

An Examination on the Effect of Regional Disintegration on Industry Performance: The Post-Brexit Decision

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Abstract

Ongoing research on the uncertainties surrounding Brexit as a form of regional disintegration is a teeming challenge for many of the industries in the United Kingdom, and as such, various researches are being undergone by experts in different fields to analyse the potential effects both positive and negative on the various industries. This research, therefore, aimed to focus mainly on the effect of regional disintegration on industry performance with emphasis on Brexit. The research considers the financial services and insurance industry in the United Kingdom as a case study. To consider the potential effect of regional disintegration, the research examined a 5-year quarterly data trend analysis spanning from 2014 till 2018 which represents two years before and two years after the pronouncement of the referendum in June 2016. The study further adopted a deductive approach while using both quantitative and qualitative research strategies. The data collection method involved the use of secondary data gotten from government reports and statistical bulletins. The variables were grouped into three categories including the macroeconomic factors (inflation, exchange rate and interest rate), trade performance (imports, exports and industry consumer price index), and demand and supply of labour (employment levels). The data analysis was conducted using a t-test statistic to ascertain if

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there is any significant difference in the population means of the variables. The findings revealed that the macroeconomic factors have more significant adverse effects on the industry's performance, while there are both positive and negative effects of regional integration on trade performance. Lastly, a no-deal outcome is likely to pose a significant threat to the industry's demand and supply of labour. In general, the findings of the research allude to the fact that regional disintegration has both positive and negative effects on industry performance. Some recommendations were provided based on a no-deal or deal outcome.

Keywords: Regional disintegration, Brexit, financial services and insurance industry, United Kingdom, referendum, macroeconomic factors, trade performance, demand and supply of labour.

Cite this article: Adekoya, O., Ajonbadi, H. and Jimoh, I. (2019). An Examination on the Effect of Regional Disintegration on Industry Performance: The Post-Brexit Decision. *International Journal of Management, Accounting and Economics*, 6(3), 253-273.

Introduction

The concept of regional integration is well versed and researched among diverse experts and more importantly in the domain of international business and economics. According to a variety of literature, on the one hand, regional integration which was coined from two combined words, that is, 'region' and 'combine', refers to "the collaboration between many countries that exist within a geographical area to foster a common goal towards eliminating trade barriers to allow for the free movement of goods, services and labour between countries (Peng, 2017, p. 248)." On the other hand, regional disintegration is the separation of one or more countries formerly joined in a particular region, either to gain autonomy or independence.

Regional disintegration has been a more prominent occurrence since the World War II, as some of the integrated unions have been disintegrated into smaller units and there are still rumours of potential dissolution in many others (Akbar, 1989). The collapse of the former Soviet Union in 1991 has been one of the significant disintegration occurrences and remains ongoing research for many experts in the field. Other disintegrations include the Warsaw Pact, former Czechoslovakia, and a few more. Also, the growing Gulf crisis is becoming a reality in the fact that Qatar is likely to break-off relations with the GCC bloc as the UAE, Saudi Arabia and Bahrain have cut-off all economic, political and diplomatic ties with Qatar (Salacanian, 2018). Nonetheless, the theories of regional integration have also been employed to explain the reasons for disintegration and the effects it has particularly on the economic well-being of the disintegrated states.

The most talked about controversy in the UK today is its verdict on leaving the EU which is known as BREXIT. This decision was passed from the referendum which was promulgated by a vote in 2016 wherein 52 percent of voters voted to leave. Unfortunately, the consequences of the decision are yet to be made clear as the speculation continues. Nonetheless, statistics since the referendum has revealed that there are possible adverse effects on the both parties with more on the UK; hence the reasons behind the daily national debate (Sampson, 2017).

This concern of Brexit which relates to regional disintegration is a global dilemma that affects not just the European Union and United Kingdom but many other countries with international relations to both parties. The unanswered question therein is "to what extent will Brexit affect the various industries within the UK?" The dilemma or ambiguity of the consequences of the decision serves as the most appalling situation for the UK in particular. As such, many of the industries in the United Kingdom have since been trying to strategize, geared towards ensuring that the adverse effect of Brexit is mitigated while taking advantage of the potential benefits.

Literature Review

Conceptualising Regional Integration and Disintegration

Regional integration like many other concepts does not have a generalised definition; it is therefore subjected to individual perspectives and opinions of what constitutes an integrated region or union. It refers to the cooperation or collaboration (either political, economic or both) between nations that exist in a particular geographical region; this collaboration tends to be geared towards the promotion of peace, alliances and conjoined efforts to improve the economic conditions of member states via a cordial trade relationship and state interdependence (Peng, 2017). Similarly, regional integration refers to those deliberate actions appropriated by a category of separate but interdependent countries within a defined geographical entity to establish relationships that translate into mutual interdependence (Hill 2015; Fioranmonti and Matthies, 2016). The above definitions, therefore, construe regional integration as the formation of a group of coordinated countries to improve the welfare of the public given an agreed set of goals or objectives.

