How UK Exit from EU Influence UK's Economy

Xinyu Hu [1, *], Yangziqian Guo[2]

[1] *Warwick International Foundation Programme (IFP), The University of Warwick, Coventry, CV4 7AL, UK,*
[2] *Greater Atlanta Christian School, Norcross, GA 30093, USA.*
[*]*Corresponding author. Email: Brady09064427@sina.com*

ABSTRACT

After the UK officially leaves the European Union in 2021, some regulations have come into force, which has greatly impacted the UK economy. This study adopts a quantitative research method from six aspects: import, export, exchange rate, GDP, inflation, and unemployment rate. Conducted comparative analysis of the impact of Brexit on the British economy. The conclusion is that Brexit has brought different degrees of negative effects on the six levels of the British economy. In the short term, the UK's imports and exports decreased, the currency depreciated, the GDP declined, and the unemployment rate increased.

Keywords: *Brexit, UK Economy, Inflation*

1. INTRODUCTION

Early in the 1970s and 1980s, although the UK tried to have referendums to quit the EU, however, because the supporters of quitting the EU are only a conservative party, these all resulted in not quitting.

Later in a UK-wide referendum in June 2016, 51.89% voted in favor of leaving the EU, and 48.11% voted to remain a member, Prime Minister David Cameron resigned. The withdrawal was originally scheduled for 29 March 2019. The deadlock delayed it in the British Parliament after the June 2017 general election, which resulted in a hung parliament in which the Conservatives lost their majority but remained the largest party. The deadlock was resolved at the December 2019 election, and the British Parliament finally ratified the withdrawal agreement. The UK finally formally left the EU on 31 January [1].

After researching Brexit and knowing about the referendum in 2016, there is a slight difference between the two sides of wanting to leave and stay in the EU. Later, we decided to research and analyze what positive or negative effects leaving the EU has on the economy of the United Kingdom.

2. THE REASONS FOR BREXIT

Jones, et al. stated that the Brexit vote in the United Kingdom that was fueled by a fear of migrants and a desire for more national control over economic decisions [2]. This part would explain briefly about the reasons behind Brexit from three aspects: immigration, sovereignty and currency effects.

According to the Center for Economic Performance (CEP) immigration to the UK has increased a lot over the past 20 years [3], with a large proportion coming from other EU countries. As figure 1 shows, the number of immigrants from other EU countries living in the UK tripled from 0.9 million to 3.3 million. The terrorist attacks from the Islamic State and the influx of immigrants into the EU created a powerful anti-system and anti-EU forces [4]. Wadsworth states that one of the main arguments of the Brexit camp during the 2016 referendum debate was that Brexit would allow more control over immigration from the EU to the UK, with many fearing that high levels of immigration would hurt their jobs, wages and quality of life [5].

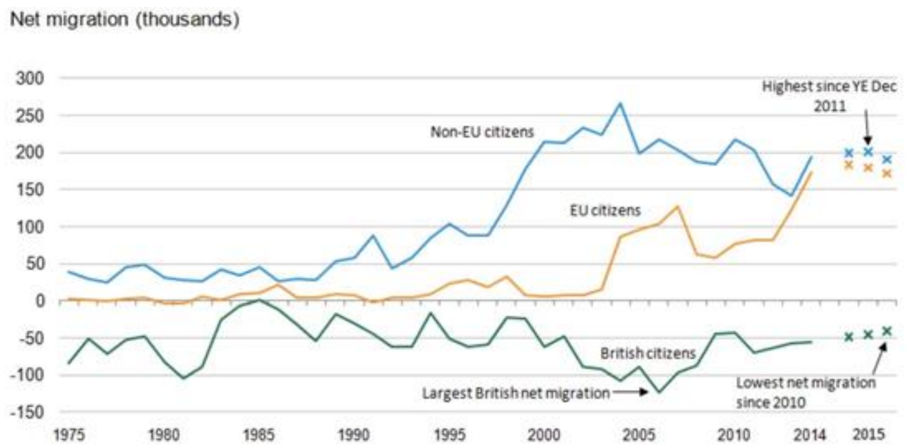

Figure 1 Long-Term International net migration by citizenship [6].

