations or employees currently located in the U.K. or other European countries must pay undivided attention to how these areas develop:

- It is likely that the U.K. will cease to be part of the EU's customs union. This will mean that U.K. exports to the EU will be subject to EU customs processes, and in turn, that customs duties will apply. This will bring an added administrative and financial burden which will affect British business relative to their duty-free former EU partners.
- If there is no new deal on trade after the U.K. withdrawal from the EU is complete, World Trade Organization (WTO) rules will govern the U.K.-EU trading relationship until such time as there is one.
- One of the biggest areas of concern for U.K. business (especially the U.K. services sector) is the loss of preferential access to the EU market. The U.K. services sector accounts for 80% of the U.K. economy, and in 2015, nearly 40% of U.K. services exports went to the EU.

- A detailed analysis by the Economist suggests that it will take until 2019 for any new U.K.-EU relationship to take shape. By this time, the Economist expects domestic demand to be in recovery from the downturn caused by the referendum result - but from a new and lower base.

- It further anticipates the combined effects of restrictions on migration and the likely relocation of business (especially those in the services sector) will mean a decline in the U.K.'s labour force. This means a negative effect on already weakened productivity. The Economist forecasts that by 2020, the U.K. economy will probably have stabilized, but with real GDP at 6% lower than if the U.K. had voted to remain in the EU.

The Migration of European Headquarters and Impact on Jobs

This area is of special interest to those in industry, and we will pay close attention to developments and changes as companies make decisions about their futures in the U.K. and EU. The U.K. is home to around 50% of all headquarters of multinational corporations operating in the EU, so there is much potential for upheaval. As Radius, a global business expansion advisor, points out - the potential for a reintroduction of withholding taxes on the repatriation of dividends out of Europe via a historic U.K. holding structure will be a cause for concern for many multinational companies operating in both the U.K. and the EU.

British Indians and Brexit

A broad pattern is observed consistently to the reactions of the Indian diaspora in UK to Brexit. As immigrants Indians are at the very top. While the opinion polls keep changing like the British weather, a recent poll suggested that 52% of Indian origin voters are anti-Brexit, with 28% supporting it and the remaining are undecided. It is important to note that Indians in the UK tend to be young, highly educated and employed as professionals or skilled employees for whom trade and migration in an integrated market is a net-plus.

India will be impacted adversely on the following counts – Investments in India; Indian firms are the third largest source of FDI in the UK; 800 plus firms have presence in the UK; Fastest growing Indian companies in UK generate over 26 million pounds of turnover and many will need to find another city in Europe to serve as a gateway to conduct business with EU which is akin to starting from scratch in business.

Conclusions

In reality, many analysts like to believe that the Brexit will not hurt globalists in the long run, it will actually help them. Brexit is likely to be very different and employers should be alert to implications for their businesses. The implications are tough to predict and the likelihood that Brexit will have significant implications for employment and employment law is a big question. As discussed, nothing is certain in terms of the potential implications, but there may be some future longer term challenges such as tighter immigration controls and customs clearance for consumer goods. There could also be taxation and transport legislation changes which would have a wider impact on the moving industry, particularly for European operators. But, as things remain unchanged as of now, it affords providers the opportunity to continue to consult with their clients to manage the overall cost of their employee mobility programmes.

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