Regional disintegration, on the other hand, refers to the separation of formerly regional integrated states on the basis of achieving national autonomy and independence (Hearn and Piesse, 2012). Similarly, according to Sampson (2017), regional disintegration is a breakout between allied states which is mainly as a result of political or economic influences that allows for the politically or economically powerful country to exert pressure on a less powerful country or otherwise known as modern slavery. As a result of this, there is a tendency for pressured states to opt out of the regional union.

Reasons for Regional Disintegration

There are various reasons for which regional disintegration can occur. According to Hooghe and Marks (2016), the reasons behind regional integration are based on the consequences or disadvantages of forming a regional integration in the first place. It was further asserted that these reasons are based on a variety of factors or forces which are mostly external but also has some internal elements which influence the decision to break off from an integrated group.

Political Pressure

According to Hooghe and Marks (2016), it was argued that the few cases of regional disintegration and any other form of international disintegration have been as a result of pressures from a political perspective. It was further asserted that countries that are less politically stable tend to be oppressed by those that are more politically stable and as a result, there is a threat resulting in modern slavery. Besides, the main reason for being regionally integrated which is to foster a fair-trade relationship between countries is implied to have been defeated as many countries in the upper cadre try to exploit those in the lower cadre. Similarly, McCarthy and Dolfsma (2015) opined that regional disintegration is merely a result of the urge for countries within the integrated region to gain autonomy and independence having surrendered such political sovereignty prior to signing an agreement to join the regional body. It was opined that when it gets to the point of economic efficiency in some countries, they are likely to seek more autonomy and try to be less regulated by regional laws and policies that may be detrimental to an improvement in growth and development of their economies; such is the case between the EU and UK today.

Economy

Regional integration is based on the premise that integrated states would benefit from free or fair trade among themselves which is expected to translate into economic prosperity. However, according to Baldwin (2008), evidence reveals that regional integration does not necessarily guarantee economic prosperity and as such some countries do not feel the need to remain in the regional bloc. For instance, the disintegration of the former Soviet Union was based on several factors one of which the economic factors played a huge role.

According to Oprea (2017), economic disintegration could be caused by financial crisis as countries tend to be dependent on other integrated states to boost the economy. However, it was argued that financial crisis such as the occurrence in 2008-2009, proved to be a catalyst for financial disintegration as some economies were unable to provide the necessary functional integration resulting from low economic performance and high competitiveness.

Also, Webber (2014) opined that economic reforms served as an impetus for both regional integration and disintegration. It was argued that in the real sense, economic reforms and policies are implemented for the benefits of the majority of the member states, however, in the process, some countries are deprived of intensifying efforts to improve on trade negotiations with non-member states since the regulations formed within the regional bloc affects all countries and they become worse-off. Sampson (2017) further implied that the need for a unified currency such as the Euro in the case of the EU has also prompted the need for disintegration, particularly with the UK tending to hold on to its Sterling.

Socio-Cultural

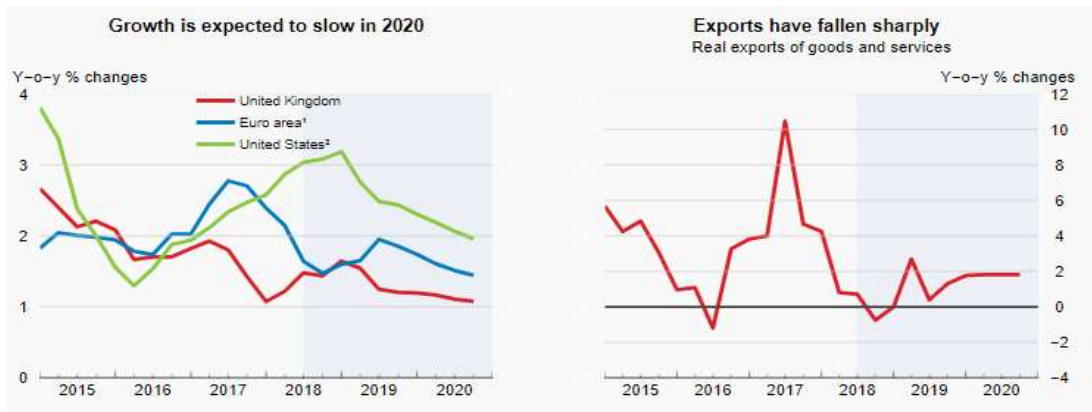
According to Hill (2015), some elements of the social and cultural environment have adverse effects on economic integration. It was alleged that the differences in culture portray a problem in the process of implementing policies, reforms and laws within regional blocs. According to the author, one of the cultural factors that impede economic integration is the issue of divided language. It was asserted that the EU comprising of 28 member-states also has about 24 different languages; among these languages, English, German, French, Dutch, Italian, Portuguese are the majorly spoken languages. As a result, it becomes difficult for the system to have a unified code of language and the need for interpreters and linguist experts to transcribe other languages into individual languages. Although, this is not a critical problem because with technology, transcribing has been made easy, however, it slows down the decision-making process and, in some cases, may result into disagreements among member states.