Figure 1 stated that, the EU threatens British sovereignty. Britain wants to take back national sovereignty through Brexit [7]. According to the Daily Telegraph (2016), when Parliament passed the European Communities Act 2017, it im plicitly recognized that EU law was above UK law, that 14% to 17% of UK law originated from EU membership, and that the UK government estimated that about 50% of legislation with "significant economic impact" in the UK came from EU legislation, mostly in agriculture, fisheries and trade with non-EU countries, which had a knock-on effect on almost all aspects of British life [8].

According to Riley and Chiles, the euro zone has failed to reform itself, giving it the same capacity as any other sovereign currency issuer, pooling debt, and providing transfer funds and fiscal stability mechanisms to operate a single currency area [5]. And the "kicking" of sovereign debt and bank debt, coupled with the endless fiscal austerity policies implemented by Frankfurt and Brussels, has greatly weakened support for the EU. Therefore, Пушкина pointed that the global economic crisis in 2008 dealt a heavy blow to the euro area, and the dismal performance of the euro brought many supporters to Brexit [7].

3. EFFECTS ON UK ECONOMY

3.1. Inflation

In Figure 2, the inflation rate starts to increase from the rate of 0.3% in January 2016 to a max of 3.1% November 2017, then the inflation rate starts to decrease for the following years from January 2018 till February 2021. During this time of increase, the inflation rate experienced a dramatic decrease from 1.8% to 0.5% in From January 2020 to May 2020. The UK formally left the EU by the end of January, which means the UK was affected by Brexit negatively the most in February and March. However, the UK already has the trend of decrease in inflation rate since January 2018, Brexit has had negative effects but little on its inflation rate. In addition, starting August 20, the inflation rate of the UK starts to recover from both COVID-19 and Brexit. And the ratio started to increase fast from February 2021 to June 2021 with a 2.1% increase. Overall, the effect that Brexit has on the inflation rate of the UK seems to have a negative effect in the first three months after Brexit, but later for the following year they change the whole trend of decrease since November 2017 to increase and have dramatic increases.

Figure 2 Monthly Inflation Rate of the UK from January 2016 to July 2021 [9].

3.2. Gross Domestics Product (GDP)

In Figure 3, it shows the monthly GDP (Gross Domestic Product) of the United Kingdom from January 2019 to March 2021 in the percentage comparing current GDP to GDP from June 2018. The GDP stayed almost the same before Brexit from January 2019 to Feb 2020, and then the GDP experienced a sharp decrease in its GDP from Feb 2020 to April 2020. Later, the United Kingdom recovered fast from the fall in the following few months and experienced some fluctuations in its GDP slowly coming back to the GDP before Brexit.

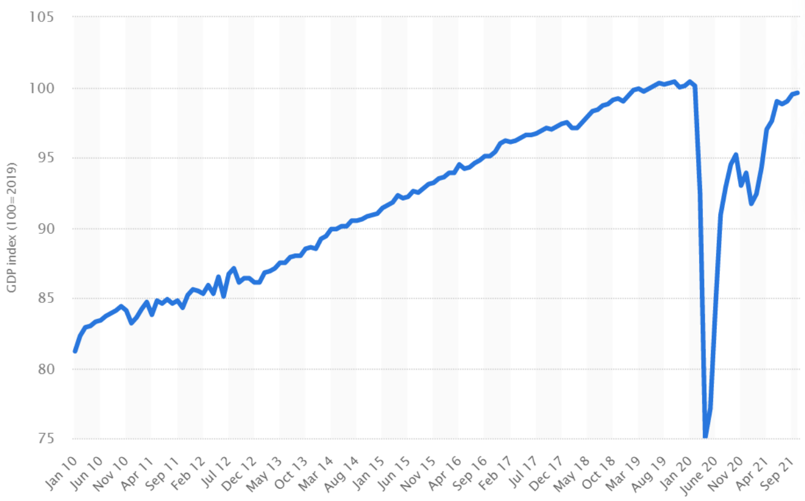

Figure 3 Monthly GDP of the UK from January 2019 to May 2021 [10].

