

THE IMPACT OF 'BREXIT' ON GHANA-UK ECONOMIC RELATIONS

1. Introduction

'Brexit', the unprecedented outcome of the 23 June 2016 referendum on the United Kingdom's membership of the European Union (EU), has caused shock and turmoil in global markets. The value of stocks and the British Pound Sterling have all been badly hit in the days after the referendum. As at the close of day on 24 June, the United Kingdom's FTSE 100 stock market index closed down over -3.15%, the Euro Stoxx 50 index down -8.62%, DAC and CAC 40 at -6.82% and 8.04%, respectively. Brent crude oil fell 4.91% to less than US\$48 per barrel whereas the spot price of gold gained +4.69% to US\$1,316 an ounce. Conversely, many emerging market currencies recorded some gains. For example, the South African Rand made major gains against the Sterling.

The consensus among many economists and international institutions in the run-up to the UK's historic vote on whether to leave the EU was clear: 'Brexit' will impact economic growth negatively especially in the short-term. But now that the United Kingdom (UK) has decided to leave by a narrow 4% margin of victory in the referendum, many big questions remain. This article seeks to comment on some of the implications of the 'Brexit' vote on Ghana-United Kingdom relations along three main thematic areas, namely migration, finance and trade.

2. Migration

It is currently estimated that there are 900,000 Africans living in the UK of which 94,000 are of Ghanaian origin including British Ghanaians.¹ In a 2005 study by the Sheffield University Social and Spatial Inequalities Research Group, it was found that 64% of new immigrants from Ghana were employed in the UK of which 17% and 3% were low and high earners, respectively.² Of the settled immigrants 70% were employed. Individuals that make more than £750 per week are considered high earners whereas low earners make less than £149.20 per week. Remittances from abroad to family and friends in Ghana form an important part of the economy. It is estimated by the World Bank that Ghanaian migrants in the diaspora remitted US\$2 billion in 2014 – i.e. 5.2% of 2014 GDP.³ Most of these inflows came from the United States of America including Canada, and the UK.

In the same year, Ghanaians faced the second largest decrease in work visa grants to the UK after Nigeria. With regard to the granting of visas for skilled Ghanaians, a total of 627 work visas were granted in 2014 – 306 less than the year before. The same trend can be observed for visitor visas: in the same year, the number of visitor visas granted to Ghanaians decreased by 2,359, a 14% decrease.⁴ One of the major reasons for the granting of fewer work visas and permits was the availability of similarly skilled labour from other EU countries given the free movement of labour under EU rules as well as strict curbs imposed by the current Tory government to control net migration – although the Tories have failed to fulfil their election promise to reduce net migration to below 100,000 people.⁵

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<http://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/articles/2011censusanalysisethnicityandreligionofthenonukbornpopulationinenglandandwales/2015-06-18>

² http://news.bbc.co.uk/1/shared/spl/hi/uk/05/born_abroad/economics/html/overview.stm

³ <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

⁴ <https://www.gov.uk/government/publications/immigration-statistics-october-to-december-2014/immigration-statistics-october-to-december-2014>

⁵ <http://www.telegraph.co.uk/news/general-election-2015/politics-blog/11602078/Immigration-how-will-the-Conservatives-tackle-it.html>

What does the 'Brexit' vote imply for migration in a post 'Brexit' world? Firstly, given that the 'Leave' campaigners have proposed an "Australian-style points system" for immigration to be applied to all migrant workers and not just those from outside the EU, it stands to reason that we could potentially see more skilled economic migrants relocating to the United Kingdom from Ghana should such a scheme be implemented – i.e., if all requirements are met.⁶ This could, however, also have a detrimental effect on the quality of services in Ghana especially in areas such as the health sector. For example, this could happen if critical human resource such as nurses and doctors decide to relocate to the United Kingdom to plug the void that will potentially be created by the exit of other EU workers.

Secondly, Ghanaians with relatives in the UK who send regular remittances home may have to make do with receiving smaller amounts as the value of the Pound falls in the short term, or their UK-based relatives will have top-up to maintain the same Cedi equivalent. For example, £100 sent from the UK to Ghana on 22 June 2016 would have fetched an average of GHS570 whereas the same amount sent on 24 June 2016 would have fetched GHS530 equivalent. If the Pound retains its value in the long term occasioned by an employment boom, then Ghana may potentially benefit from 'Brexit' with increased remittance inflows. In the short term, however, we are likely to see lower remittances from Ghanaians in the UK.