Religious diversity is also a barrier to effective regionalism. It was surmised that differences in religion hamper growth in many economies as the beliefs of individual religions are slightly different from the other. These differences result in a divergence in policies and economic reforms as some countries within the integrated region may become worse-off (Peng, 2017; Tanyanyiwa and Hakuna, 2014).

A Synopsis of the United Kingdom's Economy

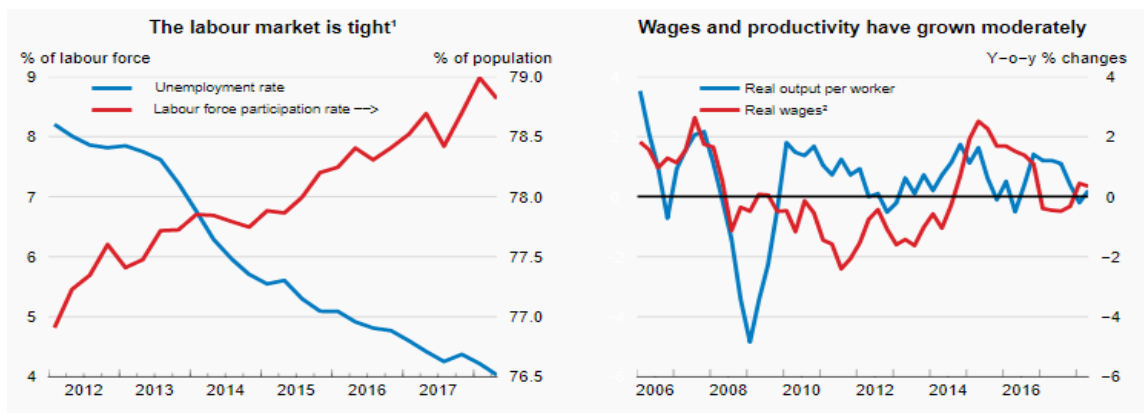
The economy of the United Kingdom is one of the top thriving economies in the world today. This is evident as the UK ranks among the top industrialised economies globally and forms one of the Group of Seven (or G7) and is mostly referred to as the home of the industrial revolution (CIA – World Factbook, 2017). In addition, the UK having joined the EU since 1973 ranks as one of the most powerful member-states within the region holding up to 73 seats in the European Parliament as at 2016 and based on its significant contributions to the EU economy being the UK's major trading partner; this is evident as the UK contributes 47% of exports into the EU and an accumulation of 51% imports from EU countries (European Union, 2018).

Nonetheless, since the global financial crisis of 2008 which affected the UK's economy hard being an important financial hub, the UK's economy has been staggering relatively to historical records. However, measures have been taken to ensure economic stimulation and stability, but the level of growth does not commensurate with the various economic forecasts (EU Business, 2018).



Source: OECD (2018)

According to the Organization for Economic Cooperation and Development (OECD, 2018), the UK's economic growth is growing at a slow rate as the GDP levels have only been able to slightly increase compared with the period before the global financial crisis. This is attributed to a weakening consumer demand as the consumer confidence index has also witnessed a declining trend in recent years; the pressure on profit margins have also necessitated for the closure of many businesses in the UK which also affects consumer confidence index. The OECD also reports that since the early quarter of 2017, exports have sharply fallen even though imports are still rising; this was attributed to the depreciating pounds sterling since the third quarter of 2016.



Source: OECD (2018)

The labour market scenarios for the UK reveal a continuous decline in unemployment and an increasing rate in labour force participation. Nonetheless, under-employment is considered to be a critical challenge for the UK as many of the labour force are unable to gain access to full-time paid jobs but are left with part-time, and temporary or contract jobs (ONS, 2018). The OECD also estimates that there has been a moderate increase in the wages and productivity of workers which is likely to be vital for boosting aggregate demand and business output.

Also, according to ONS (2018 cited in Bloomberg, 2018), the exchange rate between the pounds sterling and US dollar has weakened since July 2016, and as such, the level of investment particularly in the private sector of the economy has declined. Although the

Bank of England has increased the interest rate from 0.5% to 0.75%; nonetheless, this has contributed to the low industrial investment as it has increased the bank rate of borrowing further making it difficult for businesses to increase the level of investment. Consequently, as the interest rate increased, the rate of inflation has also increased; as the prices of consumer goods increased, the rate of consumer spending declined (EU Business, 2018).



Source: Bloomberg (2018).

According to the House of Commons (2018) in its briefing paper, the UK stands the chance of an increase in growth as many economic forecasts have pointed towards a gradual potential increase in economic output starting from 2020.

A Synopsis of the Financial Services and Insurance Industry in the UK

According to the House of Commons (2018), its report on the contribution of the financial services sector to the UK economy reveals that the sector contributed 6.5% (£119 billion) to the overall economic output of the UK. Being one of the largest industries in the UK, and ranking as eighth (8th) in the OECD as at 2016, the industry has been the driving force of other industries within the UK.