Figure 4 illustrates that the GDP monthly growth does not have any big fluctuations through January 2010 to January 2020, these fluctuations are under 2%, and in April 2020, the GDP experienced a 18.7% dramatic decrease affected by both the pandemic and Brexit. In the following months, the United Kingdom adjusted quickly and brought an increase in its GDP with a 3.9% growth rate. With this quick drop of GDP and quick bouncing back of it in February, we can see that although quitting the EU did affect the economy of the UK overall, they recovered fast on their own and were also able to keep the trend of increase for the following time period.

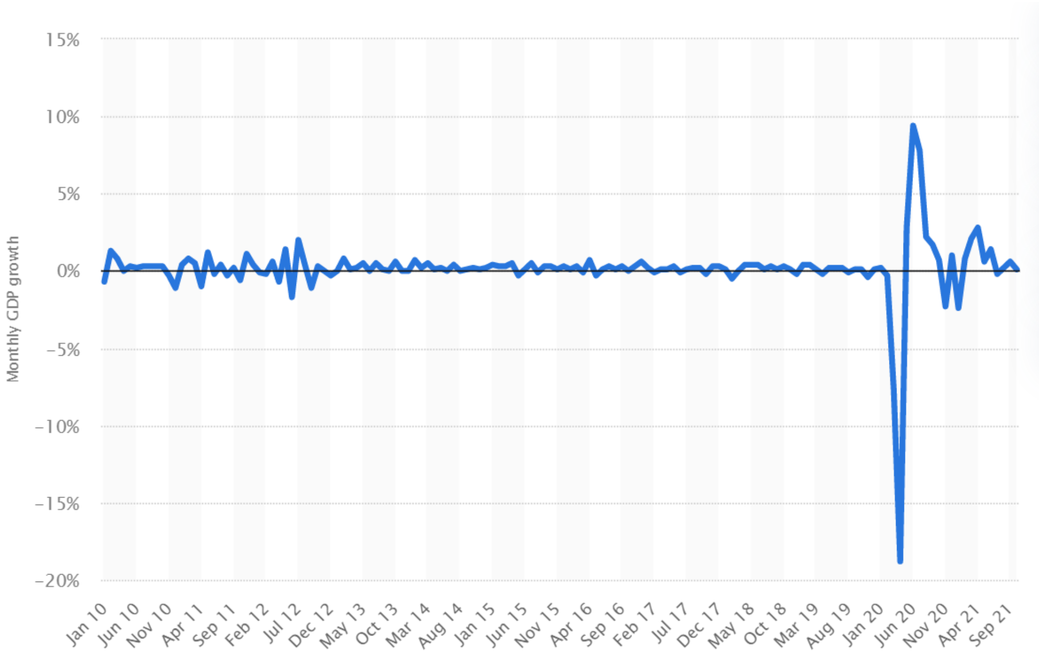

Figure 4 Monthly GDP Growth Rate of the UK from January 2010 to April 2021 [11].

3.3. Unemployment

In Figure 5, it shows the unemployment rate in the United Kingdom from January 2019 to June 2021 in percentage. At first, before the United Kingdom leaves the EU, its unemployment rate keeps under 4 percent. Starting from December 2019, around the time that the United Kingdom leaves the EU, it keeps rising for almost a whole year and then starts to decrease. The following several months, the ratio experienced a sharp increase which means that the market in the United Kingdom was not stable and kept becoming worse rising from 3.8% to 5.1%. The outbreak of COVID-19 could also contribute to the negative effect on the unemployment rate in addition to Brexit. These two factors are causing the opportunities for people to obtain jobs before COVID that are now not available to them, such as malls, supermarkets, or restaurants, because people are not able to go out that much and some public places are being quarantined, which means there are not that many jobs open to those who graduated or already at work. But later when the pandemic became better and the United Kingdom quickly adjusted its policies and the marketing, quickly recovering from COVID-19 and Brexit.

