

Implications of the Brexit on Global Procurement Strategy – Literature Review

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Abstract— Chaos is not a pit; chaos is a ladder [1]. At least that is how an optimist sees it. United Kingdom's withdrawal from the European Union, which is commonly referred to as Brexit, has certainly thrown a chaotic challenge amongst most of the business streams in the EU and across the globe. It certainly did impact the Global Procurement chains and their strategies. To discuss the disruptions caused by the implementation of Brexit, we need to understand how the United Kingdom market operated when it was part of the European Union's free/single market and how does the public and private sector's procurement chains predicted and prepared for the impact of Brexit on their respective businesses and what is the current scenario after Brexit rolls out. The academic work on this topic is very limited as Brexit is something that happened not so long ago, most of the academic work is limited to public procurement and its policies, but a lot of researched insights were made available by various renowned mass communication media organizations through documentaries and online articles. This review was focused on the Public Procurement function in major and explored the research and analysis available on the private manufacturing and service sector's procurement operations. Even though the below review was done to discuss the available literature on the impact caused by Brexit, since the Covid-19 pandemic and Brexit has hit the UK, EU, and global economies at the same time, the statistical data to analyze the actual impact caused by Brexit alone on supply chains is highly difficult.

Index Terms— Procurement Strategy, Supply Chain, European Union, Brexit, Trade, Single Market, Brexit.

1 INTRODUCTION

On March 25th, 1957, European Economic Community (EEC) was formed in Luxembourg, years later EEC was incorporated into European Union (EU) [1]. The main purpose and objective of the European Union were to end the frequent wars among the neighboring nations. For nations to prosper with peace the visionary leaders then decided a free trade policy between nations will help all the nations involved in to improve the standards of their economies with the promotion of scientific and technical progress. Though there are many objectives and aims for the EU, the main objective is to create a free market/single market among countries to allow trade freely without any excess custom duties and tariffs. UK entered the EU in the year 1975, entry of UK has helped boost many industrial sectors of most countries that are part of the European Union including the UK.

For more than 40 years UK has been one of the key

links in the EU supply chain. On March 29, 2017, the United Kingdom began leaving the European Union by giving formal notice under Article 50 of the Treaty on European Union [3]. Constitutional dynamics, government policies, and bureaucracy are not something that is under the control of Business organizations and firms. A developed nation like the UK always strives and maintains ease in doing business factor as high as possible. But Business organizations and firms also must adapt and act according to the constitutional dynamics that are affecting their business operations.

The review has been focused on three different segments based on the timeframes of the Brexit execution. Firstly, it is focused on the procurement function and its operations during the pre-Brexit era when the UK was part of the EU and its free market. Secondly, the execution phase of Brexit and the academic analysis, critical reasoning, and predictions of the post-Brexit era. Finally, the current market scenario, whether there are disruptions in procurement functions of the organization due to the execution of Brexit and if

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there are disruptions, how does the procurement teams handle it.

2 LITERATURE REVIEW

The literature review provides a general review of previous research on the functioning of Procurement chains before and after Brexit. As [4] mentioned in his paper that back in the 1970's when the UK was not part of the EU it was referred to as 'the sick man of Europe'. Post-1970's with UK's economy stuck in a rut as quoted by [5] in an article for BBC, he also added that Britain noticed the strong post-war recovery by both France and Germany and them forming a powerful alliance, so he stated that the UK joins the EU for its selfish reasons to rebuild its economy. So finally aiming for the greater good UK has finally left the EU market after its long partnership.

2.1 SINGLE MARKET PROCUREMENT (PRE BREXIT-PROCUREMENT)

Public Procurement alone accounts for 14% of the overall European Union's GDP in 2019 as per the data released by the European commission 's official site [6]. [7] stated precisely that the European Union, which is the world's largest public procurement market, is regulated by the free movement of goods and services by specialized and detailed rules enshrined in the European Community Public Procurement directives. The transparency in awarding process of Public Procurement in the EU has significant benefits at large for firms bidding for projects with all fairness, which has helped many Small and Medium Enterprises (SMEs) to enter International Markets [8]. The EU, on behalf of its member states, has entered the World Trade Organization (WTO) Agreement on Government Procurement (GPA), which has opened more opportunities for procurement and trade with international markets [3].