The industry contributed about 3.3% (over 1 million jobs) to the aggregate labour market demand and supply and enabled the UK to rank as the top financial hub in the EU and one of the top financial hubs in the world (ONS, 2018). Also, resulting from the trade surplus within the industry totalling £51 billion (that is, £62 billion of exports and £11 billion of imports), the industry is a significant contributor to the GDP and balance of trade of the United Kingdom. However, about 45% of the UK's export of financial services went to the EU while the EU's export of financial services to the UK stood at 39% of its total imports.

The UK government revenue from the industry's tax in 2017 totalled about £27 billion and had a total receipt of £72.1 billion or 11% of all government receipt. The top companies in the UK's financial services and insurance industry include Deloitte, PwC, KPMG, Barclays, Lloyds banking group, HSBC, J.P. Morgan, Goldman Sachs, Admiral, Aviva, Prudential, and AXA.

The United Kingdom and Brexit

On the 23rd of June 2016, the United Kingdom embarked on a referendum based on the decision to leave the EU. The result of the vote which was recorded as 51.9% (vote to leave) and 48.1% (vote to remain) led to an agreement based on the majority vote to leave the EU (House of Commons Library, 2018). Besides, since the Brexit vote in 2016, there have been uncertainties in what the future holds for both the UK and EU; however, from the analysis of various experts, the UK is more likely to be affected relative to the EU. Conversely, according to Peck (2016), it is difficult to ascertain which of the parties will become worse-off; it was further opined that based on the unpredictability of the decision, which party becomes worse-off or better-off will be dependent on the kind of deal (soft or hard) that is negotiated if there is any at all.

Since the referendum, several negotiations have been arranged with no concrete details on what Brexit would birth until recently in late November 2018 when a deal was agreed between both parties. The agreed deal covers almost 600 pages explaining the agreement and terms of conditions between the EU and UK upon leaving the regional bloc (Hunt and Wheeler, 2018). In spite of the agreed deal, although, the UK is set to leave the EU by March 29, 2018, the transition period which is expected to allow the UK and EU to stabilize the economy and agree to a comprehensive trade deal would last till December 31, 2020 (Fruen, Mullin and Petkar, 2018).

The Backstop

The issue of the backstop resulting from Brexit is one of the challenges that have made the negotiation process not only lengthy but threatening to the UK. The backstop which seeks to create an open border for the free movement of goods and services between the Republic of Ireland and Northern Ireland with the rest of the EU creates another problem for the UK. Although the EU has stated that no matter the outcome of the negotiation, it would try to avoid a hard border between the region; however, this affects the UK as it allows the EU to keep close ties with Northern Ireland translating into the need to be obligated to the regulations governing the EU (Stone, 2018). Besides, Brexiteers and many of the members of parliament are at loggerheads with this kind of relationship as they state that it may be worse than remaining in the EU, since the major reasons for Brexit was to disassociate the UK from the regulations of the EU, regulate migration, maintain national autonomy, and to have the ability to negotiate better deals with non-EU members (Fruen et al. 2018).

Brexit and the Financial Services and Insurance Industry

The decision to leave is a crucial issue for the financial services and insurance industry owing to the fact that London serves as the financial hub for various financial services and operations between the UK and EU and as such, business and financial experts have alluded to the fact that both parties are more likely to negotiate a better deal specifically for this industry, else, it could result in another financial crisis (Clark, 2018). Nonetheless, experts and researchers in various fields have examined the potential impacts (positive

and negative) of Brexit particularly on the UK economy, some of which are discussed below.

Relocation

According to the 2018 report of the House of Commons on the effect of Brexit on the industry, there have been considerations by some big companies that are non-UK based to relocate to the EU, while many others are contemplating on establishing subsidiaries as a strategy for maintaining ties with both parties. It was reported that top financial institutions including Lloyds banking group, Deutsche Bank, HSBC, BNP Paribas and Societe Generale have started making arrangements for establishing subsidiaries in Frankfurt, Paris, Dublin, Berlin and other viable locations (Cruise and White, 2018). However, the establishment of subsidiaries will create increased costs for the banks and may affect liquidity; besides, the need to relocate is also tied to the fact that in the final exit of the UK from the EU, there will be a need for the financial institutions to apply for passporting rights which comes at some costs to enable them to continue business transactions between the UK and EU.

Conversely, according to Chu (2017), because the UK has little or no influence on the foreign financial institutions operating in the UK as they are regulated mainly under EU laws and regulations, it is beneficial for the UK to leave the EU since such an action would allow the UK the autonomous power to regulate the financial services operations within the UK and implement policies that will further improve the industry's contributions to output. Clark (2018) also opined that the EU is unlikely to withdraw its financial services transactions with the UK as it may pose a threat to the economy of the EU which may translate into the relocation of many companies to the United States of America.

Employment and Labour Activities

According to the House of Commons (2018), one of the most significant potential effects of Brexit is how it relates with employment and the demand and supply of labour of EU nationals in the UK and UK nationals in the EU. It was further alleged that the decision to relocate or establish subsidiaries in other EU countries is very likely to affect the labour force since there is a high tendency for some financial institutions to relocate some of their workers to the subsidiaries while many may be at the risk of losing their jobs. In addition, according to Davies (2017), it alluded that the EU nationals are more likely to bear the brunt of the decision as they constitute more than a quarter of the workforce; as a result, the need to apply for residence permits which are likely to come with specific conditions may be the case.