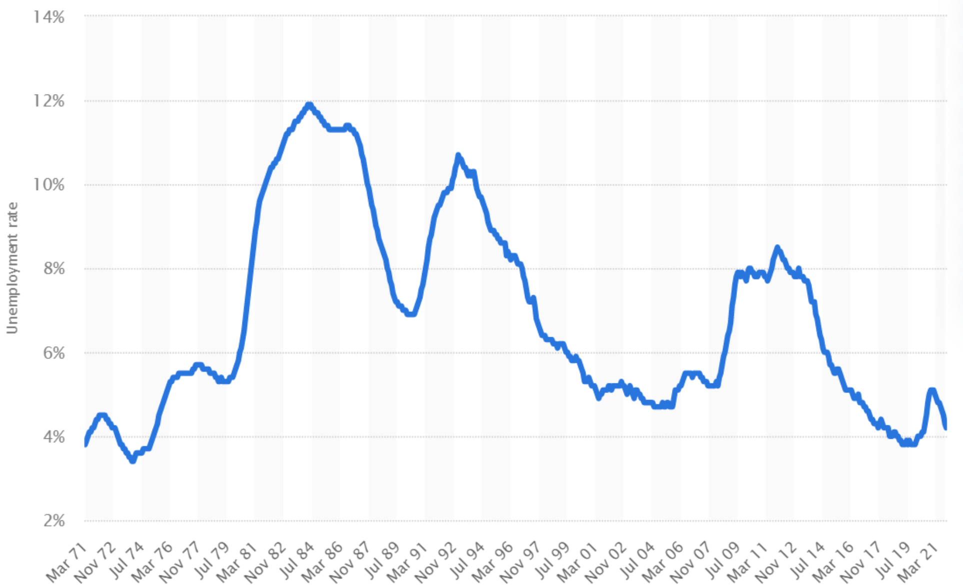

Figure 5 Monthly Unemployment Rate of the UK from January 2019 to June 2021 [12]

3.4. Trade

3.4.1. Import

The epidemic has had a great impact on British imports. After the outbreak of the pandemic in the UK in 2020, the UK's imports from the EU and non-EU countries have dropped by 17.7% and 23.7% respectively. It is undeniable that the epidemic is the factor that most affected UK imports. As shown in Figure 6, before 2019, the total import volume of the United Kingdom has been showing a continuous and gradual upward trend. However, as Figure 7 shows, from the eve of Britain's formal Brexit at the end of 2019, until the full outbreak of the epidemic in April 2020, Britain's imports from the EU have experienced a substantial decline. The total value of Britain's imports from the EU has increased from 13.6 billion in December 2019 fell to 11.3 billion in March 2020. There is a decrease of 16.9%. In comparison, the import volume of the UK from non-EU countries was less affected. Even if the import volume also showed a downward trend, the decline was more gradual compared with EU countries. It only dropped by 6.5% from December 2019 to March 2020, from 19.9billion to 18.6 billion. According to Latorre, et al. brexit will increase trade barriers between the UK and the EU. The more trade barriers increase, the more severe the trade contraction will be, and bilateral trade will shrink significantly, especially in agriculture, manufacturing and other industries [13]. The impact will be more pronounced. This is the main reason for the decrease of the UK's import before the pandemic.

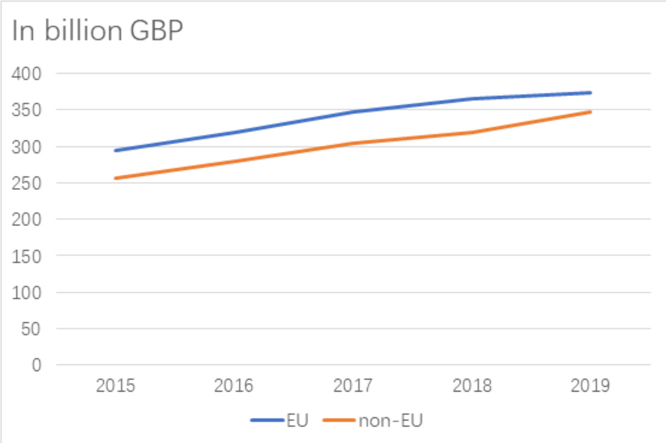

Figure 6 Goods import to EU and non-EU (outside the European Union) 2015-2019 [14].