2.2 WHAT BREXIT MEANS TO THE UK AND GLOBAL MARKETS (FROM PROCUREMENT LENS)

According to a study funded by The Centre for Economic Performance (CEP), Brexit would lower trade between the UK and the EU due to higher tariff and non-tariff barriers to trade, as well as benefiting less from future market integration within the EU, also the study found that the main economic benefit of leaving the EU would be a lower net contribution to the EU budget [9].

Under the EU Procurement law, member states cannot discriminate against the participant suppliers for any public bidding based on their nationality directly or indirectly, but the barriers were re-erected due to Brexit [10]. Brexit allows

the UK to frame its own procurement agreements with other countries, which they were unable to do when they were part of the customs union of the EU, which can help UK procurement more liberated in the world markets [11].

On December 15, 2020, The UK Government published a Green Paper titled 'Transforming Public Procurement', The Green Paper presents itself as a 'Brexit dividend' and a proposal to liberate the UK market from the EU's regulatory blueprint through a transformation of both procurement law and culture, leading to faster and simpler procurement processes focused on delivering value for money and increasing opportunities for small businesses, charities, and social enterprises to participate in the procurement [12]. While reviewing Green Paper [13] emphasized that the Green Paper's goal of reducing the scope of statutory regulation while increasing the volume of guidance would not only increase the total regulatory burden, but also risk rule dispersion, regulatory opacity, and complexity.

TABLE 1
PREDICTED POST-BREXIT EFFECT ON GOOD AND SERVICE INDUSTRIES OF BRITISH MARKET AND SINGLE MARKET.

Market	Evaluation of Markets in Single Market	UK's Position on Single Market	Effect of 'hard' Brexit on British Market	Industry Relocation for Market Access	Effect of 'hard' Brexit on Single Market
Goods	Low	Support	Disruption to supply chains	Automotive Industry (high)	Disrupt supply chains. New customs Formalities
Services	High	Support		Healthcare (High); Technology (Medium)	Adequacy decision for data flows. Rights of Establishments.

Note. Reprinted from "EU Single Market(s) after Brexit" by Michelle Egan, 2019, Politics and Governance, 2019, by the name of Michelle Egan.

As depicted by [14] in Table 1 regarding the effect of Brexit on Goods and Service Industries of both British and Single Markets, the disruption in the supply chain is highly predicted, which can result in disruption of procurement chains of organizations.

In a major survey of businesses involved in supply chain management, 63% of EU businesses expect to move their supply chain out of Britain, while 40% of UK businesses

expect that they will replace their EU partners with domestic suppliers as a result of Brexit [15].

2.3 POST-BREXIT PROCUREMENT SCENARIO.

“UK’s exit from EU is a rare economic experiment” [12]. According to the study conducted by The Chartered Institute of Procurement & Supply (CIPS) [16], 60 per cent of 185 UK and EU supply chain managers who have imported or exported goods over the UK-EU border since January 2021 have experienced delays getting goods into the UK. [16] Over a third of respondents (37%) said things were delayed by several days, In the other way, the situation is only marginally better, with 45 percent reporting delays in transporting goods into Europe from the UK and 28 percent reporting multiple-day delays. Less than a quarter (24%) said they haven't observed a difference in the time it takes to move goods from the UK into the EU.