Conversely, Clark (2018) argues that since there are uncertainties in what the deal will comprise, there is hope for potential beneficial negotiations to both parties. He further asserted that, if a 'no deal' is struck then EU nationals may need to return to the EU or obtain passports and the license to work in the UK and vice-versa for UK nationals residing in the EU; however, if a deal is struck, and it allows the nationals of both parties to remain in the UK or EU, then it will be less challenging for the industry.

International Trade and Regional Transactions

A report from the House of Commons (2018) reveals that Brexit will affect the mode of financial services transactions between the UK and the rest of the EU. It was asserted that the UK been the major financial market of the UK would cause a divergence rather than a convergence in international transactions between both parties and as such, the free movement of services is very unlikely to apply unless the UK remains in the customs union.

Contrarily, according to Thornton (2017), if a soft Brexit deal is landed, the pressure on international trade and transactions are likely to be less since the UK will have the ability to implement better policies to enhance the growth of its economy. It was further asserted that in the eventuality of Brexit, the financial services and insurance industry is likely to benefit almost £45 billion resulting from improvements in foreign direct investment of multilateral trade. Also, Cruise and White (2018) alleged that the power to enact growth-enabling policies would stimulate the economy and enhance the industry's competitiveness relative to other nations.

Theoretical Underpinning

The theories of regional disintegration are similar to the theories of regional integration. Although regional disintegration serves as the opposite of regional integration, both, however, possess similar components. This research focuses on two major theories of regional integration which includes neo-functionalism and institutionalism.

Neo-functionalism

According to Haas (1964 cited in Grosse (2016), the theory of neo-functionalism assumes that regional integration is more functional as it tends to create an easy route to solving regionally associated economic and social problems as opposed to a single national government. In addition, in the studies of Hoffman (1966) as cited by Jones et al., (2016), it was asserted that regional integration proposes a deepening in economic collaboration which causes a spill-over effect that results to political integration, hence, integrated countries are less likely to wage wars against each other which may cause economic problems.

However, these assumptions were proved to be futile and were protested resulting from the financial crisis in 2008 which proved that regional integration was not necessarily functional as the crises were not able to be effectively solved by the European institutions (Stiglitz, 2016). This gave rise to the uproar from politicians and social groups to restore the need for a single government national policy and allow the national government to take control of restoring economic conditions rather than depending on regional regulations and policies. Also, Grosse (2016) surmised that the financial crisis rather than strengthening integration within the EU resulted in political disintegration as individual governments sought for supremacy and strong political power.

Institutionalism

The institutionalism theory of regional integration is based on the premise that international relations are made possible through the creation of supportive institutions within the created integration of nations (Schimmelfennig, 2018). According to Pierson (2004), institutionalism supports the analysis of the long-run processes of social and political events based on its historic ambience. The theory also focuses on the impact of regional integration in creating a violent reaction originating from a local level that sabotages the process of continuous integration. The need for social institutionalism is based on certain assumptions that there is bound to be a clash between the common objectives or goals and the logical functions of the government in the allocation of resources (Grosse, 2016; Hooghe and Marks, 2016).

The theory was critiqued owing to its democratic nature and the irrational features of humans; it faults the need for creating institutions when control measures have failed to be implemented, and specific factors are bound to override the decisions taken by the voters and political parties. Theorists have therefore kicked against the need to establish institutions which in the real sense are unlikely to achieve the objectives for which they have been established to fulfil their own interest and giving preferential treatments to the few powerful entities at the expense of the others (Grosse, 2016).

Research Methodology

This research is rooted in epistemology as it is concerned with understanding the question of what is or what should be viewed as adequate knowledge. This research is designed to be exploratory, explanatory, and descriptive in nature, this is because, the researcher ensured that the variables are well described using graphs and tables; also, the variables are well explained to establish a causal relationship between variables and to ensure coherence with other studies. Also, a deductive approach is used as the study emerges from theory to findings, hence, testing to either verify or falsify the theories; hence, both the quantitative and qualitative research strategy is used. For the purpose of this research, all data collected were from secondary sources that include both numerical values from government reports and international reports and also opinions and ideas of previous literature to establish coherence in the research. As such, the research uses a variety of time series data relating to the financial services and insurance industry gotten from the Office for National Statistics (ONS) and the House of Commons Library. Also, other secondary sources were extracted from peer-reviewed journal articles, reputable blogs, textbooks and reliable online resources.