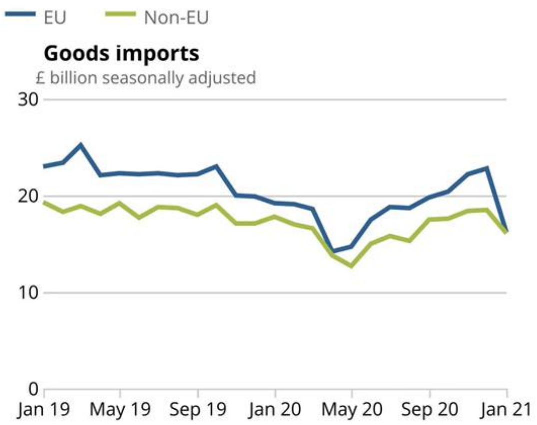

Figure 7 Goods import to the EU and non-EU (outside the European Union) Jan 2019-Jan 2021 [15]

3.4.2. Export

As Figure 8 shows, before 2018, the total export volume of the UK to EU countries and non-EU countries has been showing a continuous and gentle upward trend. After 2018 and before 2019, the volume of UK exports to non-EU countries is still on the rise, and the situation is rising. It has become more intense than before 2018. However, after 2018, the total export volume of the United Kingdom to the EU has begun to show a downward trend, which may be affected by Brexit, but the downward trend is relatively flat. The increase in trade barriers caused by Brexit has led to a shrinking trade. As a result, Britain's exports and imports to the EU showed a similar trend. As Figure 9 shows, from the eve of Brexit, at the end of 2019 until the outbreak of the epidemic in April 2020, Britain's exports to the EU showed an obvious decline. The UK's exports to the EU have fallen from 16.2 billion in December 2019 to 13.8 billion in March 2020, with a drop of 14.8%. The exports of non-EU countries fluctuated around 17 billion during this period, and there was no obvious downward trend. It proved that the main reason for the decline in exports between the UK and the EU was the trade barriers caused by the implementation of the Brexit (Britain exiting from the EU) regulations. And, like import volume, after the outbreak of the epidemic in April 2020, the export volume of the United Kingdom, the EU and non-EU countries have been greatly affected, with a decrease of 20.3% and 16.9% respectively from March to April 2020.

As an example, Dairy products are one of the major exports from the UK to the EU. BBC (2021) reported that as one of the few dairies allowed to make Stilton, Hartington Creamery said, each package, pallet or container of Stilton requires a veterinary surgeon certificate that costs £180, with the average online order costing just £30, if UK exports the Stilton to EU, the transport requirement increases a lot of the cost [16].

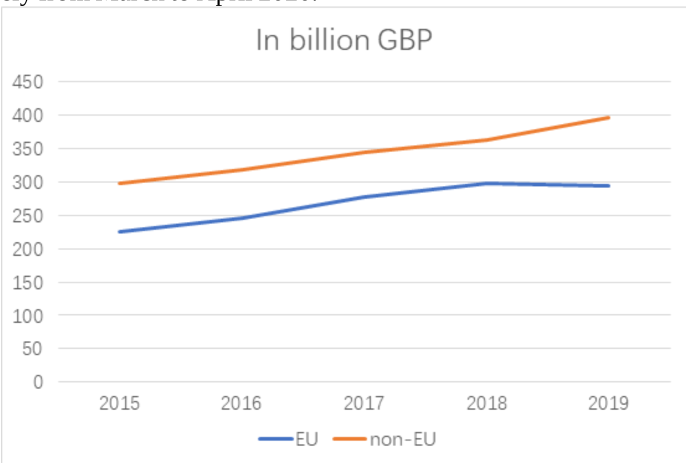

Figure 8 Goods export to EU and non-EU 2015-2019 [17].

GBP (Great Britain Pound)

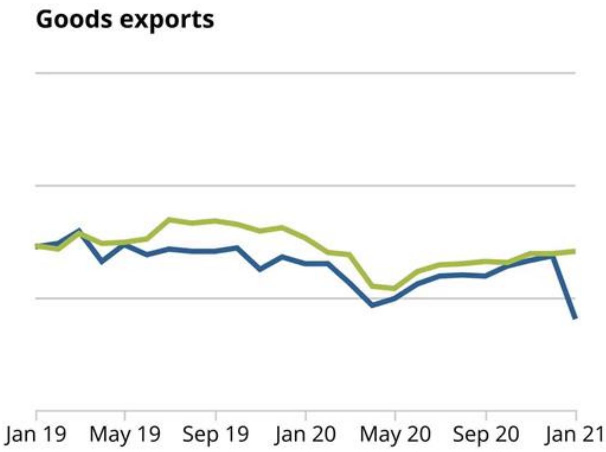

Figure 9 Goods export to the EU and non-EU Jan 2019-Jan 2021 [15]

