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Why Brexit vote rattles international investors

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If we are to believe the hoopla surrounding “Brexit” or British exit from the European experiment, we could be mistaken for thinking a major divide between Britain, Europe and the rest of the world is imminent.

The June 23 Brexit referendum, like many before it, has more fearmongering and hype surrounding it than it deserves, and for Australian ultra high net worth investors who bank, trade and regularly visit the City of London, this drama brings fresh opportunity to assess their financial relationships with Britain, Europe and the global marketplace at large.

These investors still vividly recall what they were told would happen after the last significant British referendum in June 1975 — gauging support for the country’s continued membership of the European Economic Community, which lead to the European Union after the Maastricht Treaty in 1993 — and they recall that most of what they were told would happen never did. In fact, the opposite came to pass.

London flourished, the pound strengthened and the City became the financial services hub for the global economy.

This is not to say resetting a 28-member supranational accord does not have consequences — it does.

But a month out from the referendum, it is timely for global investors to assess the pros and cons for Britain, and possibly Australia as well.

On this, US author James C. Bennett believes: “Trade deals once primarily involved a simple tariff-reduction agreement between a few neighbouring nations, but as trade structures grew larger, broader, and more complex, they grew more opaque and effectively impossible for citizens to control through national representative government.”

Bennett argues the EU is now under fire in Britain.

Next it will be the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership.

Attention will then return to smaller, friendlier agreements between similar

cultures.

Bennett suggests: “A post-Brexit Britain might find Australia and New Zealand, and perhaps Canada, early candidates for a friendlier, more tractable trade and free movement agreement.”

While bearing in mind that the implications of Brexit for the economies of Britain and the EU are difficult to assess — beyond the heightened uncertainty during the negotiation period that weigh on growth in both regions — Australia investors should remember the following.

- In a landmark speech in January 2013, British Prime Minister David Cameron outlined the key principles for the country’s EU membership.
- He vowed to renegotiate the terms of EU membership for Britain, arguing the government should negotiate a “better deal for Britain” and that failure to do so could risk a “drift towards (EU) exit”.
- The speech and commitment to the renegotiation and referendum were not a call for Brexit, as Cameron strongly favours Britain staying in the EU under improved terms, committing to campaign strongly for this.
- At the start of the year, Britain and the EU negotiated a deal that paved the way for next month’s referendum
- Negotiating time was kept short, a likely result of a conscious trade-off decision by the government, limiting the period of uncertainty.

For those leading the “Remain” campaign, their strongest arguments rest on the following.

- The British economy is stronger in the EU given it has access to the single market and jobs linked to the union.
- Membership makes Britain safer, as there is strength in numbers.
- It is easier for Britain to exert influence and leadership from within the EU.
- Alternative models, such as Norway’s or Switzerland’s, are not as good as EU membership, at least economically.

And for the vocal “Leave” campaigners, the following arguments are key.

- Britain contributes £18 billion (\$36.6bn) a year to the EU and this could be better spent at home rather than on EU priorities.
- Brexit allows Britain to control borders and the flow of immigrants.
- Britain, the world's fifth-largest economy, can negotiate more advantageous trade deals, including those with ANZCERTA (Australia New Zealand Closer Economic Relations Trade Agreement).
- The eurozone is permanently on the brink of crisis.
- Britain can't control the EU's expansion to the east.

As it now stands, the European experiment is not working particularly well economically.

Wherever we sit personally in this debate, what is unequivocal is that the macroeconomic impact of Brexit is difficult to estimate and highly dependent on the nature of the post-Brexit deal, if the Leave campaign succeeds.

Combined with hawkish US Federal Reserve comments regarding expected interest rate hikes, an Australian election on July 2, US Democrat and Republican conventions, and all the continuing geopolitical worries, Brexit — like Grexit and the Scottish vote before it — only serves to add additional uncertainty to a year when an ageing global bull cycle is churning downwards.

Brexit is more than just a referendum regarding economics and markets, but for Australian global investors, the best way to assess it is to employ the most powerful economic tool on hand: rational common sense.

Larkin Group is an Ultra High Net Worth Wealth team focusing on high-yielding global investments. stirling.larkin@larkingroup.com.au






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