To estimate the data, the research employs the use of inferential statistics to describe the relationship between the sets of population. To achieve this, the research employs the use of a t-Test statistic and uses the 'two-sample assuming unequal variances.' The t-Test is used as it compares the data for smaller population distributions, as such it determines if there is any significant difference between the two population means. As a result, the population means comprised both data ranging from 2 years before and after the pronouncement of the referendum. The level of significance is capped at 0.05 which is standard for many analyses. The data is analysed using the Microsoft Excel package to

conduct the t-Test. Nonetheless, the variables to be measured include, EMP, EXP, IMP, CPI, EXR, INF, and INR; where:

EMP = Employment; EXP = Total Exports; IMP = Total Imports; CPI = Consumer Price Index; INF = Inflation Rate; EXR = Exchange Rate; INR = Interest rate; bef = Before; aft = After

The model for measuring a t-Test assuming two samples is represented as:

$$t = \frac{(\bar{x}_1 - \bar{x}_2) - (\mu_1 - \mu_2)}{S_p \sqrt{\frac{1}{n_1} + \frac{1}{n_2}}}$$

Data Analysis

t-Test: Two-Sample Assuming Unequal Variances										
	Mean	Variance	Observations	Hypothesized Mean Difference	Df	t Stat	P(T<=t) one-tail	t Critical one-tail	P(T<=t) two-tail	t Critical two-tail
<i>Tempbef</i>	1119.000	58.889	10.000	0.000	16.000	-3.765	0.001	1.746	0.002	2.120
<i>Tempaft</i>	1131.125	35.839	8.000							
<i>Texpbef</i>	12907.400	383557.822	10.000	0.000	16.000	-7.551	0.000	1.746	0.000	2.120
<i>Texpaft</i>	14986.750	299841.929	8.000							
<i>Tempbef</i>	3253.900	91884.544	10.000	0.000	15.000	-6.178	0.000	1.753	0.000	2.131
<i>Tempaft</i>	3964.500	32317.714	8.000							
<i>CPIbef</i>	100.920	100.920	10.000	0.000	13.000	3.606	0.003	1.771	0.003	2.160
<i>CPIaft</i>	97.678	97.678	9.000							
<i>EXRbef</i>	1.557	0.008	10.000	0.000	14.000	7.525	0.000	1.761	0.000	2.145
<i>EXRaft</i>	1.307	0.003	9.000							
<i>INFbef</i>	0.870	0.285	10.000	0.000	16.000	-5.125	0.000	1.746	0.000	2.120
<i>INFaft</i>	2.200	0.350	9.000							
<i>INRbef</i>	0.500	0.000	10.000	0.000	8.000	1.835	0.052	1.860	0.104	2.306
<i>INRaft</i>	0.389	0.033	9.000							

Source: Author's Excel Computation

From the t-test analysis carried on the seven different variables which include employment, exports, imports, consumer price index, exchange rate, inflation, and interest rate, the results revealed various levels of significance on 6 of the variables while one revealed no significance.

The test analysis revealed that there is a significant effect of regional disintegration (Brexit) on the level of employment in the financial services and insurance industry. However, in the case of the industry's exports and imports, the findings reveal a very high

significant level which indicates that since the pronouncement of the Brexit referendum, the levels of imports continued to increase steadily rather than decline.

In terms of the consumer price index, the findings indicate that there is a significant effect of the Brexit referendum on the changes in the price level of services provided by the industry as CPI experienced a gradual decline over the observed period. The analysis of the exchange rate revealed a very high level of significance which indicates a weak pound sterling as against the US dollar. Similarly, the rate of inflation was also revealed to have a very high level of significance as inflation witnessed a sharp increase immediately from the first quarter preceding the pronouncement of the referendum. However, unlike the other variables which revealed high significance levels, the interest rate showed no significant effect.

It is however interesting to note that among the macroeconomic factors that are expected to affect the industry by indicating a high level of significance, only the interest rate proved not to have any significant effect on the population recorded.

Discussion of Findings

To what extent do the macroeconomic factors associated with regional disintegration affect the industry's performance?

To examine the extent to which the macroeconomic factors associated with regional disintegration affects the industry's performance; the research finds the relationship between the inflation rate, exchange rate, and interest rate. Findings from the data analysis reveal that both the UK's inflation and exchange rate recorded a very high level of significance, while the interest rate was found to be insignificant to the vote.

In support of these findings, according to the ONS statistical report on inflation in 2018, it alluded that from the beginning of 2015 till mid-year 2016, inflation rate was very low as the highest within the period was 0.7%; however, the quarter following the leave vote witnessed a hike in the rate of inflation to 1% and had been increasing ever since. Sampson (2018) also asserted that from the economic statistics, as the rate of inflation rose, the financial markets felt an immediate shock as stock index fell by 3.8% in the FTSE 100 market; sequel to this, there was a sharp depreciation of the sterling which caused the outputs of many industries to fall.

To stimulate the economy, in the third quarter of 2016, the Bank of England implemented a sharp cut in interest rate from 0.5% to 0.25% the lowest in about nine years. This was expected to increase the rate of borrowings from the financial institutions, hence, enhance the level of investment; however, in the financial services and insurance industry, the cut resulted in fewer profits for the industry as interest on loans lowered (Allen and Elliot, 2016; Inman, 2018). By the fourth quarter of 2017, interest rate rose to 0.5% and later 0.75% to control inflation although it was favourable to the financial institutions and one of the main reasons for its increased exports (FXCM, 2018).