3.4.3. Exchange rate

Gillespie defined exchange rate as “An exchange rate measures the value of one currency in terms of another [18].” According to Figure 10, the exchange rate of the British pound has been rising until the end of 2019. The British pound has experienced a continuous appreciation process from August 2019 to December 2019. However, on the eve of Brexit in December 2019, the British pound Began to depreciate continuously. And after the formal Brexit in 2020, the depreciation was the largest from February to March, from 0.8417 pounds per euro to 0.8939 per euro, a decrease of 5.23%. And after the outbreak of the epidemic, the global economic situation has received a shock. The currencies of various countries have experienced global depreciation, and the exchange rate between the US dollar and the British pound has gradually decreased, and it can be seen from the Figure 3 that it has returned to the level before Brexit in the long term. However, even if the exchange rate between the euro and the pound is affected by the epidemic, it continues to rise. Brexit has had a continuous impact on the depreciation of the pound against the euro.

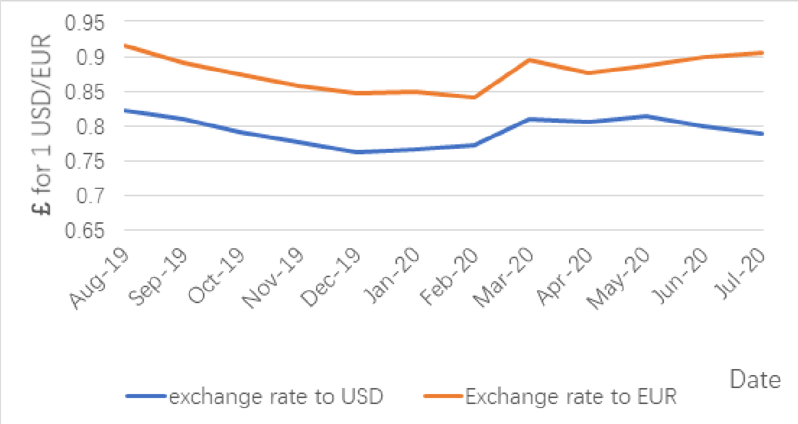

Figure 10 Exchange to the USD and EUR August 2019-July 2020 [15]

According to AXA UK (2021) After Brexit, import and export in the UK need to pay value-added tax for most of the goods, most of the goods value-added tax is 20%. Moreover, animals, plants, food, medicines and other commodities require permits and certificates to enter and leave the UK, before entering the UK. Many products need to pay for product inspection fees [19].

4. CONCLUSION

To conclude, Brexit did have some effects on the UK economy despite positive or negative. The first aspect we examined is the inflation rate of the UK, the inflation rate of the UK started to decrease in the beginning of 2018 and Brexit has a little effect on it, after three months of Brexit, the inflation rate started to increase. There was a huge drop on GDP and GDP growth rate in February because the UK formally quit the EU on January 31st, and they still have a dramatic increase after the drop in the following few months. The unemployment rate started to increase by the end of year 2019 and started to decrease in the beginning of 2021. The other aspect we focused on is trade, and trade has three sub aspects, import, export and exchange rate. For all three of these aspects, they all have similar trends that they have slight decrease since August 2019 and a drop in February then starts to recover from Brexit and keep increase for the following few months. Conclusively, these four aspects that reflect the economy of the UK all either stay almost the same or start to decrease, then with a dramatic decrease when the UK formally quit the EU after January 31st, 2020, they fluctuate for several months and starts to recover fast from Brexit, almost recovered to a relatively high level. In the short term, from Brexit to right now, we can conclude that Brexit have negative impact on its trade because leaving the EU will create trade barriers between the UK and the other European countries. However, the time period after Brexit is still relatively short to determine the long-term effect of leaving.

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