3. Finance and Trade

The direct impact of a falling British Pound on Ghana-UK trade can be felt in three ways. First, a weaker Pound could make UK imports into Ghana relatively cheaper whereas Ghanaian exports to the UK could earn less in Cedi terms, all things being equal. Although there exists a complex inter-relationship between a nation's imports-exports and its exchange rate, the latter has an effect on the trade surplus (or deficit), which in turn affects the balance of payments, inflation and inflation expectations. Hence, a stronger Cedi relative to the Pound could hamper Ghana's exports to the UK as they earn less while making UK imports cheaper in the short term - the converse also generally holds true. Ghana-UK bilateral trade is reported to have been valued at about £1.3 billion in 2015, with Ghana currently being the UK's fifth largest trade partner in sub-Saharan Africa.⁷

Secondly, with regard to the upcoming fifth Eurobond, local media reported on 24 June that the Finance Minister, Mr. Seth Terkper, stated that Ghana was carefully observing emerging markets away from Europe and the United States for its upcoming bond as Britain exits the EU.⁸ He rightly intimated that the exit of Britain from the EU will have an effect on the European and American bond markets; hence it will be prudent to study other markets to maximize Ghana's output. This is somewhat true given that although emerging market assets have exhibited some market volatility in the past couple of days, their direct exposure to the UK assets have been quite limited. Capital Economics, a leading economic research consultancy based in London, estimates that even if the UK suffers a 10% drop in GDP, the likely drop in emerging market exports to the UK would be equivalent to just 0.1% of aggregate emerging markets GDP.

Although the Minister's position that 'Brexit' will have an insignificant impact on emerging markets is acceptable, the risk of a contagion effect in causing persistent market slump across Europe could be high. This can result in falls in the prices of key commodities such as gold and crude oil, which in turn can result in a decrease in export revenue from these major Ghanaian exports.

The recent market volatility has caused a short term demand increase for safe haven assets such as the US dollar and gold. The short term impact of the 'Leave' vote on frontier emerging markets with weak fundamentals of twin budget and current account deficits is that they may experience some capital flight, export slowdown and higher debt servicing costs caused by greater currency volatility. While Ghana may benefit from an upside in gold prices in the short term, the net effect of this on the economy given the country's high debt service costs and currency pressures remains uncertain.

⁶ <http://www.migrationwatchuk.org/briefing-paper/346>

⁷ <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/Ghana-UK-trade-hits-1-3bn-432995>

⁸ <http://citifmonline.com/2016/06/24/brexit-well-consider-emerging-markets-for-750m-bond-terkper/>

Finally, with regard to trade Ghana will probably have to sign a new bilateral trade agreement with the UK after it leaves the EU. Current Ghana-UK trade is covered by the interim Economic Partnership Agreement (EPA). Economic Partnership Agreements are trade and development agreements negotiated between the EU and African, Caribbean and Pacific partners with the objective of fostering regional economic integration. The full EPA was agreed upon by all the negotiating parties in February 2014 and is now awaiting ratification by the respective ECOWAS member states including Ghana. Ghana has a deadline of October 2016 to sign the EPA. Failure to do this would imply a reversion to trade terms under the Standard Generalised Scheme of Preferences (GSP) which will mean that non-traditional exports to EU countries, for example, will attract some tariffs. Thus, whereas the EPA when enacted will cover Ghana-EU trade, Ghana-UK trade will have to be covered under a separate bilateral agreement in a post 'Brexit' world. This has to be negotiated and is unlikely to come into effect until sometime after 2019/20. A possible upside of this, in a deviation from the existing EPA, could perhaps be Ghana and other Commonwealth ACP countries negotiating a non-reciprocal trade agreement with the UK similar to the former Lomé Convention trade rules.

4. Conclusions

In concluding, Ghana may have to start bilateral talks with the UK to renegotiate various agreements before it formally exits from the EU. A weaker pound could make UK imports into Ghana relatively cheaper and whereas Ghanaian exports to the UK could earn less, all things being equal. We are likely to see lower remittances from Ghanaians in the UK in the short term. While Ghana may benefit from an upside in gold prices in the short term, the net effect of this on the economy given the country's high debt service costs and currency pressures remains uncertain. We could potentially see more skilled economic migrants relocating to the UK from Ghana should an "Australian-style points system" for immigration to be applied migrant workers, if all requirements are met. This could, however, also have a detrimental effect on the quality of services in Ghana especially in areas such as the health sector.

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