Nonetheless, the changes in the interest rates since the referendum has not made much effect on the industry's output as expected particularly because of the depreciation of the

sterling and continued rise in inflation. It was therefore implied that the decision to leave the EU was unfavourable to the UK as it may be unable to cope with the macroeconomic forces and if the government is not careful, may drive the economy into recession (Warner, 2018).

Critically, the findings indicate that the macroeconomic factors have more significant impacts on the industry's present performance and may extend to a few years until the economy is stabilised.

What are the effects of regional disintegration on industry trade performance?

To analyse the effect of regional disintegration on the industry's trade performance, the research considers the relationship between the industry's exports, imports and consumer price index for the examined time period. From the analysis and findings, the pronouncement of the referendum triggered a significant effect on the exports, imports, and consumer price index of the industry. It was observed that both exports and imports increased while consumer price index declined.

Despite the vote to leave, both exports and imports have increased, signifying that the leave vote rather increased the potential for trade. Moreover, the UK's financial sector has continued to witness a high rate of trade surplus over the years. However, the weakened sterling is deemed to have caused the rate of CPI to decrease as financial services become cheaper particularly for investors outside of the UK, hence the reason for the hike in the industry's exports; although, imports also grew but not in similar proportion as the growth in the industry's exports.

In support of these findings, Sampson (2018) asserted that although the UK remains in the EU until its final exit date, the effect of the vote is already being felt. Nonetheless, it was implied that economic behaviour spreads through future expectations and not just the current happenings; hence, businesses tend to react more to what the future holds more than the present situation. Similarly, from the observations and statistics reported by ONS in 2018, the government body alluded that the industry is likely to suffer the consequences of leaving the EU as about 43% of its exports goes to the EU. This was also supported by the House of Commons report on the financial sector in April 2018. The report also emphasized that a trade divergence is most likely to occur between the UK and EU after the transition period and as such Brexit (or regional disintegration) is unlikely to favour the potential growth of UK's economy as growth may be slow; this also aligns with the studies of Fidrmuc and Fidrmuc (2000) that disintegration in Czechoslovakia, the former Soviet Union, and former Yugoslavia resulted in a keen decrease in trade intensity.

Conversely, many other experts in economics and business, particularly those in support of Brexit have deemed to find potentials for positive growth in the industry should Brexit happen; it was implied that the inability of the Financial Conduct Authority (FCA) which is UK's financial services regulatory agency to influence a larger part of the financial services as a result of the regulations of the European System of Financial Supervision (ESFS) is a negative influence on the potential growth of the industry (Quaglia, 2016; Sampson, 2018). Also, Warner (2018) alluded that an escape from the

regulations of the ESFS would grant access to the UK to boost the output of the industry by lowering capital requirements, reducing taxes or slacken labour laws. It was also stated that leaving the regional bloc coupled with the period for transition avails the government the opportunity to build and strengthen alliances with other financial hubs outside the EU; this also supports the opinions of Cruise and White (2018). In contrast, according to the Mayor of London - Sadiq Khan in a Greater London Authority report (2018), he opined that it would be difficult to accomplish an increase in the UK's international trade as a result of barriers from regulations of non-EU member states.

To what extent does regional disintegration affect the industry's demand and supply of labour?

To determine the extent to which regional disintegration affects the industry's demand and supply of labour, the research establishes the relationship between the levels of employment within the examined periods. The trend shows that since the referendum in 2016, the levels of employment have fluctuated, and more was on a decline than a rise. The data analysis also showed a significant effect between the periods which signifies that the leave vote influenced the activities within the labour market.

To buttress the findings, the views of Sampson (2018) indicate that businesses tilt towards basing their concerns on the future impact of macroeconomic forces or situations rather than its immediate effects, it could be reflected in the situation of Brexit. As discussed in the previous chapters and with reference to the House of Commons report in August 2018, businesses are unwilling to take on risky projects that will lead to lower output growth, one of which is the demand for labour. Moreover, the UK's labour market consists more of non-UK citizens with a large percentage of EU nationals; however, based on the uncertainties surrounding Brexit and with recent happenings in the negotiations, it is likely for EU nationals to meet certain conditions before they can be allowed to remain in the UK, such as the need to apply for a residence permit or a new 'settled status' (Davies, 2017).

In addition, the possible relocation or establishment of subsidiaries in potential EU countries to facilitate easier financial transaction will although result in some costs for the companies in the short-run; however, based on the unpredictability of the situation, if a favourable deal is negotiated, it will be less of a hassle for the companies that are considering relocating some of their staffs; this is supported by the report from the House of Commons (2018).

Sampson (2018) takes a different perspective into the labour market activities. It was asserted that the increase in inflation, a weak sterling and coupled with a stagnant nominal wage since the referendum has decreased the real wages and lowered the standard of living. As such, this has discouraged the existing and potential EU migrants from the EU from considering working in the UK. According to Clark (2018), although, the industry is faced with labour shortages, nonetheless, should the deal be favourable to the UK, there are prospects that the industry will find it less challenging to operate in the labour market.