Office of National Statistics (ONS) has published that most manufacturing firms started stockpiling as they were uncertain about the trade deal and to tactically handle the uncertain disruptions the Brexit might cause [17]. In an interview to CNBC International TV on 15th January 2021, Ian wright CEO, Food and Drink Federation has stated that the supply chain disruptions are certain to have a long-lasting impact on global supply chains, where he also mentioned an example of paperwork that took 5 days to get cleared where it used to be done within 3 hours before Brexit, he also added that such bureaucratic delays will have a higher impact on SMEs [18]. While explaining the impact of Paperwork [19] has stated that Manufacturers and supply chains are experiencing new types of paperwork and bureaucracy and hoped that digital technologies will be key to businesses trading effectively and profitably in this post-Brexit world.

According to the findings from research based on Geopolitical disruptions and the manufacturing location decision in multinational company supply chains, most corporations are planning or have transferred production facilities and distribution centers from the UK to the EU, this was due to market-seeking benefits such as proximity to important demand centers, ease of access to local and international markets, and efficiency-seeking advantages such as expenses associated with anticipated port delays, tariff and non-tariff restrictions [20]. As a suggestive measure, it was proposed that the UK must need to either re-negotiate its related bureaucratic regulations with the EU or adopt a new model to get through with the impact of Brexit on the manufacturing and service sectors, Inspiring from non-EU countries such as Norway, Turkey and Switzerland, As an example, Norway is closely collaborated

with the Union through its membership of the European Economic Area (EEA) but retains control of certain sectors, such as farming and fishing [21].

Multinational companies (MNEs) adopted worst-case assumptions when formulating strategy, but large corporations and SMEs gathered knowledge as part of a 'wait-and-see' strategy, reducing perceptions of overall supply chain uncertainties, firms then employed reactive or proactive supply chain risk countermeasures [22]. The claims were supported by [19] where he emphasized that to deal with the constant change and unpredictability, a high level of supply chain visibility and flexibility is required, to do so manufacturers need enterprise integration solutions that can connect them to their suppliers, logistics carriers, customers, and customs officials smoothly and securely, removing as much friction as possible from the flow of both information and physical assets.

3 RESEARCH GAP

The academic work as of now was focused more on public procurement. Whereas Industrial insights were researched and analyzed by several reputed organizations. But Brexit as an economic experiment is much more complex with Geo-political and social factors like people migrating, driver shortage, huge demand for skilled manpower. So many such factors affect the dynamics in a supply chain. The academic work is not much focused on such key areas. Considering the fact that Brexit happened not so long ago, we can expect a decent amount of academic work on the coming years with lots of potential and scope for further developments.

4 DISCUSSIONS

The threat of trade and procurement diversions and disruptions to commercial relationships of business operations has compelled supply chain and procurement teams to assess the chances of alternative, thriving for contractual, financial, regulatory, and trade structures in the post-Brexit context. The procurement teams have been forced to acknowledge the distinctions between a single market for goods and services and cross-border trade across different jurisdictions as a result of Brexit-induced corporate reorganizations. Also, as the impact of the Covid crisis added and amplified the Brexit disruption, the research findings of post-pandemic will be key to understanding the actual impact of Brexit on trade and procurement supply chains.

5 CONCLUSIONS

Though British Government expected most industries would be ready by the start of 2021, it is evident that not all sectors are completely ready to face one of the biggest economical experiments in human history. Industries and business firms are striving to develop sustainable solutions for the future of their businesses with new strategies, parallelly the British Government is working its way to finding better solutions to get benefits from Brexit by liberating UK's Market wider for international trade and procurement. Chaos and uncertainties often create challenges that can be achieved with agile solutions. Optimistically Brexit would develop the new supply chains from the disrupted ones to find more balance and succeed in the longer run. The challenges thrown at procurement professionals can also lead to the much-needed absolute digitalization of supply chains across the globe.

ACKNOWLEDGMENT

I would like to thank my friends, family, and the faculty of Sheffield Hallam University for supporting me with their best guidance. I would like to extend my gratitude for the insightful comments offered by my dearest friend Kavya Munduri (M.A, M.Phil. - JNU Delhi) for reviewing the work.

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