Theoretical Relationship

Besides the integration of previous literature with the findings of this research, it is necessary to connect the dots with the theories discussed in chapter two to deduce which of the theories applies to the findings. From the discussions, it can be implied that there are some elements of neofunctionalism theory; this with respect to the fact that Brexit is premised upon the need to use the UK's resources to proffer solutions to the fundamental problems of the economy and industry in particular and not just been reliant on the functionality of the EU which does not seem to benefit the UK as much.

Also, there are elements of institutionalism theory which can be said to be most relevant to the findings of the research. This stems from the fact the institutions created within the union do not always benefit some of the union members; evidence abounds from the fact that one of the reasons for Brexit is for the UK to break free from the regulations and control of the Court of Justice of the EU. Moreover, specifically on the industry, the control of the ESFS on the financial system of the EU has hindered the industry from realising potential estimated increases in growth.

Conclusion

The examination of the effect of regional disintegration (Brexit) on the performance of the industry can be demystified by considering the relationship between the variables that have been discussed. Although there is still no clear indication of what leaving the EU might result to for the UK, however, building upon the facts, opinions, statistics and forecasts that have been provided by various experts, a prediction can be ascertained.

Sequel to the discussions of the research findings, it is evident that the macroeconomic factors associated with regional disintegration deemed to have more of an adverse effect on the industry and are more likely to linger in the short-run until the economy is stabilised. The researcher is therefore of the opinion that in the short-term, given a workable deal between both parties, the macroeconomic factors are likely to have a significant effect on the industry, while in the long-term, the government would have been able to build alliances with other countries to stabilise the economy; however, if a no deal is the case, there is a likelihood of a long-lasting adverse effect for the industry.

Also, in terms of trade activities in the industry, there were both positive and negative effects of disintegration on the trade performance, however, it seems more likely for the industry to harness the potential benefits of forming alliances with other top financial hubs rather than being restricted within the EU; however, it will take a few years to be able to establish these alliances based on trade regulations and barriers in international trade. There are also potentials for output growth if the UK's financial system is excluded from the control of ESFS even though a trade divergence may occur between the UK and EU.

In addition, activities in the labour market are likely to be affected if a no-deal is the outcome of the negotiations; however, elements of the currency depreciation may also discourage potential migrants based on an increase in the cost of living. Furthermore, since the industry requires more skilled labour relative to other categories of labour, as such, the skill-based policy which the government proposes to adopt after Brexit is likely

to improve the quality of labour demand and supply in the industry. Therefore, in the opinion of the researcher, the effects of disintegration may not necessarily affect the industry's demand and supply if a favourable deal is negotiated that allows other EU citizens the right to live in the UK. However, if the reverse is the case, the industry will be severely affected as there will be an increase in the shortage of workers.

In general, based on the opinions of the researcher after observing the trends and discussing the results of the analysis, it could be conclusive to imply that although regional disintegration (Brexit) is very likely to have some adverse effects on the UK's economy and the industry, in particular, a favourable deal to both parties will benefit the industry since the changes to its structure and operations are likely to be minimal unlike in the advent of a no-deal situation. The findings of the research allude to the fact that regional disintegration has both positive and negative effects on industry performance.

Recommendations

Below are some recommendations for the financial services and insurance industry based on two main possible negotiation outcomes.

An Agreed Deal

If there is an agreed deal that allows fair trade between both parties, the need for companies within the industry to relocate or establish subsidiaries in other EU countries may be unnecessary to save costs and loss of jobs. Also, since EU citizens are likely to be allowed to remain in the UK, labour activities should return to normal; however, the industry needs to ensure that all its workers abide by the living conditions as stated in the agreement to avoid unnecessary litigations that may translate into labour shortage. Besides, although the industry has no control over the macroeconomic factors affecting its operations, there is a need always to have a backup plan or alternative strategy to mitigate such effects when they arise.

No-Deal

In a no-deal situation, companies particularly the non-UK owned may need to establish subsidiaries or relocate their headquarters to other viable EU countries like Germany and France to be able to achieve a fair bargain and interact within the EU. Also, there should be plans on how to ensure that many of its workers are either relocated to new subsidiaries in the EU or compensations for those that are laid-off.

Research Limitations

One of the limitations of this research is the fact that Brexit is yet to happen as negotiations are still ongoing; however, the study focuses mainly on the potential effects of Brexit as a form of regional disintegration. Also, there is a likelihood for manipulations in the secondary data gotten from government reports and international articles to exaggerate on the economic well-being of the country and as such the data may not all be truly correct. In addition, the measurement of variables may differ in some periods which

may prove challenging to historical comparisons. Lastly, the data or information recorded may not necessarily reflect a broader representation of the population.

Implications for Further Research

This research only presents some of the potential effects of disintegration on the financial services and insurance industry; however, other researchers may consider research into the industry based on subsequent negotiation outcomes and changes in policies and economic influencers. Other researchers can also consider several other industries in the UK and may establish comparisons with the industries in selected EU countries.

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